



Insurance Agents
& Brokers

PA

9TH EDITION

Property & Casualty

EXAM PREPARATION MANUAL





This manual includes all the information needed to study and pass the state licensing exam, including exam content, scheduling of your exam and the overall licensing process.

The manual is broken into sections or chapters and clearly labeled with a black tab in the right margin.

TABLE of CONTENTS

Green pages –Survival Guide

How to Use this Manual..... pages 1-5

Study Schedule/Tracker.....pages 6-8

ExamFX-Exam Simulator Access (card stock)

Blue Pages – Exam Process

Exam Process Made Easy Pages 1-2

Link to PA Candidate

Bulletin and Exam

Chapters 1- 13, with Goals & Key Terms

ISO Policy Forms

Homeowners-3 1-24

Personal Auto 1-13

Businessowners 1-53

Mentors Guide (separate spiral-bound booklet)

The licensing manual is available to you and your mentor as a PDF document for reference; and is located under *Helpful Resources* at www.IABforME.online/PA-licensing-study

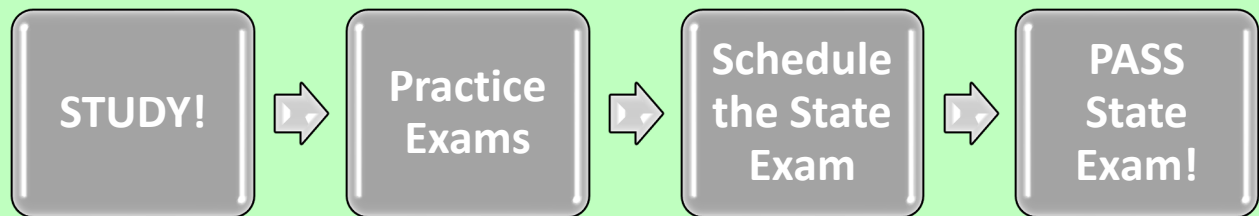
If you have any questions regarding the timeliness of this material or are unsure that you have the most up-to-date material, please contact IA&B at (800) 998-9644. An updated material fee may apply.

PROPERTY & CASUALTY LICENSING CANDIDATE SURVIVAL GUIDE

HOW TO USE THIS MANUAL FOR OPTIMAL RESULTS – PASSING THE STATE

EXAM! The next few pages of information are very important to your licensing journey and act as your survival guide to keep you on the right path and headed for success!

PATH TO EXAM SUCCESS



STUDY THE MANUAL - THE essential component to your success!

Your time investment is estimated at 56 hours of study prior to your class or state exam. Much of your study will concentrate on the concepts within the material. If you have a firm grasp on the concepts, you can apply logic and common sense to find the answers when taking the state exam. However, certain parts of the state exam will require memorization such as specific fees, limits, lists, etc.

The exam is based on ISO policies and not company specific forms. If you've already been working in the industry with company specific forms, it is imperative that you block your knowledge of the company forms from interfering with prepping for the exam.

Sample Questions - An important part of the pre-study process is completing the chapter quizzes and online quizzes to gauge your progress. Although sample questions are important, it is impossible to provide all the potential exam questions as part of pre-study. The chapter questions are built as an overall representation of the type of information asked on the exam and the formats in which the questions will be asked. Inevitably, you may see questions on your state licensing exam that were not covered as part of the chapter quizzes. However, with a strong understanding of the material and reviewing the sample questions provided, you will be adequately prepared to pass the exam. As a final check of your exam preparation, a 100 question test is found in the back of your exam preparation manual.

Exam Simulator (ExamFX)

Another study tool included to aid in your licensing journey is an **online exam simulator** provided through ExamFX. Once all the manual chapters have been completed to the satisfaction of you and your mentor, you should begin taking the full practice exams on the ExamFX product. *Careful to select the Property & Casualty review quizzes, not just the Property or Personal Lines review.* This will appear much more like the state exam in that there will be a full 150 questions and they will cover all the information you have studied. We recommend that you consistently score 85% or better on these practice exams to show adequate preparedness for the state exam.

You will access this online exam through the ExamFX website with your unique password - located on the heavier card stock following this Survival Guide (green) section. Once logged on, you will follow the prompts for the Property & Casualty exam.

The exam simulator also includes opportunities to study by topic. These options will support your learning if you are struggling in a specific area. However, the exam simulator expires 60 days from the date you first use it. Please plan accordingly so you complete your study and practice within those 60 days to avoid fees for extending your access. We do not recommend accessing the exam simulator until you have thoroughly reviewed all the material.

HOW TO TACKLE THE MATERIAL

- **Read one complete chapter including the GOALS and KEY TERMS**, and refrain from taking notes.
- **Read the chapter AGAIN**, this time **make notes and highlight information** as needed.
- **Complete the chapter quiz** and check your answers.
- **Review the chapter content** for any questions that were incorrect. Know why the question was incorrect and understand the information necessary for the correct answer.
- **Meet with your mentor** to review the chapter and ask questions. (see mentor details on next page)
- Once all chapter questions are answered and reviewed, and you, along with your mentor, have collectively agreed that you are ready to move on, **then and only then, move to the next chapter.**

Mentor Information

A **MENTOR** is a valuable tool that will help keep you focused and accountable to your pre-study schedule. Your mentor can help you review the information, answer your questions, or clarify confusing topics and be an overall support system for you during your journey. If you have not been assigned a mentor within your agency, we recommend discussing this option with your direct supervisor or agency owner.

We've included a Mentor Guide for you to provide directly to your selected mentor so they understand the importance of your studies. In addition, the Mentor Guide is full of information to assist your mentor in planning for chapter reviews and additional information regarding the licensing process.

STATE LICENSING EXAM and TIPS

Scheduling Your State Exam - PSI is contracted to conduct the state insurance exams in PA. It is your responsibility to schedule and pay for the exam through PSI. The exam is offered at testing centers and remotely. Specific information about these options and scheduling your exam are found in the Exam Process section (blue).

Once you have completed your 28-day pre-study (56 hours) you should discuss scheduling the state exam with your mentor. If you and your mentor are confident in your progress, then we recommend moving forward with scheduling your exam. Do not put the exam off too long that you begin to forget the important information.

About the Exam and Helpful Tips - The state licensing exam is 150 graded multiple-choice questions, and you have 170 minutes to complete the exam. To pass the exam, you must score a minimum of 70% or have answered 105 questions correctly. There may also be up to 10 ungraded questions included in the exam. These are questions that are being considered for future exams but must be "tested" first.

Prior to leaving your house, or accessing your remote proctored exam:

- **Get a good night's sleep** prior to your exam.
- **Plan your breakfast** so you know you will not get hungry during the test but not so full that you are lethargic.

- Know where you are going and **plan your travel accordingly; or test your computer compatibility** if taking the state exam remotely (refer to your state exam confirmation).
- Have photo ID ready to take with you to the test center or when accessing the remote proctored exam.
- **Plan to arrive early to the test center or log on early.** The last thing you want to be doing on test day is rushing prior to the exam. This only increases any test anxiety.

At the test center:

- If you arrive early and there is a computer available, **you will be permitted to start early.**
- When you sit down at the test center for the exam, you may be provided a pencil, piece of paper and a hand-held calculator; or will use the online calculator on your screen. Use this time to **write down important information** for easy reference during the exam. For instance, note the following:
 - List the perils
 - List your acronyms (FLAVVER, FLAVVERT, SWISH, LORAC, etc.) and the meanings
 - Any important numbers or calculations you've memorized.

At the remote proctored site:

- Be sure to test your **computer compatibility** prior to the exam time.
- The proctor will review all the **remote protocols** with you, including but not limited to scanning the room with your camera, no scratch paper, no breaks and little movement or sound allowed by the exam taker during the exam itself.
- Test fees and eligibility are forfeited if you do not begin the exam within 15 minutes of your booked exam time.
- Contact **PSI technical support** with questions related to the compatibility check, or issues launching your exam – 844-267-1017.

General Multiple-Choice Exam Strategies:

- **Read each question carefully.** Pay attention to important words such as if, and, but, never, sometimes, always, except, not, only, or, etc. These words can change the entire meaning of a question.
- Read the question **and form an answer in your head before you look at the answers.** If the answer you had in your head appears as an option, then mark it but do not move to

the next question. Review the other answers to be sure there isn't one that would make your answer wrong.

- **Do not overthink the question.** Read the question and answer what is being asked.
- If there is a question for which you are unsure, **answer it but mark it for review** so you can come back later to read it again. There may be some other questions throughout the exam that may trigger the answer for you.
- **Budget your time accordingly.** If there is a question you are unsure of, answer it, mark it, and move on. You should have ample time to complete the exam, including time to review marked questions.
- When you complete all the questions, go back **and review ONLY THE QUESTIONS YOU HAVE MARKED!** Remember, the questions you marked were the ones you were unsure of. Do not review the questions that you were confident about. This leads to second-guessing and in many cases changing a correct answer to an incorrect one.
- **“Funny” responses are usually wrong.**
- Be careful of **double negatives** within a question.
- Eliminate options that you know to be incorrect **to reduce your options.**
- If you know at least two answers are definitely correct, then the answer is likely *“all of the above.”* And likewise, if the two options are opposite each other, chances are one of them is correct.

ADDITIONAL STUDY TOOLS – Recorded Videos, plus more!

IA&B instructors recorded hours of video content to support your licensing journey! Videos and additional study tools can be found at: www.IABforME.online/PA-licensing-study

Practice tests are available for purchase through PSI, third-party exam administrator. Click here for more details: <https://www.psionlinestore.com/>

Follow the provided Study Tracker to keep you focused and on schedule with your studies. Study Tracker is found on pages 8-10 in this section. The Study Tracker is found on the following pages.

Study Schedule / Tracker

Time	Chapter	# of ?s	
Day 1-2 (4 hours)	Insurance Regulation – Chapter 1 - Licenses - State Regulation - Federal Regulation	30	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 3-4 (4 hours)	General Insurance Concepts – Chapter 2 - Concepts - Insurers - Producers and General Rules of Agency	12	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 5-8 (8 hours)	Property & Casualty Insurance Basics – Chapter 3 - Principles and Concepts - Policy Structure - Common Policy Provisions - PA Laws/Regulations/Provisions	21	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 9-10 (4 hours)	Dwelling Policy Concepts - Chapter 4 - Dwelling Policy ('14) - Coverage Forms – Perils Insured Against - Property Coverages - General Exclusions - Conditions - Selected Endorsements - Personal Liability Supplement	6	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 11-14 (8 hours)	Homeowners Policy Concepts – Chapter 5 - Homeowners Policy ('11) - Definitions - Property Coverages - Section II – Liability Coverages - Perils Insured Against - Exclusions - Conditions - Selected Endorsements	10 or 11	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor

Time	Chapter	# of ?s	
Day 15-16 (4 hours)	Personal Automobile Policy ('05) – Chapter 6 • Motor Vehicle Financial Responsibility • Personal Auto Liability • First Party Benefits • Uninsured/Underinsured	15	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 17-18 (4 hours)	Commercial Automobile Policy ('13) – Chapter 7 • Physical Damage • Selected Endorsements • Commercial carrier regulations	7 or 8	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 19-20 (4 hours)	Commercial Property Policies ('12) – Chapter 8 • Commercial Package Policy • Commercial Property ('12) • Commercial Inland Marine • Equipment Breakdown • Farm Property	10 or 11	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 21-22 (4 hours)	Commercial General Liability ('13) – Chapter 9 • Policy Components • CGL Coverages • Occurrence versus Claims-Mae • Claims-Made Features	10 or 11	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 23 (2 hours)	Commercial Crime ('15) – Chapter 10 • Definitions • Coverage Form Classifications Other crime coverages	3	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 24-25 (4 hours)	Businessowners ('13) Policy – Chapter 11 • Characteristics and Purpose • Businessowners Section I – Property • Businessowners Section II – Liability • Businessowners Section III – Common Policy Declarations • Selected Endorsements	4 or 5	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor
Day 26 (2 hours)	Workers Compensation Insurance – Chapter 12 • Workers Compensation Laws • Workers Compensation and Employers Liability Insurance Policy • Premium Computation	7 or 8	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor

Time	Chapter	# of qs	
Day 27-28 (4 hours)	Other Types of Property & Casualty Insurance - Chapter 13 • Specialty Liability Insurance • Surety Bonds • Personal Umbrella/Commercial Umbrella and Excess Policies • Farmowners/Ranchowners Policy • Mobile Home Policy • Pet Insurance • National Flood Insurance Program • Residual Markets Including FAIR Plans • Alternative Funding Mechanisms • Federal Crop Insurance • Ocean Marine • Other Policies	12	☐ Read the complete chapter, key terms and goals. ☐ Read the chapter again and take notes ☐ Complete/Review Chapter Quiz ☐ Review Session with Your Mentor

EXAM PROCESS MADE EASY

Scheduling and Taking the State Licensing Exam

The PA Licensing Exam Candidate Info Booklet (Bulletin) is provided to you by the Pennsylvania Department of Insurance and PSI Services LLC (third-party exam administrator).

The current PA Licensing Bulletin and Exam Content Outlines can be found at:

<https://test-takers.psiexams.com/api/content/bulletin/7286>

Bulletin Summary - Page numbers listed refer to the Bulletin.

Page 1	Types of Licenses and exam series – <i>Combined Property and Casualty</i> : <u>Series 16-06</u>
Page 3	Fingerprints must be completed only AFTER you pass the exam <u>and</u> submit your licensing application. When registering online via IdentoGO an applicant must use the appropriate <u>service code</u> assigned to the Insurance Department so the background check will process to the correct agency and purpose: 1KGBGJ. Any fingerprint results received <i>without</i> a corresponding license application will be destroyed, and individuals will be required to repay the fingerprinting fee and resubmit their fingerprints at an IdentoGO center.
Pages 4-7	We recommend that you schedule your exam online at https://test-takers.psiexams.com/pain . You can also contact PSI by phone to schedule but there are often extreme wait times on the phone (888-818-5822). You'll be directed to CREATE AN ACCOUNT with PSI. Exam format options: Test Center (in-person) or Remote Proctored. During the registration process, you may be asked to provide your Pre-Licensing Education Provider code: Provider ID#: 37823 (Insurance Agents & Brokers of PA) Course ID #: 104949
Page 7	If <u>rescheduling</u> your exam, you must provide notice two full days in advance to avoid any rescheduling fee.
Page 7-8	Examination Site Locations are listed (11 in PA); <i>subject to change</i> .
Page 8-9	Items to have with you for testing (testing center or remote proctored): • Government issued <i>photo</i> identification (driver's license, state-issued ID card or military ID card).
Page 8-9	Refer to these pages to review items you are <u>not permitted</u> to bring into the test center.

- Page 9** Special protocols for remote proctored exams are listed here.
- Page 10** Your exam results will be provided immediately following your exam completion. You may request a duplicate score report by emailing scorereport@psionline.com .
- Page 10** Once you pass your exam you can complete your license application (credit card required) at the test center kiosk or online at your own computer - www.sircon.com/pennsylvania or www.nipr.com.
- Pages 12** Use the link on page 12 to view the exam content outline for [Property & Casualty \(16-06\)](#).

Expected Fees (subject to change)

- Exam Fee (Property & Casualty Combo Exam) \$ 53.00
- Resident insurance producer application fee: \$ 55.00
- Online service fees (approx. filing fee): \$ 12.50
- Fingerprinting service fee is paid at the IdentoGO enrollment center upon fingerprint submission – varies, approximately \$25.

CHAPTER 1

Insurance Regulation



Insurance Agents
& Brokers

CHAPTER 1 – INSURANCE REGULATION

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- Explain the purpose of licensing.
- Explain licensing prerequisites.
- What are the qualifications of an applicant?
- What is the licensing fee for an individual resident and an individual non-resident?
- Understand the different lines of authority and how do they apply to a producer?
- Identify and explain the four types of licenses issued?
- Who qualifies for a temporary license?
- How do you maintain an insurance license (renewal fees, education requirements)?
- What are the timeframes for reporting criminal convictions and address changes?
- Explain how license lapse and reinstatement works.
- Explain how the waiver requirement works for the active military and other extenuating circumstances.
- List activities that will carry disciplinary actions from the Insurance Department.
- What are enforcement options for the Insurance Department?
- What is a consent agreement?
- What are the three acts that require someone to have a producer's license?
- What are the general duties and responsibilities of the Insurance Commissioner?
- What is a Certificate of Authority and what does it do?
- What are the three "rules" in rate making? Rates must be _____, _____ and _____.

- Explain the process companies must follow in filing rates and forms in Pennsylvania.
- List prohibited acts that constitute unfair claims practice.
- Explain a producer's fiduciary responsibility.
- Who is allowed to be paid commissions and fees?
- Explain company appointment procedures.
- What are considered unfair insurance practices and what are the potential penalties?
- What are a producer's requirements for maintaining consumer privacy?
- Name Federal Regulations that affect insurance.

KEY TERMS

- Producer
- Non-Resident Insurance Producer
- Temporary License
- Managers & Exclusive General Agents
- Rebating
- Misrepresentations
- Twisting
- Illegal inducement
- Consent Agreement
- Certificate of Authority
- Solvency
- Appointment
- Unfair Insurance Practices (Prohibited Acts)
- Boycott, Coercion, Intimidation
- Misappropriation of Funds
- Privacy
- Fair Credit Reporting Act

CHAPTER 1 - INSURANCE REGULATION

STATE EXAM: 20% OR 30 QUESTIONS

LICENSES

Licensing reinforces the purpose of all insurance regulation, which is to assure that the public is treated fairly and equitably by those who sell and distribute insurance. By licensing insurers, producers and various other providers of insurance services, the state is trying to protect the public and help them get the most for their insurance expenditure. Individuals may not act as a producer until the insurance department has issued the appropriate license. This will be done online, as the department no longer mails the license. You will receive online notification.

To be licensed, you must first:

1. Pass the required exam(s) or be exempt for the type of license for which you are applying; and
2. Apply for a license by submitting the appropriate fee and forms to the Insurance Department.

PROCESS

In order to legally solicit, sell or negotiate contracts of insurance it is necessary to secure and maintain an insurance producer's license. The following paragraphs outline the necessary steps in securing and maintaining a license.

An applicant is defined as an individual who has passed or is exempt from taking the insurance producer licensing examination. The applicant can then make application for the issuance of an insurance producer license. An applicant has up to one year to have their license issued after the date of the exam. Passing an examination does not guarantee that you will be issued a license. Issuance depends on review and approval of all your license application materials.

Waiver of Examination

The following classes of applicants are exempt from the producer licensing examination:

- A business entity.
- An applicant for life or accident and health lines of authority who possesses the professional designation of Chartered Life Underwriter (CLU).
- An applicant for the property, casualty, or accident and health lines of authority who possesses the professional designation of Chartered Property and Casualty Underwriter (CPCU).
- An applicant for the property, casualty, life or accident and health lines of authority who possesses the professional designation of Certified Insurance Counselor (CIC).
- An applicant who possesses any other professional designation for which the requirements are waived by the commissioner.
- A person who is licensed in another state as an insurance producer for the same lines of authority for which they desire to be licensed in Pennsylvania.
- A person who has a line of authority limited to a limited line, such as limited line credit insurance, or limited domestic mutual fire insurance coverage.

Applicant Qualifications For Resident Insurance Producer

An applicant must satisfy the following additional qualifications:

- The applicant must have reached 18 years of age.
- The applicant must be able to read and write in English, with or without visual or mechanical aids for the visually handicapped.
- The applicant must not have committed any acts prohibited under the licensing regulations.
- The applicant must have paid all applicable fees.
- The applicant must possess the professional competence and general fitness and integrity of character sufficient to satisfy the department that the applicant is worthy of licensure.
- The applicant must pass the appropriate exam unless exempt.
- The applicant must maintain a business or legal address in Pennsylvania.
- Initial resident producer applicants are required to be fingerprinted, even if your examination was waived.

Similar requirements apply to a business entity that is applying for a resident or non-resident insurance producer's license. The business entity must appoint one or more designated licensees who must also meet the applicant requirements listed above.

Application Submission Requirements

An applicant for an individual resident or non-resident producer's license must submit the following to the insurance department:

- A completed application indicating the lines of authority desired.
- The applicant's fingerprints in order for the department to receive national criminal history records from the FBI.
- Documentation verifying satisfaction of the licensing exam requirements by exemption from or passage of the licensing examination.
- The required license fees, including fees for obtaining the criminal history records information.

Application requirements for a business entity are similar to those above.

License Fees

A non-refundable fee of \$55 must accompany each application for a resident insurance producer's license. The non-refundable fee for a non-resident insurance producer's license application is \$110.

Lines of Authority

When an applicant completes an application for licensure, the application must specify the types of insurance which the producer may sell, solicit or negotiate. Examples of lines of authority include insurance classified as the following:

- **Life** – Insurance coverage on human lives, including benefits of endowments, annuities, disability income and accidental death or dismemberment.
- **Accident and Health or Sickness** – Insurance coverage for sickness, bodily injury or accidental death including disability income.
- **Property** – Insurance coverage for direct or consequential loss or damage to property of every kind.
- **Casualty** – Insurance coverage against legal liability, including due to death, injury, disability or damage to real or personal property.
- **Variable Life and Annuity** – Insurance coverage provided under variable life and variable annuity contracts that involve investment in securities.
- **Personal Lines** – Property and casualty insurance coverage sold to individuals and families primarily for non-commercial purposes.
- Other lines of authority include Credit Insurance, Motor Vehicle Rental and other limited lines as determined by the insurance commissioner.

TYPES OF LICENSES

Those organizations classified as insurance entities, a term that includes insurance companies, must be licensed by the Insurance Commissioner of the Commonwealth. The license, called a certificate of authority, grants insurance companies the authority to distribute approved insurance products.

Resident Producer

A resident insurance producer is an individual or business entity that sells, solicits or negotiates contracts of insurance. The resident producer maintains either a business or legal address in Pennsylvania. These activities include offering advice directly to a prospect or purchaser, including the explanation of the terms and conditions of various insurance contracts. The insurance producer may work under contract on behalf of an insurance company or the producer may obtain insurance from various insurance companies for purchasers.

Non-Resident Insurance Producer

Someone who neither lives nor has their office in Pennsylvania and meets the following requirements:

- Is licensed as a producer in their home state,
- Has their principal residence in their home state, and/or
- Has their principal place of business in their home state.

The home state may be any other state in the US, or the District of Columbia. Once the non-resident producer provides proof of the above and pays appropriate fees, the insurance department will issue the non-resident license.

If an individual who is licensed as a resident insurance producer in another state moves their principal place of business or residence to Pennsylvania, they may apply to the insurance department to become a resident insurance producer in Pennsylvania. The application must be for the equivalent lines of authority for which they were licensed in their former home state. This must be done within **90 days**.

Temporary Licenses

A temporary license could be issued to an individual due to the death, disability or active military service of a licensed producer. The license would be issued if the department determines it is in the public interest and the person requesting the license is worthy. It is issued for a period not to exceed **180 days** and is not transferable. This license is used until:

1. The business is sold or transferred,
2. The producer recovers and returns to the business, or
3. New personnel are trained and licensed to operate the business.

Those persons who may qualify for a temporary license include:

- The surviving spouse or representative of a deceased individual producer or who becomes mentally or physically disabled.

- The designee of an individual licensee who enters active service in the U.S. armed forces.
- Persons involved in any other situation in which the commissioner determines the public interest would be served.

The department may impose requirements, including a sponsoring insurer and limiting the lines of authority. The department may immediately and without notice revoke the license if it is deemed in the public interest.

Managers & Exclusive General Agents

Managers and Exclusive General Agents are firms (licensed producers) who work as independent contractors on behalf of a domestic insurer. They produce insurance in a specified geographic territory or to a specific portion of the insurers business and function on behalf of insurance companies providing services similar to a company branch office.

Manager – Person who negotiates and binds ceding reinsurance contracts on behalf of a domestic insurer or manages all or part of the insurance business of an insurer and does not act as an agent for such insurer.

Exclusive General Agent – A licensee:

1. Which has been granted sole authority to act directly or indirectly as an insurance producer for a domestic insurer with respect to a specific portion of the insured's business or within a specific territory;
2. Which has authority to bind coverage; and
3. Either separately or together with affiliates or sub-producers produces and underwrites in any one year, direct written premium equal to or more than 25% of surplus as regards policyholders reported in the last annual statement.

MAINTENANCE AND DURATION

Upon successful completion of the application process, an insurance producer license is issued by the insurance department. The license may be issued on paper or electronic format and will include one or more lines of authority. The license is issued only in the name of the individual applicant or business entity and is not transferable. The license is issued for a period not to exceed 2 years.

License Renewals

The licensee may request renewal of the insurance producer license by submitting to the insurance department a completed renewal form along with the required renewal fee and verification of completion of continuing education requirements. The renewal fees are as follows:

Resident renewal fee	\$ 55
Non resident renewal fee	\$110
Lapsed renewal fee	\$165

Reporting of Actions

- a. **Misconduct reporting** – A licensee has 30 days after a final disposition to report the department any administrative action taken against them in another jurisdiction or by another PA government agency.
- b. **Criminal conduct reporting** – A licensee shall report charges of criminal conduct to the department within 30 days of being charged with such conduct. Within 30 days of their availability to the licensee the licensee must provide the department with all relevant legal documents.

Fictitious Names

If a licensee desires to do business under an assumed or fictitious name, other than the actual name of the individual or business entity licensee, the licensee must notify the commissioner in writing and file with the Department of State prior to the use of the assumed or fictitious name.

Address Change

Producers are required to notify the insurance department within 30 days of any change of contact information.

Continuing Education

Each licensee must complete 24 hours of approved continuing education for each two-year license period. A licensee may carry forward excess continuing education credit hours from one licensing period to the next. However, a maximum of 24 hours may be carried forward. A producer failing to comply with the continuing education requirement results in the **voluntary termination of the producer's license**.

Inactivity Due to Military or Extenuating Circumstances

A licensee who is unable to timely comply with the requirements of license renewal as a result of military service or other extenuating circumstance may request the department to waive the requirements of having to complete continuing education for the period in which the license had lapsed and payment of the lapsed license fee.

License Lapse and Reinstatement

A licensee who allows the license to lapse by failing to renew the license on a timely basis may request reinstatement of the license within one year of the renewal date. However, the first 60 days following the lapse of the license are critical. If a licensee requests reinstatement within the first 60 days following the lapse, the license will be reinstated retroactively, back to the date that the license lapsed. If the licensee requests reinstatement more than 60 days after the lapse, the license will be reinstated, however, it will not be retroactive and there will be a gap in the period during which the producer was licensed.

If a licensee fails to renew within one year, the person must reapply for a license under the rules for initial licensing.

DISCIPLINARY ACTIONS

The insurance department may issue fines, revoke, suspend, non-renew or deny licenses for any of the following activities:

- Acting as a producer without a license. An insurer shall be responsible for a violation by its employees.
- Doing business with unlicensed persons
- Representing or advertising as a producer for a nonadmitted insurer
- Soliciting applications or insurance for non-existent entities
- **Rebating** (giving back a portion of the premium or other valuable consideration)
- **Misrepresentation** (false statements) includes:
 - **Twisting** is making incomplete comparisons between policies
 - **Illegal inducement** is offering an illegal inducement that causes the insured to enter into an agreement
- Larceny

Participating in these activities can result in a fine of no more than \$5,000 for each and every violation and imprisonment for a period not to exceed 6 months, or both. Revocation of your license applies to all your powers in all lines of authority.

Enforcement By the Department

- Notice – Upon evidence of a violation, the department shall notify the person of the alleged violation. The notice shall specify the nature of the alleged violation and fix a time and place, at least 10 days thereafter, when a hearing on the matter shall be held.
- Hearing – The department shall conduct the hearing on the violation.
- Evidence – No person shall be excused from testifying or from producing any books, papers, contracts, agreements or documents at any hearing held by the

commissioner on the ground that the testimony or evidence may tend to incriminate that person.

- Penalties – After the hearing or upon failure of the person to appear at the hearing, if a violation of this act is found, the commissioner may, in addition to any penalty which may be imposed by a court, impose any combination of the following deemed appropriate:
 1. Denial, suspension, refusal to renew or revocation of the license, if any, of the person.
 2. A civil penalty not to exceed \$5,000 for each action in violation of this act.
 3. An order to cease and desist.
 4. Any other conditions as the commissioner deems appropriate.
 5. A licensee who fails to provide a written response to the department within 30 days of receipt of a written inquiry from the department or who fails to remit valid payment for all fees due and owing to the department shall, after notice from the department specifying the violation and advising of corrective action to be taken, correct the violation within 15 days of receipt of the notice. If a licensee fails to correct the violation within 15 days of receiving the notice, the department may assess an administrative fine of no more than \$100 per day per violation.
 6. The courts may impose the following civil penalties:
 - For each violation which the person did not know nor reasonably should have known was a violation, a penalty of not more than \$1,000 for each violation but not to exceed an aggregate penalty of \$10,000 in any six-month period; and
 - For each violation which the person knew or reasonably should have known was such a violation, a penalty of not more than \$5,000 for each violation but not to exceed an aggregate penalty of \$50,000 in any six-month period; and
 - For each violation of an order issued by the Commissioner, while such order is in effect, a penalty of not more than \$10,000.

Consent Agreement

A Consent Agreement is a written agreement in which an accused person does not admit or deny the charges but consents to payment of the civil penalty. A consent agreement may not be used in a subsequent civil or criminal proceeding, but notification thereof shall be made to the licensing authority if the person is licensed by a licensing authority of the Commonwealth so that the licensing authority may take appropriate administrative action.

STATE REGULATION

Let's begin our examination of Pennsylvania's insurance regulation with the Insurance Commissioner. The Insurance Commissioner holds the overall responsibility of directing the state's Department of Insurance in order to achieve the Department's goals and to enforce the insurance laws. The Commissioner is appointed by the Governor for a four-year term.

Acts Constituting Insurance Transactions

- **Negotiate** – To confer directly with or to offer advice directly to a purchaser or prospective purchaser of a particular contract of insurance concerning benefits, terms or conditions of the contract, provided that the person engaged in that act either sells insurance or obtains insurance from insurers for purchasers.
- **Sell** - To exchange a contract of insurance by any means for money or its equivalent on behalf of an insurance entity.
- **Solicit** – To attempt to sell insurance or ask or urge a person to apply for a particular kind of insurance from a particular insurance entity.

COMMISSIONER'S GENERAL DUTIES AND POWERS

In addition to the overall responsibility of assisting the insurance buying public, the Commissioner is granted certain general powers. The commissioner may investigate and examine the affairs of every person engaged in the insurance business in the state to determine whether they have been or are engaged in any unfair competition or in any unfair or deceptive act or prohibited practice. There are also other duties that come along with these powers.

1. Issue/Suspend/Revoke/Non-Renew Licenses

The Commissioner has the power to approve producers for a Certificate of Qualification. The Commissioner also may approve others who are required to be licensed to do insurance business in Pennsylvania including insurance companies, managing general agencies (MGAs), surplus lines producers and public adjusters.

Once a license has been issued, the Commissioner has the power to suspend, revoke or non-renew a license. Typically, this usually is due to one of the following reasons:

- a violation of the insurance laws;
- a violation of criminal statutes;
- failure to file required forms or financial reports (insurers);
- failure to pay appropriate fees; or
- failure to meet continuing education requirements.

2. Regulate Companies for Solvency

The Commissioner also has the authority to supervise the handling of an insolvent insurer whether it is in liquidation or restoration through a financial rehabilitation process.

3. Investigate Complaints

The Commissioner has the right and power to investigate any complaints made against an insurance company, person or organization licensed under the laws of Pennsylvania.

4. Regulate Rates, Rating Plans, Forms

To assure fairness to the public and insurers, the Commissioner will review and regulate rates.

5. Collect Fees

There are several opportunities for the Office of the Commissioner to collect fees. Fees may include:

- Licensing
- Appointment
- Special Taxes
- Application

6. Regulate Trade Practices and Claim Practices

7. Report Illegalities to Attorney General

Any activity that the Commissioner knows or suspects as criminal must be reported to the Attorney General of Pennsylvania. The Attorney General will determine whether or not to prosecute the individual breaking insurance laws.

COMPANY REGULATION

Certificate of Authority

Before an insurance company can transact insurance as an admitted carrier it must first obtain a Certificate of Authority. Any insurance company, association or exchange, doing an insurance business within this Commonwealth, that shall exceed the powers granted under a certificate of authority, shall forfeit and pay to the Commonwealth a sum of not more than five hundred dollars (\$500) for each and every policy issued in violation of this section.

Solvency

The Commissioner has general powers to make sure that insurance companies doing business in Pennsylvania are financially sound, so that they can pay the present and future claims of policyholders.

Rates

Rates must be:

Adequate	The rates must be adequate . This means that the rates the insurance company uses will give it enough money, along with its earnings in investment income, to pay projected losses and expenses. The Commissioner does not want a company to charge too little that it cannot remain financially solvent.
Not Excessive	On the other side, the Commissioner does not want insurance rates to be excessive or unreasonably high to punish the consumer. A rate is considered excessive if the rate is unreasonably high for the type of insurance and the insurance company's losses and expenses are relatively low compared to the cost of the insurance.
Not Unfairly Discriminatory	Insurance is based on selective discrimination. The goal is to charge a fair and legal rate for each class of business which reflects the differences in loss exposures. Pennsylvania does not permit the charging of insurance rates that are unfairly discriminatory .

Insurance Rate Filing

Every insurer must file with the Pennsylvania Insurance Commissioner every manual, class rate, rating schedule or rating plan and any modification it uses. The filing must state the proposed effective date and shall indicate the extent of coverage contemplated. Pennsylvania is a prior approval state which means that the Insurance Commissioner must approve all rates and deviations prior to them being used.

Policy Forms

Insurers doing business in Pennsylvania are required to send all policy forms, applications and endorsements to the Commissioner for approval. Forms are considered approved 30 days following filing, unless notice from the Commissioner regarding disapproval is received prior to the end of the 30-day period.

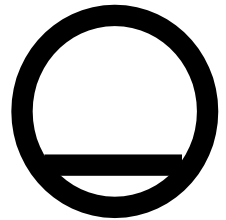
Unfair Claims Settlement Practices

The following provisions, sometimes referred to as Unfair Claims Practices, were passed in Pennsylvania to provide greater assurance that people making insurance claims would be treated fairly.

Prohibited Practices

The commission of any of the following acts if committed or performed with such a frequency as to indicate a business practice shall constitute an unfair claims practice:

1. Misrepresenting important facts related to the coverage at issue.
2. Failing to act promptly on a communication dealing with a claim.
3. Failing to have reasonable standards for prompt claims investigation.
4. Refusing to pay claims without a reasonable investigation of all available information.
5. Failing to deny or affirm coverage within a reasonable time after a proof of loss has been submitted.
6. Failing to promptly settle claims fairly and equitably once the company's liability under the policy has become reasonably clear.
7. Compelling insureds to institute litigation to recover amounts due by offering substantially less than amounts ultimately received.
8. Attempting to settle a claim for less than the amount that a reasonable person would expect based on reference to printed material that may have accompanied or been part of an application.
9. Attempting to settle a claim on the basis of an application which was altered without notice to, or knowledge/consent of the insured.
10. Making claims payments not accompanied by a statement setting forth the coverage under which payments are being made.
11. Failing to promptly provide a reasonable explanation of the basis in the policy or law for denial of a claim or compromise offer.
12. Telling the insured or claimant that the insurer has a practice of appealing arbitration awards in favor of insureds or claimants, to persuade them to accept a lower settlement.
13. Attempting to delay the investigation or payment of claims by requiring a preliminary claims report, and then requiring the subsequent submission of formal proof of loss forms, both of which contain substantially the same information.



PRODUCER REGULATION

An important part of the Commissioner's responsibilities specifically, and the Department of Insurance's responsibilities in general, is the regulation of insurance producers.

Fiduciary Responsibility

Producers are required to act honestly and faithfully with all premiums collected. An insurance producer must keep all insurance premium funds separate from the producer's

own funds or other agency funds, unless they have express consent of the insurance entity on whose behalf the funds were collected, to mingle (comingle) the funds. Producers must maintain a complete and accurate accounting of such funds. Producers who make immediate remittance of premiums to their companies do not need to maintain separate accounts.

Examination of Books and Records

The Commissioner or his/her representative may examine the books and records of insurance companies and insurance agencies for the purpose of verifying the company's financial condition and compliance with all Insurance Department rules.

Producer Disclosure Requirements

An insurance producer acting on behalf of or representing a consumer must have a written agreement with the insurance consumer before representing or acting on their behalf.

This agreement must include:

- Explanation of services to be provide; and
- Full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

Commissions and Fees

Commissions on the sale of insurance may be paid to only licensed persons with two exceptions:

1. A nominal fee may be paid to an unlicensed person for referring a prospective client to a producer. The referring person is not allowed to discuss specific terms of the contract.
2. Renewal commission may be paid to a person who was licensed at the time the policy was written but whose license has since expired.

A producer may charge a fee in addition to commission on the sale of commercial business; however, this fee must be disclosed in advance in writing.

No commission can be paid to a producer if their license is under suspension or their license has been revoked. No producer may charge a fee for completing an application.

PROHIBITED ACTS

The purpose of this act is to regulate trade practices in the business of insurance by defining or providing for the determination of all practices in the state which constitute unfair methods of competition or unfair or deceptive acts or practices and by prohibiting such practices. These practices include but are not limited to the following:

A licensee or an applicant for a producer license shall not:

1. Provide incorrect, misleading, incomplete or false information to the department in a license application.
2. Violate the insurance laws or regulations of this Commonwealth or a subpoena or order of the commissioner or of another state's commissioner.
3. Obtain or attempt to obtain a license through misrepresentation or fraud.
4. Improperly withhold, misappropriate or convert money or property received in the course of doing business.
5. Intentionally misrepresent the terms of an actual or proposed insurance contract or application for insurance.
6. Admit to or have been found to have committed any unfair insurance practice or fraud.
7. Used fraudulent, coercive or dishonest practices or demonstrate incompetence, untrustworthiness, or financial irresponsibility in the conduct of doing business.
8. Have an insurance producer license or other financial services license, denied, suspended or revoked by a governmental entity.
9. Forge another person's name on an application for insurance or any other document related to an insurance or financial service transaction.
10. Cheat on an exam for an insurance producer license.
11. Knowingly accept insurance business that was sold, solicited or negotiated by an unlicensed insurance producer.
12. Fail to comply with a court order imposing a child support obligation.
13. Fail to pay state income tax or court order directing the payment of state income tax.
14. Commit a felony or its equivalent.
15. Commit a misdemeanor that involves the misuse or theft of money or property belonging to another person.
16. Commit a violation of Sub Article B. (Regulation of insurance producers).
17. Commit fraud, forgery, dishonest acts or an act involving a breach of fiduciary duty.
18. Transfer insurance coverage to an insurer other than the insurer expressly chosen by the insured without the consent of the insured.
19. Fail to notify the department of a change of address within 30 days.
20. Demonstrate a lack of general fitness, competence or reliability sufficient to satisfy the department that the licensee is worth of licensure.

REBATES AND INDUCEMENTS

Rebates – No producer shall directly or indirectly offer, give or pay a rebate of, or part of, any insurance premium or the producer's commission, or earnings, or any special advantage of policy or age of issue, or any paid employment, or any contract for services of any kind, or any other valuable consideration to or for services of any kind, or any other valuable consideration to or for insurance which is not specified in the insurance contract.

Inducements – No producer shall directly or indirectly offer, give, promise, option, sell or purchase any stocks, bonds, securities or property, or any dividends, or other thing of any value, as an inducement to purchase an insurance contract.

Violation of either of the above is a 3rd Degree Misdemeanor.

Misrepresentation

Misrepresentation is an illegal act or activity that causes someone to enter into a contract. This is making false oral or written statements. These statements may take the form of a number of activities, some of which are listed below:

- Misrepresenting policy benefits, terms or conditions *
- Misrepresenting policy dividend projections *
- Misrepresenting dividends to be a share of surplus
- Misrepresenting the name, class or title of any insurance policy
- Misrepresenting for the purpose of inducing the lapse, forfeiture, exchange, conversion or surrender of any insurance policy so the insured will buy a new policy. This is commonly called **twisting**. *
- Misrepresenting the financial condition of any person or the legal reserve system upon which any insurer operates
- Misrepresenting the policy as being shares of stock
- Misrepresenting in any manner of advertising, statements or announcement about the business of insurance or any person which is untrue, deceptive or misleading.

False Advertising

Defamation

Defamation of an insurer is making false or maliciously critical statements about an insurer. These statements can be oral or written statements. In order to be considered defamation, statements must contain a misrepresentation regarding the insurer's conduct of insurance which is untrue, deceptive, or misleading. A specific reference in the law is made related to defaming the insurer's financial condition.

Defamation is making, circulating, issuing, or publishing any oral or written statement which is false or maliciously critical of the financial condition of any person, which is calculated to injure that person.

Unfair Discrimination Practices

Unfairly discriminating by means of:

- 1) Making or permitting any unfair discrimination between individuals of the same class of equal expectation of life in the rates charged for life insurance or life annuity or dividends or other benefits payable under such contract.
- 2) Making or permitting any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premiums, policy, fees or rates charged for any policy or in the benefits payable there under.
- 3) Making or permitting any unfair discrimination between individuals of the same class of essentially the same hazard with regard to underwriting practices or eligibility by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status.
- 4) “Redlining” is the rejection of a risk based solely on geographic location.

Note - there is discrimination in writing or not writing insurance based on a specific group’s or individual’s loss exposures, and charging those policies which are written with certain rate factors. This is a lawful form of discrimination.

Agency Termination

Insurers intending to terminate a contract must provide a producer and the Insurance Commissioner written notification at least 90 days prior to the date of termination. The notification must contain the specific reason for the termination. The producer has 30 days of receipt of the written notification to request, in writing, that the Insurance Commissioner reviews the action and determine that termination was within compliance of the cancellation guidelines.

If the reason for termination includes adverse experience, mix of business or lack of premium volume, the insurer should make reasonable attempts to rehabilitate the agent prior to termination. **Rehabilitation** specifics include:

- Notification of rehabilitation program specifying reasonable goals
- Notification that failure to attain the goals may result in termination
- Rehabilitation period must be no less than one year
- If goals are met during rehabilitation period, termination is not an option if solely based on adverse experience, mix of business or lack of premium volume
- It is the duty of the insurer to provide proof on reasonable attempts to rehabilitate the agent

When an insurer notifies an agent of contract termination, the insurer must offer continuance of the agent's policies for a period of 12 months from the termination effective date. Commissions are not restricted during the rehabilitation process or during the 12 months of policy continuance after the termination notification.

Penalties related to Agency Termination include:

- Fine not exceeding \$500 plus costs – any person, agent or insurer who willfully violates any provisions within Act 143.
- If satisfactory evidence of violating this act by any person, agent or insurer the Insurance Commissioner may:
 - Suspend or revoke the license of the offending individual
 - Refuse to issue a new license to or renew the individual's license for up to one year.
 - Impose a civil penalty of no more than \$500 for each violation.

Note: Agents are not granted the protection of this termination law if they have been appointed for less than four years, or whose license has been suspended or revoked or whose contract has been terminated for insolvency, abandonment, gross or willful misconduct, or failure to pay over to the insurer moneys due to the insurer after his receipt of a written demand. In addition, an agent who has demonstrated gross incompetence, which would normally be cause for agency contract termination, is not protected by this law.

Boycott, Coercion, or Intimidation

It is unlawful to enter into an agreement or conscious action to commit any boycott (refusal to have business dealings with other persons or entities until they comply with certain conditions), coercion (the application of physical or mental force to persuade someone to buy insurance), or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

Misappropriation of Funds

You are not allowed to improperly withhold, steal or convert money or property received in the course of doing business. This is a theft punishable by law.

PENALTIES



1. For each violation that the person did not know nor reasonably should have known was a violation, he/she may be required to pay a fine of not more than \$1,000, not to exceed an aggregate of \$10,000 in any six-month period for any violation.
2. For each violation that the person knew or reasonably should have known was a violation, the individual may be required to pay a fine of not more than \$5,000, not to exceed an aggregate of \$50,000 in any six-month period.
3. Although it rarely happens, the court could also sentence the individual to imprisonment for a term not to exceed 6 months.
4. If a person fails to comply with the Commissioner's order to cease and desist, the Commissioner may file an action for injunction in the Commonwealth Court or the Court of Common Pleas in the county where the violation occurred. A penalty may be imposed of not more than \$10,000 for each violation of a cease and desist order.

APPOINTMENT PROCEDURE OF PRODUCERS

Some insurance producers operate based on an appointment with an insurance company or other insurance entity. This means that they have a written contract under which they can sell, solicit or negotiate insurance policies issued by the appointing insurance entity. When the insurance producer works subject to such an appointment, the producer is considered a **representative of an insurer**. An insurer must notify the department of a producer's appointment, and for which companies the appointment is made. There is an annual appointment fee of \$12.50 for each producer. Once appointed, the producer remains appointed until the insurer terminates in writing or the producer's license is suspended, revoked or otherwise terminated. Prior to the Producer Licensing Modernization Act, this type of insurance producer was referred to as an agent.

Not all insurance producers operate under the terms of a company appointment. When an insurance producer does not have such an appointment, the producer is considered a **representative of the consumer**. A producer who functions in this manner is required to execute a written agreement with the consumer prior to acting on the consumer's behalf. The written agreement should specify the services that will be provided and clearly disclose any fee to be paid to the producer by the consumer. Prior to the Producer Licensing Modernization Act, this type of insurance producer was referred to as a broker.

Appointment Termination

An insurer who terminates a producer appointment must notify the department within 30 days of the effective date of the termination. If the reason for termination was a violation of the licensing act or if the insurer found out the producer engaged in any activity prohibited by the act, the insurer must inform the department of such violation or activity. Copy of the notification shall be sent by the insurer within 15 days to the producer's last known home address by certified mail, return receipt requested postage prepaid or by

overnight delivery using a national recognized carrier. Within 30 days of receiving such notification the producer may file written comments concerning the substance of the notification with the department and simultaneously mail a copy of said comments to the insurer.

An insurer or producer who fails to report as required under this section or is found to have falsely reported with malice by a court, may have its license suspended or revoked and may have a civil penalty imposed in an amount not to exceed \$5,000 for each violation.

FEDERAL REGULATION

FEDERAL FAIR CREDIT REPORTING ACT

This Federal statute was passed to protect consumers from inaccurate and unfair information contained in files or reports of credit reporting agencies. The law outlines the rights of the consumer and the responsibilities of those parties who collect and distribute the information.

The reason this Federal statute is important for insurance is that insurers frequently will request financial information as part of the underwriting process. Notification that a credit investigation may take place must be communicated to the prospective insured at the time of application. If the requested insurance policy is declined, the applicant has a right to be informed of the name and address of the reporting agency. The notice must be in writing. A reporting agency that has collected and distributed incorrect information may be liable to the consumer for actual damages plus court costs. The maximum penalty for fraudulent use of consumer information is \$5,000, or up to one year in jail, or both.

FRAUD AND FALSE STATEMENTS

If you are engaged in the insurance business and your activities affect interstate commerce and you knowingly engage in fraudulent activity you can be subject to fines and or imprisonment for up to 10 years. If the report or the overvaluing jeopardized the safety and soundness of a company and was a significant cause of the company being placed in conservation, rehabilitation or liquidation, the term of imprisonment can be as long as 15 years.

In addition, the Attorney General may bring civil action against you for such conduct and you shall be subject to a penalty for no more than \$50,000 for each violation or the amount of compensation which the person received or offered for the prohibited conduct, whichever is greater.

INSURANCE FRAUD REGULATION

By act of the Pennsylvania legislature, the Insurance Fraud Protection Act established procedures for creating, funding and coordinating activities to prevent and combat

insurance fraud. The law also provides for the assessment of all licensed insurers to fund the anti-fraud activities.

To aid in prosecution of insurance fraud, the law also created and funds the Section of Insurance Fraud within the Office of the Attorney General. Members of the insurance industry are required to report when they believe an act of insurance fraud may have taken place. They may be subject to arrest and prosecution if they refuse to cooperate. However, they are also held to be immune from civil or criminal liability for supplying required information in good faith.

In addition, non-insurance industry individuals who violate the Act are subject to criminal prosecution, civil penalties and may also be held responsible for restitution.

Pennsylvania law requires that all pre-printed applications and claims forms provided by an insurance company to an applicant or claimant must include a fraud statement that basically says, “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects the person to criminal and civil penalties.”

PRIVACY OF CONSUMER FINANCIAL INFORMATION

As a result of Federal legislation called the **Gramm-Leach-Bliley Act**, states have had to create minimum standards for maintaining the privacy of information secured as a result of application for, the underwriting of, and the continuing servicing of insurance. There are four requirements under this law.

1. Insurers and producers are required to advise their prospects and customers whether and how any personal, private, financial information may be shared and with whom.
2. Customers must be given the option to “opt out” of any sharing of such private information.
3. The requirements specify that an initial privacy notice must be provided to consumers and customers at the initial contact. An annual privacy notice must be given to all customers.
4. This creates an additional responsibility on the part of agents and brokers to make certain that specified personal financial information is kept secure and not shared with anyone not authorized by the clients.

In addition to the privacy legislation mentioned above, other federal law has been created to deal with fraud that is either by persons or affecting persons engaged in the business of insurance. This federal law pertains to insurance business activities that affect interstate commerce. It prohibits anyone from embezzling money, threatening persons, impeding investigations or providing false or misleading information regarding insurance policies, assets, or property. The law applies whether the fraudulent activity involves statements to insurance regulatory agencies, or to insurance companies, agents, representatives or

members of the general public. Penalties for violations of the federal law can include imprisonment up to 15 years as well as fines up to \$50,000 per violation of the law. The largest prison terms and fines are reserved for those fraudulent activities which lead to the insolvency or impairment of the financial status of insurance companies. Fraudulent activities which involve amounts less than \$5,000 carry the smallest penalties.

FEDERAL TERRORISM RISK INSURANCE PROGRAM (TRIA)

Before September 11, 2001, terrorism coverage was routinely included in commercial insurance policies. Insurance claims from the September 11th attacks were estimated at \$40 billion to \$50 billion with property insurers covering most of the losses. As a result, primary insurers drastically raised their premiums or eliminated terrorism coverage entirely; **often both in pre-existing and new policies**, and reinsurance companies stopped providing terrorism insurance to primary insurers.

In response to this problem, Congress passed the Terrorism Risk Insurance Act of 2002, effective November 26, 2002, and the Terrorism Risk Extension Act of 2005. The legislation was again extended through the Terrorism Risk Insurance Program Reauthorization Act of 2007. There have been some changes and the Terrorism Risk Insurance Program Reauthorization Act of 2015 is signed and extends through 2020. The Act establishes a temporary federal program through which the federal government shares with the insurance industry losses resulting from acts of terrorism. The Act effectively ensures that terrorism insurance will be available. However, there still will be **no coverage for nuclear, chemical, radiological or biochemical attacks**. Insurers covered by the Act include all licensed primary or excess insurers, surplus line carriers, state workers compensation funds, and state residual market insurance entities. The program does not apply to federal or privately issued crop insurance, private mortgage insurance or title insurance, monoline financial guaranty insurance, medical malpractice, health or life insurance, the national flood insurance program, or reinsurance. Under the Act, the U.S. Treasury Department must monitor the price and availability of terrorism risk insurance. The program does not limit the premium an insurer may charge for terrorism insurance, but does require clear disclosure of the premium.

Prior to the passage of the 2007 extension, coverage was limited to acts of foreign terrorism that resulted in more than \$5 million of property and casualty insurance losses. **Changes in the 2007 extension also includes coverage for acts of domestic terrorism and for Federal Funding to apply, the country would need to exceed \$100 million in damages for terrorism acts in a given year.**

Before any federal funds are made available, the Secretary of the Treasury, in consultation with the Secretary of Homeland Security, must certify that an “act of terrorism” has occurred. The Secretary of the Treasury’s determination is not subject to judicial review. Only losses to property within the United States are covered by the program, except for losses outside the United States involving certain aircraft and ships and U.S. embassy property.

The Act voids any terrorism exclusion in a commercial property and casualty insurance policy. A terrorism exclusion provision may be reinstated, however, if the insured

authorizes it or if after 30 days notice the insured fails or refuses to pay an increased premium for terrorism coverage.

Terrorism coverage is required to be offered to all commercial policyholders with the initial policy and subsequent renewals. Insureds have the option to decline this coverage. The program is triggered when losses from an act of terrorism exceed 20% of an insurance company's direct earned premium. In such a case, the Government would then pay 85% of the losses, up to \$100 billion per year while insurance companies would pay 15% in addition to the 20% that they already retained.

The Act also allows injured parties to sue for property damage, personal injury or death resulting from a certified act of terrorism. The lawsuits arising from the act of terrorism would all be consolidated into the federal district court where the act of terrorism occurred. Lawsuits in state courts or other federal courts are not permitted. None of these limitations, however, serve to limit the liability of perpetrators of an act of terrorism.

The Terrorism Risk Insurance Program Reauthorization Act of 2015 extends through 2020 and includes the following changes:

- Raises the trigger amount needed in total losses before the TRIA program kicks in from the current \$100 million to \$200 million, over five years, beginning in calendar year 2016;
- Raises over five years, starting January 1, 2016, the mandatory recoupment from \$27.5 billion to \$37.5 billion, increasing by \$2 billion each year;
- Raises the private industry recoupment total from the current 133% of covered losses to 140% of covered losses for all events; and
- Retroactively restores the federal reinsurance backstop for policyholders and the insurance market in the event of a catastrophic act of terror on American soil.

***December 20, 2019 – The President signed into law Terrorism Risk Insurance Program Reauthorization Act of 2019 which extends through 2027.*

Effect on State Law

States may still require an insurance policy form to meet the state legal requirements. Commencing January 1, 2004, states may still invalidate a terrorism insurance rate as excessive, inadequate or unfairly discriminatory.

MOTOR CARRIER ACT

The Motor Carrier Act of 1980 requires coverage under Title 49, Code of Federal Regulations for Bodily Injury, Property Damage and Environmental Restoration Claims that arise from use and operation of an auto. Environmental Restoration means the restitution for the damage or destruction of natural resources arising out of the accidental discharge, dispersal, release or escape into or on to the land, atmosphere, watercourse, or body of water, of any goods transported by a motor carrier. Basically, the law is an incentive to maintain and operate their vehicle on a public highway in a safe manner. All entities who are paid to transport property across state lines and those entities transporting hazardous substances must meet the requirement stated under the law.

Minimum financial responsibility varies with the type of hauler and the type of materials being hauled. Minimum liability requirements include:

- \$750,000 for transporting non-hazardous property
- \$1,000,000 for transporting oil and hazardous waste
- \$5,000,000 for transporting hazardous substances such as radioactive materials.
- \$5,000,000 for transporting explosives and poisonous gasses.

All vehicles in excess of 10,000 pounds that haul cargo over state lines are subject to these limits. Also, tow trucks fall under this Act.

Pollution - MCS - 90 Endorsement

Those motor carriers which come under the Act of 1980 are held in a position of absolute liability. It makes no difference as to what precautions were taken to prevent a loss, the insured is held liable. The MCS - 90 will prevent the insured from receiving a \$10,000 per day penalty for knowingly not complying. This endorsement is not insurance protection, and should be treated as a surety bond. As is the case in a surety bond, the MCS - 90 has a provision that clearly states that the insured is required to pay back any payment for environmental restoration. To have pollution coverage, a motor carrier should purchase pollution coverage by endorsement or an auto policy that provides pollution protection.

OTHER FEDERAL REGULATIONS

There are additional federal regulations that producers must adhere to including:

- TCPA (Telephone Consumer Protection Act) – Do Not Call List

In 2003, The Federal Trade Commission (FTC) and the Federal Communication Commission (FCC) worked together to develop the national Do Not Call List. This allows consumers to include their telephone numbers on a list to which solicitation calls cannot be made by telemarketers. Insurance producers and companies must comply with this regulation when doing phone solicitation.

Organizations must consult the Do Not Call List every 31 days to remain current.

Prohibits solicitors from calling residences before 8 a.m. or after 9 p.m., local time.

Requires solicitors provide their name, the name of the person or entity on whose behalf the call is being made, and a telephone number or address at which that person or entity may be contacted.

Prohibits solicitations to residences that use an artificial voice or a recording.

- CAN-SPAM Act (email marketing)

CAN-SPAM legislation requires that any business email must include an opt-out mechanism. All opt-out requests must be honored within 10 business days. To be in compliance with this legislation, the entity that sends out emails must do the following:

- Make sure the advertiser is identified in the from line;
- Not use misleading subject lines;
- Include an opt-out mechanism and honor all opt-out requests within 10 days;
- Include the advertiser's valid physical postal address; and
- If the message unsolicited, it must be identified as an advertisement somewhere in the email.

CHAPTER 1 - QUIZ

1. All of the following are requirements to be licensed in PA except:
 - a. Complete a four-week pre-licensing course
 - b. Pass the appropriate exam
 - c. Apply for a license with the insurance department and pay the appropriate fee
 - d. Have your fingerprints taken and submitted

2. All of the following statements are correct except:
 - a. An applicant has up to one year to be licensed after successfully passing the exam
 - b. The fee for the PA property-casualty license is \$55 for two years
 - c. An insurance agency does not need a license if they are a corporation
 - d. You must be at least age 18 to be licensed

3. Which statement is false?
 - a. A resident producer must both live and work in Pennsylvania
 - b. The maximum limit for a temporary license is 180 days
 - c. An insurance company's license is called a certificate of authority
 - d. A producer must be licensed to sell, solicit or negotiate contracts of insurance

4. Which time period is incorrect?
 - a. 30 days to report a change of address
 - b. 30 days to report criminal conduct of being charged
 - c. 60 days to reinstate a lapsed license retroactively
 - d. Four years to complete 24 hours of continuing education (CE)

5. Possible insurance department penalties for insurance law violations include all the following except:
 - a. Fines
 - b. Revoking a license
 - c. Increased requirement of CE hours
 - d. Issuance of an order to cease and desist

6. All of the following are general duties and powers of the Insurance Commissioner except:
 - a. Prosecute the individual in a court of law
 - b. Collect fees
 - c. Investigate complaints
 - d. Regulate rates

7. Rate regulatory law requires rates to be all of the following except:
 - a. Not excessive
 - b. Equal for all policyholders
 - c. Adequate
 - d. Not unfairly discriminatory

8. Which statement is false?
 - a. The Insurance Commissioner is appointed by the Governor
 - b. All rates must be filed and approved before they can be used
 - c. Maximum jail term for an insurance law violation is six months
 - d. Illegal inducement is doing business with unlicensed persons.

9. Which activity would be a prohibited practice under the Unfair Claims Practices Law?
 - a. Failing to act promptly on a communication dealing with a claim.
 - b. Reporting the claim to the insurance company online.
 - c. Denying payment of a claim that is not covered by the policy
 - d. Assigning an adjustor to investigate the claim before payment.

10. Which activity would not be a prohibited practice under the Unfair Trade Practice Law.
 - a. Intentionally misrepresenting coverage terms in the policy
 - b. Forging a client's signature on an application
 - c. Not remembering your client's birthday
 - d. Committing a felony

11. Misrepresentation can be all the following except:
 - a. Twisting
 - b. Sharing part of your commission with a client
 - c. Misrepresenting benefits, terms or conditions
 - d. Misrepresenting in advertisements

12. All of the following are Unfair Trade Practices activities except:
- a. Comingling of funds
 - b. Rebating
 - c. Defamation
 - d. Boycott, coercion or intimidation
13. The Fair Credit Reporting Act requires all the following except:
- a. Notification of a credit investigation at time of application
 - b. A copy of the report sent to the client
 - c. The name and address of the credit reporting agency given to the client
 - d. Notice must be in writing
14. The Gramm-Leach Bliley Act (Privacy Act) requires all the following except:
- a. Annual privacy notification given to all customers
 - b. Customers given the option to "opt out" of sharing information to others
 - c. Insurers must protect the security of financial information
 - d. An annual report must be sent to the federal government
15. Which statement is false concerning the Federal Terrorism Risk Insurance Act (TRIA)?
- a. It applies to all lines of insurance, both personal and commercial.
 - b. The premium must be shown to the client with the opportunity to reject coverage.
 - c. It provides coverage for "acts of terrorism"
 - d. The federal government shares in payment of covered losses with the insurance industry
16. Before federal funds are made available under TRIA the following must certify an "act of terrorism".
- a. The President of the United States & Congress
 - b. Secretary of the Treasury and Secretary of Homeland Security
 - c. The Attorney General and Congress
 - d. The Federal Bureau of Investigation

17. The Motor Carrier Act of 1980 was passed to deal with:
- a. Unlicensed trucks traveling interstate
 - b. Uninsured cargo traveling interstate
 - c. Transporting hazardous cargo causing pollution accidents
 - d. Unlicensed drivers of motor vehicles
18. Under the Motor Carrier Act of 1980 the minimum limit of liability required when transporting non-hazardous cargo is:
- a. \$500,000
 - b. \$750,000
 - c. \$1,000,000
 - d. \$5,000,000
19. All of the following statements are correct concerning the MCS - 90 Endorsement except:
- a. It is not insurance protection
 - b. It guarantees clean-up of a pollution spill
 - c. It responds like a surety bond
 - d. The insured will not have to pay back costs even if they do not have pollution insurance coverage for the spill.
20. The Telephone Consumer Protection Act (TCPA) requires all the following except:
- a. The law does not apply to Fax communications
 - b. Telemarketers must maintain a Do Not Call List
 - c. No phone calls can take place before 8:00 AM or after 9 PM
 - d. Prohibits artificial voice or a recording.
21. The application fee for a resident producer is _____ and the non-resident producer is _____.
- a. \$25, \$30
 - b. \$55, \$110
 - c. \$75, \$125
 - d. \$65, \$165

22. Which person is not exempt from taking the appropriate exam:
- a. CPCU for property-casualty exam
 - b. CISR for property-casualty exam
 - c. CLU for life-health exam
 - d. CIC for property-casualty exam
23. All of the following procedures would be required if a licensed producer is representing a client in the procurement of insurance with a company with whom he is not licensed as an authorized agent except:
- a. A written agreement with the client
 - b. A disclosure of any fees to be charged to the client
 - c. No fee charged for filling out an application
 - d. All insurance quotes must be with a company rated A+ or better.
24. A consent agreement:
- a. Is an agreement to settle an insurance claim.
 - b. Is a written agreement in which an accused person does not admit or deny the charges but consents to payment of the civil penalty.
 - c. Is the finance's agreement to get married.
 - d. Is an agreement between an insurance company and a prospective agent.
25. Comingling is defined as:
- a. Mixing two different agency's loss ratios together for reporting purposes
 - b. Involves not keeping all insurance premiums separate from the agency's operating account.
 - c. Inviting underwriters and agents to the annual meeting
 - d. Mixing claims payments of attorney expense with loss payments.
26. The definition of boycott, coercion or intimidation involves all except:
- a. Charging a client a higher premium than his class rate would dictate
 - b. Refusing to have business dealings with a person
 - c. Using the threat of force to buy insurance
 - d. Intimidation of a client in the business of insurance.

27. Which activity would not be rebating?
- a. Returning a part of your commission to your client
 - b. Giving any new client a special 25% discount for buying a policy this month.
 - c. The agency owner paying his insurance agency employees a year-end bonus for hitting their production goals.
 - d. Giving all your relatives a discount on their insurance policies.
28. The Agency Termination law requires all except:
- a. Written notification of at least 90 days prior to the termination date.
 - b. A rehabilitation period of one year if the reason of termination is adverse experience.
 - c. A rehabilitation period of four years if the reason of termination is loss ratio
 - d. No protection if the agent has been appointed with the company for less than four years.
29. Which dollar amount is incorrect?
- a. \$1,000 fine for insurance law violation which the person did not know was a violation.
 - b. \$12.50 appointment fee for an insurance company to register an agent with the insurance department.
 - c. \$15,000 the maximum fine for violation of an insurance law
 - d. \$165 the fee for reinstating a lapsed renewal license
30. If a licensee desires to do business under an assumed or fictitious name in PA they must register the name with:
- a. Department of State
 - b. Insurance Department
 - c. Department of Transportation
 - d. Department of Industry and Labor

Chapter 1 Answers

1a, 2c, 3a, 4d, 5c, 6a, 7b, 8d, 9a, 10c, 11b, 12a, 13b, 14d, 15a, 16b, 17c, 18b, 19d, 20a, 21b, 22b, 23d, 24b, 25b, 26a, 27c, 28c, 29c, 30a.

CHAPTER 2

General Insurance Concepts



Insurance Agents
& Brokers

CHAPTER 2 – GENERAL INSURANCE CONCEPTS

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What is risk management?
- Discuss key terms:
 - Risk
 - Exposure
 - Hazard
 - Peril
 - Loss
- Identify the five methods of handling risk and how they differ.
- What are the seven elements of an insurable exposure?
- What is Adverse Selection and how does it apply to underwriting?
- Explain the Law of Large Numbers.
- Identify and explain the different types of insurers (stock company, mutual company).
- What is the difference between admitted and nonadmitted insurers?
- What is the difference between domestic, foreign and alien insurers?
- Explain the difference between a Representative of the Consumer (formerly broker) and a Representative of the insurer (formerly agent).
- List and provide examples of the three types of authority.
- What are the four elements of a legal contract?
- What is the principle of indemnity?
- What is the difference between misrepresentations and material misrepresentations?
- Additional terms to review: Warranties, Concealment.

KEY TERMS

- Risk management
- Exposure
- Hazard
- Peril
- Loss
- Avoidance
- Retention
- Sharing
- Reduction
- Transfer
- Adverse Selection
- Law of Large Numbers
- Admitted
- Non-admitted
- Domestic
- Foreign
- Alien
- Express Authority
- Implied Authority
- Apparent Authority
- Contract of Adhesion
- Indemnity
- Concealment
- Fraud
- Warranty

CHAPTER 2 – GENERAL INSURANCE

STATE EXAM: 8% or 12 QUESTIONS

Insurance affects many lives in day-to-day activities throughout the world. No one knows when the first insurance contracts or policies came into existence. This chapter discusses many of the important ideas and concepts which provide the foundation for insurance and risk management.

CONCEPTS

RISK MANAGEMENT KEY TERMS

Risk management is the process of identifying and managing or treating the loss exposures of an insured. Once identified, we then need to consider the tools and techniques to deal with the loss exposures, implement the selected techniques, and then monitor the results of the implementation. Insurance is the most widely used method of transferring all or a part of a risk to another party.

Risk

1. Risk is the uncertainty of financial loss.
2. Risk is also the person or property which is the subject of insurance.
3. Risk is also a word which may be substituted for peril or what we think may cause loss.
4. Risks are often classified as either “speculative” or “pure”. Speculative risks present the opportunity for a gain or a loss. Pure risks present the opportunity for loss, but no opportunity for gain. Only pure risks are the subject of insurance.

Exposure

Exposure refers to the circumstances or factors leading to the possibility of a loss to a person or property. If a loss is possible, an exposure exists. You will often see the terms **exposure** and **risk** used interchangeably.

Hazard

Hazard is a specific condition or situation increasing the probability of loss (frequency) or the extent of loss (severity). Hazards are discussed in greater detail in Chapter 3.

Peril

Peril is a cause of a loss. The peril of fire may be the cause of loss to a property.

Loss

The word **loss** is frequently used in insurance and risk management. It has a different definition depending on the type of insurance.

1. In property insurance loss is defined as a decrease or reduction in the monetary value of some property. For example, a large portion of the roof of Freeman Manufacturing is blown off by a windstorm. The plant now has a value of \$150,000 instead of \$200,000.
2. In liability insurance, **loss** refers to the amount of the claim or payment made on behalf of the insured. For example, Troy Smith's truck is struck by Glenda Shapiro's car causing injury to Troy. He claims a loss of \$20,000 for medical bills and loss of income, and \$5,000 for the truck. From the point of view of Glenda's liability insurance, the loss is not Troy's loss. The loss is what Glenda's liability insurance will have to pay to Troy on Glenda's behalf.

METHODS OF HANDLING RISK

Once a risk is identified, the next step is to analyze the risk and choose a technique or combination of techniques which should be used to handle the risk. The common methods of handling risk are discussed below.

Avoidance

Avoidance is eliminating an exposure by choosing to not participate in a particular activity or own a particular property. **This is not practical in many situations.**

Retention

Retention is acceptance or assumption of the risk of loss, which means you pay any loss out of your own pocket. There are two forms of retention, active and passive. **Active retention** is the conscious and intentional process of identifying the potential loss and determining how it will be paid should it occur.

The second form of retention is **passive retention** which really is not a conscious form of risk handling. It is more a decision not to use another method of handling risk, resulting in a person or organization being stuck with paying losses out of pocket; or it is simply a lack of awareness of the exposure's existence.

Sharing

Sharing is a method of handling risk involving the potential loss exposure being distributed among a number of persons. Each person accepts a portion of risk based on an agreement. For example, a person may be part of a homeowners association, and each family unit assumes a portion of risk related to repair or replacement of the club house and recreational facilities, should either be damaged.

Loss Control

Loss control is usually done in combination with other risk management techniques. **Loss prevention** is not allowing the opportunity for an event to happen. Examples would include warning labels on products, guards on equipment or fences, locks, lights and alarms to prevent theft of property. **Loss Reduction** is used to minimize the loss or damage after an event occurs. Examples would include automatic sprinkler systems to slow the spread of fire or seat belts and air bags in cars to reduce or prevent injury during an accident.

Transfer

Transfer is a technique involving one party transferring the uncertainty of loss and/or the financial consequences of loss to another party or parties.

- **Insurance** is the transfer of risk from one party (referred to as the insured) to another (referred to as the insurer), who for consideration (premium) agrees to reimburse for defined losses caused by designated events.
- **Non-insurance transfer** is the transfer of risk through a contract other than an insurance contract. A provision in the lease agreement can transfer the financial consequence of liability from the owner to the tenant. Liability may be for injuries to others arising out of the use of the property or the responsibility for damage to the property. Actually, the owner as a matter of law may remain liable, but the lease provision means that the tenant will compensate or **indemnify** the owner should the owner become liable and have to pay damages to another. Provisions of this type in contracts, such as leases, are often called **hold harmless agreements**.

ELEMENTS OF AN INSURABLE RISK

Many risks a person or organization may face are insurable, but not all. In order for a potential loss to be insurable it must meet certain conditions or elements. These elements are discussed below.

1. **Definite Loss** - An insured loss must be definite in time, place and amount. How can insurers agree to pay for losses if they cannot determine: (1) when a covered loss took place, or (2) how much the loss was worth?
2. **Accidental Loss** - Another element is **accidental loss**. A loss must be accidental from the viewpoint of the insured. If an insured can deliberately cause a loss, it will distort loss predictability, and may create a financial gain for the insured.
3. **Financial Hardship** - This element means that if a loss is not large or severe enough to cause economic or financial distress, then a person or organization would not be willing to purchase insurance.

4. **Not Catastrophic** - This element means the type of insured loss cannot be of a nature that a large number of exposure units could suffer a loss at the same time, thereby possibly bankrupting the insurance company.
5. **Large Group of Similar Exposure Units** - For this element, there must be a large group of exposure units with exposure to the same perils or causes of loss. This element is necessary in order for the Law of Large Numbers to operate effectively.
6. **Chance of Loss Must be Calculable** - The probability of loss must be calculable by gathering the loss history of similar acts, properties, and causes of loss. Otherwise, it is impossible to predict aggregate losses and determine what premiums to charge.
7. **Reasonable Cost to Insure** - The cost must be reasonable or no one will purchase it.

ADVERSE SELECTION

One goal of the underwriting process is to offer adequate coverage at a fair price and still make a profit for the company. The price charged for the coverage anticipates “average insureds” and an “average number of losses.” However, due to competitive market conditions or lack of adequate underwriting information the company may not get “average insureds.” Instead, the company may find that they have selected a group of insureds who have a far greater than average number of losses. This unprofitable condition is referred to as **adverse selection**. Another goal of the underwriting process is to avoid adverse selection.

LAW OF LARGE NUMBERS

Insurance deals with events for which probabilities must be estimated. The Law of Large Numbers is a mathematical principle which states the larger the number of exposures, the closer the actual results will equal the expected outcome.

The Law of Large Numbers can be demonstrated by flipping a coin. Each flip is an exposure. There are two possible outcomes when a coin is flipped - heads or tails. The probable outcome of any flip is 50% heads or 50% tails. However, in reality if you were to flip a coin ten times, you may get seven heads and three tails. In applying the Law of Large Numbers, if you were to flip the coin 10,000 times, besides getting tired, you would find that the number of heads and the number of tails would be very close to 5,000 each.

INSURERS

CLASSIFICATION OF INSURERS

Stock Company

A **Stock Company** is an incorporated insurance company owned by its stockholders. The stockholders elect the corporation's board of directors. The stockholders may or may not be policyholders. This type of company has an objective of making a profit for its stockholders. Profits may be shared with stockholders at the end of specifically defined periods in the form of stock dividends.

Mutual Company

A **Mutual Company** is an incorporated insurance company owned by its policyholders. Profits from these companies may be returned to the policyholders as a dividend or used to reduce future premiums. Mutual insurance company policyholders have voting rights.

There are two classes of Mutual Insurance companies.

- **Assessable Mutuals** have the right to require policyholders to pay an additional premium (assess) if loss experience is poorer than expected.
- **Non-Assessable Mutuals** is the way most mutual companies operate today. Basically, they cannot assess their policyholders if premiums are insufficient to cover operating costs. Non-assessable Mutuals clearly state on their policies that they are non-assessable.

Admitted Insurers Versus Non-Admitted Insurers

An **admitted** insurance company is one that is authorized and licensed to do business in the state, versus, a **non-admitted** insurance company, which is one not authorized and licensed to transact business in the state. Policyholders of a non-admitted insurance company are not entitled to coverage under the Pennsylvania Property & Casualty Insurance Guaranty Association (to be discussed in detail later).

In the State of Pennsylvania, a company must receive a certificate of authority to transact the business of insurance; therefore, the term **authorized** is frequently substituted for **admitted**.

The terms have the same meaning. If the Raven Insurance Company of Baltimore, Maryland gets a license to write insurance in Pennsylvania, Raven can then be referred to as an admitted or authorized company in Pennsylvania.

Domestic, Foreign and Alien Insurers

The term **domestic** in everyday usage is typically thought of as referring to things or people related to a home. Domestic can also be applied to insurers. An insurance company that is incorporated in, domiciled in and organized under the laws of Pennsylvania, and has its home office in this state is a **Domestic Insurer**.

The term **Foreign Insurer** simply refers to an insurance company that is organized and domiciled outside the state of Pennsylvania. Despite what the average person might expect, a foreign insurer is from within the United States, but is domiciled in a state other than Pennsylvania. In the earlier example, Raven is a **Domestic Insurer** in Maryland and a **Foreign Insurer** in Pennsylvania.

An **Alien Insurer** is an insurance company formed and domiciled in a country outside the United States.

AUTHORITY AND POWERS OF PRODUCERS

The Law of Agency

Those individuals who are licensed by the State of Pennsylvania to sell, solicit or negotiate the placement of insurance products are called **insurance producers**. They may choose to work as independent business persons or may own or work for an insurance agency that employs many people and represents a number of insurance companies. Insurance producers can act as the representative of an insurance company or they may work on behalf of the insurance consumer. Their responsibilities will vary depending upon these relationships.

Producer/Insurer Relationship

The legal relationship established when one party represents another is known as agency. In the insurance company/agent relationship, the insurance company is the principal and the agent is considered the authorized representative. When the agent performs within the scope of his authority, the agent's actions bind the principal. Knowledge of the agent is considered knowledge of the company.

- **Representative of the Insurer (formerly agent)**

If an insurance producer has reached an agreement and signed a contract to represent an insurance company, the producer is said to have been appointed by the insurance company. This **appointment** by the insurer creates a situation under which the insurance producer is considered the **representative of the insurer**. As a result of the insurer appointment, the producer is empowered to act on behalf of the insurance company as specified in their written agreement. The agreement is frequently called an agency contract.

The contract outlines the responsibilities of the producer. These may include such things as to solicit, take applications and bind insurance coverage, bill and collect premiums, and sometimes perhaps settle small claims.

- **Representative of the Consumer (formerly broker)**

It is not necessary that a producer be appointed by an insurance company. A producer who is not representing a particular insurer may still sell, solicit or negotiate the placement of insurance products. In this situation the producer is considered to be a **representative of the consumer**. When acting as the representative of the consumer, the producer is required to execute a written agreement with the consumer that outlines what services the producer will provide and what fees will be paid by the consumer.

Responsibilities to the Applicant/Insured

The producer owes the responsibilities of honest and faithful performance to the insured. The producer must also be professionally responsible and carry out the insured's instructions in a professional and timely manner.

Responsibilities to the Insurance Company

The producer generally owes the following duties to the insurance company (LORAC):

Loyalty

Obedience

Reasonable Care

Accounting

Communication

LORAC

POWERS AND AUTHORITY OF PRODUCERS (3 Types)

1. **Express (Actual)** is authority expressly given by the insurer either orally or in writing.

Agent Erin has express authority from Ajax Insurance Company to bind coverage up to \$200,000 on homes. This authority is specifically cited in underwriting guidelines provided by Ajax Insurance Company. If Erin binds coverage on a home for \$180,000, she is acting within the expressed authority of Ajax.

2. **Implied Authority** is authority of the producer which is not specifically expressed or communicated, but which is consistent with the producer fully exercising the express authority granted by the insurer. It would include accepted customs and business practices of the agent.

Agent Bob represents Wildfire Insurance Company. Even though Bob's contract with Wildfire is silent on the matter (no express authority), Bob has the authority to advertise his Wildfire affiliation. Such advertising is a logical part of Bob's efforts to solicit and sell insurance for Wildfire.

3. **Apparent Authority** is authority which the producer appears to have to a reasonable person. Apparent authority is not given by the principal, but is based on circumstances that create a **reasonable belief** to a third party that the producer had authority. Apparent authority protects innocent people where the circumstances create a reasonable appearance of authority in a producer. If the doctrine of apparent authority is applied by a court in a particular situation, the insurer is obligated to the innocent third party as fully as it would have been had the producer acted according to express or implied authority. Apparent authority is sometimes called **Authority by Estoppel**.

Agent Paula recently received a packet of sample materials, including a partial rate manual, underwriting guide, applications and binder forms from Northeast Casualty Company. The company wants Paula to sign an agency contract. Client Brenda comes into Paula's office stating she immediately needs coverage for her new boat. Paula does not represent any insurance companies that write watercraft with engines as large as that in Brenda's boat. Paula remembers that Northeast will write watercraft with that engine size, so she completes a binder and application. From Brenda's perspective, Paula had apparent authority to represent Northeast Casualty Company and bind coverage. Paula was using materials provided by Northeast, so it was quite reasonable for Brenda to believe she had coverage with Northeast.

ELEMENTS OF A CONTRACT

The insurance policy is a legal contract and all legal contracts share these same essential elements. Legal contract means the contract can be enforced in a court of law. If any of these elements are missing, the contract is unenforceable. The four elements are:

1. **Offer and Acceptance (agreement)** is an element of a legal contract. It is necessary that there be an offer by one party and acceptance by the other party. An agreement between parties is necessary to have a contract. The offer is made by the potential buyer, the insured, to the insurance company. Agreement must be made without any fraud, undue influence or duress.
2. Another element of a legal contract is **Competent Parties**. Both parties to a contract must meet a level of legal competence. A person is considered not competent if, at the time of entering into the contract, he/she is a minor, mentally incompetent, under the influence of alcohol or other intoxicating drugs, or under physical or mental duress.
3. **Legal Purpose** is another element. Legal purpose means a contract must not create or encourage an unlawful action or be against public policy.
4. **Consideration** is the final element of a legal contract. Consideration means there must be an exchange of something of value by each party to the contract. It is not required that there be an equal exchange - just an exchange. In an insurance contract, the insured makes representations at application time and pays or promises to pay a premium in exchange for a promise by the insurance company to pay for covered losses.

LEGAL INTERPRETATIONS AFFECTING CONTRACTS

Reasonable Expectation

The language and provisions of insurance contracts are frequently complicated and are not readily understandable by an untrained person. In disputes involving what a policy says, or does not say, some courts in certain situations have applied the **Doctrine of Reasonable Expectations**. The Doctrine of Reasonable Expectations means the courts ask what a reasonable person would expect in coverage in this particular situation, and then the company would have to pay the claim.

Indemnity

To indemnify means to compensate, to make whole or reimburse. The **Principle of Indemnity** holds that property and casualty insurance contracts should do no more than

indemnify. **Under this principle, the insured should not be in a better financial position after the loss than they were prior to the loss.** When a loss occurs, it is the goal of insurance to at most put the insured back in the approximate financial position the person was in prior to the loss.

An insured has a homeowners policy that includes personal property theft coverage. The insured's television set is stolen. The television set costs \$500 to replace, but because the stolen television was five years old, it does not have a value of \$500. Instead, its value at the time it was stolen was \$250. The principle of indemnity applied to the insurance payment would result in the payment of \$250 to the insured. If the insurance company paid the replacement value of \$500, it could obviously encourage insureds to voluntarily cause a loss to property.

Utmost Good Faith

Insurance contracts are said to be a contract of **Utmost Good Faith**, because each party to the contract (insurance company and insured) must rely heavily on the integrity and honesty of each other. First, the insurance company must rely on the statements of the applicant (prospective insured) to get accurate and truthful information to determine the acceptability of the risk. Secondly, the insured has to depend on the insurance company's promise to pay future claims.

Representations and Misrepresentations

- **Representations** are oral or written statements of facts made by an applicant and are true and correct to best of the insured's knowledge. Representations do not actually become a part of the insurance contract. A representation becomes material if the insurance company relies upon the statement in making a decision to issue a policy.
- **Misrepresentations** are intentional misstatements of facts regarding the items being insured. They are intended to get the company to write coverage that it would not have accepted otherwise. In order for these misstatements to invalidate coverage, they must be material to the company's decision to issue the policy.
- **Material Misrepresentations** are misrepresentations that if originally known by the company, the company would not have written the contract. Material misrepresentations make the contract voidable at the company's option.

Warranties

A **warranty** is a statement that promises or guarantees that something is absolutely true or will be true in the future.

For a statement to be considered a warranty, it must be put in writing. If a warranty is breached, (a warranty is not true or not complied with), the insurer can avoid liability under the policy. There are three types of warranties.

1. Affirmative – requires certain facts to be true at the time the warranty is made.
2. Continuing – requires certain facts to remain true for the entire policy term.
3. Implied – unspoken but assumed. An example would be an ocean marine policy. The implied warranty would be that the ship is sea-worthy.

Concealment

Concealment is the intentional deception of a person or organization by failing to disclose complete and correct information. It is the failure to reveal information when there is a duty to do so. In order for the concealment to invalidate coverage, the concealed information must be material to the company's decision to issue the policy.

Fraud

Fraud is an intentional manipulation of the truth, and the act of getting someone to rely on that manipulation of the truth, which results in the person's detriment. Fraud in terms of insurance may take place at the time of application or the making of a claim. An insured who knowingly falsely reports that his insured auto has been stolen has committed fraud.

CHAPTER 2 - QUIZ

1. Risk can be defined as all of the following except:
 - a. Uncertainty of loss
 - b. Frequency of losses
 - c. The person or property that is the subject of insurance
 - d. A peril that we think may cause a loss.

2. Which term is not a risk management term?
 - a. Avoidance
 - b. Retention
 - c. Transfer
 - d. Open perils

3. Loss frequency can be described as:
 - a. The number of losses within a given time period
 - b. The dollar amount of losses
 - c. Anything that increases the chance of loss
 - d. The event that causes damage or destruction to property

4. All are elements of an insurable risk except:
 - a. Definite loss
 - b. Accidental loss
 - c. Retention
 - d. Not catastrophic

5. The Law of Large Numbers:
 - a. Can identify who will suffer the loss
 - b. Can tell you when the loss will happen
 - c. Will tell you what the losses will be for any one insured
 - d. Will predict total losses for an extended period of time given sufficient exposures.

6. All the following are classifications of the various types of insurance company organizations except:
 - a. Associated insurance company
 - b. Stock insurance company
 - c. Mutual insurance company
 - d. Reciprocal insurance company
7. Which insurance company would be domiciled and located within Pennsylvania?
 - a. Alien insurance company
 - b. Domestic insurance company
 - c. Consolidated insurance company
 - d. Foreign insurance company
8. Which document would be the best example of express authority given to an insurance agent?
 - a. Their E&O policy with their carrier
 - b. Their agency contract with their principal insurance company
 - c. Their buy/sell agreement with the partners in the firm
 - d. Their agency manual
9. The definition of insurance includes all except:
 - a. It is a legal contract
 - b. It involves a transfer of risk
 - c. It involves a pooling of funds to pay for claims
 - d. It guarantees that all losses will be paid
10. Elements of a legal contract include:
 - a. An offer and a willing acceptance of the offer
 - b. Competent parties
 - c. Consideration
 - d. All of the above

11. Statements made at time of application that are correct and true to the best of the insured's knowledge are:
 - a. Representations
 - b. Concealments
 - c. Warranties
 - d. Fraud
12. Material misrepresentation:
 - a. Is a valid reason for cancellation of an insurance contract
 - b. Requires that the contract would not have been written if the truth were known.
 - c. Requires that there be an intentional misstatement of facts.
 - d. All of the above
13. All statements about insurance contracts are true except:
 - a. Require all representations to be absolutely correct and true
 - b. Are contracts of utmost good faith
 - c. Are legal contracts
 - d. Must have a legal purpose
14. Hazard can be defined as:
 - a. The person or peril that is the subject of insurance
 - b. Anything that increases the chance of loss
 - c. The uncertainty of loss
 - d. A cause of loss
15. Which item is a peril or cause of loss?
 - a. Fire
 - b. Liability
 - c. Sharing
 - d. Indemnify

Chapter 2 Answers

1b, 2d, 3a, 4c, 5d, 6a, 7b, 8b, 9d, 10d, 11a, 12d, 13a, 14b, 15a

CHAPTER 3

Property & Casualty Insurance Basics



Insurance Agents
& Brokers

CHAPTER 3 – P&C INSURANCE BASICS

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What is insurable interest?
- Explain the purpose of underwriting and what is reviewed as part of the process?
- What is the difference between a rate and a premium?
- Explain the difference between the following rates:
 - Judgment
 - Manual or Class
 - Merit Rates (experience and retrospective)
- What are the three types of hazards and how do they differ?
- What is a named peril?
 - List basic named perils
 - List broad named perils
- What are open perils?
- Explain direct and indirect losses.
- Contrast specific, blanket and scheduled insurance coverage.
- Describe the different types of construction.
 - Which construction type carries the most expensive premium?
 - Which construction type carries the least expensive premium?
- Name the different types of loss valuation? Explain them.
- What information is found on a Declarations Page?
- Identify and explain the different parts of an insurance policy.
 - Insuring agreement
 - Additional/supplementary coverages
 - Conditions
 - Exclusions
 - Endorsements
- What is a certificate of insurance and who requests them?
- List and explain different types of insureds?
- List and briefly describe three ways a policy may be cancelled.
- Describe the difference between earned and unearned premium.
- What is a deductible and what purpose does it serve?
- Explain Other Insurance (when 2 or more policies cover the same loss) – describe the different ways to handle this situation:
 - Primary/Excess
 - Pro-Rata
 - Contribution by equal shares
- What does nonconcurrency mean and why is this not a desirable circumstance?
- What is the purpose of coinsurance?
- What is the coinsurance formula?
- Explain the differences between vacancy and unoccupancy and the effect on policies.
- What are some insured's duties under a policy?
- Discuss an insured's duties after a loss.
- Identify and explain four insurer provisions found in policies.
- What is assignment regarding policy rights?
- Identify and explain three third-party provisions.
- List the three basis in which legal liability is established.
- What are the four elements of negligence must be present for negligence to exist?
- What are the 4 common law defenses?
- What are the 2 statutory defenses?
- Compensatory damages are made up of what two types of damages? Explain them.
- What are Punitive damages?
- What is strict/absolute and vicarious liability?
- How do limits of liability apply (per person, per occurrence, aggregate, split, combined single)?
- What is the purpose of Pennsylvania Property & Casualty Insurance Guaranty Association? How does it operate?

Chapter 3 – Property & Casualty Insurance Basics – GOALS AND KEY TERMS

- Why is the standard fire policy important?
- What is a binder?
- Explain the Insurance Consultation Services Exemption Act.
- Review of the cancellation/nonrenewal chart content.

KEY TERMS

Insurable interest

Underwriting

Judgment rates

Manual rates

Merit rates

Physical hazard

Moral Hazard

Morale Hazard

Named Peril

Open Peril

Consequential Loss

Direct Loss

Scheduled Coverage

Specific Insurance

Blanket Insurance

Actual Cash Value

Replacement Cost

Functional Replacement Cost

Declarations

Insuring Agreement

CHAPTER 3 – PROPERTY AND CASUALTY INSURANCE BASICS

STATE EXAM: 14% or 21 QUESTIONS

Property and casualty (liability) are two broad classifications of insurance. Property insurance covers an insured's real and/or personal property. It is a two-party contract between the insured and the insurance company. Property insurance payments are made directly to the insured. Casualty (liability) insurance is referred to as third-party coverage since it protects the insured for liability from a third party. In liability, payments are always made on behalf of the insured to a third party, not to the insured.

Once you have been introduced to and gained an understanding of the property/casualty concepts, it will make future analysis of specific property/casualty policies easier. Also in this chapter, we will examine some of the basic concepts of legal liability that establish the groundwork for many of the liability policies we will be studying in future chapters.

PRINCIPLES AND CONCEPTS

INSURABLE INTEREST

Insurable interest is the financial interest a person has in the person or property being insured. It is a requirement of any insurance policy. In property insurance, insurable interest **MUST** exist at the time of the loss. In Life Insurance, insurable interest must exist only at the time the policy is purchased. A general rule of insurance is if there is no insurable interest, there is no collection from insurance. There can be situations when more than one party has insurable interest in the same property at the same time.

UNDERWRITING

Underwriting refers to the many duties and functions performed by both producers and company underwriters during the risk selection process. During the underwriting process, information is gathered from the producer's application, physical inspections, government reports such as motor vehicle reports (MVRs), consumer credit companies (Equifax, TransUnion, Experian) and financial sources (such as Dunn & Bradstreet). Once the underwriting process is completed, the underwriter may:

1. Issue the policy as requested, as well as decide what rates and credits or surcharges apply.
2. Issue the policy with different coverage than was originally requested, by offering less coverage or higher deductibles, or
3. Reject the policy entirely.

A major goal of the underwriting process is to avoid or minimize the possibility of adverse selection (previously discussed in Chapter 2).

RATES

The primary objective of rate making is to establish a price structure to cover claims and other insurer expenses, and to provide a profit for the insurer. Rate and premium are frequently used interchangeably, but the meaning of the words in the insurance industry is different. A rate is a price per unit. The premium is made up of the rate per unit multiplied by the number of units.

Judgment Rates

Judgment rates are rates determined & applied to individual insureds by the insurance company. Judgment rates would be used for a non-standard risk that would not fall into the manual or class rates below. This type of rating is used exclusively for commercial insurance. Each potential insured would be evaluated on its own merits and the chances of a loss occurring.

Manual or Class Rates

Insureds with similar characteristics (homogeneous) are placed into **classes**. Insureds in the same class are charged the same rate. Manual rates are the only type of rates used in many lines of insurance. In other lines of insurance, manual rates may be used as the starting point for developing a **merit rate**.

Example: Two Homeowners policies – rates based on \$1,000.

- Homeowner #1 has a policy for \$250,000. The insured has had three losses over the past year. The company will surcharge the insured using merit rating, resulting in a higher final premium.
- Homeowner #2 has a policy for \$500,000 and installs a central station burglar & fire alarm. This will result in a premium reduction.

Homeowner #1		Homeowner #2
\$250,000	Amount of Coverage	\$500,000
250	Rates are per 1,000	500
X \$3.00	Rate*	X \$3.00
\$750	Premium	\$1,500
X 2.0	Merit Rate Factor	X .90
\$1,500	Final Premium	\$1,350

**Manual or Class Rate*

Merit Rates

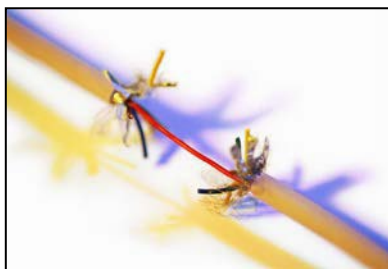
Merit rates consider the characteristics of a particular risk which can either increase or decrease a premium. They measure the individual loss history as well as actions taken to reduce or prevent loss (installing fire alarm or sprinkler system). Experience and Retrospective rating are used in rating Workers Compensation policies. We will discuss this further in Chapter 9.

- **Experience Rating** looks to past individual experience to predict future rates. If the loss history for the past experience period (usually three years) has been better than average, the manual rates for the coming year will be discounted. If the loss experience has been worse than average, the manual rates would be surcharged.
- **Retrospective Rating** does not apply past loss experience to the present manual rates. Instead, retrospective rating applies the loss history for the current policy period to develop a “final premium” for that same policy year. The policy is initially written with an “estimated” premium based on expected losses for the period. At the end of the policy period the actual losses are calculated and the premium is adjusted with a discount or surcharge, depending upon the actual loss experience.

HAZARDS

Recall that a **hazard** is a specific condition or situation which increases the probability (frequency) of loss or the extent (severity) of loss. There are three common types of hazards as described below:

- **Physical hazards** arise from structural, operational or material characteristics of a risk. Overloading outlets in a home, loose handrail on steps, frayed insulation on electrical wiring would increase **the probability of a loss**.



- **Moral hazards** arise from character flaws in a person that could lead him/her to create a loss or expand a loss. Dishonesty, such as the reporting of theft of insured property when no theft actually occurred, is an example of a moral hazard.
- **Morale hazards** arise from irresponsibility, carelessness or indifference to a loss. An example of morale hazard is an insured failing to lock the door of his/her car in a busy shopping center parking lot because the insured has reasoned, “Well, if the car is stolen, I have insurance coverage.”

CAUSES OF LOSS (PERILS)

In a property insurance policy, one of the most important concepts related to coverage is **causes of loss** (also known as peril). Before a claim for property damage will be paid, the damage must have resulted from a covered cause of loss.

It is a common problem for new people coming into insurance to confuse perils with hazards. For example, if there is frayed insulation on electrical wiring and a fire starts and damages the property, what is the hazard and what is the peril? The frayed insulation on the electrical wiring is a hazard (something that increases the probability of a loss). The actual peril or cause of loss is fire.

NAMED PERILS VERSUS OPEN PERILS

A **named peril** policy will list each and every peril covered. Examples are a basic named peril, broad named peril or specified peril policy. The Basic Form of the Dwelling policy covers only the perils of: (1) fire, (2) lightning, and (3) internal explosion. Other named perils may be added for an additional premium. To determine if a loss is covered, the actual event or “cause of loss” must be listed in the contract as a covered peril.

An **open perils** (special form) policy covers all causes of loss or damage except those which are specifically stated to NOT BE COVERED. An example of wording found in an open perils policy would be, “We insure against risk of direct physical loss to property described unless the loss is excluded.” To determine if a loss is covered, the actual event or “cause of loss” must **NOT** be listed in the exclusions of the contract.

Basic Named Perils

- Fire (no flame no claim)
- Lightning (natural electricity)
- Windstorm (any wind)
- Hail (pellets of frozen rain)
- Explosion – BOOM!
- Riot or Civil Commotion (public disturbance)
- Aircraft (includes self-propelled missiles and spacecraft)
- Vehicles
- Smoke (Includes sudden and accidental damage from smoke including a puffback. Does not include agricultural smudging or industrial operations.)
- Vandalism or Malicious Mischief (willful destruction of property)
- Sprinkler Leakage (Commercial Property and Businessowners Policies only)
- Sinkhole Collapse (Commercial Property and Businessowners Policies only)
- Volcanic Action/Eruption (Excludes land movement)

Broad Named Perils (these are in addition to the above Basic Named Perils)

- Theft (see specific policies for how theft coverage applies)
- Falling Objects (Exterior of the building must first be damaged by a falling object.)
- Weight of Ice, Snow or Sleet (Covers damage caused by the weight of ice, sleet or snow.)
- Accidental Discharge or Overflow of Water (From within a heating, plumbing or household appliance. Does not include flood or backup of sewer water.)*
- Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging (Of a steam or hot water heating, air conditioning, automatic sprinkler or an appliance for heating water.)*
- Freezing of Plumbing - No coverage if you fail to maintain heat or shut the water off and drain the system.*
- Sudden and Accidental Damage From Artificially Generated Electrical Current (Homeowners and Dwelling policies only – VERY LIMITED COVERAGE)

*Covered under Water Damage for Commercial Property

DIRECT LOSS

A **direct loss** is a loss or damage as a direct result of a covered peril or cause of loss. For example, a house that burns down as a result of fire (a covered peril) illustrates a direct loss. The house was directly affected by the fire.

CONSEQUENTIAL AND INDIRECT LOSS

Consequential or indirect loss results from an insured's inability to use property because it suffered a direct loss. Before an indirect loss is covered, there must first be a covered direct loss.

In the direct fire loss mentioned above, an indirect or consequential loss would result from the insured's inability to live in the house until it was rebuilt. The additional expenses incurred to rent another house while the repairs were being made would be an indirect loss.

BLANKET VERSUS SPECIFIC INSURANCE

Specific Insurance – a specific limit of insurance on a specific property at one specific location.

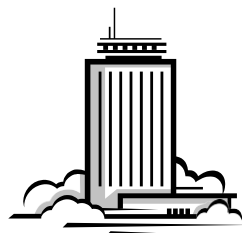


Building at 5 Elm Street is insured for \$1,000,000.

Blanket Insurance – a specific limit of insurance applying to more than one type of property (real or personal) or more than one location. Total Blanket Limit is available to pay losses regardless of what type of property or location is involved.

Scheduled Coverage – a specific insurance covering more than one location. When something is scheduled, a specified limit is provided for each item or location.

TWO TYPES OF PROPERTY AT ONE LOCATION



Building \$1,000,000

Business Personal Property - \$500,000

Blanket - \$1,500,000 Total Limit Applies

Scheduled - Building - \$1,000,000

Business Personal Property - \$500,000

ONE TYPE OF PROPERTY AT MULTIPLE LOCATIONS



LOCATION #1

Business Personal
Property
\$100,000



LOCATION #2

Business Personal
Property
\$300,000



LOCATION #3

Business Personal
Property
\$200,000

Blanket
Schedule

\$600,000 (one limit applies to all three locations)
Location #1 - \$100,000
Location #2 - \$300,000
Location #3 - \$200,000

**Separate valuation
limit at each location.*

BASIC TYPES OF CONSTRUCTION

Although there are many types of building construction, for property insurance underwriting and rating purposes, insurance companies usually use the following six types of construction. Each type of construction is assigned a code number from one to six, with one being the least fire resistive and six having the highest resistance to fire.

Frame Construction

Exterior walls are constructed of wood or similar combustible materials. The frame type of construction can also contain mixed construction (including brick or stone veneer, or stucco on wood), and still be considered frame construction if the majority of the exterior is wood. **Frame construction generates the most expensive premium.**

Joisted Masonry

Exterior walls constructed of masonry materials such as brick, hollow concrete block, adobe, concrete, gypsum block, stone or tile. Typically, only the roof, interior framing and floors are combustible.

Noncombustible

Exterior walls, floor and roof constructed of and supported by metal and other noncombustible material.

Masonry Noncombustible

Exterior walls must be fire-resistive for at least one hour or the building must be of masonry construction. The floors and roof must be either noncombustible or made of a slow burning material.

Modified Fire Resistive

Exterior walls, floor and roof made up of masonry construction with a fire-resistive rating of at least one hour, but not more than two hours.

Fire Resistive

A specified thickness of masonry exterior walls, and a specified fire-resistive rating for structural framing of not less than two hours. **Fire insurance premium for this construction type is the least expensive.**

LOSS VALUATION

We have now examined several property and casualty insurance concepts, as well as the different types of building construction and the basics of rating. We need to move on to learn about the importance of establishing accurate values on property when writing property insurance, and how value enters into settling claims.

Policies can be written with various types of loss valuation clauses. The following are the primary ways the policies are written.

Actual Cash Value

Actual cash value (ACV) is defined as replacement cost at the time of loss minus physical depreciation. Depreciation is the cost of wear and tear on the property. **Pennsylvania requires a definition of ACV be included in all policies.**

$$\text{ACV} = \text{Replacement Cost} - \text{Depreciation}$$

Some other important points on ACV are:

- When new property suffers a loss, with no depreciation to deduct, ACV and replacement cost are the same.
- With autos it is sometimes more difficult to determine ACV. Usually ACV is interpreted to mean “fair market value.”

Actual cash value (ACV) is the loss valuation clause that reinforces the Principle of Indemnity.

Replacement Cost

Replacement cost is the cost to replace damaged property:

1. At the time of loss, and
2. With like kind and quality at today’s replacement cost without taking into account depreciation.

Simply said – New for Old. Many insureds do not like to purchase insurance policies which pay actual cash value for property damage claims, particularly when there is a great deal of depreciation involved.

This valuation clause technically is contrary to the Principle of Indemnity.

Functional Replacement Cost

The concept of **functional replacement cost** is when the original insured property can be replaced with more commonly used building materials that are functionally equivalent property (but not physically identical) at a lower cost.

A building used as an automotive garage was built of masonry construction in 1940. To replace the building with the same type of construction would cost \$100,000 today. If the building were totally destroyed, the insured would not need to replace the building with masonry construction, and would likely be happy with an equally useful metal building. The metal building would be a functional replacement and would only cost \$50,000.

The advantage of the functional replacement cost method is the insured may replace property lost or destroyed with property that will serve the insured's needs without having to carry an amount of insurance greater than the functional value.

Market Value

Market value is the value of property (either real or personal) as determined by the amount of money people would pay for the property knowing all the relevant facts. It is rarely used in a property insurance policy as most policies are written using ACV or Replacement Cost.

Finished goods held for sale by a manufacturer might be covered by a policy that agreed to pay for losses at **selling price** — what the goods would be sold for had they not been destroyed.

Agreed Value

Agreed value applies to a particular provision found in some property insurance policies. When this provision is used, the insured and insurance company agree on a value. The amount of insurance carried must be equal to the agreed value to avoid a claims payment penalty. Some property policies are written with a coinsurance requirement stating that the insured must carry insurance to a specified percentage of property value. An agreed value provision suspends this coinsurance requirement.

Valued Policy

A **valued policy** declares the amount which will be paid in the case of a total loss of the property. For example, a valuable painting might be insured for \$20,000 in a valued policy. The policy will state that the insurer agrees that the value of the painting is \$20,000. This means that, if the painting is destroyed or stolen, the insurer will pay \$20,000 and will not worry about what the painting is worth at the time of the loss.

POLICY STRUCTURE

DECLARATIONS

The first item common to all insurance policies is the **declarations** or **declarations page**. This page (sometimes pages) contains information that personalizes the policy. The declarations page would typically include:

1. who is the named person or persons to be insured,
2. the address of the named insured,
3. the location of property,
4. the coverages provided by the policy,
5. a specific description of the amounts of insurance,
6. the effective dates of coverage, and
7. lists of any endorsements (usually by number) which change the coverage of the policy.

DEFINITIONS

The definition section is where we clarify and define certain words in the policy. These words will be noted in the policy by the use of **bolding** or “quotation marks.” Commonly, the definitions are found in the beginning of the policy in personal lines insurance policies and at the end of commercial lines policies.

INSURING AGREEMENT OR CLAUSE

The **insuring agreement** or **clause** section of the policy outlines the promises the insurance company makes to the insured. Frequently, these promises are made in broad terms and later clarified in other sections of the policy.

“We (the insurance company) will pay those sums that the insured becomes legally obligated to pay as damages because of “bodily injury” or “property damage” to which this insurance applies. We will have the right and duty to defend the insured against any “suit” seeking those damages ”

ADDITIONAL / SUPPLEMENTARY COVERAGES

Some insurance policies will contain a separate section called **additional coverages**, **supplementary coverages**, **supplementary payments** or **extensions of coverage**. These policy sections are used to specifically list additional coverages that provide coverage beyond the basic policy at no additional cost. Normally, these additional coverages can have specific limits.

CONDITIONS

Conditions are obligations and duties required of the insured and the insurance company to carry out the policy provisions. The insurer promises to pay, defend, or give some other service that is only enforceable if:

1. an insured event occurs, and
2. the insured has complied with the contractual obligations as indicated by the insurance policy conditions.

For example, when a loss occurs, the insured has certain duties to perform after the loss and before the insurance company is obligated to pay. The insurance company has certain obligations to pay claims on a timely basis after receipt of the claim and proof of loss.

EXCLUSIONS

The policy provisions that limit or restrict coverage are commonly called **exclusions**. Typically, insurance policies which initially provide broad coverage promises will use exclusions to define and restrict what the policies really intend to cover. Exclusions are commonly included within a policy to eliminate coverage for the following possible reasons:

1. the exposure is not insurable for a private insurer,
2. the risk or exposure is not something that the average insured encounters,
3. the exposure is something covered by other insurance policies, or
4. the exposure is so severe that rates charged do not anticipate covering the exposure.

ENDORSEMENTS

Endorsements are used to add, modify or exclude coverage, changing the original terms of the policy. Some endorsements are added on request from the insured while others are added by the insurance company. Endorsements may be part of a policy on its beginning date, or may be added any time during the policy term.

CERTIFICATES OF INSURANCE

A certificate of insurance is usually requested by a third-party and used to verify existence of insurance coverage and is:

- A snapshot of the policies and limits as of their effective date.
- Issued as a matter of information only.
- Does not amend, extend or alter the coverage afforded by the policies.
- Does not constitute a contract between the insurer or agent and the certificate holder.

COMMON POLICY PROVISIONS

INSURED – NAMED, FIRST NAMED, ADDITIONAL

- Anyone or any organization covered under the policy.
- A **Named Insured** are persons or organizations specifically named on the declarations page.
- **First Named Insured** - If there is more than one person or organization named on the Declarations Page, the first person listed is called the first named insured. The first named insured is very important in many insurance policies, because the first named insured represents all insureds in important matters with the insurance company such as paying premiums, making changes and canceling the policy.
- An **additional insured** is a person or entity not usually named on the declarations page, but rather added to the policy as an insured by endorsement. When properly added, an additional insured is entitled to coverage under the policy.
- **Automatic insureds** are persons who are granted insured status because they fit into a category or class of persons described in the policy provisions.

POLICY PERIOD

The period of time for which the policy provides coverage is called the **policy period**, which is shown on the declarations page. The beginning of the policy period is referred to as the effective date and end of the policy period is called the expiration date. One year is the most common length of time for most types of property and casualty policies.

POLICY TERRITORY

The **policy territory** is the geographical area in which accidents, occurrences or events must happen to be covered under the insurance policy. For example, automobile policies commonly list the policy territory as the United States, its territories and possessions, Puerto Rico and Canada.

CANCELLATION AND NONRENEWAL

Cancellation is the termination of the insurance policy by either party before its expiration date. The **cancellation provision** contained within the insurance policy outlines the rights and responsibilities of each party in terms of advance notice, the refund of premiums, and to whom the cancellation notice will be sent.

Three common cancellation provisions are:

- **Pro-Rata** means that the insured gets back exactly what they are entitled to, based on the cancellation date. The amount of the refund is for the unearned premium. For example, if the annual premium is \$360 and after 4 months the company cancels the policy, the insured would receive a refund of \$240 ($\frac{8}{12} \times \$360$).
- **Short Rate** means that the company charges a small fee for canceling the policy. Short rate is an amount less than pro-rata. In our previous example, the insured might receive a refund of \$226.80 which is 63% instead of 66%.
- **Flat Rate** cancellation is when a company issues a policy and the policy is not taken by the insured. No coverage taken and no premium earned.

Earned Premium is the portion of the policy premium that applies to the time the policy was in effect.

Unearned Premium is the portion of the premium that applies to the unused time left in a policy.

Nonrenewal is the action by the insurance company to terminate insurance coverage at the expiration date or anniversary date (renewal) of the policy.

DEDUCTIBLES

A **deductible** is the amount of loss under an insurance policy which an insured must pay before the insurance company will pay its portion of the loss. It is the portion of the loss the insured retains. When the insurance policy is written, the deductible amount is shown (generally) in the policy's declarations.

There are three types of deductibles:

1. **Dollar Amount Deductible** is the most common of the deductible types. For example, your auto policy might have a \$500 collision deductible.
2. **Percentage Deductible** can be shown as a percentage of the limit of insurance, the percentage of the property value or a percentage of the loss.
3. **Time Deductible** pays only after a certain number of days have elapsed following the loss.

OTHER INSURANCE (when 2 or more policies cover the same loss)

In most instances when an insured has a covered loss, the insured will only have one policy which will pay the loss; however, the insured may have more than one policy that may pay. This can be by choice or by oversight. Almost every policy has an **other insurance** provision which explains what will happen if other insurance exists. This provision is another reinforcement of the Principle of Indemnity (not allowing the insured to be in a better financial position following a loss.)

1. **Primary Insurance** states that this insurance coverage pays first if there is other valid and collectible insurance.

Excess Insurance states that the coverage under this policy is **excess** over other valid and collectible insurance. In this case, the policy would only respond after the other insurance has paid out its full limit.

2. **Pro-rata** states that each policy will pay its proportionate share based on its limit of insurance written compared to the total limit of all insurance written.

Pro-rata Other Insurance Provision

Total Building Value = \$100,000

Fire Loss = \$20,000

Co. A limit of insurance = \$75,000

Co. B limit of insurance = \$25,000

Co A. share of loss is $75 / 100 \times \$20,000 = \$15,000$

Co. B Share of loss is $25 / 100 \times \$20,000 = \$5,000$

3. **Contribution by equal shares** states that each company will pay an equal amount of each loss. When the limits of one of the policies are exhausted, the remaining policy will continue to pay until the claim is satisfied or their limit is also exhausted.

Contribution by Equal Shares

Company X Liability policy limit = \$100,000

Company Y Liability policy limit = \$300,000

The covered liability loss = \$225,000

Company X pays \$100,000

Company Y pays \$125,000

Each company pays an equal share until Company X limits are exhausted. Company Y has limits available and continues paying the remaining \$25,000.

Nonconcurrency

Sometimes it is necessary to write insurance in two or more companies to provide the full amount of insurance required for a risk. In this situation it is preferred that all of the insurance policies be written as identical as possible, especially the causes of loss. When the policies are written this way they are said to be concurrent. **Nonconcurrency** is a term used to describe the undesirable situation that can arise when the policies do not insure for the same level of perils. The danger here is that nonconcurrency usually results in a gap in coverage. Nonconcurrency occurs because the other insurance clause is worded that we only pay our share whether other insurance is collectible or not.

Pro-rata Other Insurance and Nonconcurrency

Total Building Value = \$100,000

Theft Loss = \$20,000

Co. A limit of insurance = \$75,000 Open Perils Form (theft covered here)

Co. B limit of insurance = \$25,000 Basic Perils Form (theft not covered here)

Co. A share of loss is $75 / 100 \times \$20,000$ = \$15,000

Co. B - theft not a covered peril = Pays \$0

Co. A still only pays their fair share. There is a gap in coverage due to nonconcurrency - \$5,000.

COINSURANCE

Coinsurance is a condition in commercial property policies that requires an insured to carry a specified percentage of the value of the property. The purpose of coinsurance is to promote insurance to value and **only applies to partial losses**. It has no effect on the insured if the insured has complied with the coinsurance requirement or if the insured suffers a total loss. The most common coinsurance percentage is 80%.

When the coverage is written at the required values, covered losses are paid without any participation by the insured, other than the deductible. However, if the insured has not insured the property to the required values, then the insured will be required to share in a portion of most covered losses. This sharing is referred to as the coinsurance penalty.

Coinsurance Formula

$\frac{\text{Amount of Insurance Carried (DID)}}{\text{Amount of Insurance Required (SHOULD)}}$	X	<u>Loss</u>	=	Amount of Payment

Amount of Insurance Required = Coinsurance % X Value of Property

Coinsurance Example:

Building Value	= \$100,000
Amount of Insurance	= \$60,000
Coinsurance %	= 80%
Amount of Loss	= \$20,000

$\frac{\text{DID - \$60,000}}{\text{SHOULD = \$80,000 (80\% X \$100,000)}}$	X	\$20,000	=	\$15,000 (Payment Amount)

VACANCY OR UNOCCUPANCY

Vacancy is usually defined as an absence of both people and personal property. Certain coverages are excluded and other coverages can be reduced if vacancy continues beyond a specified number of days, most commonly 60 consecutive days. The main exception to the 60-day rule is the farm policy where the vacancy provision is not triggered until 120 days. In commercial insurance the owner of a building must rent or use at least 31% of the building or the building is considered to be vacant.

Unoccupancy means that the building contains furnishings and other personal property, but has not had people occupying the space for a period of time. Usually, unoccupancy does not affect the coverage provided.

NAMED INSURED PROVISIONS

There are frequently many provisions, identified in the conditions section of the policy, which relate primarily or only to the insured. We will look at several of them here, but there are others.

Duties After a Loss

The insured must:

- report claims promptly;
- cooperate in the investigation of the claims;
- submit damaged property for inspection;
- make an inventory of lost or damaged property;
- and submit a proof of loss.

Assignment

Assignment is the insured giving away the ownership of the policy or rights provided in the policy to another person or organization. Normally, an insured cannot assign their policy without written consent from the insurance company. What if an insured suffers a loss and is entitled to be paid by the insurer? Can the insured assign the loss payment (not the policy) to another? The answer is yes. A policy's proceeds (the loss payment the insurer makes) can be assigned after the loss.

Waiver of Rights

Waiver involves when either party to the insurance contract (insured or insurer) voluntarily gives up one of the rights or requirements in the Conditions section of the insurance policy. Sometimes waivers are express or they can also be implied.

INSURER PROVISIONS

- **Liberalization** is an insurance policy provision which states that if a policy's coverage is changed during the policy period, then insureds under the insurance company's existing insurance policies will receive the benefit of the broadened coverage. However, the change must broaden coverage and there must be no increase in premium payable to the insurance company.

- **Transfer of Rights of Recovery (Subrogation)** is a policy provision that permits an insurance company to seek recovery from a negligent third party who caused a loss to the insured's property. Technically, the insurance company is using the insured's right to recover the cost of the damage from the negligent party. Most policies specify that the insured must do nothing after a loss to impair the right to recover damages. This is another provision in the policy that reinforces the Principle of Indemnity as it prevents double recovery.

The insured's home was damaged by fire when the heating oil company negligently put gasoline in the insured's heating oil tank. Since the insurance policy covers loss by fire, the company will pay the fire loss. After paying the claim, the insurance company will want to bring a claim against the heating oil company to recover the amounts paid to the homeowner. Since the insured would have had a right to bring legal action against the negligent oil company, those rights will be transferred to the insurance company when they pay the claim.

- Many insurance policies give insurance companies **claims settlement options**. In a majority of property losses, there are three choices available to put the insured into his/her previous financial condition.
 1. Repair the damaged property,
 2. Replace the damaged property with like kind or quality, or
 3. Pay cash to repair or replace the damaged property.

THIRD-PARTY PROVISIONS

On occasion, insurance contracts will contain provisions or clauses that relate to third parties. These provisions are called **third party provisions**.

Standard Mortgage Clause (Lienholders Rights)

The **standard mortgage clause** explains the rights and duties of a mortgagee when the lender is named in the policy as the mortgagee. The mortgagee's **rights** are similar to those given the insured. However, the rights of the mortgagee can be even broader than the rights of the insured. No act of the insured can void the collecting of a covered claim by the mortgagee. The mortgagee also has the right to receive cancellation and non-renewal notices. The mortgagee can have **duties** if the insured has been denied payment of a claim due to acts or failure to comply with policy conditions. The mortgagee must stand in the place of the named insured and fulfill any necessary duties in order to receive payment.

Loss Payable Clause

The **loss payable clause** states that any loss payment must include the financial interest of the lender named on the declarations page or an attached endorsement. This clause is most often used in policies which provide coverage for personal property.

No Benefit to the Bailee

No Benefit to Bailee provision is found in property insurance policies. A **bailee** is someone who has rightful possession of the property of another. An example of a bailee is a dry cleaner who has an insured's clothing for cleaning. Usually, bailees are legally responsible to return property entrusted to them in a condition as good as or better than when the property was given to them. The purpose of the no benefit to the bailee provision is to avoid a situation where the bailee tries to escape his/her legal liability for a loss to an insured's property, because the property is covered under the owner's property insurance policy. The goal of this provision is the preservation of the insurer's subrogation right.

LIABILITY BASICS

Legal Liability

Legal liability is usually established on one of three basis:

Common Law	One party has committed a tort . A tort is a civil wrong (as opposed to criminal) against another party. A simple example would be the failure to warn or block a freshly waxed floor. This is an unwritten law or court decision that sets precedents.
Statutory Law	A person violates a statute. The mere violation of the statute makes the person responsible such as running a red light. This is a written law that can supersede Common Law.
Contract Law	A person or organization assumed the responsibility of another through a contract. This is commonly referred to as contractual liability.

This legal obligation is the condition in which liability policies will pay.

NEGLIGENCE

Negligence is defined as a failure to exercise that amount of care an ordinarily prudent person would use to protect others from unreasonable risk of harm or injury. This is the basis of most liability insurance claims.

Elements of Negligence

There are four elements that must be present before negligence exists. **If any of the four are absent then there is no negligence.**

1. **Legal Duty/Standard of Care** - The individual has a legal duty to act or not act in a given situation.
2. **Breach of Duty** - You didn't do what others would have in a similar situation.
3. **Proximate Cause** - Proximate cause is an unbroken chain of events leading to the damages.
4. **Actual Loss or Damage** - The third-party must suffer actual injury or damages.

Example #1

It is currently snowing heavily and the storm continues. You look outside and everyone's properties are covered and so is the road and sidewalks. A jogger comes down the street, slips and falls on your sidewalk and breaks a leg.

Are you negligent? **NO**

1. No – I have no obligation to clean up during the snowstorm.
2. No – My standard of care was the same as everyone else.
3. Yes – The snow and ice on my sidewalk was the proximate cause.
4. Yes – Someone did suffer injury.

Example #2

It snowed heavily two weeks ago. Roads are clear. In addition, everyone has cleaned their sidewalks and driveways, EXCEPT ME. A jogger comes down the street, slips and falls on your sidewalk and breaks a leg.

Are you negligent? **YES**

1. Yes – At this time I had a legal duty to remove the snow.
2. Yes – My standard of care was lacking compared to others in the same situation.
3. Yes – Snow and ice on my sidewalk was the proximate cause of injury.
4. Yes – Someone did suffer injury.

Defenses Against Negligence

When a person or organization is accused of negligence, there are certain defenses that may be used to protect the accused. Most of these defenses have originated from prior court rulings (known as common law defenses) and others have arisen from statutes (statutory defenses) passed by legislative bodies.

Common Law Defenses

1. Assumption of Risk

Assumption of Risk is when one knowingly and voluntarily exposes himself/herself to a known danger and the consequences of that danger.

Steve, whose hobby is wood working, purchases a new table saw manufactured by the Cutting Edge Company. While using the saw, Steve cuts off the tips of two fingers. He brings suit against Cutting Edge, who uses a defense of assumption of risk. Steve was aware of the danger and voluntarily exposed himself to the danger; therefore, he should not be awarded any damages.

2. Act of God or Act of Nature

An Act of God or an Act of Nature is an event produced by a physical cause of nature, and not within human control or intervention. There is no recovery for damages caused by an Act of God.

My antenna blows over onto my neighbor's house during a severe windstorm.

3. Intervening Cause

An intervening cause is a separate act that breaks the direct connection between the proximate cause of loss and sets in motion a new chain of events causing the injury or loss.

Mike buys a trailer hitch from Penn Trailers and Accessories. The trailer hitch is custom built by Penn Trailers and Accessories for Mike's truck and trailer. Mike is driving one day, towing his trailer, when the trailer suddenly breaks loose crashing into the embankment. The trailer suffers \$2,700 worth of damages. Mike brings a claim for the damage against Penn Trailers and Accessories for improper design of the hitch. In the investigation of the loss, it is discovered that Mike had modified the hitch to make it easier for him to attach and detach it to his truck. Because of the modification, the design of the hitch was not the reason (proximate cause) for the trailer breaking loose. Rather, the trailer came loose due to Mike's modification. Mike's action was the intervening cause in this example.

4. Contributory Negligence

Contributory Negligence is when a person or organization adds (contributes) in any way, or by any percentage, regardless of how small, and is not entitled to collect damages from the other party. Since this negligence is so harsh, all but five states have replaced contributory negligence with comparative negligence. Pennsylvania is NOT a contributory negligence state.

Lauren runs a red light and strikes Kelly's car causing severe damage and bodily injury to Kelly. Kelly was going 5 miles over the speed limit at the time the accident occurred. Because Kelly was speeding, the court determined that Lauren was 98% at fault and Kelly was 2% at fault. Kelly was unable to collect for ANY of her damages due to Lauren's defense of contributory negligence.

Statutory Defenses

1. Comparative Negligence

Pennsylvania is a comparative negligent state. This means that an injured party can recover damages as long as their percentage of negligence is not greater than the negligence of the other party or parties. However, any damages recovered shall be reduced by their percentage of fault.

Under comparative negligence, the victim's contribution of negligence is considered in reduction of the amount of payment rather than barring complete recovery damages. Using our previous example, under a defense of comparative negligence, Lauren would not have a complete defense, but would likely be responsible for 98% of Kelly's damages.

You might ask, if Lauren is responsible for 98% of Kelly's damages, does that mean that Kelly is responsible for 2% of Lauren's damages? No. In Pennsylvania, if one party is more than 50% at fault, that party may not collect from the other party. If Lauren and Kelly were determined to each be 50% at fault in an accident, both would collect 50%.

2. Statute of Limitations

A **Statute of Limitation** is defined as any statute which prescribes the time limit in which a legal action must be brought. If the legal action is not brought in the prescribed time, then the person or organization bringing the claim is barred from any recovery.

The time limit for an **injury suit to be filed in Pennsylvania is two years**. An exception to this would be if a minor is injured and a lawsuit has not been brought on his/her behalf, the two-year statute starts from the day they turn 18.

The time limit for a **contractual liability suit (UM/UIM Claims) in Pennsylvania is four years**.

DAMAGES

As we saw earlier, damages can be defined as a sum of money which compensates an injured party (an individual or organization). This can mean injury to a person's body or reputation, but it also can include damage to another person's or organization's property. There are two major categories of damages.

Compensatory Damages

The principle objective of compensatory damages is to compensate the injured party for damages incurred. This is done by assessing the damages in terms of money and attempting to restore the party to the same financial condition existing prior to the loss.

There are two categories of compensatory damages:

1. Special Damages (Economic)

Special damages are the measurable dollar amounts of an actual loss. You can also think of these as “out-of-pocket” costs. Damages include medical expenses, loss of earnings, rehabilitation expenses, direct damage to tangible property, and loss of use of damaged property.

Lonnie negligently operates her car and runs into Lisa. Lisa is taken to the hospital. She incurs \$2,300 in hospital and doctor’s bills. She misses two weeks of work at \$1,000 per week. Lisa’s car repair bill is \$2,000, plus she spends \$450 to rent a car while her auto is being repaired. Therefore, Lisa has bodily injury special damages claims of \$4,300. Her property special damage claims total \$2,450.

2. General Damages (Non-economic)

These are the subjective, hard to measure non-economic damages including pain and suffering, disfigurement, and loss of consortium.

Lisa’s injuries from the accident cause pain and discomfort now and into the future. She asked for \$10,000 for pain and suffering. Lisa has a scar to her knee, which makes her uncomfortable wearing shorts and shorter skirts. She asks for an additional \$20,000. The total general damages demanded by Lisa are \$30,000.

Punitive Damages

Punitive damages are the sum of money in excess of the amount required to compensate for loss, and which is imposed in order to punish the negligent party for reckless indifference, outrageous or malicious conduct now and deter similar conduct in the future.

Punitive damages are awardable in Pennsylvania, but are generally not insurable. However, if the insured is held responsible for someone else’s negligence, Pennsylvania will permit payment of punitive damages by an insurer. The state does not allow payment for the insured’s direct negligence so these would need to be paid by the individual/business out-of-pocket.

ABSOLUTE / STRICT LIABILITY

Absolute/Strict Liability imposes liability without regard to fault or negligence. **Strict liability** is a legal concept most commonly applied by the courts in product liability cases. Strict liability holds sellers, distributors and manufacturers of products responsible for defective or unduly hazardous products. **Absolute liability** applies in common law in three instances:

1. Dangerous instrumentality (explosives)
2. Inherently Dangerous Operations (mining or blasting)
3. Animals with a vicious propensity (lions and tigers)

VICARIOUS LIABILITY

Vicarious liability exists when a person or organization is held responsible for the negligent acts of others. The reason for the transfer of negligence (known as imputed liability) is due to the relationship between the party held responsible and the party who actually commits the negligence.

A common example is that employers are responsible for the actions of their employees when acting within the scope of their employment. Another type of relationship where negligence may be transferred is a parent-child relationship.

ACCIDENT VERSUS OCCURRENCE

Accident - A sudden, unexpected and unintentional event taking place in an instant rather than continuously over time.

Occurrence – An accident, including continuous or repeated exposure to substantially the same general harmful conditions, which results during the policy period in “bodily injury” or “property damage.”

Duty to Defend

The **duty to defend** is one important additional benefit of liability insurance policies. When claims and suits are brought, the insurance company is obligated under the terms of the liability policy to provide a defense to the insured for any and all covered claims under the policy. The insurance company’s duty to defend is broader than its potential duty to pay damages. If a claim is found to be groundless (without merit) the insurance company must defend the insured until it is determined that the claim is not covered by the policy. The insurance company’s duty to defend ends when the insurance company has used up the limit of insurance in the payment of settlements or judgments.

LIMITS OF LIABILITY

In liability insurance the policy limits vary with the type of liability insurance and commonly contain at least two limits: Per Person and Per Occurrence. Some policies also include an Aggregate Limit of Liability.

Per Person

A Per Person Limit of Liability is the most the policy will pay for bodily injury to any one person. Therefore, the policy will pay each and every person involved in an occurrence up to the Per Person Limit, no matter the number of persons. However, the policy is also subject to a maximum of the Per Occurrence (Accident) Limit.

Per Occurrence (Accident)

This limit is the most an insurance company will pay arising out of any one occurrence of a covered loss, no matter the number of people who are injured or claims (bodily injury and property damage) that are made. Most liability insurance policies state the limits on an occurrence basis. Some policies, such as a Personal Auto Policy, state their limits on a per accident basis. Occurrence limits reinstate after each separate occurrence.

Per Person / Per Occurrence Example

Peter has a Personal Auto Policy with Bodily Injury limits of \$25,000 per person and \$50,000 per accident. Peter has an accident causing \$27,000 in injuries to Paul, \$13,000 in injuries to Mary and \$15,000 in injuries to Judy. How much will the policy pay?

Per Person Limit = \$25,000

Occurrence Limit = \$50,000

Injuries	Paid	Unpaid (paid out of pocket by Pete)
Paul - \$27,000	\$25,000	* \$2,000
Mary - \$13,000	\$13,000	* \$0
Judy - \$15,000	\$12,000	* \$3,000

*Courts will determine exact split of the payments. However, the total payments can never exceed the occurrence limit and the payment to any one individual can never exceed the per person limit. Any amount awarded in excess of the policy limit is the responsibility of the insured.

Split Limits refers to an insurance limit that is divided between two types of insurance coverages. The most common divisions are Bodily Injury Liability and Property Damage Liability.

Personal Auto Policy Example	
<u>Bodily Injury:</u>	\$25,000 per person \$50,000 per accident
<u>Property Damage:</u>	\$50,000 per accident

Combined Single Limit

Some liability policies are written with a Combined Single Limit for bodily injury and property damage. The advantage of the Combined Single Limit is flexibility.

Continuing with our previous Personal Auto Policy example, if the insured had a combined single limit of \$100,000, the insured could have much greater flexibility in certain claims situations. Assuming that there was a claim for \$30,000 bodily injury to one person, the example above would only pay \$25,000. With a combined single limit of \$100,000, the entire \$30,000 could be paid.

Aggregate Limit

An Aggregate Limit is the most we will pay for all claims that occur during one policy period. Those policies that contain an Aggregate Limit also contain a Per Occurrence Limit. An Aggregate Limit is found in Commercial General Liability (CGL) and Professional Liability Policies (Directors & Officers Liability, Lawyer's Professional Liability). Aggregate limits can be written on a per policy, per location or per project basis. Aggregate limits are not reinstated until the next policy term.

A CGL policy is written with a Per Occurrence Limit of \$100,000 and a \$300,000 Aggregate Limit for Products and Completed Operations Hazard. The insured incurs the following Product Liability losses during the policy period of January through December:

<u>Date</u>	<u>Amount</u>	<u>Total Paid</u>	<u>Unpaid</u>
January 3	\$100,000	\$100,000	\$0
March 17	\$ 80,000	\$180,000	\$0
April 9	\$ 70,000	\$250,000	\$0
May 1	\$100,000	\$300,000	\$50,000

All the Products Liability claims up to the May 1 claim would be fully paid. Even though the May 1 claim was within the \$100,000 Per Occurrence Limit, there was only \$50,000 available in the Aggregate Limit. The insured would be responsible for the additional \$50,000.

PENNSYLVANIA LAWS, REGULATIONS AND REQUIRED PROVISIONS

PENNSYLVANIA PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION

The purpose of the **Pennsylvania Property and Casualty Insurance Guaranty Association** (PIGA) is to pay covered claims under certain property and casualty policies which have not been paid by an insurance company because of insolvency.

Range of Authority

The Guaranty Association will only cover property and casualty policies **written by admitted/authorized insurers**. It does not apply to:

1. Workers Compensation (covered by Workers Compensation Security Fund);
2. Surety;
3. Ocean Marine Insurance;
4. Life Insurance;
5. Accident and Health Insurance;
6. Annuities (please note that the Pennsylvania Life and Health Insurance Guaranty Association covers policies and contracts for life insurance, accident and health insurance, and annuities);
7. Title Insurance;
8. Credit Life Insurance;
9. Mortgage Guaranty Insurance; and
10. Risk Retention Groups.

Covered Claims

A **covered claim** is a claim including unearned premium under a property and casualty policy (those eligible under the Guaranty Association) issued by an insolvent, admitted carrier. To be eligible as a covered claim, the claim must be made by a resident of Pennsylvania or for property permanently situated in Pennsylvania.

The Guaranty Association will pay covered claims up to \$300,000 per claimant. The Association will not pay claims that are less than \$100. It may also pay up to \$10,000 for the return of unearned premium. The Guaranty Association will only pay after all other policies have paid.

Participation/Membership

Every insurer participates as a condition of its authority to write property and casualty insurance policies within Pennsylvania.

The Guaranty Association is funded by assessing member insurers in proportion to the percentage of net direct written premium for amounts the Association determines as necessary to pay covered claims and handle other expenses of the Association.

STANDARD FIRE POLICY

Pennsylvania law requires that all property policies issued in the Commonwealth contain policy language which at a minimum is equal to the policy language of the standard fire policy. This language lists the applicable conditions in the 165-line format of the 1943 NY Standard Fire Policy. Since the standard fire policy itself has been phased out by most companies, its conditions and provisions have become the basis of most property policies today such as the dwelling, homeowners, commercial property and the businessowners policies.

BINDERS

A binder is a temporary contract of insurance and can be either oral or written. In Pennsylvania, a binder can only be issued for a period not to exceed 30 days. If the policy is issued before the time limit of the binder, the binder is terminated. Producers, when acting as an agent, are granted express authority to issue **binders** to provide coverage as shown in the binder. Normally, producers who are acting as brokers are NOT allowed to bind risks.

PENNSYLVANIA NOTICE

Most policies contain a provision indicating the company has the right to make inspections or surveys but does not warrant (guarantee) that the premises or conditions are safe and comply with safety laws. This wording prevents the insurer from being brought into any legal action related to unsafe premises or conditions of the insured.

The Pennsylvania Notice endorsement applies to different policies in Pennsylvania. These endorsements are based on Pennsylvania's **Insurance Consultation Services Exemption Act**. This act provides that the insurer, its producers, employees or service contractors acting on the insurer's behalf, is not liable for damages from injury, death or loss which might occur as a result of any act or omission by any person furnishing or failing to furnish inspection services.

However, this act does not apply if:

- The injury, death or loss occurred during the actual performance of the services, and was caused by one of persons described in the previous paragraph;
- The consultation services required to be performed are under a written service contract other than an insurance policy;
- The acts or omissions of those providing inspection services are judicially determined to constitute a crime, actual malice or gross negligence.

CANCELLATION / NON-RENEWAL CHART

Policy Type	Reasons for Cancellation	15 Days	30 Days	60 Days
Dwelling (owner occupied) & Homeowners	Nonpayment		X	
	Material misrepresentation		X	
	Substantial change in risk		X	
	Other reasons approved by the Commissioner		X	
Personal Auto	Nonpayment	X		
	Material misrepresentation	X		
	Substantial change in risk	X		
	Non-renewal of policy			X
Commercial Policies (CP, CGL, CA, BOP) & Dwelling (non-owner occupied)	Nonpayment	X		
	Material misrepresentation	X		
	Substantial change in risk			X
	Failure to comply with policy terms			X
	Loss of reinsurance			X
	Other reasons approved by the Commissioner			X
<i>*Any policy, except Personal Auto, in force for less than 60 days must give 30-day notice. Personal Auto is a 15 day notice.</i>				

SECTION 3 - QUIZ

1. Which statement about insurable interest is incorrect?
 - a. Insurable interest must exist at time of loss for property insurance
 - b. More than one entity might have insurable interest in one event
 - c. Insurable interest is the financial interest in the person or property insured.
 - d. Insurable interest must exist at time of application but not at time of loss for property insurance.

2. Which of the following is not a step in the underwriting process?
 - a. Gathering information
 - b. Paying covered claims
 - c. Determining rates
 - d. Determining coverage

3. Which rates consider the characteristics of a particular risk that can either increase or decrease a premium?
 - a. Judgment rates
 - b. Merit rates
 - c. Retrospective rates
 - d. Class rates

4. A newspaper stored next to a fireplace would be an example of:
 - a. Physical hazard
 - b. Morale hazard
 - c. Moral hazard
 - d. Road hazard

5. Employees not wearing their hard hats on the job because they don't like their boss would be an example of which hazard?
 - a. Physical hazard
 - b. Morale hazard
 - c. Moral hazard
 - d. Consequential hazard

6. All of the following are perils or causes of loss except:
 - a. Fire
 - b. Subrogation
 - c. Windstorm
 - d. Hail

7. Open perils insurance contracts:
 - a. Have less exclusions than a named perils contract
 - b. Are often indicated in a contract by the terms "special" or "comprehensive"
 - c. Cover fewer losses than named perils
 - d. Are often indicated in a contract by the terms "basic" or "broad"

8. All the following perils are typically covered under a "basic" perils contract except:
 - a. Riot and civil commotion
 - b. Lightning
 - c. Smoke
 - d. War

9. For a consequential or indirect loss to be covered:
 - a. The governor must declare the territory to be a disaster area
 - b. There must first be a covered direct loss
 - c. The insurance adjustor must pay the direct loss in full
 - d. The policyholder must fill out a second proof of loss

10. Construction of a specified thickness of masonry exterior walls and a specified fire-resistive rating for structural framing of not less than two hours is what type of construction?
 - a. Frame
 - b. Joisted Masonry
 - c. Noncombustible
 - d. Fire resistive

11. The definition of actual cash value is:
 - a. Functional replacement cost less depreciation
 - b. The actual value of all building materials less labor
 - c. Replacement cost less depreciation
 - d. The price a willing buyer and seller agree upon

12. The valuation method that guarantees a policyholder that the scheduled limit of insurance listed for the item will be the claim payment in the event of a total loss is:
 - a. Valued policy
 - b. Market value
 - c. Actual cash value
 - d. Coinsurance
13. The valuation of replacement cost with materials that are more commonly used and are functionally equivalent is:
 - a. Replacement cost
 - b. Actual cash value
 - c. Functional replacement cost
 - d. Market value
14. All the following are parts of the insurance policy except:
 - a. Conditions
 - b. Assignments
 - c. Exclusions
 - d. Declarations
15. The part of the insurance contract which contains all the rights and duties of the insurance company and the insured is:
 - a. Conditions
 - b. Endorsements
 - c. Declarations
 - d. Exclusions
16. A certificate of insurance:
 - a. Is a snapshot of the policies and limits as of their effective date
 - b. Is issued as a matter of information only
 - c. Does not amend, extend or alter the coverage afforded by the policies
 - d. All of the above

17. The purpose of deductibles in insurance is/are:
- a. To eliminate the payment of small claims
 - b. To make insurance more affordable
 - c. Both a. and b.
 - d. To allow agents to say the claim is not covered
18. The purpose of the other insurance clause:
- a. To allow an insurance company to deny paying claims
 - b. To determine how a claim will be paid when more than one insurance policy covers the same claim.
 - c. To allow insurance companies to charge additional premium
 - d. To allow insurance companies to investigate suspicious claims
19. A personal or commercial umbrella policy are typically written as:
- a. Primary insurance policies
 - b. Pro-rata insurance policies
 - c. Excess liability insurance policies
 - d. Non-concurrent insurance policies
20. Which statement concerning coinsurance is incorrect?
- a. It only applies to partial losses.
 - b. It can always be waived by the insured
 - c. It encourages an insured to insure to value
 - d. It makes the policyholder a "co-insurer" for a loss when they are under-insured.
21. All the following are typical provisions in most insurance policies except:
- a. The investigation clause
 - b. The liberalization provision
 - c. The assignment provisions
 - d. The subrogation provision
22. Under the standard mortgagee clause:
- a. The mortgagee is protected in the case of arson by the insured
 - b. The mortgagee is given a notice of cancellation
 - c. The mortgagee must notify the insurer of any substantial increase in hazard
 - d. All of the above would apply

23. An insured can become legally liable in all of the following situations except:
- a. Incidental law
 - b. Common law
 - c. Contract law
 - d. Statutory law
24. The four elements of negligence are:
- a. Duty owed, duty breached, attorney hired, court trial
 - b. Injury, lawsuit filed, jury selected, judgment rendered
 - c. Duty owed, duty breached, injury, proximate cause
 - d. Duty owed, property damage, bodily injury, negotiations
25. All of the following are common law defenses except:
- a. Assumption of risk
 - b. Comparative negligence
 - c. Contributory negligence
 - d. Act of God
26. Which defense is a statutory defense applicable in Pennsylvania
- a. Comparative negligence
 - b. Contributory negligence
 - c. Intervening cause
 - d. General damages
27. All of the following are applicable to absolute liability except:
- a. Dangerous instrumentality
 - b. Vicarious liability
 - c. Inherently dangerous operations
 - d. Animals with a vicious propensity
28. The statement, "I can be held legally liable for the actions of my employees" describes:
- a. Assumed liability
 - b. Absolute liability
 - c. Strict liability
 - d. Vicarious liability

29. Pennsylvania's comparative negligence law states that if you are involved in an accident and have damages, you may collect from the at-fault party if:
- a. Your negligence is less than 50%
 - b. Your negligence is "not greater than" the other party
 - c. You are 0% at fault
 - d. The other party has no damages.
30. Compensatory damages include:
- a. General and punitive
 - b. General and noneconomic
 - c. General and special
 - d. Punitive and specific
31. Punitive damages
- a. Are intended to punish the wrongdoer
 - b. Are not insurable in PA except for vicarious liability
 - c. Are not for bodily injury or property damage in PA
 - d. All of the above
32. Limits of insurance that would be the most paid for all claims in one policy period would be the description of:
- a. Occurrence limits
 - b. Aggregate limits
 - c. Split limits
 - d. Accident limits
33. Which limits reinstate after each separate event:
- a. Occurrence limits
 - b. Aggregate limits
 - c. Accident limits
 - d. Both a. and c.
34. The Pennsylvania Insurance Guaranty Association (PIGA):
- a. Requires all licensed insurance companies to participate
 - b. Is designed to pay claims for policyholders of bankrupt or insolvent insurance companies
 - c. Does not apply to Workers Compensation
 - d. All of the above

35. The Pennsylvania Notice (Insurance Consultation Services Exemption Act.)
- a. Allows policyholders to sue for uncovered claims
 - b. Requires that insurers inspect properties annually
 - c. Gives professional immunity to insurance company personnel for inspections and surveys.
 - d. Only applies to Homeowners policies.

Chapter 3 Answers

1d, 2b, 3b, 4a, 5b, 6b, 7b, 8d, 9b, 10d, 11c, 12a, 13c, 14b, 15a, 16d, 17c, 18b, 19c, 20b, 21a, 22d, 23a, 24c, 25b, 26a, 27b, 28d, 29b, 30c, 31d, 32b, 33d, 34d, 35c

CHAPTER 4

Dwelling ('14) Policy

Concepts



Insurance Agents
& Brokers

CHAPTER 4 – DWELLING ('14) POLICY CONCEPTS

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What are the three Dwelling Forms?
- Discuss the eligibility requirements for a Dwelling Policy.
- Describe property covered by Coverage A, B, C, D and E.
- Which Dwelling form offers the least amount of coverage?
 - What perils are covered?
 - What are the Extended Coverage perils? (Hint: WHARVVES)
- Discuss the Broad Form.
 - What perils are covered?
- Discuss the Special Form
- Know the differences in coverage in the forms.
- How are losses paid under the various coverage forms?
- Encourage review of all Dwelling Coverage charts in Chapter 4.
- What “Other Coverages” are included automatically at no additional premium?

- The Broad and Special forms provide coverage for trees, shrubs, plants and lawns for what limited perils? (Hint: FLAVVER)
- Encourage review of Other Coverages Summary Chart in Chapter 4.
- What are the general exclusions? List them.
- What is concurrent causation?
- Review and discuss the conditions.
- Describe the following endorsements:
 - Automatic Increase in Insurance
 - Broad Theft Coverage
 - Dwelling Under Construction
- What is Coverage L and Coverage M under the Personal Liability Supplement?

KEY TERMS

- Concurrent Causation
- Loss Valuation
- Appraisal

CHAPTER 4 – DWELLING ('14) POLICY

STATE EXAM: 4% or 6 QUESTIONS

DWELLING POLICY

At one time, the Dwelling Policy was a more common method of providing coverage for residential property. With the development of the Homeowners Policy, the Dwelling Policy's use has been reduced. Today, the Dwelling Policy is still commonly used:

1. When the residence to be insured is not eligible for a Homeowners Policy because of homeowners eligibility rules. For example, tenant occupied dwellings are not eligible for the Homeowner's program.
2. When an insurance company's underwriting rules will not permit a Homeowners Policy to be written, but will permit the writing of a Dwelling Policy (i.e. an older home with a value of less than \$40,000).

The Dwelling Policy comes in three forms:

- Basic DP 00 01
- Broad DP 00 02
- Special DP 00 03

As you might expect, the protection broadens as you move from the Basic form to the Special form.

Eligibility

The following are the eligibility requirements for a Dwelling Policy:

- Owner or tenant occupied;
- 1-4 family and up to 5 roomers/boarders;
- Primarily residential;
- Incidental business occupancies (studio, offices);
- Mobile homes;
- Dwelling in course of construction; and
- Townhouses and Rowhouses.
- **NO FARMS!**

COVERAGE FORMS SPECIFYING PERILS INSURED AGAINST

As indicated earlier, there are three Dwelling Policy forms. Each of the forms will be summarized below in terms of perils insured and coverages provided.

DP-1—Basic—DP 00 01 (named perils)

DP-2—Broad—DP 00 02 (named perils)

DP-3—Special—DP 00 03 (open and named perils)

	DP-1 (BASIC)	DP-2 (BROAD)	DP-3 (SPECIAL)
COV A (Dwelling)	Selected by the insured	Selected by the insured	Selected by the insured
COV B (Other Structure)	10 % of Cov A <i>included</i> in limit	10% of Cov A in <i>addition</i> to limit	10% of Cov A in <i>addition</i> to limit
COV C (Personal Property)	Selected by the insured	Selected by the insured	Selected by the insured
COV D (Fair Rental Value)	20% of Cov A <i>included</i> in limit	20 % of Cov A in <i>addition</i> to limit	20 % of Cov A in <i>addition</i> to limit
COV E (Additional Living Expense)	N/A		

DP-1 - Basic Form

- Coverages

The DP-1 provides Coverage A through Coverage D. These Coverages are:

- Coverage A - Dwelling
- Coverage B - Other Structures
- Coverage C - Personal Property
- Coverage D - Fair Rental Value

Coverage E is not provided under the DP-1 form, and the DP-1 specifically excludes coverage for loss to lawns, plants, shrubs or trees outside the building. Any payment made under Coverage B and Coverage D reduces the Coverage A limit. These two coverages are not additional insurance.

- Perils Insured Against

The DP-1, Basic Form, offers the least amount of coverage, providing only 9 limited perils. **Losses are paid on an actual cash value basis.** The initial grant of coverage provides insurance for direct physical loss or damage caused by fire, lightning and internal explosion. Internal explosion means an explosion that occurs inside the covered dwelling or other structure, or inside the building containing personal property.

For an additional premium the DP-1 can also provide coverage for damage for the **Extended Coverage (EC) perils**:

Windstorm

Hail

Aircraft

Riot/Civil Commotion

Vehicle Damage

Volcanic Eruption

Vandalism & Malicious Mischief *

Explosion

Smoke

WHARVVVES

* Although vandalism and malicious mischief (V&MM) **is not an extended coverage peril**, it can be added as an additional peril for an additional premium. It does not provide coverage for glass and safety glazing material that is part of a building; there is also no coverage for pilferage, theft or burglary. There is no coverage for V&MM if the dwelling has been vacant for more than 60 consecutive days before a loss.

The DP-1 is usually written with all of the above coverages.

DP-2 - Broad Form

DP-2 - Broad form as its name indicates provides broader coverage than the DP-1. This policy form also provides coverage on a named peril basis. Losses for Coverages A and B are paid on a **replacement cost basis** as long as the insured carries at least 80% of the dwelling's replacement cost at the time of loss. Losses for Coverage C are paid on an actual cash value basis.

- Coverages

In addition to the availability of Coverages A through D, the DP-2 also includes Coverage E. Each of the five coverages are treated as a separate item in terms of limit, which means that payments under Coverage B, D, and E do not reduce the limits of Coverage A.

The DP-2 contains four Other Coverage provisions not found in DP-1. These are:

1. Trees, Shrubs and Other Plants,
2. Collapse,
3. Glass or Safety Glazing Material, and
4. Ordinance or Law.

- Perils Insured Against

The major difference between DP-1 and DP-2 is the inclusion of more perils. DP-2 provides seven additional perils that are included over and above the DP-1. These perils include:

1. Damage to the property by a burglar (unless vacancy of more than 60 consecutive days);
2. Falling objects (excluding antennas and aerials or outside walls);
3. Weight of ice, sleet or snow (excluding coverage to awnings, fences, pavement and retaining walls);
4. Accidental discharge or overflow of water or steam from within a plumbing, heating, air-conditioning, or automatic fire protective sprinkler system or household appliances (unless vacancy of more than 60 consecutive days). There is no coverage to the system or appliance from which the water leaked;
5. Sudden and accidental tearing apart, cracking, burning or bulging of heating or air-conditioning systems, automatic fire protective sprinklers or water heater;

6. Freezing of plumbing, heating, air conditioning or household appliances unless the insured failed to maintain heat or shut the water supply off and drain the system; and
7. Power surge from artificially generated electric current, however, there is **no coverage** for damage to tubes, transistors, electronic components or electronic apparatus.

DP-3 - Special Form

DP-3 provides the most complete coverage of any of the Dwelling Policy forms.

- Coverages

Like DP-2, the Special form (DP-3) includes Coverages A through E. It repeats the eleven Other Coverages found in DP-2, and gives additional insurance for some Other Coverage in the same way.

- Perils Insured Against

The perils are not specifically named for Coverage A and Coverage B in DP-3. Instead the policy uses the **open perils approach**. The DP-3 pays for risk of direct physical loss except those specifically excluded in Coverage A and Coverage B. In Coverage C, the policy pays on a broad named perils basis, which is the same as the DP-2. Losses for Coverages A and B are paid on a **replacement cost basis** as long as the insured carries at least 80% of the dwelling's replacement cost at the time of loss. Losses for Coverage C are paid on an actual cash value basis.

Due to the **open perils approach** used in Coverages A and B, there is some additional exclusionary or limiting language that applies to the DP-3 to define what is or is not covered. The following are the special form (DP-3) exclusions:

1. Freezing, unless the insured has maintained heat or shut off the water and drained the system;
2. Freezing, thawing or pressure or weight of water or ice to a fence, pavement, patio, swimming pool, footing, foundation, bulkhead, wall or any other structure that supports a building, retaining wall that doesn't support a building, pier, wharf or dock;
3. Theft of property that is not part of a covered building or structure;
4. Theft in or to a dwelling under construction;
5. Wind, hail, ice, snow or sleet to outdoor radio and TV antennas or trees, shrubs, plants or lawns and canoes and rowboats;

6. Vandalism and Malicious Mischief, theft or attempted theft if the dwelling has been vacant for more than 60 consecutive days prior to the loss. A dwelling under construction is not considered vacant;
7. Continued or repeated seepage or leakage of water or steam from a plumbing, heating or air conditioning system;
8. Any of the following:
 - a. Wear and tear, marring, deterioration;
 - b. Mechanical breakdown, latent defect, inherent vice;
 - c. Smog, rust or other corrosion, mold, wet and dry rot;
 - d. Smoke from agricultural smudging or industrial operations;
 - e. Pollutants;
 - f. Settling, shrinking, bulging or expansion including resultant cracking of pavements, patios, foundations, walls, floors, roofs or ceilings;
 - g. Birds, rodents, insects or domestic animals.
 - h. Nesting or infestation, or discharge or release of waste products or secretions, by any animal.

Summary of Perils

Name of Form	Coverage A & B	Coverage C
Basic – DP-1	Named Perils	Named Perils
Broad – DP-2	Broad Named Perils	Broad Named Perils
Special – DP-3	Open Perils	Broad Named Perils

SUMMARY OF PERILS INSURED AGAINST

DWELLING POLICY COVERAGE A (DWELLING) AND COVERAGE B (OTHER STRUCTURES)

Perils Insured Against	DP-1	DP-2	DP-3
Fire or Lightning	Yes	Yes	Yes
Internal Explosion	Yes	Yes	Yes
Windstorm or Hail	Provided By Extended Coverage	Yes	Yes
Explosion		Yes ¹	Yes ¹
Riot or Civil Commotion		Yes	Yes
Aircraft		Yes	Yes
Vehicles		Yes	Yes
Smoke		Yes	Yes
Volcanic Eruption		Yes	Yes
Vandalism	May Add	Yes	Yes
Damage by Burglars	No	Yes	Yes
Falling Objects	No	Yes	Yes
Weight of Ice, Sleet or Snow	No	Yes	Yes
Accidental Discharge or Overflow of Water or Steam	No	Yes	Yes
Cracking, Burning or Bulging of Heating System or Air Conditioner or Hot Water Heater	No	Yes	Yes
Freezing	No	Yes – Limited	Yes – Limited
Power Surge	No	Yes	Yes
Theft of Building	No	No	Yes

¹ Does not restrict boilers and steam pipes.

Note: DP-1 does not cover for smoke from fireplaces.

Dwelling Policy Coverage C (Personal Property)

Perils Insured Against	DP-1	DP-2	DP-3
Fire or Lightning	Yes	Yes	Yes
Windstorm or Hail	Yes	Yes	Yes
Explosion	Yes	Yes	Yes
Riot or Civil Commotion	Yes	Yes	Yes
Aircraft	Yes	Yes	Yes
Vehicles	Yes	Yes	Yes
Smoke	Yes	Yes	Yes
Vandalism OR Malicious Mischief	Yes ¹	Yes	Yes
Damage by Burglars	No	Yes	Yes
Falling Objects	No	Yes	Yes
Weight of Ice, Sleet or Snow	No	Yes	Yes
Accidental Discharge or Overflow of Water or Steam	No	Yes	Yes
Cracking, Burning or Bulging of Heating System or Air Conditioner or Hot Water Heater	No	Yes	Yes
Freezing	No	Yes	Yes
Sudden and Accidental Damage from Artificially-Generated Electrical Current	No	Yes	Yes
Volcanic Eruption	Yes	Yes	Yes

¹ Vandalism or Malicious mischief must be selected and premium paid under DP-1 form.

PROPERTY COVERAGES

COVERAGE A - DWELLING (Direct Loss Coverage)

Coverage A - Dwelling provides protection for direct physical loss to the dwelling at the **described location** (the location shown in the Declarations Page) and includes coverage for:

- structures attached to the dwelling;
- materials and supplies that are on or next to the described location used for the construction or either the repair of the dwelling or repair of an other structure on the premises, and
- building and outdoor equipment located on the described location.

Building and outdoor equipment would include items used in connection with or of service to the dwelling. These items could include water pumps, wastewater systems, storm windows and even lawn sprinkler systems. Coverage A **does not** apply to land.

COVERAGE B – OTHER STRUCTURES (Direct Loss Coverage)

Coverage B - Other Structures covers other structures located on the Described Location, set apart from the dwelling by a clear space. Structures that are connected to the dwelling by a fence, utility line or similar connection are also covered. These structures could be buildings such as a detached private garage or storage shed or they could be non-building items such as a child's play gym and swing set or the fence or other structures which the insured uses to support grapevines or flowering plants in the back yard.

Dwelling Policy rules permit use of the structures for private use or when used for storage of business property that is solely owned by the insured or a tenant of the dwelling. However, the business property must not consist of gaseous or liquid fuels stored in the building. The fuel used for the lawn mower or the fuel contained in vehicle fuel tanks is permissible. The only other permitted business use is rental of a garage for private use.

COVERAGE C—PERSONAL PROPERTY (Direct Loss Coverage)

Coverage C - Personal Property pays for direct physical loss to personal property owned by the insured or family members residing with you while the property is on the described location. Personal property is anything an insured owns or uses, including rented or borrowed property. At the request of the insured, the policy will cover the property of guests and residence employees. However, Coverage C does not cover all personal property.

The following types of personal property are specifically **not covered**:

1. Accounts, bank notes, bullion, coins, currency, deeds, evidences of debt, gold other than goldware, letters of credit, manuscripts, medals, money, notes other than bank notes, passports, personal records, platinum other than platinumware, securities, silver other than silverware, tickets, stamps, scrip, stored value cards and smart cards;
2. Animals, birds or fish;
3. Aircraft, including any contrivance used or designed for flight, including their parts and hovercraft including their parts. However, the policy does cover model or hobby aircraft that does not carry people or cargo;
4. Hovercraft and parts;
5. Motor vehicles and all other motorized land conveyances including their equipment and parts while in or upon the vehicle. Coverage is provided for portable electronic equipment that reproduces, receives or transmits audio, visual or data signals if it may be operated from a power source other than the electrical system of the motor vehicle. Also covered are motor vehicles not required to be registered for use on public roads which are:
 - a. Used solely to service a residence; or
 - b. Designed to assist the handicapped.
6. Watercraft, except rowboats and canoes, but these are only covered at the described location;
7. Data, including data stored in books or on electronic media, drawings, records and data stored on computers and related equipment. However, the policy will pay for blank media and prerecorded retail computer programs;
8. Credit cards, fund transfer cards or access devices for deposit, withdrawal or transfer of funds;
9. Water or steam;
10. Grave markers and mausoleums.

Coverage C - Personal Property will be provided at a newly acquired principle residence for a period up to 30 days from the date the insured begins to move property there. Property covered off premises under Coverage C has coverage anywhere in the world up to 10% of the Coverage C limit, as long as the loss is caused by a covered peril. In order for Coverage C – Personal Property to apply, the insured must select a limit of insurance and pay the appropriate premium.

COVERAGE D – FAIR RENTAL VALUE (Indirect Loss Coverage)

Coverage D – Fair Rental Value pays loss of rental income to the insured who is the owner of a dwelling which is rented to others. The coverage pays the loss of rental income when a covered peril causes damage to the dwelling making all or a portion of the dwelling unfit to be occupied by a tenant. In addition to loss of fair rental due to direct damage to the premises, the policy will also pay up to two week's loss of fair rental value when a civil authority (fire department, department of public safety, etc.) prohibits use of the location because a neighboring property is damaged by a peril covered under our insured's policy.

When an insured purchases Coverage A - Dwelling, Coverage D automatically applies up to the limit found on the Declarations Page.

COVERAGE E—ADDITIONAL LIVING EXPENSE (Indirect Loss Coverage)

Coverage E - Additional Living Expense provides coverage when a residence sustains covered damage that makes the dwelling uninhabitable. Coverage is provided for necessary increases for living expenses incurred by the insured so that the insured can maintain their normal standard of living. These expenses can include lodging expenses, increased food expenses and increased travel expenses to get back and forth to work or school. Only those expenses that are an increase to normal expenses to the insured will be paid. Such expenses are paid for a reasonable time to repair or restore the dwelling or for the shortest period of time to move into another dwelling if the insured dwelling is not rebuilt. Similar to the civil authority provision in Coverage D above, the policy will also pay additional living expenses for up to two weeks when a civil authority prohibits use of the location because a neighboring property is damaged by a peril covered under our insured's policy.

Coverage E is **not included** in the DP-1 Basic form, but may be endorsed onto this policy.

OTHER COVERAGES

The Dwelling Policy also provides for other coverages automatically at no additional premium. All forms of the Dwelling Policy have a section entitled Other Coverages. Some of the Other Coverages are directly linked to one or more of the Coverages A through E.

- **Other Structures**

The insured may use up to 10% of the Coverage A limit to other structures described in Coverage B. The loss must be by a peril insured against in the policy. Amounts paid under the Other Structures coverage are **in addition** to the Coverage A limit for DP-2 Broad form and DP-3 Special form. Under the DP-1 this coverage is **included within** the Coverage A limit.

- **Debris Removal**

Debris Removal pays reasonable expenses for removal of debris of covered property arising from a covered loss. These costs are **included within** the limits.

- **Improvements, Alterations and Additions**

A tenant who is the named insured may apply up to 10% of the Coverage C limit to improvements made at the tenant's expense to the part of the residence where the tenant lives. Examples could include bookshelves built in by the renter or a new ceiling fan/light installed where a plain fixture had been.

It is important to remember that any payment made under the Improvements, Alterations and Additions provision **reduces the limit** of Coverage C under the DP-1 Basic form, but is treated as **additional** insurance under the DP-2 Broad form and DP-3 Special form.

- **World-Wide Coverage**

Property covered under Coverage C is covered anywhere in the world up to 10% of the Coverage C limit, so long as the damage is caused by a covered peril. However, this coverage does not apply to rowboats or canoes. Claims paid under World-Wide Coverage provision **reduce** the Coverage C limit.

- **Rental Value and Additional Living Expense**

We have already discussed this coverage when we reviewed Coverage D - Fair Rental Value and Coverage E - Additional Living Expense. This section of the policy simply defines the limit of coverage available under the various DP forms.

The Basic Form - DP-1 gives 20% of the Coverage A amount to cover the loss of fair rental value which results from a covered cause of loss. In the DP-1, payment **reduces** the amount of Coverage A available to make repairs to the dwelling.

In the Broad Form - DP - 2 and Special Form - DP - 3, it gives 20% of the Coverage A amount to pay for either loss of fair rental value or additional living expense. In these two forms, payment under this section is an **additional** amount of insurance.

- **Reasonable Repairs**

The insured is required to take steps to protect property from further damage following a loss. However, the insured will be reimbursed by the insurer for expenses incurred for that protection. An example is hiring a contractor to board up a damaged wall after a fire. Expenses paid under this policy provision are **included** within the applicable limit of insurance.

- **Property Removed**

This provision of the Dwelling Policy comes into play when it becomes necessary to remove property from the insured location to protect it because the premises is endangered by a cause of loss that is covered under the policy. When property is removed under this provision, the Dwelling Policy extends coverage for damage from any cause. This is true all-risk insurance. For example, the insured's house is severely damaged by fire, while moving property out of the house to protect it the insured drops a television set. This is covered, despite the fact that dropping is not covered peril. This coverage applies for property removed for up to 5 days under the DP-1, while there is up to 30 days coverage under the DP-2 and DP-3.

This coverage is **included** within the policy limits.

- **Trees, Shrubs and Other Plants**

The DP-2 and DP-3 covers trees, shrubs, plants or lawns for the following limited perils only. The policy covers damage by:

Fire

Lightning

Aircraft

Vehicles

Vandalism and Malicious Mischief (including damage by burglars)

Explosion

Riot and civil commotion

Please note that wind and ice are obviously omitted.

Coverage under this provision is for 5% of Coverage A, subject to a \$500 limit for any one tree, shrub or plant. This coverage pays in **addition** to the amount of the Coverage A limit.

- **Fire Department Service Charge**

This Other Coverage will pay up to \$500 for liability assumed by a contract or agreement with a fire department to save or protect covered property from a covered peril. The property must be located outside the city or fire protection district. This Other Coverage is **additional** insurance and **no deductible** applies.

FLAVVER

- **Collapse**

Coverage for collapse is provided in the DP-2 and the DP-3 as long as the collapse is caused by one of the six categories of perils listed below. In addition, the policy defines collapse very carefully to be sure that there will only be coverage when the building has actually collapsed. **Collapse** is defined as the abrupt falling down or caving in of a building or any part of a building so that the building cannot be occupied for its intended purpose. However, the policy is also clear in stating that a building that is sagging, bulging, bending, leaning, settling or in any way in danger of falling down had not collapsed.

The policy will cover direct physical loss to covered property caused by collapse of a building, as long as the collapse is caused by one or more of the following:

1. perils insured against in Coverage C - Personal Property (discussed later in this chapter);
2. hidden decay;
3. hidden insect or vermin damage;
4. weight of contents, equipment, animals or people;
5. weight of rain collecting on a roof; and
6. use of defective material or methods in construction, remodeling or renovation if collapse occurs during such activity.

- **Glass or Safety Glazing Material**

In the DP-2 and the DP-3, the insurer will cover the breakage of glass or safety glazing material which is part of a covered building, storm door, or storm window. This coverage pays for glass losses due to nearly any cause, **including** loss caused by earth movement. Also, the forms cover direct physical loss to other covered property caused by fragments or splinters of broken glass mentioned above. The policy will not cover loss from glass breakage if the dwelling has been vacant for more than 60 consecutive days immediately prior to the loss.

The **Special Provisions** - Pennsylvania DP 01 37 endorsement broadens coverage to include breakage resulting from earth movement and covers breakage to a vacant building if such loss results from earth movement.

- **Ordinance or Law**

This is a special Other Coverage provision which provides coverage for increased costs due to the enforcement of any ordinance or law regulating the use, construction, repair or demolition of a building or other structure. The following three exposures can be covered by this coverage:

1. The increased cost of construction to rebuild the structure to satisfy current codes.
2. The value of the undamaged portion of a building when the entire building must be torn down. Basically, when a partial loss becomes a total loss because the entire building must be demolished.
3. Demolition and debris removal of the undamaged property.

Two-thirds of an insured dwelling is destroyed by a windstorm. The remaining undamaged one-third must be demolished along with the damaged portion due to a city ordinance before the building can be rebuilt. This Other Coverage can pay for the extra expense incurred to meet the required ordinance or law.

The increased cost must arise from a loss resulting from a covered peril, and this coverage is limited to 10% of Coverage A (although higher limits may be provided by endorsement). If the owner's policy does not include Coverage A, then 10% of Coverage B is available. If the named insured is a tenant, then 10% of the limit of liability for Improvements, Alterations and Additions is available. The coverage is additional insurance.

Summary of Other Coverages

Coverage	Forms	Limit	Included or Additional
Other Structures	1, 2 & 3	10% of Coverage A	DP-2 & DP-3 Additional DP-1 Included
Debris Removal	1, 2 & 3	Limit applying to damaged property	Included
Improvements, Alterations & Additions	1, 2 & 3	10% of Coverage C	DP-2 & DP-3 Additional DP-1 Included
World Wide Coverage	1, 2 & 3	10% of Coverage C	Included
Rental Value * and Additional Living Expense	2 & 3	20% of Coverage A	DP-2 & DP-3 Additional DP-1 Additional Living Expenses not included on DP-1
Reasonable Repairs	1, 2 & 3	Limit applying to damaged property	Included
Property Removed	1, 2 & 3	Limit applying to damaged property	Included
Trees, Shrubs & Other Plants	2 & 3	5% of Coverage A or \$500 per plant	Additional
Fire Department Service Charge	1, 2 & 3	Up to \$500	Additional No deductible
Collapse	2 & 3	Limit applying to damaged property	Included
Glass or Safety Glazing	2 & 3	Limit applying to damaged property	Included
Ordinance or Law	2 & 3	10% of Coverage A if building owner, 10% of Improvements, Alterations and Additions if Tenant	Additional

* Form 1 includes Rental Value and is not additional insurance. Additional Living Expense may be endorsed.

DWELLING POLICY EXCLUSIONS

The **General Exclusions** bar coverage for loss caused directly or indirectly by the following perils (note that these perils are excluded regardless of any other events or perils that may contribute before the loss, during the loss, or after the loss). These exclusions appear in all property policies:

- **Ordinance or Law**

Earlier, we saw that the **Ordinance or Law** Other Coverages provision granted limited protection (10%) for costs resulting from the enforcement of building or zoning laws. Beyond that, the Dwelling Policy will not pay for any cost due to the enforcement of any ordinance or law regulating the use, construction, repair or demolition of a building or other structure.

- **Earth Movement**

This exclusion explains that the policy does not intend to cover any **earth movement** including: earthquake, land shock wave or tremor, landslide, mudflow, subsidence or sinkhole whether caused by an act of nature or otherwise caused. The only exceptions to this exclusion occur if a loss is caused by fire, explosion or breakage of glass resulting from earth movement.

- **Water Damage**

Water Damage excludes the following: flood, surface water, waves (including tidal waves and tsunami), tides, tidal water, overflow of any body of water or spray from any of these all whether driven by wind, including storm surge, regardless of whether it is caused by an act of nature or is otherwise caused. However, direct loss by fire or explosion resulting from water damage is covered. Remember that damage from water which leaks from interior water systems is covered.

- **Off Premises Power Failure**

There is no coverage for loss, even from a covered peril, that results from the loss of power or other utility service which takes place off the Described Location. But, if the failure results in a loss on premises from a peril insured against, we will pay for the loss caused by that peril. For example, if power lines are knocked down several blocks away due to a windstorm and the resulting interruption of power caused food to spoil in the refrigerator, there would be no coverage because Spoilage is not a covered peril. However, if the resulting power outage caused the heating system to go off and the pipes froze and broke there would be coverage. This is because the peril of Freezing is covered in both the DP-2 and DP-3.

- **Neglect**

Neglect is the failure to use all reasonable steps to save and preserve property at and after the time of loss.

- **War Exclusion**

The **War Exclusion** excludes damage from declared or undeclared war, civil war, rebellion, revolution, warlike act by the military, or destruction or seizure or use of property for military purposes. Riot and civil commotion are not “war” because there is no planned overthrow of a Government.

- **Nuclear Hazard**

Nuclear Hazard involves any nuclear reaction, radiation or radioactive contamination of any consequence. It is excluded except for any ensuing (following) loss from fire.

- **Intentional Loss**

Intentional Loss is a loss arising out of any act that is committed with the intent to cause the loss such as arson.

- **Governmental Action**

Governmental Action means the destruction, confiscation or seizure of property by order of a governmental authority except when attempting to stop the spread of fire.

- **Concurrent Causation Exclusions in DP-3**

When two causes of loss happen at the same time, and result in a loss to covered property, this condition is referred to as **Concurrent Causation**. In policies that provide coverage on an open peril” or “special form” basis, attorneys for an insured may try to get an excluded loss covered by alleging that there was another, concurrent cause that was not excluded.

For example, imagine a house built on a steep hillside. During a particularly rainy season, the soil broke loose and the house slid down the hillside and was destroyed. The insurance company will deny the claim based on the exclusion of “Earth Movement.” However, attorneys for the insured might allege that the house slid down the hill due to the heavy rains that loosened the soil and thus caused the earth movement. Is the loss covered or not? To help clarify this situation, and to clarify that the loss is not intended to be covered, open perils policies will contain concurrent causation exclusions. These exclusions eliminate coverage if a loss, that is already excluded, occurs at the same time as some other cause of loss, specifically flood and earthquake.

The three causes of loss excluded are:

- **Weather Conditions** - The policy will not cover losses in which weather conditions contribute in any way to another cause or event that is already excluded by the policy. In the example above, we see that losses caused by Earth Movement are already excluded. The fact that “too much rain” (a weather condition) contributed to the loss doesn’t matter. The loss is still excluded.
- **Acts or Decisions** - The policy will not cover losses that result due to acts or decisions or the failure to act by any person, group, or governmental body may have contributed to the loss. Attorneys for the insured might allege that the house slid down the hill because the town issued a building permit to build on the hillside. The concurrent causation exclusion clarifies that the loss is not covered.
- **Faulty, Inadequate or Defective:** Planning, zoning, design, development, construction, maintenance or materials will also not secure coverage in situations where the loss is clearly excluded. Attorneys might allege that the house slid down the hill because defective zoning ordinances permitted it to be built. However, the concurrent causation exclusion clarifies that the policy will not pay.

DWELLING POLICY CONDITIONS

It is time to look at some of the **conditions** found in the Dwelling Policy. Remember, conditions are the rights and duties required of both the insured and insurance company to carry out the policy provisions. Many of these conditions were generally discussed in Chapter 3 - Property/Casualty Insurance Basics under policy provisions. Specifically, the conditions we will examine are:

1. Policy Period
2. Concealment or Fraud
3. Duties After Loss
4. Loss Settlement
5. Loss to a Pair or Set
6. Appraisal
7. Other Insurance and Service Agreement
8. Subrogation
9. Our Option
10. Loss Payment
11. Mortgage Clause
12. Cancellation and Nonrenewal
13. Assignment
14. Recovered Property
15. Death
16. Special Provisions - Pennsylvania - DP 01 37

Policy Period

Policy Period means that the Dwelling Policy will pay only for losses which occur during the policy period stated in the Declarations Page.

Concealment or Fraud

Concealment or Fraud is a condition which states that the entire policy is void if any insured, either before or after a loss, intentionally concealed or misrepresented any material fact, or engaged in fraudulent conduct related to the policy.

Duties After Loss

Duties After Loss requires the insured to give “prompt” notice to the insurance company or its agent, and to protect the property insured under the policy from further damage. The policy also requires the insured to:

- make reasonable repairs to protect the property;
- keep accurate records and prepare an inventory of damaged personal property;
- show damaged property as requested by the insurance company;
- provide records related to property;
- submit to an examination under oath, if requested by the company; and
- send a signed proof of loss within 60 days after the company requests it.

Loss Settlement

Loss Settlement explains on what basis of value, either actual cash value (ACV) or replacement cost, the policy will pay claims. For the DP- 1, everything is paid on an actual cash value basis. However, the DP- 2 and DP-3 require more explanation.

Both DP- 2 and DP-3 pay Actual Cash Value (ACV) for the following types of property:

1. personal property,
2. awnings,
3. carpeting,
4. household appliances,
5. outdoor antennas and outdoor equipment, and
6. structures that are not buildings (a fence).

Loss to any building covered under Coverage A and B can be paid on replacement cost, without any deduction for depreciation, if the amount of insurance (under the Dwelling Policy) on the damaged building is at least 80% of the full replacement value of the building at the time of loss. The full replacement payment cannot exceed the policy limits.

To determine the amount payable under the above for the building, we can use a three step process.

Step One Determine if the insured amount is equal to at least 80% of the building replacement cost. If yes, insured gets replacement cost.

OR

Step Two If not insured to 80%, we must figure the ACV (depreciated value) of the loss.

AND

Step Three

DID				
SHOULD	X	LOSS	=	PAYMENT

The insured gets paid the higher amount between Step Two or Step Three.

Windstorm damaged the 10-year old roof. To replace the roof will cost **\$20,000**.

Replacement cost of the dwelling	=	\$100,000
Insurance carried	=	\$60,000
Amount of Loss	=	\$20,000

Step One \$100,000 X 80% = \$80,000 (Only insured for \$60,000 so NO)

Step Two The roof life span is 20 years. Therefore, there is 50% depreciation on the 10-year old roof.

\$20,000	-	\$10,000	=	\$10,000
<i>Replacement Cost</i>		<i>Depreciation</i>		<i>ACV</i>

Step Three \$60,000 (DID) X \$20,000 (LOSS) = \$15,000
 \$80,000 (SHOULD)

Windstorm damaged a 1-year old roof. To replace the roof will cost **\$20,000**.

Replacement cost of the dwelling	=	\$100,000
Insurance carried	=	\$60,000
Amount of Loss	=	\$20,000

Step One \$100,000 X 80% = \$80,000 (Only insured for \$60,000 so NO)

Step Two **The roof life span is 20 years. Therefore, there is only 5% depreciation on the 1-year old roof.**

\$20,000	-	\$1,000	=	\$19,000
Replacement Cost		Depreciation		ACV

Step Three $\frac{\$60,000 \text{ (DID)}}{\$80,000 \text{ (SHOULD)}} \times \$20,000 \text{ (LOSS)} = \$15,000$

Since it is the desire of the insurer to have the insured replace the damaged property before replacement cost is extended, the insured must complete the actual repair or replacement. If the insured does not make repairs immediately, an actual cash value claim can be made. Then within 180 days after the loss, the insured may request an additional amount be paid provided they notify the insurance company of the intent to replace the damaged property so that the total amount paid equals replacement cost.

In the case of smaller losses which are both less than 5% of the amount of the insurance on the building and less than \$2500, the insurance company will settle the loss, per either of the above methods, whether or not the actual repair or replacement is complete.

Loss to a Pair or Set

Loss to a Pair or Set is a condition which indicates that if a loss involves a pair (two items) or set (three or more items), the insurance company can:

- either repair or replace any part to put the insured in the same position he/she was in prior to the loss, or
- pay the difference between the actual cash value of the property before the loss and after the loss.

Appraisal

The **Appraisal** condition explains what can be done to resolve the dispute when the insured and the insurance company cannot agree on the amount to be paid on a covered loss. Either party may provide the other with written notice that he/she wishes to use this provision. Within 20 days of the written notice, each party selects an appraiser. The two

appraisers pick an umpire within 15 days. Each party is responsible for the cost of their own appraiser, but they share the cost of the umpire. You should note that the Appraisal condition is seldom used.

Other Insurance and Service Agreement

Other Insurance condition applies if the property is covered by more than one policy and the insurance is similar, the Dwelling Policy will pay covered claims in proportion to its limits. This pro-rata basis was discussed in Chapter 3. The policy also specifies that, if the property covered by this policy is also covered by a service agreement, then the coverage under this policy will be excess over amounts payable by the service agreement.

Subrogation

Refer to Chapter 3.

Our Option

The **Our Option** condition means that if the insurance company gives the insured written notice within 15 (DP 01 37 PA Specific) days from the day it received the insured's sworn proof of loss, it is the company's option to repair or replace any part of the damaged property with like property. The insured does not have the option of requesting repair, replacement or reimbursement. The company is not required to settle the claim by writing a check to the insured.

Loss Payment

The **Loss Payment** condition states that losses will be adjusted with the named insured, and payments will be made to the named insured unless the policy Declarations Page shows another entity named, such as a mortgagee. The loss is payable within 60 days from the receipt of proof of loss and (1) an agreement was made with the named insured; or (2) a final judgment has been rendered; or (3) an appraisal award has been filed with the insurance company.

Mortgage Clause

The **Mortgage Clause** condition is similar to our discussion in Chapter 3, which lays out the rights and responsibilities of the mortgagee. In the Dwelling Policy, there is one difference. If the company denies a claim to the named insured, but the denial does not apply to the mortgagee, then the mortgagee may make a claim by submitting a signed, sworn proof of loss statement within 60 days.

Cancellation and Nonrenewal

The **Cancellation** condition states the insured may cancel at any time by giving written notice. The company can only cancel the policy at certain times for certain reasons. Pennsylvania is unique in that it modifies this policy condition with two distinct endorsements:

- **DP 02 03 (Pennsylvania) Cancellation and Nonrenewal**, which is used for Dwelling Policies covering a 1-4 family dwelling occupied in whole or part by the named insured, or which **does not** include Coverages A or B.
- **DP 02 04 (Pennsylvania) Cancellation and Nonrenewal**, which is used for Dwelling Policies covering a 1-4 family dwelling not occupied in any part by the named insured.

Both endorsements state that if the policy has been in effect for less than 60 days, the company can cancel for any reason by giving 30-day notice. If the policy has been in effect for more than 60 days, the company can cancel for any of the following: (1) the insured's failure to pay the premium; (2) material misrepresentation by the insured at the time the policy was issued; (3) there has been a substantial change in the risk; or (4) other reasons as approved by the Pennsylvania Insurance Commissioner. The insurer must give 30-day notice prior to such cancellation.

The DP 02 04 (non-owner occupant) states that if the policy has been in effect for more than 60 days, the insurance company can cancel for: (1) the insured's failure to pay the premium; or (2) there was a material misrepresentation at the time the policy was issued. In either case, the insurance company may cancel by giving 15-day notice to the insured. The insurance company may also cancel due to:

1. a substantial change in the risk,
2. a loss of reinsurance by the insurer or a substantial loss of reinsurance,
3. the insured's material failure to comply with policy terms or conditions, or
4. other reasons as approved by the Pennsylvania Insurance Commissioner.

The items 1 through 4 require the insurance company to send the insured 60 day's written notice prior to the effective date of cancellation.

The **Nonrenewal** condition which indicates the insurance company may choose not to renew the policy for any of the reasons listed in the nonrenewal condition, is also modified by the two Pennsylvania specific endorsements: DP 02 03 (Pennsylvania) Cancellation and Nonrenewal and DP 02 04 (Pennsylvania) Cancellation and Nonrenewal. The reasons for nonrenewal are the same as we found in the discussion of cancellation for the respective endorsements. The required notice to be given to the insured for the DP 02 03 is 30 days prior to the expiration date of the policy and 60 days for the DP 02 04.

Dwelling Cancellation Chart

FORM	DAYS IN EFFECT	15 day notice	30 day notice	60 day notice
DP 02 03 owner occupied or No Cov A or B	Less than 60		For any reason	
	More than 60 days		• Non-payment of premium • Material misrepresentation • Substantial change in risk • Other reason approved by the Commissioner	
DP 02 04 non-owner occupied	Less than 60		For any reason	
	More than 60	• Non-payment of premium • Material misrepresentation		• Substantial change in risk • Loss of reinsurance • Failure to comply with policy terms • Other reasons approved by the Commissioner

Nonrenewal

DP 02 03 Required notice 30 days prior to expiration date of policy.

DP 02 04 Required notice 60 days prior to the expiration date of policy. The DP 02 04 is treated as Commercial Insurance for the cancellation law.

Assignment

The **Assignment** condition of the Dwelling Policy states that assignment of the policy by the insured is not valid unless the insurance company gives written consent.

Recovered Property

The **Recovered Property** condition of the Dwelling Policy specifies that if either the insured or insurance company recovers property for which a claim payment has been made, that party will notify the other. At the insured's option the property may be returned to the insured or retained by the insurance company. If that happens, an adjustment will be made to the loss payment.

DWELLING POLICY ENDORSEMENTS

Common endorsements include:

- Automatic Increase in Insurance (DP 04 11),
- Broad Theft Coverage (DP 04 72), and
- Dwelling Under Construction (DP 11 43),

Special Provisions – Pennsylvania

- Actual cash value (ACV) is calculated as the amount it would cost to repair or replace covered property at the time of loss, with material of like kind and quality, subject to a deduction for deterioration, depreciation and obsolescence. Actual cash value applies to valuation of covered property regardless of whether that property has sustained partial or total loss or damage.
- Insurance under this policy is provided for the **later of**:
 - 180 days after the insured's death regardless of the policy period shown; or
 - Until the end of the policy period shown on the Declarations Page unless the property has been sold.

Coverage during this time is subject to all provisions of this policy including payment of any premium due for the policy period shown and any extension of that period.

Automatic Increase in Insurance

The **Automatic Increase in Insurance** endorsement provides a way for the policy to increase the limits of Coverages A and B automatically for inflation. Under this endorsement, for an additional premium, the coverages will increase on a prorated daily basis during the policy term by a percentage shown on the Declarations page. Typically, this is 4%, 6% or 8%. During the policy period the annual increase is prorated. For example, the insured's dwelling is insured for \$100,000 with a 4% automatic increase insurance endorsement. At the end of 6 months, the dwelling would be covered for \$102,000, and at the end of the year it would be covered for \$104,000.

Dwelling Under Construction

The **Dwelling Under Construction** (DP - 1143) endorsement provides property protection for a dwelling or structure while it is being constructed. It will have the same coverage as found in the particular Dwelling Policy form to which this endorsement is attached. A limit shown on the Declarations Page of the Dwelling Policy is simply provisional. The actual amount of insurance on any date is a percentage of the provisional amount. The percentage is based on:

$$\frac{\text{Actual Dwelling Value on that date}}{\text{Dwelling Value at the date of completion}}$$

Broad Theft Coverage

The **Broad Theft Coverage** (DP 04 72) endorsement may be added to any Dwelling Policy, as long as the dwelling is owner occupied. It provides the same coverage as the Homeowners Policy, except there is no coverage for theft that occurs off the premises. However, a separate limit for off premises coverage can be added to the endorsement. Certain types of property are subject to limitations:

1. \$200 on money, bank notes, etc.
2. \$1,500 on securities, accounts, deeds, evidences of debt, manuscripts, passports, personal records, tickets and stamps.
3. \$1,500 on watercraft including trailers, furnishings and outboard motors.
4. \$1,500 on trailers or semi-trailers not used with watercraft.
5. \$1,500 on jewelry, watches, furs, precious and semi-precious stones.
6. \$2,500 on firearms and related equipment.
7. \$2,500 on silverware, goldware, platinumware and pewterware.

Personal Liability Supplement

The Personal Liability Supplement may be added to any Dwelling Policy to provide coverage for personal liability. It is essentially the same coverage as Section II of the Homeowners policy. It provides the following two coverages:

- **Coverage L - Personal Liability** – provides a legal defense and pays up to the limit of liability for damages for which the insured is legally responsible. Defense costs, including interest on a judgment, are paid in addition to the policy's liability limit.
- **Coverage M - Medical Payments To Others** – pays medical payments to others regardless of fault up to the medical payments limit.

Minimum coverage limits are \$100,000 for Coverage L and \$1,000 for Coverage M.

SECTION 4 - QUIZ

1. Which of the following is not covered under “Coverage A – Dwelling” of the Dwelling Policy?
 - a. The insured’s home.
 - b. The land on which the insured’s home is located.
 - c. Construction material for remodeling the insured’s house while it is in the driveway.
 - d. Outdoor equipment.
2. All of the following are eligible for a Dwelling Policy, EXCEPT:
 - a. Owner occupied 4 family dwelling
 - b. 1-5 family dwelling with up to 4 roomers or boarders
 - c. Dwelling under construction
 - d. Mobile home or trailer
3. Which type of coverage would be appropriate for household furniture in a DP-2 policy?
 - a. Coverage A
 - b. Coverage B
 - c. Coverage C
 - d. Coverage D
4. Which of the following would be covered under Coverage B of the dwelling policy?
 - a. A storage building on the described location
 - b. The land under the insured’s detached garage
 - c. A detached garage converted into a beauty shop on the described location
 - d. A tool shed located behind the insured’s business office in a business park
5. The following types of personal property are specifically not covered under a Dwelling Policy, EXCEPT:
 - a. Grave markers and mausoleums
 - b. Vehicles used solely to service a residence or designed to assist the handicapped
 - c. Animals, birds or fish
 - d. Watercraft, except rowboats and canoes

6. Which of the following is true regarding Coverage E under the Dwelling policy?
 - a. Pays loss of rental income to the insured due to a covered cause of loss
 - b. Pays additional living expenses up to 30% of Coverage A
 - c. Is automatically included in all dwelling policy forms
 - d. Pays additional living expenses up to two weeks when a civil authority prohibits use of the insured location when neighboring property is damaged by a peril covered under the insured's policy
7. Which of the following limits are available and apply to Coverage B – Other Structures?
 - a. 10%
 - b. 20%
 - c. 25%
 - d. 30%
8. All of the following types of property are paid on an actual cash value (ACV) basis, EXCEPT:
 - a. Personal property
 - b. Structures other than buildings
 - c. Antennas and outdoor equipment
 - d. Dwelling
9. Which of the following is covered under a DP-3?
 - a. Damage to the dwelling caused by a mudslide
 - b. Wind damage to a tree on the described premises
 - c. Burglar damage to the back door to gain entry into the dwelling
 - d. Water damage to walls caused by surface water flooding the dwelling

10. In which of the following DP forms are the dwelling and the personal property covered on a broad named peril basis?
- a. DP-1
 - b. DP-2
 - c. DP-3
 - d. DP-4
11. Which of the following is covered under a DP-2 form?
- a. Fire damage to the dwelling caused by a faulty heating element in the furnace
 - b. Water damage caused by a back-up of the sewer
 - c. Foundation damage caused by mine subsidence
 - d. Additional living expenses when the insured must find temporary housing following earthquake damage to the dwelling
12. The Broad Form Theft endorsement may provide:
- a. Only theft coverage on-premises.
 - b. Theft coverage on-premises and, if selected, may include off-premises coverage.
 - c. Unlimited theft coverage of money and securities.
 - d. Theft coverage to non-owner occupants as well as owner occupants.

Chapter 4 Answers

1b, 2b, 3c, 4a, 5b, 6d, 7a, 8d, 9c, 10b, 11a, 12b

CHAPTER 5

Homeowners ('11 PA version) Policy Concepts



Insurance Agents
& Brokers

CHAPTER 5 – HOMEOWNERS ('11 PA VERSION) CONCEPTS

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What are the eligibility requirements for the Homeowners Policy?
- Homeowners 2 – Broad Form
 - What perils are covered?
- Homeowners 3 – Special Form
 - What perils are covered?
- Homeowners 4 – Contents Broad Form
 - What perils are covered?
 - For what specific situation is this form designed?
- Homeowners 5 – Comprehensive Form
 - What perils are covered?
 - How does the HO-5 differ from the HO-3?
- Homeowners 6 – Unit-Owners Form
 - What perils are covered?
- Homeowners 8 – Modified Coverage Form
 - What perils are covered?
 - When is this form typically used?
- How are losses paid under the various coverage forms?
- Review of the “definitions” in the Homeowners policies.
 - Bodily injury
 - Business
 - Employee
 - Insured
 - Insured location
 - Motor vehicle
 - Occurrence
 - Property damage
 - Residence employee
 - Residence premises
- Identify the four coverage sections of Section I Property and know the standard % of coverage for each section under the various Homeowners forms
- Define Coverage A – Dwelling
- Define Coverage B – Other Structures and give examples
- What are two exceptions for Business Use under Coverage B – Other Structures?
- Explain Coverage C – Personal Property.
- What are the limitations for personal property off premises?
- Review Special Limits of Liability for Personal Property (chart in Chapter 5).
- Be familiar with the 11 types of personal property not covered.
- Coverage is provided for debris removal for fallen trees under additional coverages. However, the perils insured against are different depending on whose tree it is. What perils is a tree covered for if:
 - It is an insured’s tree? (Hint: SWISH)
 - It is the neighbor’s tree?
 - What are the coverage limits for fallen trees?
- What are the three coverages included in Coverage D – Loss of Use?
- Trees, Shrubs and Other Plants are also covered as an additional coverage, however, only for certain perils. What are they? (Hint: FLAVVERT)
- Review and know the Additional Coverages Summary Chart in Chapter 5.
- What is covered under Coverage E?
- Discuss Coverage F:
 - How does it differ from Coverage E and who is covered?
 - For how long?
 - What are the exclusions?
- List and explain the four Additional Coverages provided under Section II – Liability.
- Encourage review of Section II Exclusions in section 5.4.
- What types of motor vehicles are covered for liability?
- What types and sizes of watercraft are covered for liability?
- Discuss the Summary of Perils and Policy Comparison charts.

Chapter 5 –Homeowners ('11 PA Version) Policy Concepts – GOALS AND KEY TERMS

- What are the duties after a loss under the Homeowners Policy? (Hint: PINES)
- Explain how losses are settled for Coverage A, B & C under Section I – Property.
- Explain the purpose and coverage provided by:
 - Special Provisions – Pennsylvania
 - Limited Water Back-Up and Sump Discharge or Overflow Discharge
 - Limited Fungi, Wet Or Dry Rot, Or Bacteria
 - Permitted Incidental Occupancy
 - Identity Fraud Expense Coverage
 - Scheduled Personal Property
 - Scheduled Personal Property – Agreed Value
 - Home Day Care
 - Personal Property Replacement Cost – Pennsylvania
 - Business Pursuits
 - Watercraft
 - Personal Injury
- What are the nine property exclusions in Section I – Homeowners?
- What are the additional open perils excluded in the HO-3 and the HO-5?
- Recognize the exclusions under Section II – Liability (Sections E&F, E only and F only).

KEY TERMS

- Loss Assessment

CHAPTER 5 – HOMEOWNERS ('11 PA VERSION) POLICY

7% or 10-11 QUESTIONS

In this chapter, we will examine the most widely used method of insuring residential property - the homeowners policy program. The homeowners policy was the first package policy to be used within the insurance industry. By package policy, we mean it combined property and liability coverage into one policy. Over the years, the homeowners policy has evolved into a widely used policy protecting people from exposures arising out of owning and occupying residential property. It also offers protection for personal liability arising out of owning, occupying and maintaining property, as well as other personal activities on and away from the premises.

ELIGIBILITY FOR THE HOMEOWNERS POLICY

According to Insurance Services Office (ISO) eligibility requirements are:

- Owner occupied
- 1-4 family dwelling
- Incidental business occupancies
- 2 roomers/boarders per unit
- Dwelling under construction (policy must be written in the name of the intended owner-occupant)
- Trusts
- NO MOBILE HOME. However, a renter of a mobile home may buy a homeowners policy to insure tenant's contents.

COVERAGE FORMS

The following six Homeowners forms will be discussed:

HOMEOWNERS 2 – BROAD FORM (HO 00 02)

The Broad Form (HO-2) provides coverage for the dwelling and personal property on a broad named peril basis (16 perils). The perils covered will be described in detail later.

HOMEOWNERS 3 – SPECIAL FORM (HO 00 03)

The Special Form (HO-3) provides coverage to the residence and other structures on an open perils basis and coverage for personal property on a broad named perils basis (16 perils).

HOMEOWNERS 4 – CONTENTS BROAD FORM (HO 00 04) *(aka Renters or Tenants Form)*

The Contents Broad Form (HO-4) is designed for an insured who rents or leases an apartment, single family residence or mobile home. This form is frequently called the “tenant’s form.” It provides coverage on a broad named peril basis (16 perils), similar to the HO-2. The big difference is the lack of Coverage A and Coverage B under this form as the insured does not own the dwelling or other structures.

HOMEOWNERS 5 - COMPREHENSIVE FORM (HO 00 05)

The Comprehensive Form (HO-5) is the broadest Homeowners Policy available. It provides coverage for the dwelling, other structures and personal property on an open perils basis. The main difference between the HO-3 and the HO-5 is that the HO-5 adds open perils coverage to the personal property whereas the HO-3 only covers personal property on a broad named peril basis.

HOMEOWNERS 6 – UNIT-OWNERS FORM (HO 00 06) *(aka Residential Condo Form)*

The Unit-Owners Form (HO-6) is commonly referred to as the condominium form because it is used to insure individual residential condominium units on a broad named peril basis, similar to HO-2 and the HO-4. The HO-6 can be used to insure the dwelling as well as the personal property of the owner-occupant.

HOMEOWNERS 8 – MODIFIED COVERAGE FORM (HO 00 08)

The Modified Coverage Form (HO-8) is the most limited coverage form. It is also the least frequently used Homeowners form. Coverage is limited to ten (10) basic perils.

The HO-8 is most commonly used by an insurance company if the insured dwelling is older and lower in value and there is a vast difference between replacement value and market value.

Loss Settlement Provisions

Policy Form	Coverage A & B	Coverage C
HO-2	RC	ACV
HO-3	RC	ACV
HO-4	N/A	ACV
HO-5	RC	ACV
HO-6	RC	ACV
HO-8	FRC	ACV

ACV – Actual Cash Value

RC – Replacement Cost – Coverage is written on a replacement cost basis as long as the dwelling is insured to at least 80% of the dwelling's replacement cost immediately before the loss. This is known as an "insurance to value" requirement.

FRC – Functional Replacement Cost – As long as you repair or replace within 180 days, functional replacement cost will be paid or the limit of insurance (whichever is less). If the Dwelling is not replaced or repaired within 180 days then the company pays the lesser of the limit of insurance, market value or the cost to repair at functional replacement cost.

DEFINITIONS

A word found in the Homeowners Policy with "quotation marks" around it indicates the word is defined in the Definitions Section. These definitions clarify the meanings of the words as they pertain to the Homeowners Policy.

"You" and **"Your"** refer to the "named insured" shown in the Declarations and the spouse if a resident of the same household.

"We", "us" and "our" refer to the Company providing this insurance.

"Aircraft Liability", "Hovercraft Liability", "Motor Vehicle Liability" and "Watercraft Liability" includes "bodily injury" or "property damage" arising out of the ownership, maintenance, use, loading or unloading, entrustment, negligent supervision or vicarious liability resulting from any described craft. Vicarious liability is the concept of liability imposed on the parents for the actions of a child using one of these craft.

This definition also defines the craft. "Aircraft" is any contrivance designed or used for flight, except models. "Hovercraft" means a self-propelled motorized ground effect vehicle. "Watercraft" means a craft principally designed to be propelled on or in water by wind, engine power or electric motor. Coverage for these types of vehicles is limited.

“Bodily Injury” means bodily harm, sickness or disease, including required care, loss of services and death that results.

“Business” means: (a.) A trade, profession or occupation engaged in on a full-time, part-time or occasional basis; or (b.) Any other activity engaged in for money or other compensation, except the following:

- (1) One or more activities, not described in (2) through (4) below, for which no insured receives more than \$2,000 in total compensation for the 12 months before the beginning of the policy period;
- (2) Volunteer activities for which no money is received other than payment for expenses incurred to perform the activity;
- (3) Providing home day care services for which no compensation is received, other than the mutual exchange of such services; or
- (4) The rendering of home day care services to a relative of an “insured.”

This definition is important because the purpose of the Homeowners Policy is to protect property used in the insured’s normal living activities. It is not designed to protect most “business” property or activities. There are limitations and exclusions throughout the homeowners policy with regard to “business.”

“Employee” means an employee of an “insured”, or an employee leased to an “insured” whose duties are other than those performed by a “residence employee.”

“Insured” means you (named insured and spouse of resident of the household) and other residents of the household who are:

1. “Your” relatives (resident relatives could include children, or mother or father of the “insured,”).
2. Other persons under the age of 21, and in the care of “you” and “your relatives.” An example of other persons under the age of 21 would be a child in foster care or a foreign exchange student.
3. A student enrolled in school full time, as defined by the school, who was a resident of your household before moving out to attend school, provided the student is under the age of:
 - (1) 24 and your relative; or
 - (2) 21 and in your care or the care of an insured.

Under Section II (Personal Liability), “insured” also means:

4. Animals or watercraft to which this policy applies, any person or organization legally responsible for the animals or owned watercraft, or any other persons described in 1 or 2 above. However, this does not include a person or organization using or having custody of these properties in the course of “business,” or without consent of the insured.

If a neighbor volunteers to walk the “insured’s” dog, and while the neighbor is walking the dog, the dog jumps on a small child, the neighbor is considered an insured under the insured’s homeowners policy. Using the same example, but the person walking the dog is an employee of a kennel where the named insured left the dog, there is no coverage.

If an insured’s watercraft is stolen, and the thief injures someone while operating the stolen boat, there is no coverage since the thief did not have consent of the insured.

5. Regarding covered vehicles (which is very limited), an employee and others using a covered vehicle at an “insured location” are insureds.

If a gardener of the insured was operating a lawn tractor, and ran into a neighbor child playing in the yard, he would be considered an insured.

“Insured location” means:

1. The “residence premises” (the described residence on the Declarations Page).
2. The part of any residence, other structures and grounds used by you as a residence and:
 - Which is shown in the Declarations (as a secondary residence), or
 - Which is acquired by you in the policy period.
3. Any premises used by you in connection with premises in 1 or 2 above (rental storage unit).
4. Any part of a premise which is not owned by an “insured” and where an “insured” is temporarily residing (this includes a hotel or motel room for personal use).
5. Vacant land, other than farm land, owned or rented to an “insured.”
6. Land owned by or rented to an “insured” on which a one, two, three or four family dwelling is being built as a residence for an “insured.”
7. Individual or family cemetery plots or burial vaults of an “insured.”
8. Any part of a premises occasionally rented to an “insured” for other than “business” use. For example, this could be the dining room at the local country club rented for a wedding reception, or party room at an apartment complex.

“Motor vehicle” means:

- a. A self-propelled land or amphibious vehicle; or
- b. Any trailer or semitrailer which is being carried on, towed by or hitched for towing by a vehicle described in a. above.

“Occurrence” means an accident, including continuous or repeated exposure to substantially the same general harmful conditions, which results during the policy period in bodily injury or property damage.

“Property Damage” means physical injury to, destruction of, or loss of use of tangible property.

“Residence employee” means an employee of an “insured” whose duties are related to the maintenance or use of the “residence premises,” including household or domestic service, or a person who performs similar duties elsewhere not related to the “business” of an “insured.”

“Residence premises” means:

- a. The one family dwelling where you reside;
- b. The two, three or four family dwelling where you reside in at least one of the family units; or
- c. That part of any other building where you reside; and which is shown as the “residence premises” in the Declarations.

“Residence premises” also includes other structures and grounds at that location.

SECTION I – PROPERTY COVERAGES

Commonly, when you review the property coverages contained within a Homeowners Policy, you will find the following four coverages.

Coverage A—Dwelling

Coverage B—Other Structures

Coverage C—Personal Property

Coverage D—Loss of Use

The following chart summarizes the standard dollar limits for these coverage parts in the Homeowners Policy. Please note, Coverages B, C and D are each additional amounts of insurance and would be paid in addition to the amount available under Coverage A.

	HO-2	HO-3	HO-4	HO-5	HO-6	HO-8
Cov A <i>Dwelling</i>	Selected by insured	Selected by insured	N/A	Selected by insured	\$5,000 automatic and the insured can purchase additional	Selected by insured
Cov B* <i>Other Structures</i>	10% of Cov A	10% of Cov A	N/A	10% of Cov A	N/A	10% of Cov A
Cov C** <i>Personal Property</i>	50% of Cov A	50% of Cov A	Selected by insured	50% of Cov A	Selected by insured	50% of Cov A
Cov D <i>Loss of Use</i>	30% of Cov A	30% of Cov A	30% of Cov C	30% of Cov A	50% of Cov C	10% of Cov A

* Reduced to 5% on a 3 or 4 family dwelling on the HO-2, 3, 5 & 8.

** Reduced to 30% of coverage on a 3 family dwelling and 25% on a 4 family dwelling on the HO-2, 3, 5 & 8.

You can see from the preceding chart that Coverages A, B and C have the same names as the coverages found in the Dwelling Policy Forms. Only Coverage D - Loss of Use has another name. In the Dwelling Form, we had two separate coverages for loss of use, Coverage D - Fair Rental Value and Coverage E - Additional Living Expense. The two coverages are combined in the Homeowners Policies.

COVERAGE A – DWELLING (DIRECT LOSS COVERAGE)

Coverage A – Dwelling covers:

- The dwelling on the residence premises shown on the Declarations Page
- Structures attached to the building, and
- Materials and supplies located on or next to the “residence premises.”
- NO COVERAGE FOR LAND

Homeowners Form HO-4 (Contents Broad Form) has no Coverage A - Dwelling. The tenant will receive some protection (up to 10% of the Coverage C limit) for improvements or installations made by the tenant at his/her own expense. This is an additional coverage in the HO-4 policy form.

The HO-6 Unit Owners form specifies coverage under Coverage A - Dwelling for the following:

1. Alterations, appliances, fixtures and improvements, which are part of the building contained within the “residence premises.”
2. Items of real property which pertain exclusively to the “residence premises.”
3. Property which is your insurance responsibility under a corporation or property owners’ association agreement.

COVERAGE B – OTHER STRUCTURES (DIRECT LOSS COVERAGE)

Coverage B - Other Structures provides coverage for anything constructed on the residence premises and separated from the dwelling by clear space. These structures may include buildings such as detached garages and sheds. The coverage also applies to non-building structures such as fences and swimming pools. However, **business use is usually excluded EXCEPT:**

1. If the structure is rented as a private garage. For example, if an insured rents her garage to a friend so that the friend can store furniture, there is no coverage for the garage. It would be acceptable if she rents to a friend who wants to use the garage to park her cars.
2. If the structure is used to store business property of the insured or tenant of the dwelling; however, the business property cannot include gaseous or liquid fuels. To illustrate; an insured landscaper may store his tools and equipment in his shed, but if he stores cans of gasoline, then there would be no coverage for the shed.

In a one or two family dwelling, the additional amount of insurance available for Coverage B is 10% of the Coverage A amount and this is a blanket limit.

There is no Coverage B in the HO-6. However, other structures can be covered under Coverage A. If the owner of a condominium builds a gazebo in the backyard, the value of this structure would be included in Coverage A.

COVERAGE C – PERSONAL PROPERTY (DIRECT LOSS COVERAGE)

Covered Property

Coverage C - Personal Property covers:

- Personal property owned or used by an insured anywhere in the world.
- After a loss, at your request, we will cover personal property:
 - Owned by others while that property is on the part of the residence premises occupied by an insured. This precise wording eliminates coverage for roomers or boarders.
 - Of a guest or residence employee, while the property is located in any residence occupied by an insured. This would extend coverage to a maid or nanny who traveled with the “insured” on vacation.

Limit for Property at Other Locations

The Homeowners Policy grants world-wide coverage up to 100% of the insured's Personal Property limits. However, in those cases where personal property may be usually located at an "insured's" residence, other than the "residence premises," or at a self-storage facility, only 10% of Coverage C or \$1,000, whichever is greater, applies. The 10% does not apply to the following situations:

1. If personal property is moved from the "residence premises" because it is being repaired or renovated and is not fit to live in.
2. If the insured moves to a new home, they have coverage at both locations on a pro-rata basis for 30 days.

The Wise Family insures their residence under a HO-3 for \$100,000 under Coverage A and \$50,000 under Coverage C. They own a cabin at Lake Muddy. The cabin is not insured under a Homeowners Policy. A fire occurs at the cabin causing not only damage to the cabin, but also to the personal property contained within the cabin. Since this personal property is usually located at the cabin which is an "insured's" residence, it would be covered up to 10% of the Coverage C limit, or in this example, \$5,000.

Coverage C is automatically included at 50% of the Coverage A limit on all Homeowners forms except the HO-4 and HO-6.

Special Limits of Liability for Personal Property

	Special Limit	Special Limit Description
1.	\$200	Money, bank notes, bullion, gold (not goldware), silver (not silverware), platinum (not platinumware), coins, medals, scrip, stored value or smart cards
2.	\$1,500	Securities, accounts, deeds, evidences of debt, letters of credit, notes (not bank notes), manuscripts, personal records, passports, tickets and stamps
3.	\$1,500	Watercraft including trailers, furnishings, equipment and motors
4.	\$1,500	Trailers or semi-trailers not used with watercraft
5.	\$1,500 *	Loss by theft of jewelry, watches, furs, precious and semi-precious stones
6.	\$2,500 *	Loss by theft of firearms and related equipment
7.	\$2,500 *	Loss by theft of silverware, silver-plated ware, goldware, gold-plated ware, platinumware, platinum-plated ware and pewterware (this includes trophies made of these metals)
8.	\$2,500	Business property on the residence premises
9.	\$1,500	Business property off premises does not apply to antennas, tapes, wires, records, disks or other media used with electronic equipment that reproduces, receives or transmits audio, visual or data signals; or is in or upon a “motor vehicle”.
10.	\$1,500	Portable electronic equipment that reproduces receives or transmits audio, visual or data signals; is designed to be operated by more than one power source, one of which is a “motor vehicle’s” electrical system; and is in or upon a “motor vehicle”.
11.	\$250	Antennas, tapes, wires, records, disks or other media used with electronic equipment that reproduces, receives or transmits audio, visual or data signals; and is in or upon a “motor vehicle”.

Special limits 5, 6 and 7 do not apply to the **HO-8** form because that homeowners policy limits theft coverage to \$1,000 on premises with no coverage away from premises.

* Under the HO-5 the limitations above apply also to losing and misplacing under Special Limits 5, 6 and 7.

Personal Property Not Covered

Certain types of personal property are not covered. These include, but are not limited to the following:

1. Articles separately described and specifically insured, regardless of the limit for which they are insured, in this or other insurance.
2. Animals, birds or fish.
3. “Motor vehicles” including their accessories (antennas, tapes, wires, etc.) or electronic apparatus designed to be operated solely by the vehicle’s electrical system.

However, the policy does cover the following types of “motor vehicles” not required to be registered for use on public roads or property:

- a. Used solely to service a residence (riding lawn mower); or
 - b. Designed to assist the handicapped (motorized wheelchair).
4. Aircraft meaning any contrivance used or designed for flight including any parts. However, **model** aircraft not used or designed to carry people or cargo is covered.
5. Hovercraft and parts. Hovercraft means a self-propelled motorized ground effect vehicle including flare-craft and air cushion vehicles.
6. Property of roomers, boarders and other tenants not related to an “insured.”
7. Property in an apartment regularly rented or held for rental to others by an “insured,” except as provided in additional coverage Landlord’s Furnishings.
8. Property rented or held for rental to others off the “residence premises.”
9. “Business” data, except the cost of blank recording or storage media, and of prerecorded computer programs available on the retail market are covered.
10. Credit cards, electronic fund transfer cards or access devices used solely for deposit, withdrawal or transfer of funds except as provided in the additional coverage Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery And Counterfeit Money.
11. The value or cost of water or steam.

COVERAGE D – LOSS OF USE (INDIRECT LOSS COVERAGE)

If a covered loss makes a portion or all of the “residence premises” unfit to live in, there are two loss of use coverages the “insured” may use. The periods of time paid under loss of use are not limited by the expiration of the policy.

1. **Additional Living Expense** is any necessary increase in living expenses incurred by the “insured” to maintain the insured’s normal standard of living. This expense is paid for the shortest time required to repair or replace the damage. If the damage is severe enough to require the “insured” to be permanently relocated, the expense is paid for the shortest time required to settle somewhere else. For example, the expense of living at a hotel until a residence is repaired.
2. **Fair Rental Value** is equal to the dollar amount of rent to be received for that part of a residence that was rented or held for rental at the time of a loss less any expenses which do not continue. As with the Additional Living Expense described above, this expense will be paid for the shortest time required to repair or replace the damage.

The “insured” rents a portion of his house to a tenant. Later, a fire makes that portion of the house unlivable, but the area where the “insured” lives may still be occupied. The “insured” may claim the loss of the Fair Rental Value of the rented portion.

3. **Civil Authority Prohibits Use** of the “residence premises” as a result of direct damage to neighboring premises by a Peril Insured Against, Additional Living Expense and /or Fair Rental Value will be paid for no more than two weeks.

ADDITIONAL COVERAGES

The following are extensions of coverage **automatically** included in Section I of the policy.

1. **Debris Removal**

This additional coverage pays reasonable expenses for removal of debris of insured property by a covered peril or ash from volcanic eruption that causes direct damage. This coverage is included within the Homeowners Policy limits. If the amount to be paid for the actual damage to the property plus the debris removal expense is more than the limit of liability for the damaged property, an additional 5% of that limit of liability is available for debris removal expense.

Fallen Trees

The policy will pay up to \$1,000 for removal of fallen trees but no more than \$500 for any one tree for the following:

- The tree damages a covered structure, blocks a driveway or prohibits access to a handicap ramp;

Whose Tree?	Covered Perils
Insured's Tree	<u>S</u> now <u>W</u> ind <u>I</u> ce <u>S</u> leet <u>H</u> ail
Neighbor's Tree	Coverage C Perils

or

- In Pennsylvania, tree removal applies if windstorm, hail or weight of ice, snow or sleet causes damage to a structure covered under this policy and the Pennsylvania Governor declares the area in which the "residence premises" is located to be a disaster area as a result of such weather conditions.

2. Reasonable Repairs

An "insured" who takes steps to protect his property from further damage will be reimbursed for expenses for reasonable repairs. An example would be buying a tarp to cover a hole in the roof or hiring a contractor to board up a damaged wall after a covered loss. Payment under this coverage reduces the limit that applies to the covered property.

3. **Trees, Shrubs and Other Plants** (Including Lawns)

This type of property is covered for the following named perils:

Fire;

Lightning;

Aircraft;

Vehicles not owned or operated by a resident of the “residence premises”;

Vandalism or malicious mischief;

Explosion;

Riot or civil commotion; AND

Theft.

Note: Snow, wind, ice, sleet and hail are not covered.

The limit for a loss is 5% of Coverage A - Dwelling not to exceed \$500 for any one tree, shrub or plant (except for HO-6, which limits the payment to 10% of Coverage C - Personal Property). This coverage is additional insurance.

4. **Fire Department Service Charge**

This coverage will pay up to \$500 for liability assumed by a contract or agreement with a fire department. The contract with a fire department is typically to save or protect covered property arising from covered perils that is located outside the jurisdictional limits of the responding fire department. This coverage is treated as additional insurance and not subject to a deductible.

5. **Property Removed**

At times it becomes necessary to remove personal property from the premises to protect it from damage when a covered loss may occur to the “residence premises.” This provision extends “**all-risk**” coverage to the removed property from premises endangered by a covered peril. This coverage extends for 30 days.

6. **Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery And Counterfeit Money**

This covers for electronic fund transfer card, forgery or alteration or acceptance of counterfeit money. This coverage will pay up to \$500 for the following:

- The insured's legal obligation due to theft or unauthorized use of credit cards in an insured's name;
- Loss resulting from theft of an Electronic Funds Transfer card or access to an ATM in an insured's name;
- Loss to an insured caused by forgery or alteration of any check or negotiable instrument;
- Loss to an insured through acceptance of counterfeit U.S. or Canadian currency.

This coverage is additional insurance and is not subject to the deductible.

7. **Loss Assessment**

Loss Assessment coverage protects condominium owners and those who are required to belong to a homeowners association. The coverage pays up to \$1,000 for the named "insured's" share of an assessment by the association resulting from a direct loss to commonly owned property caused by a Coverage A covered peril.

8. **Collapse**

This additional coverage provides payment for collapse which is the caving in or giving way of a building or structure as a result of one or more named perils. The loss must result from one the following perils:

- Perils insured against in Coverage C,
- Hidden decay,
- Hidden insect or vermin damage,
- Weight of contents, equipment, animals or people,
- Weight of rain which collects on a roof, or
- Use of defective material or methods in construction, remodeling or renovation if a collapse occurs during such activity.

Loss to certain residential property, such as awnings, fences, swimming pools, etc., are only covered for collapse as a result of building collapse. Policy limits are not changed by this coverage.

9. **Glass or Safety Glazing Material**

As long as the dwelling has not been vacant for 60 consecutive days prior to the loss, this coverage will pay for the breakage of glass that is a part of the building, storm doors, or storm windows. The coverage also pays for damage to covered property by breakage of glass or safety glazing material. The coverage is within the limits. In Pennsylvania, glass breakage that is caused directly by earth movement is covered as well. There is no dollar limit for this coverage except in form HO-8 which will pay up to \$100 for glass breakage.

10. **Landlord's Furnishings** (This Additional Coverage is not found in HO-4, HO-6 and HO-8.)

Landlord's Furnishings coverage extends Coverage C - Personal Property of an insured in an apartment on the "residence premises" regularly rented or held for rental that is damaged by a covered peril other than theft. This additional coverage will pay up to \$2500 per apartment.

11. **Ordinance or Law** (Not available under the HO-8)

The **Ordinance or Law** coverage pays for increased cost due to the enforcement of any ordinance or law regulating the remodeling, construction, repair or demolition of a building or other structure.

The increased cost must arise from a loss caused by a covered peril. The amount of coverage is 10% of Coverage A - Dwelling (although higher limits may be provided by endorsement). The coverage is additional insurance.

12. **Grave Markers**

Up to \$5,000 will be paid for grave markers, including mausoleums, on or away from the "residence premises" for loss caused by a Peril Insured Against under Coverage C. This coverage does not increase coverage limits.

13. **Building Additions And Alterations (Applies ONLY to HO-4)**

Under Coverage C we cover the building improvements made or acquired at the insured's expense, to that part of the "residence premises" used exclusively by you. The limit for this coverage shall be no more than 10% of the limit of Coverage C. This is additional insurance.

ADDITIONAL COVERAGE SUMMARY CHART

Additional Coverage	Limit	Included or Additional Insurance	Subject to Deductible?
Debris Removal	Included	Included	Yes
	Plus 5% of Limit	Additional	Yes
	Trees - \$500 per tree (max \$1,000)	Additional	Yes
Reasonable Repairs	Included	Included	Yes
Trees, shrubs and plants	\$500 per tree, shrub or plant (max 5% of Cov A)	Additional	Yes
Fire Department Service Charge	\$500	Additional	No
Property Removed	Included	Included	Yes
Credit card, forgery and counterfeit money	\$500	Additional	No
Loss Assessment	\$1,000	Additional	Yes
Glass or Safety Glazing Material	Included	Included	Yes
Landlord's Furnishings	\$2,500 per unit	Included	Yes
Ordinance or Law	10% of Cov A	Additional	Yes
Grave Markers	\$5,000	Included	Yes
HO-4 ONLY			
Building Additions and Alternations	10% of Cov C	Additional	Yes

PERILS INSURED AGAINST

Homeowners Policies describe the perils that are covered by using one of two approaches discussed in earlier chapters. The first is the named peril approach where each and every covered peril is individually listed. The second approach is only to list the excluded perils. Any peril not excluded is covered (open perils).

POLICY FORMS SUMMARY OF PERILS

Policy Form	Coverage A	Coverage B	Coverage C
HO-2	Broad Named Perils (16)	Broad Named Perils (16)	Broad Named Perils (16)
HO-3	Open Perils *	Open Perils *	Broad Named Perils (16)
HO-4	N/A	N/A	Broad Named Perils (16)
HO-5	Open Perils *	Open Perils *	Open Perils *
HO-6	Broad Named Perils (16)	N/A	Broad Named Perils (16)
HO-8	Limited Named Perils (10)	Limited Named Perils (10)	Limited Named Perils (10)

* Open Perils – Risk of Direct Physical Loss

HOMEOWNERS POLICY COMPARISON CHART

COVERAGES A & B

Perils Insured Against	HO-2	HO-3	HO-4	HO-5	HO-6	HO-8	
Fire or Lightning	Yes		Not Applicable	Yes			
Windstorm or Hail							
Explosion							
Riot or Civil Commotion							
Aircraft							
Vehicles							
Smoke (sudden & accidental)							
Vandalism or Malicious Mischief							
Theft				Yes			Lmtd
Volcanic Eruption							
Falling Objects							No
Weight of Ice, Sleet or Snow							No
Accidental Discharge or Overflow of Water or Steam							No
Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging							No
Freezing							No
Sudden and Accidental Damage from Artificially Generated Electrical Current							No
Risks of Direct Loss Except:	No			No	No		
Theft to dwelling under construction	No	No		No	No	No	
V&MM if Vacant more than 60 days	No	No		No	No	No	
Wear and Tear, Inherent Vice, Mechanical Breakdown, Rust, Rot, Ag or Industrial Smoke, Pollution, Settling, Birds, Rodents, Insets, Animals, Etc.	No	No		No	No	No	

* Coverage B does not apply to the HO-6

Lmtd - Limited

Coverage A - Dwelling, and Coverage B - Other Structures

Review the perils shown in the preceding comparison chart - Homeowner Policy Coverage A (Dwelling) and Coverage B (Other Structures). Be aware that this chart only identifies the perils and does not attempt to describe any of the limitations or restrictions. It is necessary to examine the policy forms to determine any limitations.

Next, we will discuss some of the restrictions which relate to specific perils. We will also review in what specific policies the restrictions may appear. Please remember that in the Homeowners 3 and 5, the perils are not specifically listed, rather these are open peril policies. For comparison purposes, we have included them in the chart.

The following perils need some additional explanation to give you a clearer understanding of the coverage they provide.

1. Freezing of Plumbing, Heating, Air-conditioning or Fire Protective Sprinkler System (applies to all policies except HO-8), except if the insured does not take reasonable care to maintain heat, or shut off the water supply and drain the system and or appliances.
2. Freezing, Thawing, Pressure or Weight of Water or Ice, whether wind driven or not (Applicable to HO-3 and HO-5) and does not apply to a fence, pavement, patio, swimming pool, pier, wharf or dock. Additionally, it does not apply to a footing, foundation, bulkhead, or wall that supports a building or a bulkhead or wall that does not support a building.
3. Theft does not apply to the following losses:
 - a. Committed by an “insured”;
 - b. In or to a dwelling under construction, or construction materials and supplies, until the dwelling is completed and occupied;
 - c. From that part of a “residence premises” rented by the “insured” to someone other than an “insured”.

The HO-8 has a further restriction described in the perils section of the policy. The HO-8 will not pay more than \$1,000 for any theft loss.

4. Weight of Ice, Sleet or Snow (Applicable to HO-2 and HO-6 only) and does not include loss to an awning, fence, pool, pavement, foundations, patio, piers, wharfs or docks.
5. Accidental Discharge or Overflow of Water or Steam

This peril covers damage done by the escaping water but has specific language that limits coverage for mold, fungus or wet rot unless the mold is hidden within the walls, ceilings or beneath the floors or above the ceilings of a structure. There is also no coverage for:

- On the “residence premises” if the dwelling has been vacant for more than 60 consecutive days.
- a system or the appliance from which the water or steam escaped.

HOMEOWNERS POLICY COMPARISON CHART

COVERAGE C

Perils Insured Against	HO-2	HO-3	HO-4	HO-5	HO-6	HO-8
Fire or Lightning	YES					
Windstorm or Hail						
Explosion						
Riot or Civil Commotion						
Aircraft						
Vehicles						
Smoke (sudden & accidental)						
Vandalism or Malicious Mischief						
Theft						Lmtd
Volcanic Eruption						
Falling Objects						No
Weight of Ice, Sleet or Snow						No
Accidental Discharge or Overflow of Water or Steam						No
Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging						No
Freezing						No
Sudden and Accidental Damage from Artificially Generated Electrical Current						No
Risks of Direct Loss Except:	No	No	No		No	No
Theft to dwelling under construction	No	No	No	No	No	No
V&MM if Vacant more than 60 days	No	No	No	No	No	No
Wear and Tear, Inherent Vice, Mechanical Breakdown, Rust, Rot, Ag or Industrial Smoke, Pollution, Settling, Birds, Rodents, Insects, Animals, Etc.	No	No	No	No	No	No

Coverage C - Personal Property

All Homeowners policies, with the exception of the HO-5, will pay for covered personal property for losses arising from the perils shown in the specific Homeowners Policy Form. The HO-5, as you recall, is on an open peril basis.

Now, let's look at some more detailed explanation of the coverages provided by the following perils under the Homeowners Policies:

1. **Windstorm or Hail**

- a. There is no coverage for loss to the inside of a building or the property contained in a building caused by rain, snow, sleet, sand or dust unless wind or hail damages the exterior of the building first. Examples would be the wind blowing out a window, or hail breaking a sky light.
- b. Watercraft and trailers are only covered for wind or hail while in a fully enclosed building.

2. **Theft Coverage** (Homeowners Policies Other Than HO-8)

This coverage peril does not apply to following losses:

- a. when committed by an insured.
- b. Theft while at any other residence owned by, rented to, or occupied by an "insured," except when the "insured" is temporarily there.

An insured goes to his lake house where he plans to spend the weekend. While he goes to the grocery store, someone steals his suitcase and portable CD player. Since the insured is temporarily residing there, the suitcase and CD player would be covered.

- c. The property of a student who is an "insured" has theft coverage while away from home (such as in a dorm room) unless he or she has NOT been there within 90 days of the loss.
- d. Watercraft and their accessories and furnishings - while off the residence premises.
- e. Trailers and camper trailers - while off the residence premises.

3. **Falling Objects**

There is no coverage for property contained within a building, unless the roof or the outside of the building is damaged first by a falling object. Damage to the falling object itself is not covered.

When a door in a residence slams shut, the vibration causes a flat screen TV to fall from the wall and crash to the floor. There would be no coverage for the flat-screen TV.

4. **Accidental Discharge or Overflow of Water or Steam** from Within Plumbing, Heating, Air Conditioning, Fire Protective Sprinkler, or from Within an Appliance. This peril does not include loss:

- a. To the system or appliance from which the water or steam escaped.
- b. On the “residence premises” caused by accidental discharge or overflow which occurs off the “residence premises.”
- c. Caused by mold, fungus or wet rot unless hidden within the walls or ceilings or beneath the floors or above the ceilings of a structure.

For this peril, a sump pump is not considered part of the plumbing system or household appliance, therefore, sump pump overflow is not covered.

EXCLUSIONS

The following property exclusions eliminate coverage for loss caused directly or indirectly by the listed causes. These exclusions apply to all Section 1 coverage. They are essentially the same as discussed in the Dwelling policy with one exception. The Homeowners Policy has added an exclusion for Governmental Action that will be discussed here.

The following exclusions are exactly the same as in the Dwelling Policy and will be repeated in the Commercial Property forms as well:

- **Ordinance or Law** (except for the 10% give back in Additional Coverages)
- **Earth Movement**
- **Water Damage**
- **Power Failure – off premises**
- **Neglect**
- **War**
- **Nuclear Hazard**
- **Intentional Loss**
- **Governmental Action except when attempting to stop the spread of fire.**

The **Concurrent Causation** exclusions are applicable only to forms HO-3 and HO-5. Concurrent Causation is the concept of two causes of loss happening at the same time or in close sequence.

- **Weather Conditions**

An example would be excess snowfall causing a landslide. The landslide is excluded under earth movement.

- **Acts or Decisions by any person, group, organization or governmental body**

This exclusion includes the failure to act or make a decision. An example would be that the City failed to build a flood wall. The resulting flood would still be excluded under the Water Damage exclusion.

- **Faulty, inadequate or defective** planning, zoning, development, or surveying; design, construction, repairing, renovation; materials used in construction, repairing or renovation.

The power company installed the wrong piece in the grid, causing the entire power plant to shut down. Damage caused by the off premises power failure is still excluded.

Both the HO-3 and the HO-5 make broad promises to cover dwellings and other structures on an open perils basis. The HO-5 insures all personal property for these same broad perils. Therefore, the following are exclusions found in the HO-3 and HO-5 when the perils insured against are Risk of Direct Physical Loss.

Forms HO-3 and HO-5 do not insure for loss caused by:

1. Collapse, other than the give back in the Additional Coverage - Collapse.
2. Freezing of a plumbing, heating, air conditioning, automatic fire protective system or a household appliance or system unless heat has been maintained or the system has been drained.
3. Freezing, thawing, weight of water or ice which damages a fence, patio, swimming pool, footing, foundation, bulkhead, retaining wall, pier, wharf or dock.
4. Theft in or to a dwelling under construction or of building materials and supplies used to construct that dwelling.
5. Mold, fungus and wet rot unless hidden within the walls and caused by discharge of water from a household system or appliance.
6. Vandalism and Malicious Mischief if the dwelling has been vacant for more than 60 consecutive days immediately before the loss.
7. Wear and tear, marring, deterioration, mechanical breakdown, latent defect, inherent vice or any quality in property that causes it to destroy itself, smog, rust, corrosion or dry rot.
8. Smoke from agricultural smudging or industrial operations.

9. Pollution unless the release of the pollutant is caused by one of the 16 broad named perils. Pollution means the damage done by the discharge, dispersal, seepage, release or escape of any solid, liquid, gaseous or thermal irritant or contaminant. For example, damage by spilled heating oil would not be covered unless a fire had caused the heating oil tank to split open.
10. Settling, cracking, bulging or expansion of pavements, patios, foundations, footings, bulkheads, roofs, floors, ceilings and walls.
11. Birds, rodents or insects.
12. Nesting or infestation, or discharge or release of waste products or secretions, by any animals.
13. Animals owned or kept by the insured.

Some additional exclusions and limitations apply to Coverage C - Personal Property under form HO-5 since this form insures personal property on an open perils basis.

Under Coverage C, the HO-5 does not insure for loss caused by:

1. Breakage of eyeglasses, glassware, statuary, marble, bric-a-brac, porcelains or similar fragile articles. However, there is breakage for jewelry, watches, bronzes, cameras and photographic lenses. There is also coverage for damage as a result of breakage done by one of the 16 broad named perils.
2. Dampness or extremes of temperature unless caused by rain, sleet, snow or hail.
3. Refinishing, repairing or renovating property.
4. Collision, other than collision with a vehicle or sinking, swamping of a watercraft.

CONDITIONS

SECTION I CONDITIONS

Insurable and Limit of Liability

We will not be liable in any one loss:

1. To an insured for more than the amount of the insured's interest **at the time of loss**; or
2. More than the applicable limit of liability.

Deductible

1. The deductible applies per loss.
2. If two or more deductibles apply, only the highest deductible will apply.

Duties After Loss

The Duties After Loss conditions in the Homeowners Policy forms are similar to those in the Dwelling Policy. The insured must perform these duties or the insurance company may have grounds to deny coverage under the policy.

Protect property from further damage and make reasonable and necessary repairs.

Inventory the damaged personal property and keep accurate records and cooperate with the company in the investigation.

Notify

- the company or agent promptly of loss.
- the police in the event of a theft.
- the credit card or electronic fund transfer card or access device company in case of loss.

Exhibit the damaged property and provide the insurance company with documentation.

Submit a signed, sworn proof of loss within 60 days after insurance company's request.

Loss Settlement Provision

1. The Homeowners Policy pays ACV for the following types of property:
 - Personal property;
 - Awnings, carpeting, household appliances, outdoor antennas and outdoor equipment, whether or not attached to buildings;
 - Structures that are not buildings; and
 - Grave markers, including mausoleums.
2. Buildings covered under Coverages A & B are paid at full replacement cost if, at the time of loss, the building is insured to at least 80% of the full replacement cost, but not more than the least of:
 - Limit of insurance on the building,
 - The replacement cost of the damaged portion of the building, OR
 - The amount actually spent to repair or replace.

If the building is rebuilt at a new premises we will only pay the amount we would have paid at the original location.

The insured has a ten-year-old dwelling with a replacement cost of \$100,000. The amount of insurance under Coverage A is \$80,000. Your “insured” sustains a loss from a covered peril to the roof of the residence that costs \$10,000 to repair. The insured would get \$10,000.

If the amount of insurance on the damaged building is less than 80% of the full replacement value of the building at the time of the loss, the policy will pay **the greater of** the following amounts:

- a. ACV of the building or part damaged; OR
- b. That proportion which the amount of the insurance carried bears to the amount required (80% of the full replacement cost) X Loss.

$$\frac{\text{Amount of insurance carried}}{\text{Amount of insurance required}} \times \text{Loss} = \text{Payment}$$

The insured has a ten-year old dwelling with a replacement cost of \$100,000. The Coverage A amount is \$60,000 and has a loss of \$10,000.

Replacement cost of the dwelling:	\$100,000
Insurance Carried:	\$ 60,000
Loss to Dwelling:	\$ 10,000

$$\frac{\$60,000}{\$80,000} \times \$10,000 = \$7,500$$

- a. ACV – assuming \$4,000 in depreciation, your “insured” would be paid the actual cash value of \$6,000 (\$10,000 - \$4,000).
- b. \$7,500 which is the proportionate cost to repair the damage.

You can see the Replacement Cost provision encourages an “insured” to carry an amount of insurance closer to actual replacement cost. In the case where an “insured” is carrying an amount of insurance less than the required 80% of the replacement cost, the claims adjuster should also calculate both options to determine which option would give the “insured” a larger payment. Going back to our example above, the “insured” would want to receive the payment on the adjusted or penalized replacement cost basis of \$7,500 instead of \$6,000 on an actual cash value basis.

However, if there is a service agreement, the Homeowners Policy is excess over any amounts payable under any such agreement. Service agreement means a service plan, property restoration plan, home warranty or other similar service warranty agreement, even if it is characterized as insurance.

The insurance company must give the “insured” written notice as to how it is going to settle the claim within 15 working days from the day the company

receives the “insured’s” sworn proof of loss. It is the company’s option to repair or replace any part of the damaged property with like property.

Loss to a Pair or Set (previously defined in Chapter 4)

Appraisal (previously defined in Chapter 4)

Other Insurance and Service Agreement

If a loss is also covered by other insurance, the Homeowners Policy will pay only the proportion of the loss that the limit of liability that applies under this policy bears to the total amount of insurance covering the loss.

However, if there is a service agreement, the Homeowners policy is excess over any amounts payable under any such agreement. Service agreement means a service plan, property restoration plan, home warranty or other similar service warranty agreement, even if it is characterized as insurance.

Suit Against Us

No action can be brought against the insurance company unless there has been full compliance with all the terms under Section I of the policy and the action is started within 2 years from the date of loss.

Our Option (previously defined in Chapter 4)

Loss Payment (previously defined in Chapter 4)

Abandonment of Property

The insurance company does not have to accept any property abandoned by an insured.

Mortgage Clause (previously defined in Chapter 4)

No Benefit to Bailee (previously defined in Chapter 4)

Nuclear Hazard Clause (previously defined in Chapter 4)

Recovered Property (previously defined in Chapter 4)

Volcanic Eruption

One or more volcanic eruptions that occur within a 72-hour period will be considered as one volcanic eruption.

Policy Period

Concealment or Fraud

There is no coverage for any “insured” if an “insured” has intentionally concealed or misrepresented any fact or made false statements whether before or after a loss.

Loss Payable Clause (previously defined in Chapter 4)

SECTION II CONDITIONS

Limits of Liability

The insurer's total liability under Coverage E - Personal Liability resulting from one occurrence will not exceed the limit found on the Declarations Page. This limit does not change no matter how many insureds may be involved, the number of people injured, nor the claims made.

Severability of Insurance

This insurance applies separately to each insured and will not increase our limit for any one occurrence.

Duties After Occurrence

These duties center around timeliness and cooperation. Under Section II of the Homeowners Policy, the "insured" will perform the following duties:

- Give written notice to the insurer or its agent as soon as practical including identification of the parties and facts of the accident.
- Cooperate with the insurer in the investigation
- Promptly forward to the insurer every notice, demand, or summons related to the accident or occurrence.
- Assist the insurer to make settlements and to help with the conduct of suits and attend hearings and trials.
- Under the additional coverage - Damage to Property of Others submit a sworn statement of loss within 60 days and show the damaged property if the "insured" has retained possession.
- The "insured" will not make any voluntary payment or assume an obligation other than first aid. If the "insured" assumes an obligation or makes a voluntary payment, it is at his/her own expense, and the "insured" should not expect reimbursement.

Duties Of An Injured Person - Coverage F - Medical Payments to Others

The person injured or someone acting on their behalf must give the insurer a written proof of loss as soon as practical, and authorize the insurer to receive copies of medical bills and reports. Also, if the insurer requests, the injured person must submit to a physical exam by a doctor of the insurer's choice.

Payment of Claim - Coverage F - Medical Payments to Others

Under this condition, payment under Coverage F is not an admission of liability under Coverage E - Personal Liability.

Suit Against Us

No action can be brought against us unless there has been full compliance with all terms of this section.

Bankruptcy of an Insured

Bankruptcy of an insured does not relieve the insurer of their obligations.

Other Insurance - Coverage E - Personal Liability

The personal liability coverage is excess over valid and collectible insurance, unless the other policy is specifically designed to be excess insurance such as a Personal Umbrella Policy.

Policy	Period

Concealment and Fraud

Under Section II - Liability Coverage, the insurer will not provide coverage to any “insured(s)” who, whether before or after a loss, has:

1. Intentionally concealed or misrepresented any material fact or circumstance.
2. Engaged in fraudulent conduct.
3. Made a false statement relating to this insurance.

SECTION I & II CONDITIONS

Liberalization Clause (previously defined in Chapter 4)

Waiver (previously defined in Chapter 4)

Cancellation

The “named insured” may cancel this policy at any time by returning it to the insurance company or by letting the company know in writing of the date cancellation is to take effect. The insurance company, on the other hand, may cancel this policy only for the reasons stated below by notifying the “named insured” in writing of the date cancellation takes effect.

When the policy has been in effect for less than 60 days and is not a renewal, the company may cancel for any reason by giving at least 30 days written notice before the cancellation takes effect.

When the policy has been in effect for 60 days or more, or at any time if it is a renewal, the company may cancel only for one or more of the following reasons by giving at least 30 days written notice prior to the proposed cancellation date. Valid reasons for cancellation of a Pennsylvania policy are limited to the following:

1. The policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact.
2. There has been a substantial change or increase in hazard in the risk.
3. There is a substantial increase in hazard by reason of willful or negligent acts or omissions by the “insured.”
4. The “insured” has failed to pay the premium by the due date.
5. For any other reason approved by the Pennsylvania Insurance Commissioner.

Nonrenewal

Reasons for nonrenewal are the same as we reviewed in the Cancellation condition. The required notice is 60 days prior to the expiration date of the policy.

Assignment (previously defined in Chapter 4)

Subrogation (previously defined in Chapter 4)

Death

If a person named in the Declarations or spouse, if a resident of the same household, dies; the insurance company will insure the legal representative of the deceased for 180 days after the insured's death, regardless of the policy period shown in the Declarations, or until the end of the policy period shown in the Declarations, whichever is **LATER**.

SECTION II – LIABILITY COVERAGES

The purpose of the liability coverage is to protect the insured and his or her family from financial responsibility arising out of the legal obligations for injury or damage to others from accidents on the premises or activities away from the premises. All ISO Homeowners coverage forms provide the same liability.

In Section II - Liability of the Homeowners Policy there are two coverages:

- Coverage E - Personal Liability (\$100,000 basic limit)
- Coverage F - Medical Payments to Others (\$1,000 basic limit)

Both of these coverages are designed to pay for the "insured's" covered obligations to others who may come on an "insured location," or for damages arising from an "insured's" personal activities. Coverage E - Personal Liability arises from an "insured's" legal obligation because of "bodily injury" or "property damage" due to an "insured's" negligence. Coverage F - Medical Payments to Others is not conditioned on the "insured's" legal obligations, but rather a moral obligation to a person who may be injured on an "insured location." We will review both of these Section II coverage details below.

COVERAGE E – PERSONAL LIABILITY

The Personal Liability coverage in the Homeowners Policy will pay when an insured is legally liable or because of an “occurrence” that is covered within the scope of the policy. The policy will pay up to the limit of liability for the damages. In addition to paying damages, the insuring agreement for this coverage states that the insurer will provide a defense, at the insurers expense, even if the suit is groundless, false or fraudulent. This clearly states the duty to defend.

- The insured invites a friend for dinner. The friend falls into a hole where the insured had been repairing the sidewalk to the home’s front entrance. The insured failed to warn the friend of the hazard, and the friend breaks an ankle.
- The insured’s son, Russ, throws his football over his friend’s head, and it crashes into the neighbor’s window.
- The insured is putting up decorations for a celebration at a community center. The insured bumps a ladder knocking another volunteer off the ladder, and the person falls and breaks an arm.

COVERAGE F – MEDICAL PAYMENTS TO OTHERS

Unlike Coverage E, Medical Payments pays only for medical bills for accidents regardless of fault. There is no legal liability requirement.

The coverage will pay for necessary medical expenses that are incurred within three years from the date of the accident. These expenses may include doctor bills, hospital expenses, x-rays, dental, etc. Medical expenses do not include expenses for funeral services. This coverage does not apply to an insured or resident of the household, except residence employees.

Coverage applies only to:

- A person on the insured location with permission of an insured; or
- A person off the insured location if the bodily injury:
 - Arises out of a condition on an insured location or the ways immediately adjoining;
 - Caused by the activities of an insured;
 - Is caused by a residence employee while on the job; or
 - Is caused by an animal owned by or in the care of an insured.

ADDITIONAL COVERAGES

There are four additional coverages provided in Section II - Liability of the Homeowners Policy. Payments made under these four areas are paid in addition to the limit of liability shown in the policy Declarations.

1. Claim Expenses

Claim Expenses are composed of five components.

- a. Defense expenses;
- b. Premiums on bonds that may be required, such as an appeal bond;
- c. Reasonable expenses incurred by an “insured” at our request, including actual loss of earnings up to \$250 per day, for assisting the insurance company in the investigation or defense of a claim or suit;
- d. Interest on the entire judgment which accrues after a judgment has been handed down by the Court (post judgment interest); and
- e. Prejudgment interest awarded against an “insured” on that part of the judgment paid by the insurance company.

Shane McDaniel has a lawsuit filed against him when a neighbor falls on his property. The insurance company investigates the claim and hires an attorney to defend Shane. The total expenses for the investigation, court costs and attorney fees are \$12,000. The insurer asks Shane to appear at the trial, during which Shane is away from work. The company pays Shane’s mileage to travel to the trial and \$1000 loss of income (\$250 per day X 4 days.) Because of a mistake by the insurer, the judgment is not paid when it is supposed to be paid, and the court assesses a penalty of \$325 post judgment interest. All of these expenses are paid under this category of claim expenses and do not reduce the Coverage E - Personal Liability limits.

2. First Aid Expenses

It covers expenses incurred by an insured due to bodily injury to others. The coverage is limited to expenses related to the medical attention at the scene or immediately thereafter either on or away from the premises.

Bob just finishes mopping the kitchen floor when the outside door flies open. His neighbor Pat walks in and slips on the wet floor banging her head. Bob calls an ambulance, and Pat is rushed to the hospital for x-rays of her head. Bob is billed by the ambulance company for \$300, for emergency attention at the scene and for transportation to the hospital.

3. Damage to Property of Others

This coverage provides for certain incidents which are excluded under Coverage E - Personal Liability. We will see in the Exclusions, that “property damage” to property that is in the “insured’s” care, custody, or control is not covered. For example, John loans his video camera to Bill so Bill can tape his

son's football game. In the excitement of the game, Bill drops the camera causing \$300 damage. Bill would not have coverage in Coverage E - Personal Liability of his Homeowners Policy because of the care, custody, or control exclusion. However, the claim could be paid under the additional coverage of Damage to Property of Others.

- **Limits**

This coverage will pay, at replacement cost, up to \$1,000 per "occurrence" for "property damage" to property of others caused by an "insured."

- **Exclusions**

There are few exclusions that apply to this additional coverage. The Damage to Property of Others will not pay for "property damage" which is:

- a. Recoverable under Section I - Property.
- b. Caused intentionally by an "insured" who is 13 years of age or older.
- c. Property owned by an "insured."
- d. Property owned by or rented to a tenant of an "insured" or a resident in the named insured's household.
- e. Arising out of a "business" engaged in by an insured or an excluded aircraft, watercraft, hovercraft or "motor vehicle."

4. **Loss Assessment**

Under Section II, Loss Assessment coverage pays up to \$1,000 for the named insured's share of an assessment for a liability loss that caused "bodily injury" or "property damage," and is not excluded under Section II. This is the same limit that applies to Section I.

EXCLUSIONS

The exclusions for Homeowners Policy - Section II are unique in that they are divided into four groups. We will discuss them in this format.

- Section II Exclusions
- Exclusions applicable to Coverage E and Coverage F
- Exclusions applicable to Coverage E only
- Exclusions applicable to Coverage F only

Section II Exclusions

The following chart will help to summarize the coverage issues with regard to “motor vehicles” under the Homeowners Policy.

Types of Vehicles	Coverage – HO Section II
Utility trailers, Camper trailers, Travel trailers	No coverage while being towed. Covered if detached from towing unit.
Motorcycles and Motorized bikes (owned)	No coverage if registration required. Covered if recreational types on “insured location.”
Snowmobiles (owned)	No coverage if registration required. Covered if recreational types on “insured location.”
ATV, Dune Buggy, Go-Kart, etc. (owned)	No coverage if registration required. Covered if recreational types on “insured location.”
Recreational vehicles such as ATV, snowmobile, etc. (Non-owned)	No coverage if registration required. Covered if rented or borrowed .
Motorized conveyances used solely to service a residence premises or designed to assist the handicapped.	Covered. Service vehicle not covered if used for other purposes. Handicapped vehicle not covered if being used by non-handicapped person.
Golfcart designed to carry up to 4 persons, not built or modified to exceed a speed of 25 mph on level ground. (owned)	Covered on golf course. Covered on road of insured’s community, if allowed.
Battery Powered Toy Vehicle designed for use by children under age 7 and not built or modified to exceed 5 mph on level ground.	Covered
Motor vehicles in dead storage on an insured location	Covered.

1. **“Motor Vehicle Liability”**

Coverages E and F do not apply to any “motor vehicle liability” if, at the time and place of an “occurrence”, the involved “motor vehicle” is registered for use on public roads or property or is not registered for use on public roads or property, but such registration is required by a law, or regulation.

There is also no coverage under any of the following circumstances:

- a. The “Motor Vehicle” is being operated in or practicing for any race, speed contest or competition;
- b. Rented to others;
- c. Used to carry persons or cargo for a charge; or
- d. Used for any “business” purpose except for a motorized golf cart while on a golfing facility.

But this exclusion **does not apply** to a “Motor Vehicle”

- a. In dead storage on an “insured location.”
- b. Used solely to service a residence. An example would be a riding lawn mower used to cut the “insured’s” lawn.
- c. Designed to assist the handicapped and, at the time of an “occurrence,” it is being used to assist a handicapped person or parked on an “insured location.” An example would be a motorized wheelchair that is being used by a handicapped person. There would be no coverage, however, if at the time of the “occurrence,” the wheelchair was being used by a non-handicapped ten-year-old grandson to race up the front street.
- d. Designed for recreational use off public roads and not owned by an “insured” or owned by an “insured” provided the “occurrence” takes place on an “insured location.” An example would be a go-kart. If it is owned by an “insured,” and ridden in the backyard of the insured’s house, there would be liability under the Homeowners Policy. If an “insured” rented one to ride on the track at Disney World, there would also be liability protection.
- e. Which is a motorized golf cart that is owned by an “insured” and, at the time of an “occurrence”, is being used on a golfing facility or in a private residential community where the “insured’s” residence is located and which allows the use of golf carts on its roads.

2. “Watercraft Liability”

The purpose of this exclusion is to eliminate liability coverage for all watercraft. Then the policy gives back coverage on a very limited basis by clearly specifying the types of watercraft and their use that can expect to find coverage. The Homeowners Policy is clear that it will not cover any watercraft, regardless of ownership or size if it is participating in a race, if it is carrying passengers for a fee or if it is being used for business. It does, however, allow a sailboat race.

Watercraft is broken into three classifications. Vessels powered by outboard motors, by inboard or inboard/outdrive engines and sailing craft. The limitations of coverage also consider whether the boat is owned, rented or borrowed. The definition of watercraft does not include any muscle powered boat. So, there is liability coverage for a kayak or canoe.

Remembering that all “Watercraft Liability” has been excluded, let’s take a look at the scope of the coverage that is given back. The exclusion does not apply to watercraft:

- a. In storage,
- b. Owned boats, with outboard motors (25HP or less),
- c. Rented boats with outboard motors of any size,
- d. A rented inboard or inboard/outdrive engine powered boat with 50HP or less,
- e. Any borrowed watercraft no matter the size or type, and
- f. Any sailing vessel that is less than 26 feet in length.
- g. Newly acquired outboards – 45 days.

Watercraft Liability Coverage Chart				
Type	Owned	Rented	Borrowed	Stored
Outboard	25 hp or less	Any size	Any size	Any size
Inboard or Inboard/Outdrive	Not covered	50 hp or less	Any size	Any size
Sailing Vessel	Less than 26 ft	Less than 26 ft	Any size	Any size

3. **“Aircraft Liability”**

This policy does not cover “aircraft liability”. The policy does cover liability arising out of a model aircraft that does not carry people or cargo.

4. **“Hovercraft Liability”**

This policy does not cover “hovercraft liability.” This type of craft was described in the definitions section as a self-propelled ground effect vehicle. You would probably call them an air boat or a swamp boat.

Exclusions applicable to Coverage E - Personal Liability and Coverage F - Medical Payments to Others

1. **Expected or Intended by the “Insured”**

The Homeowners Policy will not pay for damages caused when an insured cuts down the neighbor’s tree because he is tired of sweeping leaves and twigs from his driveway. This exclusion clarifies that there is no coverage for activities that are within the insured’s control and does not fit the definition of an accidental occurrence.

The policy will provide coverage for intentional “bodily injury” resulting from the use of reasonable force by an “insured” to protect persons or property. For example, an insured may hurt an intruder in the home who later tries to sue the insured for these injuries. The Homeowners policy will defend and pay any damages awarded.

2. **Business and Rental**

Any claims for damage arising out of or in connection with a “business” engaged in by the “insured” are excluded.

This “business” exclusion does not apply to a part-time, self-employed “business” with no employees of an “insured” under Age 21. For example, a teenager’s babysitting activities would not be excluded as “business.”

This exclusion also bars claims for damage against the “insured” arising out of the rental or holding for rental of any part of the premises by an “insured.” The following are covered rental situations:

- a. Rental on an occasional basis, if the property is only used as a residence.

Mr. Franklin rents his house in Philadelphia to a family for three days during July 3-5.

- b. Rental in part for use as a residence.

Ms. Harrison rents a room to a college student during the fall and spring of each year.

- c. Rental in part as an office, school, studio or private garage.

Mr. Rogers rents a converted dining room to Ms. Murphy to use as an office for her insurance agency.

3. Professional Services

Any claims for damages arising out of the “insured’s” providing or a failure to provide professional services are excluded.

The named insured, Mr. Ledger, who is an accountant, is sued for improperly filing tax returns for a client. There would be no coverage under his Homeowners Policy. He should have a separate Professional Liability Policy to cover this exposure.

4. Insured’s Premises Not An “Insured Location” - Uninsured Locations

This exclusion prevents coverage for any damage claims arising out of a premises that is not an “insured location” and which is:

- Owned by an “insured,”
- Rented to an “insured,” or
- Rented to others by an “insured.”

5. War

Damage or any claim related to an act of war is excluded.

6. Communicable Disease

Any claim for damage as a result of a communicable disease transmitted by an “insured” is excluded. Therefore, if an “insured” transmits herpes to another person, there would be no coverage under this policy.

7. Sexual Molestation, Corporal Punishment or Physical or Mental Abuse

This exclusion bars any claims for damages arising out of sexual molestation, corporal punishment, or physical or mental abuse.

8. Controlled Substance

Any claims for damage arising out of the use, sale, manufacture, delivery, transfer or possession by any person of a Controlled Substance(s) as defined by the Federal Food and Drug Law including, but not limited to, cocaine, LSD, marijuana and all narcotic drugs, are excluded. However, this exclusion does not apply to the legitimate use of prescription drugs by a person following the orders of a licensed physician.

Please note that the exclusions for “Motor Vehicle Liability,” “Watercraft Liability,” “Aircraft Liability,” “Hovercraft Liability” and “Insured’s Premises Not an Insured Location” do not apply to bodily injury to a residence employee arising out of the residence employee’s employment by an insured.

Exclusions Applicable to Coverage E - Personal Liability Only

1. **Liability**

- Personal Liability is excluded for loss assessment except as provided in the Additional Coverage - Loss Assessment.
- Any Personal Liability assumed by the “insured” under contract, unless it is written and directly relates to the ownership, maintenance or use of an “insured location,” or assumes the liability of others by the “insured” prior to an “occurrence.”

2. **Owned Property**

Personal Liability for “property damage” to property owned by the “insured” is excluded.

3. **Rented Property**

This exclusion prevents any payment for personal liability for “property damage” to property rented to, occupied or used by, or in the care of the “insured.” This rather common “property damage” exclusion is found in most insurance policies which provide liability coverage. The latter portion of this exclusion is frequently referred to as the “care, custody, or control exclusion.”

This exclusion does not apply to “property damage” caused by **fire, smoke or explosion**. This exception to the exclusion would grant coverage in a situation where the “insured” left a curling iron plugged into the outlet at the hotel. While she is out of the room visiting friends, the curling iron starts a fire in her hotel room, and there is damage from smoke and fire.

4. **Work-Related Injury or Disease**

Personal liability for “bodily injury” to anyone who is entitled to receive benefits under a workers compensation law is excluded. An example is in a situation where a “residence employee” is covered under a worker’s compensation policy.

5. **Nuclear**

Under this exclusion, personal liability for “bodily injury” and “property damage” does not cover an “insured” who is also covered under a nuclear energy liability policy (provided by a government pool).

6. **Other Insureds**

This exclusion eliminates coverage for “bodily injury” by one “insured” to another “insured.” For example, if a foster child was injured by the foster parent, this policy would not provide any coverage.

Exclusions Applicable to Coverage F - Medical Payments to Others Only

There are only four exclusions that apply only to Coverage F - Medical Payments to Others.

1. **“Residence Employee”**

Claims for “bodily injury” to a “residence employee” are excluded if the “bodily injury” occurs off the “insured location” and does not arise out of the course of the “residence employee’s” employment by an “insured.”

2. **Work-Related Injury or Disease**

Claims for “bodily injury” to anyone who is entitled to receive benefits under a Workers Compensation law, non-occupational disability law or occupational disease law are barred by this exclusion.

3. **Nuclear**

Damage claims for “bodily injury” from any nuclear radiation or radioactive contamination are excluded.

4. **Residents of “Insured Location”**

Damage claims for “bodily injury” to any person, other than a “residence employee” of an “insured,” regularly residing on any part of the “insured location” are excluded.

SELECTED ENDORSEMENTS

Remember the purpose of endorsements is to modify the coverage for your clients. Become familiar with each of the endorsements below because you will use them frequently with the Homeowners Policy.

SPECIAL PROVISIONS – PENNSYLVANIA (HO 01 37)

This endorsement requires that the policy comply with Pennsylvania Insurance Law and:

1. Defines how ACV is calculated.
2. Replaces the Intentional Loss Exclusion. The purpose of this replacement is to give back coverage to an innocent insured who did not cause or commit an intentional act to cause a loss.

LIMITED WATER BACK-UP AND SUMP DISCHARGE OR OVERFLOW COVERAGE – PA (HO 23 81)

This endorsement is used to provide coverage for property covered under Section I caused by water or waterborne material which:

1. Originates from within the dwelling and backs up through sewers or drains; OR
2. Overflows or is discharged from a:
 - a. Sump, sump pump; or
 - b. Related equipment.

The basic limit is \$5,000 and can be increased to \$25,000.

LIMITED FUNGI, WET OR DRY ROT, OR BACTERIA (HO 04 26 & HO 04 27)

Coverage under this endorsement applies to both Section I and Section II of the Homeowners Policy. The purpose of this endorsement is to limit coverage (tearing out, replacing or remediation) for fungi, wet or dry rot and bacteria to the amount shown in the endorsement. Coverage applies to hidden mold / fungi as a result of accidental discharge of water or steam. Coverage is limited for property and liability. Separate annual aggregate limits apply to both property and liability.

PERMITTED INCIDENTAL OCCUPANCY (HO 04 42)

This endorsement can be used to buy back coverage for an other structure used to conduct a business. It will also eliminate the \$2,500 special limit of liability that applies to business property on the premises. The full Coverage C limit applies to furnishings, supplies and equipment of the described premises. The endorsement also covers the business described in the schedule and conducted on the residence premises by the insured. The business may be conducted in the dwelling or in an other structure.

Liability coverage applies to the necessary and incidental use of the premises for the described business. There is no off premises liability coverage. Further, there is no coverage for bodily injury to any employee except residence employees.

IDENTITY FRAUD EXPENSE COVERAGE (HO 04 55)

The Identity Fraud Expense Coverage endorsement pays up to \$15,000 for expenses to correct and repair the individual's credit. It covers the costs of notarizing affidavits, certified mail, lost income up to \$200/day and \$5,000 maximum, loan application fees for re-applying when an original loan was rejected based on incorrect credit information, reasonable attorney fees and long distance phone calls. Deductible of \$250 applies.

SCHEDULED PERSONAL PROPERTY (HO 04 61)

Many insureds would like better coverage on certain types of Personal Property than is provided in the unendorsed Homeowners Policy. You will recall that personal property is insured for broad named perils in all forms except the HO-5 and the HO-8. The unendorsed policy also contains Special Limits of Liability that apply to certain types of property. The Scheduled Personal Property endorsement allows an insured to buy additional protection for selected types of property. The following types of property are the most commonplace and are listed on the form. However, other types of property may be scheduled and insured on this form with the permission of the insurance company.

1. jewelry
2. fur
3. cameras
4. musical instruments (non professional use)
5. silverware
6. golfer's equipment
7. fine arts
8. postage stamps
9. coins

The coverage is provided on an open perils basis. To gain a better understanding of this endorsement, let's look at the advantages and disadvantages of this endorsement.

Advantages

1. "Open perils" coverage is much broader than broad named peril coverage normally afforded to these items of property. For example, if a scheduled piece of jewelry was lost, it would be covered under this form and if a camera gets knocked off table and crashes to the floor it is covered.
2. Provides additional insurance for personal property. Since these items covered under this specific insurance are excluded from Coverage C, the Coverage C limits are available for other personal property.
3. Not subject to a deductible.
4. Provides proof of existence of the item. Insurer with requirements of appraisal or receipts knows that at some time the insured had the item which is scheduled.
5. If the insured acquires an article of property in an insured class of property, the newly-acquired property is covered up to 25% of the limit for that class of property or \$10,000, whichever is less. The insured is required to notify the insurance company within 30 days (90 days for fine arts).

Disadvantages

1. Cost of additional premium.
2. Appraisal must be obtained. Unless the item/s that are to be scheduled are recently purchased, it will be necessary to provide the insurer with an appraisal of the value. Appraisals are an additional cost in terms of the actual cost of the appraisal, as well as the time spent to get the appraisal. Commonly companies will ask for new appraisals every 3 to 5 years.
3. Loss settlement provision. Scheduling property for a specific amount of insurance does not guarantee that amount of payment at the time of a loss. Only Fine Arts are insured for an agreed amount. All other property will be valued at the time of the loss. Therefore, it is possible under this valuation clause to receive a lesser amount than the scheduled amount. For example, a camera may be scheduled for \$850. After a loss, the insurance company may find that the camera can be replaced for \$600. It is only obligated to pay this amount.
4. When listed separately then no coverage under Cov C for the property.

SCHEDULED PERSONAL PROPERTY - AGREED VALUE (HO 04 60)

This endorsement is the same as the Scheduled Personal Property (HO 04 61) endorsement except losses paid on all scheduled property are on an Agreed Value basis.

HOME DAY CARE

This endorsement is used to add coverage by deleting the standard business exclusions that are found in the Homeowners Policy. Both property and liability can be provided under this endorsement. It modifies coverage to give protection for other structures up to a limit listed in the schedule and eliminates the \$2,500 maximum as it would apply to personal property used in a home day care business.

Liability coverage is provided for the home day care business on the residence premises although the following exclusions apply:

- Corporal punishment
- Sexual abuse
- Entrustment by the insured to others of draft or saddle animals
- Aircraft
- Motorized land conveyances
- Watercraft

Injury to a non-resident employee of the day care is also excluded. The premium is based upon the number of persons receiving day care services and the endorsement also has a separate aggregate limit of liability.

PERSONAL PROPERTY REPLACEMENT COST - PENNSYLVANIA (HO 23 63)

1. Covered losses are settled at replacement cost on the following property:
 - Personal Property covered under Coverage C
 - If covered,
 - Awnings, outdoor antennas and outdoor equipment and
 - All carpeting and household appliances.
2. The following articles, if covered separately and specifically in an HO 04 61 Schedule Personal Property Endorsement and not subject to agreed value loss settlement:
 - a. Jewelry;
 - b. Furs and garments;
 - c. Cameras, films and related equipment;
 - d. Musical equipment and related articles;
 - e. Silverware, goldware and pewterware;
 - f. Golfer's equipment.

Certain personal property is not eligible for replacement cost loss settlement including antiques, fine arts, memorabilia, articles not maintained in good condition or obsolete items not being used.

BUSINESS PURSUITS (HO 24 71)

This endorsement eliminates liability exclusions for individuals who conduct certain business activities arising out of a business where the insured is not an owner or partner of the business. It is designed for people who work for others, especially sales, clerical and instructional occupations (including corporal punishment for teachers.) The endorsement provides coverage for incidents arising out of the business described in the schedule. It provides liability at the insured's residence or away from the employer's premises.

WATERCRAFT (HO 24 75)

This endorsement eliminates the restrictions on the size of engines used to power owned watercraft and on the length of owned sailboats. It provides coverage for scheduled watercraft with inboard or inboard-outdrive motors, outboard motors in excess of 25 hp or any sailing vessel in excess of 26 feet. There would still be exclusions for:

- Watercraft being operated in, practiced for, any pre-arranged or organized race except for sailing vessels,
- No coverage for bodily injury to an employee of an insured, if that employee's duties are in connection with the maintenance or use of watercraft, and
- No coverage while the watercraft is used to carry persons for a charge or is rented to others.

PERSONAL INJURY (HO 24 82)

The personal injury endorsement is used to broaden liability to include injury arising from one or more of the following offenses:

- False arrest, detention or imprisonment,
- Malicious prosecution,
- Wrongful conviction, wrongful entry into or invasion into the right of private occupancy of a dwelling or premises that a person occupies, committed by or on behalf of its owner, landlord or lessor,
- Oral or written publication of material that slanders or libels a person or organization,
- Oral or written publication of material that violates a person's right of privacy,

EARTHQUAKE (HO 04 54)

Earthquake is excluded under all homeowners forms under the earth movement exclusion. This endorsement covers the peril of earthquake, including land shock waves or tremors before, during or after a volcanic eruption, for the dwelling, other structures, and/or personal property. One or more earthquake shocks that occur within a 72-hour period will be considered as a single earthquake. Damage to exterior masonry veneer, except stucco, caused by earthquake is excluded, but can be bought back for an additional premium. Also excluded, is flood damage caused by, resulting from, contributed to, or aggravated by earthquake. The endorsement has its own deductible, a percentage deductible of the Coverage A or Coverage C limit, whichever is greater. However, the deductible will not be less than \$500.

SECTION 5 - QUIZ

1. Which of the following is correct regarding the HO policy?
 - a. Coverage for both property and liability is included
 - b. Property coverage is included, but liability must be added by endorsement
 - c. Theft coverage is not automatically included
 - d. There is no coverage available for a residential condominium

2. All of the following are eligible for a Homeowners Policy except:
 - a. A dwelling under construction.
 - b. One unit of a residential condominium complex.
 - c. A duplex, occupied by the owner.
 - d. A mobile home or trailer.

3. Which of the following limits are available to apply to Coverage B – Other Structures in the HO-3?
 - a. 10%
 - b. 20%
 - c. 25%
 - d. 30%

4. An HO-4 would be used to provide coverage for which of the following:
 - a. Owner occupant of a 2 family dwelling
 - b. Owner occupant of a 1 family dwelling with an incidental office
 - c. Owner of a residential condominium
 - d. Tenant who resides in 1 unit of a 4 unit apartment building

5. All of the following reside in a home with the named insured. Which of them is NOT considered an insured under the HO policy?
 - a. Spouse of the named insured
 - b. Fiance of the named insured
 - c. Named insured's grandmother
 - d. 12 year old foster child of the named insured

6. In which of the following HO forms is the dwelling covered under open perils and the personal property covered under a named peril basis?
 - a. HO-2
 - b. HO-3
 - c. HO-4
 - d. HO-5

7. Which of the following is NOT correct regarding Coverage A?
 - a. Provides coverage for the dwelling
 - b. Provides coverage for an attached breezeway
 - c. Provides coverage for materials and supplies located on or next to the "residence premises"
 - d. Provides coverage for land on which the dwelling sits

8. Which of the following would be covered under Coverage B of the HO policy?
 - a. A detached garage converted to an auto repair shop
 - b. A detached single family dwelling rented to others
 - c. An in ground swimming pool
 - d. A detached garage on the property adjacent to the "residence premises"

9. Coverage C provides world-wide coverage at what limit, except property usually located at an insured's residence, other than the "residence premises" or a self-storage facility?
- a. 100% of Coverage C
 - b. 75% of Coverage C
 - c. 50% of Coverage C
 - d. 10% of Coverage C
10. The insured has a \$3,500 fur stolen from her house. She has a Homeowners Policy with \$50,000 limits on Coverage C – Personal Property with a \$500 deductible. How much will she receive?
- a. \$3,500
 - b. \$3,500 less the \$500 deductible
 - c. \$1,500
 - d. \$1,500 less the \$500 deductible.
11. The insured suffers a fire to her dwelling. Among the items destroyed are several items of jewelry with an actual cash value of \$4,500. She has a Homeowners Policy with \$60,000 limits on Coverage C – Personal Property with a \$500 deductible. How much will she receive for jewelry?
- a. \$1,500
 - b. \$1,500 less the \$500 deductible
 - c. \$4,500 less the \$500 deductible
 - d. Replacement cost of jewelry not to exceed 10% of Coverage C
12. All of the following would be eligible expenses after a loss under Coverage D – Loss of Use, EXCEPT:
- a. Laundry/dry cleaning expenses
 - b. Mortgage payment
 - c. Restaurant expenses
 - d. Storage unit expenses

13. Which of the following is the special limit of coverage on the HO policy for property damage to business property?
- a. \$2,500 on the “residence premises” and \$2,500 off the “residence premises”
 - b. \$5,000 on the “residence premises” and \$2,500 off the “residence premises”
 - c. \$2,500 on the “residence premises” and \$500 off the “residence premises”
 - d. \$2,500 on the “residence premises” and \$1,500 off the “residence premises”
14. All of the following are covered causes of loss under the HO-3, EXCEPT:
- a. Weight of ice, snow & sleet
 - b. Freezing of plumbing or related systems
 - c. Cracking of the wall due to settling of the dwelling’s foundation
 - d. Sudden and accidental damage from an electrical current
15. Which of the following is an “insured location” under the HO policy?
- a. Vacant farmland owned by the insured
 - b. A business office rented by the insured
 - c. A ballroom at a hotel the insured rents for a party
 - d. A 6 unit apartment building owned by the insured
16. Which of the following is covered by Coverage E – Personal Liability?
- a. Bodily injury to another golfer struck by a golf ball hit by the insured
 - b. Bodily injury to a client who tripped on a rug in the insured’s business office
 - c. Bodily injury to the insured who falls getting out of her vehicle in the insured’s driveway
 - d. Bodily injury to an insured’s employee who is covered by Worker’s Compensation
17. Which of the following is NOT covered by Coverage F – Medical Payments?
- a. Injury to a woman struck by a shopping cart pushed by the insured’s cook, while shopping for the insured
 - b. Injury to a neighbor caused by the insured’s dog
 - c. Injury to the insured’s sister who is visiting for the day
 - d. Injury to the insured’s resident son caused by falling down the porch steps

18. Which of the following is true of claim expenses paid under the HO policy?
- a. All expenses incurred by the insured whether requested by the company or not
 - b. Premiums on bonds, such as an appeal bond
 - c. Actual loss of earnings up to \$200 per day
 - d. Prejudgment interest is included in the limit of liability
19. Which of the following watercraft is covered under Coverage E – Personal Liability?
- a. An 18 foot boat powered by a 25 horsepower outboard motor
 - b. A 25 foot sailboat with a 75 horsepower outboard motor
 - c. A 32 foot sailboat with a 50 horsepower outboard motor
 - d. A 22 foot boat powered by a 125 horsepower inboard motor
20. Which of the following uses of a golf cart are covered under Coverage E – Personal Liability?
- a. Driving to a friend's house in a neighboring community
 - b. Golf purposes on a golf course
 - c. Delivering mail as a substitute mail carrier
 - d. All of the above
21. The limit of Coverage included in the HO policy for Coverage F – Medical Payments is?
- a. \$0
 - b. \$500
 - c. \$1,000
 - d. \$5,000

22. Which of the following is covered under the Business Pursuits Endorsement?

- a. Marcus Wellness, M.D., who has an office in his home, is sued for malpractice.
- b. A student falls in Corin's home while attending tutoring. Corin is paid by the local school district to provide tutoring to high school students after hours.
- c. Sam, the owner of computer Solutions, is sued when a customer is injured due to the collapse of a chair in Sam's office located in his home.
- d. Bob, the owner of The Gourmet Kitchen, is sued when someone accuses him of negligence leading to food poisoning in packaging some herbs sold in his shop located in his home.

Chapter 5 Answers

1a, 2d, 3a, 4d, 5b, 6b, 7d, 8c, 9a, 10c, 11c, 12b, 13d, 14c, 15c, 16a, 17d, 18b, 19a, 20b, 21c, 22b

CHAPTER 6

Personal Automobile Policy



Insurance Agents
& Brokers

CHAPTER 6 – PERSONAL AUTOMOBILE POLICY

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What is the Pennsylvania Motor Vehicle Financial Responsibility Law?
- What are the minimum limits and coverages required to be carried?
- What is the Pennsylvania Automobile Insurance Plan and what is its purpose?
- What are the Basic First Party Benefits?
- What coverages are available as Added First Party Benefits and what are the limits that are required to be offered?
- What are the First Party Benefits exclusions?
- Explain the difference between Uninsured and Underinsured Motorists Coverage.
- What is covered and what options and selections are required in Pennsylvania?
- Encourage review of the Personal Cancellation/Nonrenewal chart in Chapter 6.
- Explain the difference between the Full Tort Option and the Limited Tort Option.
- What are the seven specific exceptions that turn limited tort into full tort.
- Review the definitions of Non-economic loss" and "serious injury."
- What is the Pennsylvania specific requirement regarding rental car coverage?
- What are the eligibility requirements for a Personal Auto Policy?
 - Ownership
 - Autos
- Review important definitions including:
 - "you"
 - "your"
 - "we, us and our"
 - "bodily injury"
 - "business"
 - "family member"
 - "occupying"
 - "property damage"
 - "trailer"
- "your covered auto"
- What are the four specific parts?
 - "newly acquired auto"
- Discuss how coverage applies to replacement autos versus additional autos.
- What are the four parts of "Who is an Insured" under the Personal Auto Policy Liability Section?
- What are the supplementary payments and how do they affect the limits of liability?
- Discuss Part A – Liability Exclusions (13)
- What is the definition of an uninsured motor vehicle and an underinsured motor vehicle?
- What are the exclusions for UM & UIM?
- What is the difference between stacked and non-stacked UM/UIM benefits?
- Discuss Coverage D For Damage to Your Covered Auto:
 - Insuring agreement
 - What is collision?
 - What is covered under Other Than Collision (OTC)
 - What is the two-part definition of nonowned auto?
- What are the two parts of transportation expense and what are the limits?
- Discuss exclusions under Coverage D For Damage to Your Covered Auto.
- What are the Duties After an Accident or Loss (Part E)?
- Review the following endorsements:
 - Amendment of Policy Provisions – Pennsylvania
 - Towing and Labor Costs
 - Extended Non-Owned Coverage – Vehicles Furnished or Available For Regular Use
 - Miscellaneous Type Vehicle
 - Joint Ownership Coverage

KEY TERMS

- Minimum Limits
 - Assigned Risk Plan
 - First Party Medical Benefits
 - Stacked Limits
- Uninsured Motorist
 - Underinsured Motorist
 - Tort
 - Collision
 - Other Than Collision

CHAPTER 6 – PERSONAL AUTO POLICY

STATE EXAM: 10% OR 15 QUESTIONS

In this section, we will examine the important laws that apply to the use of and responsibility for automobiles. We will also examine many of the significant details about Personal Automobile Insurance.

LAWS

PENNSYLVANIA MOTOR VEHICLE FINANCIAL RESPONSIBILITY

Pennsylvania's Motor Vehicle Financial Responsibility Law, which was amended by Act 6 on July 1, 1990, requires all vehicles that are currently registered to be covered for financial responsibility. The law defines financial responsibility as the ability to respond in damages for liability because of accidents arising out of the maintenance or use of a motor vehicle.

The **minimum limits** required are:

- \$15,000 because of injury to one person in any one accident.
- \$30,000 because of injury to two or more persons in any one accident.
- \$5,000 because of damage to property of others in any one accident.

These limits are referred to as split limits of liability.

In the event the policy is written using a combined single limit of liability the minimum limit is \$35,000.

Regardless of whether the policy is written on a split limit or a single limit basis, there is also a minimum requirement of \$5,000 per person for Basic First Party Benefits - Medical Expense.

Proof of financial responsibility is required at all times (***Proof of Coverage applies to ALL automobile policies***)

Acceptable forms of Proof of Coverage include:

- Motor vehicle liability insurance – insurers may issue ID cards in paper or electronic form
- Self-insured
- Other reliable financial arrangements, deposits, resources or commitments acceptable to the department (ex. motor vehicle bond)

PERSONAL AUTOMOBILE POLICY

ELIGIBILITY

Eligibility factors for the Personal Auto Policy are divided into two categories: (1) ownership and (2) autos.

Ownership

1. Individuals
 - Autos owned or leased by an individual.
2. Jointly Owned
 - Spouses – however, they must reside in the same household at the time of application.
 - Jointly owned by two or more relatives – not required to reside together.
 - Jointly owned by two or more unrelated persons – required to reside together.
 - Individual Trust Owned Vehicle

Autos

Owned or leased autos are eligible, however, if leased, it must be under a written agreement for at least six months.

1. Private passenger autos
2. Pickups or vans
 - a. Gross vehicle weight rating (GVWR) 9,000 lbs. or less
 - b. Personal or incidental business use
 - c. Used for farming or ranching
3. Trailers
4. Miscellaneous vehicles – only covered by endorsement

DEFINITIONS

“**You**” and “**your**” refers to the “named insured,” and the “named insured’s” spouse if resident of the same household. If the husband and wife no longer reside together, a spouse who is not named on the Declarations page remains a “you” by definition until the earlier of:

- the end of 90 days,

- the effective date of another policy listing the spouse as a named insured, or
- until the end of the policy period.

“We,” “us” and “our” refer to the company providing this insurance.

“Bodily injury” means bodily harm, sickness or disease, including death which results from the harm, sickness or disease including death that results.

“Business” includes trade, profession or occupation.

“Family member” means a person related to a named insured by blood, marriage or adoption who is a resident of the named insured’s household. “Family member” also includes ward or a foster child. Unlike the Homeowner Policy, there is no age limit on a foster child.

“Occupying” means in, upon, getting in, on, out or off. This is a very broad definition in terms of coverage arising from “occupying” an auto.

“Property damage” means physical damage to, destruction of or loss of use of tangible property.

“Trailer” means a vehicle designed to be pulled by a private passenger auto, pickup or van. It also means a farm wagon or farm implement while towed by a private passenger auto, pickup or van.

“Your Covered Auto” is a four-part definition. The same definition is used for First Party Benefits and Uninsured/Underinsured Motorists Coverage.

1. Any vehicle shown in the Declarations.
2. A “newly-acquired auto.”
3. Any “trailer” you own.

4. Any auto or “trailer” that you do not own while used as a temporary substitute for any other vehicle described in this definition which is out of normal use because of:
 - breakdown,
 - repair,
 - servicing,
 - loss, or
 - destruction.

This does not include coverage for physical damage.

A **“newly acquired auto”** is defined as any of the following types of vehicles on the date you become owner:

- A private passenger auto.
- A pickup or van that has a Gross Vehicle Weight Rating (GVWR) not exceeding 9,000 lbs. and not used principally in any business other than farming or ranching.

Coverage notes:

1. Coverage begins on the date “you” become the owner as long as you report within the required time frame. If you do not report the vehicle within the required time period then coverage begins on the date you report it.
2. Whether a vehicle is a replacement (trade in) or an additional vehicle, the policy always provides the broadest coverage of any currently insured auto.
3. For Liability, Pennsylvania First Party Benefits and UM/UIM coverages to apply:
 - a. The named insured must acquire the auto during the policy period.
 - b. The named insured must report coverage within a required time frame (reporting period)
 - i. 14 days for an additional vehicle, or
 - ii. Until the end of the policy period for a replacement vehicle.
4. For Coverage D (Collision and Other Than Collision) it doesn’t matter whether it is an additional or replacement vehicle, the rules are the same. If the policy provides Collision or Other Than Collision on any vehicle currently insured on the policy then the reporting period is 14 days. If, however, the policy does not have one of these specific coverages on any vehicle currently insured then the reporting period is 4 days and the coverage will be with a \$500 deductible.

If the insured had Other Than Collision but no Collision coverage currently, then they would have 2 different reporting requirements (14 days for Other Than Collision and 4 days for Collision).

COVERAGE	REPLACEMENT AUTO	ADDITIONAL AUTO
Liability First-Party Benefits Uninsured Motorists Underinsured Motorists	Covered for remainder of the policy period.	Covered if company notified within 14 days.
Physical Damage 1. If carried on at least one auto. 2. If not carried on any auto.	Broadest coverage carried on any auto if company notified within 14 days. Covered with \$500 deductible if company notified within 4 days.	Broadest coverage carried on any auto if company notified within 14 days. Covered with \$500 deductible if company notified within 4 days.

Sarah Montgomery has a Personal Auto Policy on her 2008 Pontiac Firebird with the following limits:

Liability - BI \$50,000/\$100,000
 PD \$50,000
 Collision \$500 deductible
 Other Than Collision \$500 deductible

Sarah buys a 2013 Mustang GT to replace her Firebird. She would automatically have liability coverage for her “newly-acquired auto,” but must request coverage within 14 days after she becomes owner for Collision and Other Than Collision to continue coverage at the \$500 deductibles.

David has a 2000 Ford Taurus insured with the following limits:

Liability - BI \$100,000/\$300,000
 PD \$50,000
 Other Than Collision \$500 deductible

David buys an additional vehicle, a 2013 Chevrolet Malibu. He must request coverage within 14 days to continue coverage for Liability and Other Than Collision Coverage. He automatically gets collision (\$500 deductible) as long as he asks us to insure the vehicle for collision within 4 days of purchase.

PART A - LIABILITY COVERAGE

Insuring Agreement

The insuring agreement in the Personal Auto Policy promises to pay for damages for “bodily injury” and “property damage” that any “insured” becomes legally obligated to pay due to an auto accident. The policy promises to defend the insured against any resulting claim, and the insurance company may settle a claim as it believes appropriate. The policy says that the insurance company’s duty to defend lasts until the limits of the policy have been paid. The defense expenses are paid in addition to the limits of liability.

Who Is An Insured

There is very broad description of who is an insured under the PAP.

1. “You” (named insured and resident spouse) and any “family member” for the ownership, maintenance, or use of any auto or “trailer.”
2. Any person using “your covered auto.”
3. For “your covered auto,” any person or organization for their liability for any acts or omissions of a person insured under this part.

Mary takes her Girl Scout Troop to the movies. She is involved in an accident where she rear-ends another vehicle. Under Mary’s policy, Mary has coverage under #1 above for her liability, and the Girl Scout Troop has coverage under Mary’s policy under #3 above because Mary was using her vehicle for Girl Scout business.

4. For autos or trailers, other than “your covered auto,” any person or organization has coverage for its legal responsibility for acts or omissions of either a named insured or any “family member.” This coverage provision applies only if the person or organization does not own or hire the auto or “trailers.”

Mary’s vehicle is not big enough to take her Girl Scout Troop to the movies and she borrows Jess’s van to transport the troop. Mary is involved in an accident where she rear-ends another vehicle. Since liability follows the vehicle, Jess’s policy will respond to the claim first. Jess’s policy provides protection for Jess if she gets sued under #1 above. Jess’s policy also provides protection for Mary under #2 above. Finally, Jess’s policy provides protection for the Girl Scout Troop under #3 above. Jess’s policy does not have enough protection to pay the whole loss. Mary can turn to her policy for additional protection. Under Mary’s policy, Mary is covered under #1 above. The Girl Scouts are covered under Mary’s policy under #4 above. Unfortunately, there is no coverage for Jess under Mary’s policy.

The following chart summarizes the insureds covered under the Personal Auto Policy, Part A - Liability.

“Insured”:

	PERSON	<u>EXPOSURE</u>	<u>VEHICLE</u>
1	“You” or any “family member.”	<u>Ownership, maintenance or use.</u>	Any auto or “trailer.”
2	Any person.	<u>Using.</u>	“Your covered auto.”
3	Any person or organization.	<u>Legal responsibility (vicarious liability).</u>	“Your covered auto.”
4	Any person or organization.	<u>Legal responsibility (vicarious liability) for “you” or any “family member”</u>	Any auto or “trailer”, if the person or organization does not own the auto or “trailer”.

Supplementary Payments

Supplementary Payments refers to provisions which explain additional payments or benefits. All of the items included in this area of the policy are paid in addition to the limits found on the Declarations Page.

1. Up to \$250 for the cost of bail bonds required because of an auto accident.
2. Premiums on appeal bonds, and bonds to release attachments in any suit we defend.
3. Interest accruing after a judgment (post judgment interest).
4. Up to \$200 a day for loss of earnings, because of attendance at hearings or trials at the insurance company’s request.
5. Other reasonable expenses incurred at the insurance company’s request.
6. We will pay pre-judgment interest awarded against an insured on the part of the judgment we pay. This supplementary payment is added to the policy by Amendment of Policy Provisions - Pennsylvania (PP 01 51).

Exclusions – Part A Liability

There are 13 exclusions under Part A - Liability of the Personal Auto Policy. Nine of these exclude people, and the other four exclude vehicles.

A. We do not provide liability for any insured (persons):

1. Who intentionally causes “bodily injury” or “property damage.”
2. For “property damage” to property owned or being transported by that insured.

3. For “property damage” to property rented to, used by or in the care of that insured, except for “property damage” to a residence or a private garage. Therefore, if an insured rents a dwelling with a garage and accidentally hits and damages it, the damage to the house or garage would be paid.
4. For “bodily injury” to an employee of the insured during the course of employment, except for a domestic employee.
5. For liability arising out of the ownership or operation of a vehicle while it is being used as a public livery or conveyance, except carpooling. Ridesharing is excluded.
6. While employed in the business of selling, servicing, repairing, storing or parking of cars including road testing and delivery of vehicles. It excludes coverage for the garage mechanic or the parking lot attendant. It does not eliminate coverage for the named insured and “family member” when being sued for the negligent operation of “your covered auto” while it is being used by someone in the auto business.
7. Maintaining or using any vehicle while that insured is employed or engaged in any “business” (other than farming or ranching) not described in the Auto Business Exclusion (A6). However, this exclusion does not apply to the maintenance or use of a private passenger auto, pickup, van or trailer owned or non-owned.
8. Using a vehicle without a reasonable belief that the insured is entitled to do so, except it does not apply to a “family member” using “your covered auto”. Therefore, a thief is not covered while driving the insured’s auto.
9. For “bodily injury” or “property damage” for which that person is covered under a Nuclear Energy Liability Policy.

B. We do not provide liability for ownership, maintenance or use of:

1. Any vehicle with fewer than four wheels or designed for use off public roads, EXCEPT:
 - while being used for a medical emergency,
 - any trailer, and
 - any non-owned golf cart.
2. Any vehicle other than “your covered auto,” which is owned by you; or furnished or available for your regular use. An example would be a company car furnished for your regular use or a roommate’s or significant other’s vehicle made available for your use.
3. Any vehicle, other than “your covered auto,” which is owned by any “family member or is available for the regular use of any “family member.” This

exclusion is similar to the one above; however, it contains an exception for a named insured.

The dad, Don, the named insured, has a 22-year-old son, Steve, who is a resident of the household. Steve parks his 2010 Volkswagen in the driveway. The car is not insured under Don's policy as it is insured by Steve. Don needs to go to the store, so Steve tells him to take the Volkswagen. If Don is involved in an accident, he would be able to use his own policy as excess if Steve's policy was not adequate to cover the loss. Steve, however, would not be covered under Don's policy.

4. Racing any vehicle while located inside a facility designed for racing and involved in competing in, practicing, or preparing for a race.

Out of State Provision

This provision serves as a safety net for those insureds that carry minimum or low liability limits, and are involved in an accident in another state. The limits will be increased to an amount necessary to meet the financial responsibility of the state where the accident took place. The coverage also provides any required no-fault benefits.

Other Insurance

If there is other applicable liability insurance, we will pay only our share of the loss. Our share is the proportion that our limit bears to the total of all limits. However, any insurance we provide on a non-owned vehicle shall be excess over any other collectible insurance.

TORT OPTION SELECTIONS

Pennsylvania's Financial Responsibility law requires all personal auto insurers to notify their insureds of the two tort options (full tort or limited tort) that will govern their right to sue. The choice of the tort options may be made by any named insured and is binding on all insureds in the household, but is not binding on occupants of the vehicle who are not family members.

The two tort options from which the insured must choose are:

1. **Full Tort Option**

The full tort option gives the insured the opportunity to maintain an unrestricted right for you and members of the household to seek full financial compensation for injuries caused by other drivers. You and other household members covered under this policy may seek recovery for all medical and other out of pocket expenses. You may also seek compensation for pain and suffering and other non-monetary damages as a result of injuries caused by others.

2. **Limited Tort Option**

The limited tort option limits the insured's right and the right of members of your household to seek financial compensation for injuries caused by others. You and household members covered by this policy may seek recovery for all medical and other out of pocket expenses, however, you cannot seek recovery for pain and suffering or other non-monetary damages. Individuals choosing limited tort receive a premium reduction compared to the full tort option.

Even though the insured has selected limited tort, he/she can collect a full tort settlement (non-economic loss included) in seven (7) specific situations:

1. If the injury is considered a "serious injury";
2. If the at-fault driver is convicted or accepts Accelerated Rehabilitative Disposition (ARD) for driving under the influence of alcohol or a controlled substance;
3. Is operating a motor vehicle registered in another state;
4. If the at-fault driver intends to injure him/herself or another person;
5. If the at-fault driver has not maintained financial responsibility by the law;
6. When a claim for a motor vehicle defect is against a person in the business of designing, manufacturing, repairing, servicing or otherwise maintaining a motor vehicle; or
7. When the person is injured as an occupant of a commercial vehicle.

DEFINITIONS

"Non-economic loss" means pain, suffering and other non-monetary losses.

"Serious injury" means an injury resulting in death, serious impairment of a body function or permanent serious disfigurement.

FIRST PARTY BENEFITS

The State of Pennsylvania, as a part of its Financial Responsibility Law, mandates that basic First Party Medical Benefits (defined below) must be provided on every motor vehicle required to be registered in the state, except recreational vehicles not intended for highway use as well as motorcycles, mopeds, etc. These benefits are provided on a no-fault basis (a person collects from his/her own insurer regardless of who was at fault in the accident).

First Party Benefits Coverage - Pennsylvania (PP 05 51)

- **Basic First Party Benefit**

The basic benefit is paid to or for an “insured” who incurs medical expenses up to the required minimum of \$5,000. It pays reasonable and necessary medical expenses for an insured’s care, recovery, or rehabilitation. Medical expenses will be paid if incurred within 18 months of the accident, but may be extended beyond 18 months if expenses are initially identified during the first 18 months.

- **Added First Party Benefits - Pennsylvania PP 05 51**

There are four additional optional benefits from which the named insured may select one or more choices.

1. **Medical Expenses Benefits**

The insured may increase the basic \$5,000 Medical Expense Benefit limit up to \$100,000.

2. **Work Loss Benefits**

This selected benefit will pay an “insured” 80% of actual loss of gross income after a five-day waiting period (the first 5 days lost income is not included). The minimum payable under this benefit is \$1,000 per month, \$5,000 aggregate per person, up to the maximum of \$2,500 per month and \$50,000 aggregate per person.

3. **Funeral Expense Benefits**

This benefit will pay funeral or burial expenses actually incurred if “bodily injury” causes the “insured’s” death within 24 months from the date of the accident. Limits of \$1,500 or \$2,500 are available.

4. **Accidental Death Benefits**

A death benefit from \$5,000 to \$25,000 is paid if “bodily injury” causes the death of the named insured or a “family member” within 24 months from the date of the accident.

- **Combination First Party Benefits provided by First Party Benefits Coverage - Pennsylvania PP 05 51**

If the named insured wishes to purchase all of the benefits found in the schedule of Added First Party Benefits, he/she can simply select the Combination Box found on the schedule and pick a limit for Accidental Death as well as a Maximum Limit of Liability for the total of all the First Party Benefits. There are no internal dollar limits which apply to either Medical or Income Loss. The maximum total limit for all First Party Benefits offered in this endorsement is \$177,500.

- **Extraordinary Medical Benefits Coverage – Pennsylvania (PP 05 53)**

The purpose of this coverage is to provide higher limits of medical benefits.

1. **Benefits** - The only benefit provided in this endorsement is the payment of covered medical expenses (including care, recovery or rehabilitation). It pays those medical expenses incurred after the first \$100,000 and up to \$1,000,000 additional medical expenses making a total amount recoverable \$1.1 million. The named insured may select a limit of \$100,000 up to \$1,000,000 over other medical provided in either the Added or Combination Benefit Coverage.
2. **There is no coverage for the first \$100,000 of medical expenses.**

Priority of Policies - We will pay First Party Benefits in order of priorities set forth by the act. We will not pay if there is another insurer at a higher level of priority. The First category is the highest level of priority and the Fourth category is the lowest level.

<u>First</u>	Named insured, the policy under which he/she is the named insured;
<u>Second</u>	A family member who is not a named insured under any other policy;
<u>Third</u>	If the insured is not a named insured or family member under any other policy, the insured collects from the insurer of the motor vehicle he/she is occupying at the time of the accident; and
<u>Fourth</u>	A person who is not an occupant of a motor vehicle, the policy of any motor vehicle involved in the accident.

Exclusions

Although the exclusions rarely apply to requested First Party Benefit claims, we need to examine some of the more significant exclusions. The First Party Benefits endorsements do not provide coverage for “bodily injury” sustained by any “insured:”

1. **While intentionally causing or attempting** to cause “bodily injury” to himself/herself or any other person.
2. **While committing a felony** (like a bank robbery).
3. **While running away** from arrest by a law enforcement official.
4. **While using a “motor vehicle” knowingly converted** (wrongful use of property) by that insured. However, this exclusion does not apply to the named insured, spouse and “family members.” Therefore, if someone steals your car and is injured, he/she cannot receive benefits.
5. Who owns a registered motor vehicle that is not covered in accordance with the **Pennsylvania Motor Vehicle Financial Responsibility Law**, or occupying an uninsured motor vehicle owned by that insured.
6. **Maintaining or using a motor vehicle for use as a residence.**
7. **“Occupying” a recreational vehicle** designed for off road use or a motorcycle, moped or similar vehicle.
8. **“Named Driver Exclusion”** - Any person named in the endorsement **while operating** a motor vehicle.
9. **Sustained by a pedestrian** if the accident occurs outside of Pennsylvania. However, this exclusion does not apply to the named insured, spouse or “family member.”

Aunt Flo, a widow who resides in Pennsylvania by herself and has no automobile insurance in the household, is vacationing in New York City. While there, she strikes and injures a NY resident pedestrian. The NY resident pedestrian is not eligible to collect First Party Benefits from Pennsylvania’s Assigned Claims Plan.

If First Party Benefits are not paid, the insured has up to 4 years to file lawsuit. If payments have been made and then stopped, the insured gets up to 4 years from the time payments have been stopped to bring suit. If a minor has been injured and suit has not been brought, the minor has 4 years from the time they reach 18 years to bring suit.

Any amount payable under First Party Benefits shall be excess over any sums paid, payable or required to be provided under any workers compensation law. There is no right of subrogation or reimbursement from a claimant’s tort recovery.

UNINSURED AND UNDERINSURED MOTORISTS COVERAGE (UM / UIM)

Despite the fact that everyone who owns or operates a vehicle in Pennsylvania is required to have insurance, not everyone carries insurance or has adequate limits. Additionally, some accidents involve out-of-state operators from states where mandatory insurance does not exist, or limits of liability are less than required in Pennsylvania.

Uninsured Motorists (UM) Coverage is designed to pay an “insured” for **bodily injury** when he/she is entitled to receive damages from an uninsured, negligent driver. Underinsured Motorists (UIM) Coverage goes a step further and pays for losses suffered by an insured in which the negligent driver has liability coverage, but the limit of liability is insufficient to pay the insured’s damages. Please note, in **Pennsylvania UM/UIM coverage DOES NOT PAY** for property damage.

Conceptually, the named insured is buying coverage to protect him/herself and family members for bodily injuries in an auto accident when the other driver is at fault but either has no insurance or not enough insurance to make the injured insured completely whole.

This is optional coverage. However, if the insured does not want these coverages, he or she must reject the coverage in writing. If coverage is not rejected in writing, the insurer will add UM and UIM for the bodily injury limits shown on the Declarations Page. If the insured purchases coverage, he has the option of purchasing the minimum limits of 15/30 (bodily injury) if his policy is a split limit of liability policy, or \$35,000 (bodily injury) if he has a combined single limit of liability. These coverages can be increased up to the insured’s limit of liability coverage.

UNINSURED MOTORISTS COVERAGE

Insuring Agreement

The insurer promises to pay compensatory damages for which an insured is legally entitled to recover from the owner or operator of an uninsured motor vehicle because of “bodily injury”:

1. sustained by an “insured”; and
2. caused by an accident.

Definitions

Insured Under Uninsured Motorists Coverage

1. Named insured and family member.
2. Anyone else “occupying” a covered “motor vehicle.”

3. Any person described in items 1 and 2 who sustained and is entitled to recover damages, because of “bodily injury” to which Uninsured Motorists Coverage applies. This person, although not involved in the actual accident, is legally entitled to receive damages from the person who caused “bodily injury” to an “insured.”

George is injured by a hit and run vehicle while crossing the street. George brings suit for his injuries under the Uninsured Motorist Provision. George’s wife, although not involved in the accident, is also entitled to bring suit for things like loss of companionship, loss of services, etc.

4. The "uninsured motor vehicle" is defined as a land motor vehicle or trailer:
- for which no liability policy or bond applies at the time of the accident.
 - that is a hit-and-run vehicle, and neither the driver nor owner can be identified, and which hits or which causes an accident resulting in "bodily injury" without hitting:
 - a. You or "any family member";
 - b. A vehicle occupied by you or "any family member" or
 - c. "Your covered auto"

If there is no contact with the hit-and-run vehicle, the facts of the accident must be proved.

- for which an insuring or bonding company either (1) denies coverage, or (2) is or becomes insolvent or involved in insolvency proceedings.
5. An uninsured motor vehicle does not include:
- a vehicle owned by or furnished for the regular use of “you” or any “family member.”
 - a motor vehicle, owned or operated by a self-insurer, who qualifies under applicable motor vehicle laws, unless that self-insurer becomes insolvent.
 - a vehicle operated on rails or crawler treads.
 - a vehicle designed for off road use, and is operated off public roads at the time of an accident.
 - a vehicle while located for use as a residence or premises.

Exclusions

1. **While an “insured” is “occupying” their own vehicle** that is not covered for Uninsured Motorists Coverage
2. **Punitive damages**
3. An “insured” **using a vehicle without a reasonable belief**, but this does not apply to a “family member” using “your covered auto” owned by “you.”
4. **An insured cannot settle any claim without the insurer’s consent** if it prejudices their right to recovery.
5. **While “your covered auto” is being used as a public or livery conveyance.** Ridesharing is excluded.
6. **If full tort is selected**, the insured can collect non-economic losses. If limited tort is selected, non-economic damages can only be collected when the injury is a “serious injury” or when the insured is an occupant of a commercial vehicle.

Limit of Liability

The Limit of Liability for Uninsured Motorists Coverage is shown in the Schedule or on the Declarations Page.

Any first named insured may select a limit equal to limits carried for bodily injury in Liability Coverage; however, limits cannot exceed the liability limit. The insured may select a lower limit in writing; however, the minimum limits are \$35,000 or \$15,000/\$30,000 for Split Limits.

Limits are available in two categories: **stacked limits** and **non-stacked**. Insurers are required to offer stacked limits, and stacked limits will be placed on the policy unless the named insured signs a waiver rejecting stacked limits. Stacked limits give the named insured and family members limits equal to the amount of the limits shown on the schedule times the number of autos listed on the policy.

A named insured who purchased Uninsured Motorists Coverage with stacking limits of \$100,000 for three cars would have \$300,000 to pay for bodily injury claims. If the named insured has only one car, when he/she acquires an additional auto, the insurer must offer stacked limits.

The other option is non-stacked. The limit expressed in the Schedule on the endorsement is the most that is available for any “insureds,” no matter the number of claims made, vehicles shown on the Declarations, or vehicles involved in the accident. The premium for an insured who selects the non-stacked option shall receive coverage at a reduced price. The first named insured must sign a waiver rejecting the stacked limits.

UNDERINSURED MOTORIST COVERAGE

The purpose of Underinsured Motorists Coverage is to protect the insured (and additional insureds) from the risk that a negligent driver of another vehicle will cause injury to the “insured” and will have inadequate coverage to fully compensate for the bodily injuries caused by the driver’s negligence. This coverage is separate and optional from uninsured motorists coverage. The selection of coverage is similar to uninsured motorists in terms of its selection by the first named insured and all insureds are bound by the selection. As found in the Uninsured Motorist Coverage, this coverage must be offered and will be granted unless the named insured rejects it in writing. The named insured may select Uninsured Motorist Coverage only, Underinsured Motorists only, both, or neither one.

Insuring Agreement

The insurer promises to pay compensatory damages for which an insured is legally entitled to recover from the owner or operator of an underinsured motor vehicle because of “bodily injury”:

1. sustained by an “insured”; and
2. caused by an accident.

An “underinsured motorist” is defined as a vehicle for which the sum of all liability bonds or policies, which apply at the time of an “accident,” is not enough to pay the full amount the insured is legally entitled to recover as damages.

The named insured carries Underinsured Motorists Coverage in the amount of \$100,000. The named insured becomes injured in an auto accident. He/she incurs “bodily injury” expenses of \$50,000. The negligent driver is only carrying the minimum liability limits of \$35,000. Therefore, the negligent driver is considered underinsured since his coverage is not enough to pay the full amount the insured is legally entitled to recover for bodily injury. (Note – this is a single limit example)

Insured Under Underinsured Motorists Coverage

Insureds are the same as Uninsured Motorists.

Selected Exclusions

The exclusions in the Underinsured Motorists Coverage are the same as found in the Uninsured Motorists Coverage including the following exclusion.

In the Personal Auto endorsements, a person is not able to collect non-economic damages (non-monetary, pain and suffering, etc.) if they have selected Limited Tort. Under limited tort, a person may not recover for “noneconomic loss” unless the injury is a “serious injury” or you are an occupant of a commercial vehicle.

Limit of Liability

As we saw in the Uninsured Motorists Coverage, the named insured has several choices in terms of the amount of coverage and the type of limits. The types of Underinsured Motorists limits are Single Limit, Split Limits, Stacked or Non-stacked.

COVERAGE FOR DAMAGE TO YOUR AUTO

Coverage for Damage to Your Auto - Part D

Insuring Agreement

The Personal Auto Policy promises to pay for direct and accidental loss to “your covered auto” or any “non-owned auto” including their equipment, minus any applicable deductible shown in the Declarations. If loss to more than one of the insured’s covered autos or “non-owned autos” results from the same collision only one, the highest, deductible applies. This is an optional coverage and the named insured must select the coverage and pay a premium.

Collision

Collision is the upset or overturn of “your covered auto” or a “non-owned” auto or their impact with another vehicle or object.

Other Than Collision (OTC) – (Comprehensive)

If the vehicle sustains direct and accidental loss that is not a collision, it is considered an other than collision loss unless specifically excluded. This is also referred to as comprehensive coverage.

Coverage Part D states that loss caused by the following is considered OTC:

1. Missiles or falling objects,
2. Fire,
3. Theft or larceny,
4. Explosion or earthquake,
5. Windstorm,
6. Hail,
7. Water or flood,
8. Malicious mischief or vandalism,
9. Riot or civil commotion,
10. Contact with a bird or animal, and
11. Breakage of glass (unless caused by a “collision” then the insured may elect to have the loss considered a “collision”).

Non-Owned Auto

A Non-Owned Auto is defined as a private passenger vehicle, pickup, van or trailer which is not owned or furnished for the regular use of the named insured or family member, or is a temporary substitute vehicle. The PAP provides coverage equal to the broadest on any of “your covered autos.”

Deductibles

Deductibles are the first amounts paid out of pocket by an insured in the event of a loss. Deductibles apply separately to Collision and OTC. Typically, an insured will pick a lower deductible for OTC. The standard collision deductible for private passenger policies is \$500. A named insured may request a deductible lower than the standard \$500 deductible on collision, but in no case can the deductible be below \$100.

Transportation Expense

This coverage pays up to \$20 per day up to a maximum of \$600 and can be increased by endorsement. The cost of temporary replacement of transportation is paid to an insured if the loss is caused by the following:

- Other than collision (if coverage is provided); or
- Collision (if coverage is provided).

There may also be a payment under this coverage if there is loss of use expenses for which the “named insured” becomes legally responsible due to a loss to a “non-owned auto” caused by collision or other than collision, if those coverages are provided under the policy.

If the loss is caused by a total theft of “your covered auto” or “non-owned” auto then the payment is subject to a 48 hour waiting period. On other covered losses, payment is only made if the auto is withdrawn from use for more than 24 hours.

Exclusions

The Personal Auto Policy will not pay for:

1. **Loss for “your covered auto”** or a “nonowned auto” while used as a public livery.
2. **Damage due to** (except from the total theft of the auto):
 - Wear and tear,
 - Freezing,
 - Mechanical/electrical breakdown, or
 - Road damage to tires.

- 3 **Loss due to radioactive contamination or war.**
4. **Loss to electronic equipment** that reproduces, receives or transmits audio, visual or data signals including but not limited to:
 - radios,
 - stereos,
 - tape decks,
 - CD players,
 - navigation systems,
 - internet systems,
 - personal computers,
 - video entertainment systems,
 - telephones,
 - televisions,
 - two-way mobile radios, scanners
 - and CB radios.

EXCEPT IF:

- the equipment is permanently installed in “your covered auto” or any “non-owned auto”. (For equipment permanently installed in location not used by the auto manufacturer, there is a \$1,000 limit.)
5. **Tapes, records, disks or other media** used with the equipment described in 4 above.
 6. A **total loss to a covered auto due to destruction** or confiscation by governmental authority. This exclusion does not apply to the Loss Payee.
 7. **Loss to an unlisted trailer, camper, or motorhome** and their facilities and equipment unless acquired during the policy period and there is a request to insure it by the named insured within 14 days from date of acquisition. However, coverage for a non-owned trailer is limited to \$1,500.
 8. **Use of a non-owned auto without reasonable belief of permission**, but this exclusion does not apply to a “family member” using “your covered auto.”
 9. **Loss to radar or laser detectors.**
 10. **Loss to custom furnishings and equipment** like carpeting, furniture, murals, etc. in any pickup or van, except, there is coverage for a cap, cover or bedliner on a pickup.

11. **While employed in the business of selling, servicing, repairing storing or parking of cars** including road testing and delivery of vehicles. This refers to non-owned autos in an automobile business.
12. Vehicle while located inside a **facility designed for racing** and involved in competing in, practicing, or preparing for a race.
13. **Loss or loss of use for a rental vehicle** if a rental vehicle company is precluded from recovery, pursuant to the provisions of any applicable rental agreement or state law.

DUTIES AFTER AN ACCIDENT OR LOSS – PART E

The duties after an accident or loss are consistent with most other policies.

1. Prompt notice of accident or loss.
2. Cooperating in investigation and sending copies of notices and/or legal papers.
3. Submit to physical exams if required and to examination under oath.
4. Authorization of medical reports and other records.
5. Submit a proof of loss.

For a person seeking Coverage For Damage To Your Auto you must also:

1. Protect the vehicle from further loss.
2. Promptly notify the police of theft of a “covered auto”.
3. Permit inspection and appraisal of damaged property before repair or disposal.

GENERAL PROVISIONS – PART F (SELECTED)

- Bankruptcy
- Changes - If there are changes that occur, such as changing vehicles, drivers or the place(s) of garaging vehicles, the insurer can change the premium charged. If the insurer makes a change in coverage which broadens coverage without an additional premium charge, then the named insured’s policy will immediately change so as to receive the broader coverage.
- Fraud
- Legal Action Against Us
- Our Right to Recover Payment (Subrogation)
- Policy Period and Territory - The policy is applicable to losses which occur during the policy period and in the policy territory. The policy territory is

restricted to the United States, its territories and possessions, Puerto Rico, or Canada.

- Cancellation / Nonrenewal
- Transfer Of Your Interest In This Policy (Assignment) - You may not assign this policy without our written consent. However, if a named insured dies, coverage will be provided for:
 - o The surviving spouse if resident of the same household, or
 - o The legal representative as if a named insured shown in the Declarations. This applies only to the representative's legal responsibility to maintain or use "your covered auto."

Coverage will only be provided until the end of the policy period.

- Two or More Auto Policies - If two or more policies issued to the named insured apply to the same accident, the maximum limit will not exceed the highest limit of the two policies.

ENDORSEMENTS

- **Amendment of Policy Provisions – Pennsylvania (PP 01 51)**

Already addressed throughout this chapter.

- **Towing and Labor Costs (PP 03 03)**

It provides coverage for towing and labor every time an auto becomes disabled. Typically limits can be \$50, \$75 or \$100.

- **Extended Non-Owned Coverage - Vehicles Furnished Or Available For Regular Use (PP 03 06)**

This endorsement is used to provide coverage to either the named insured or a family member. The endorsement only broadens coverage for the individual named in the endorsement, unless the option to cover all family members is selected. The endorsement deletes exclusion B.2.b. in the Liability Section. This is the exclusions for non-owned autos "furnished or available for the regular use" of the named insured. This endorsement will extend coverage for the insured's personal use of a company car.

- **Joint Ownership Coverage - PP 03 34**

This endorsement provides auto coverage for the financial interest the joint owner of the auto that is specifically listed in this endorsement. It can be used to cover unmarried individuals who jointly own a vehicle, and reside together. It also can be used for non-resident relatives, as might be the case where a parent co-owns a car with a non- resident son or daughter.

- **Miscellaneous Type Vehicle - PP 03 23**

This endorsement is used to alter the definition of a covered vehicle to include scheduled vehicles such as motorcycles, motor homes, all-terrain vehicles, dune buggies, golf carts, etc. The endorsement can be used to provide all the typical coverages of the Personal Auto Policy including Liability, Uninsured Motorists, Collision and Other Than Collision.

Another alternative to the Miscellaneous Type Vehicle Endorsement and is a separate Recreational Vehicle Policy designed to cover motorcycles, mopeds, dirt bikes, ATVs, and golf carts for property, liability and medical payments.

PENNSYLVANIA AUTOMOBILE INSURANCE PLAN (Assigned Risk)

The automobile insurance plan was established to provide coverage to individuals who are unable to secure insurance through the regular voluntary automobile market. The plan allows those persons to comply with the state's financial responsibility laws. The plan sets automobile rates and provides for an equitable apportionment of assigned risks and clean risks among those insurance companies licensed to write automobile insurance in the state of Pennsylvania. Assigned risk insureds are assigned to a designated insurer for a maximum period of 36 months; however, if they can get coverage in the voluntary market, they can leave the plan sooner.

The assigned risk plan offers the same coverage found in the voluntary market:

- Liability
- First Party Benefits
- Tort Options
- Uninsured and Underinsured Motorist Coverage
- Physical Damage

Each insurer shall be required to write a policy for basic limits of 15/30 bodily injury and \$5,000 property damage. Insurers are required to provide an installment payment plan for premiums. A clean risk may obtain higher limits of liability up to 100/300 bodily injury and \$50,000 property damage.

Coverage in the assigned risk plan may be written through any agent or broker who is certified by The Plan as a producer. Producers may bind coverage if the producer uses the electronic binding procedures (EASI) specified in the rules. Coverage is available for both Personal and Commercial auto policies.

All automobile cancellation notices issued in Pennsylvania must notify the insured of the eligibility of coverage through the assigned risk plan.

PERSONAL AUTO Cancellation/Nonrenewal Requirements

Notice Given By	Cancel/ Nonrenew	15 day notice	60 day notice
Insurer	Cancel	Nonpayment of premium	If the policy was obtained through material misrepresentation
		For any reason if the policy has been in effect for less than 60 days	
		Named insured’s driver’s license has been suspended or revoked.	
	Nonrenewal	Nonpayment of premium.	Any other valid reason
		Named insured’s driver’s license has been suspended or revoked.	
Insured	Cancel	Returning the policy to the insurer. No advanced notice required.	
		Giving advanced written notice of the cancellation date.	

All cancellation notices must notify the insured of the availability of coverage through the Pennsylvania Automobile Insurance Plan and the right to appeal to the Insurance Department.

PROOF OF FINANCIAL RESPONSIBILITY

Notice of sanction for not providing proof of financial responsibility:

An applicant for registration of a vehicle shall acknowledge on a form developed by the Dept. of Transportation that the applicant knows that he may lose his operating privilege or vehicle registrations if he fails to maintain financial responsibility on the currently registered vehicle for the period of registration.

Manner of providing proof of financial responsibility:

Insurers shall provide financial responsibility identification cards to insureds which shall be valid only for the period for which coverage has been paid for by the insured. If the insurer & the insured both agree, the insurer may issue the financial responsibility identification card solely in electronic format. Financial responsibility identification cards shall disclose the period for which coverage has been paid by the insured & shall contain such other information as required by the department of insurance. When the insured has financed premiums through a premium finance company or where the insured is on an insurer sponsored or agency sponsored payment plan, Financial responsibility ID cards, maybe issued for periods of six months even though such payment by the insured maybe for a period less than six months. Nothing in this subsection shall be construed to require the immediate issuance of Financial responsibility ID cards where insured replaces an insured vehicle, adds a vehicle or increases coverages under an existing policy for which a premium adjustment is required.

If an insured chooses to provide proof of financial responsibility to be viewed in an electronic format on an electronic device, a police officer administering in good faith this subchapter shall be immune from any civil or criminal liability which arises from the insured's choice, including the inadvertent viewing of materials on the device other than the proof of financial responsibility, inadvertent deletion of information from this device, inadvertent interception of a communication while in the possession of the device and breakage which occurs to the device.

Proof of financial responsibility before restoring operating privilege or registration:

When the operating privilege of any person or the registration of any vehicle has been suspended or revoked relating to proof of financial responsibility following a violation or an accident, the department shall not restore the operating privilege or the applicable registration until the person furnishes proof of responsibility.

Proof of financial responsibility following violation or accident:

A defendant who is convicted of a traffic offense, other than parking, that requires a court appearance shall be required to show proof of financial responsibility covering the operation of the vehicle at the time of the offense. If the defendant fails to show proof of financial responsibility, the court shall notify the department. Upon receipt of the notice, the department shall revoke the registration of the vehicle. If the defendant is the owner of the vehicle, the department shall also suspend the operating privilege of the defendant.

If the department determines that the owner of a motor vehicle involved in an accident requiring notice to a police department did not maintain financial responsibility on the motor vehicle at the time of the accident, the department shall suspend the operating privilege of the owner, where applicable, and the department shall revoke the registration of the vehicle.

Required financial responsibility:

Every motor vehicle of the type required to be registered under this title which is operated or currently registered shall be covered by financial responsibility.

The Dept. of Transportation shall require that each motor vehicle registrant certify that the registrant is financially responsible at the time of registration or any renewal. The department shall refuse to register or renew the registration of the vehicle for failure to comply with this requirement or falsification of self-certification.

Upon registering a motor vehicle or renewing a motor vehicle registration, the owner of the motor vehicle shall be deemed to have given consent to produce proof, upon request, to the Dept. of Transportation or a police officer that the vehicle registrant has the required financial responsibility. Proof of financial responsibility may be satisfied by production of a financial responsibility ID card in paper or electronic form. If an owner of a motor vehicle is providing electronic proof to a police officer, the police officer shall only view content that is reasonably necessary to demonstrate proof of financial responsibility. The owner of the electronic device assumes liability for any damage to the electronic device containing the financial responsibility ID card while in possession of the police officer or agents of the department.

The Dept. of Transportation shall suspend the registration of a vehicle for a period of three months if it determines the required financial responsibility was not secured and shall suspend the operating privilege of the owner or registrant for a period of three months if the department determines that the owner or registrant has operated or permitted the operation of the vehicle without the required financial responsibility. The operating privilege shall not be restored until the restoration fee for operating privilege provided by section 1960 (relating to reinstatement of operating privilege or vehicle registration) is paid.

In lieu of a registration suspension, an owner or registrant may pay to the department a civil penalty of \$500., the restoration fee prescribed under section 1960 and furnish proof of financial responsibility in a manner determined by the department. An owner or registrant may exercise this option no more than once in a twelve-month period.

When the department has revoked or suspended the registration of any vehicle under this chapter, the department shall not restore or transfer the registration until the suspension has been served or the civil penalty has been paid to the department and the vehicle owner furnished proof of financial responsibility in a manner determined by the department and submits an application for registration to the department, accompanied by the fee for restoration of registration provided by section 1960.

The following circumstances are exempt from these penalties:

1. The owner or registrant proves to the satisfaction of the department that the lapse in financial responsibility was for a period of less than 31 days and that the owner or registrant did not operate or permit the vehicle to be operated during the period of lapse in financial responsibility.
2. The owner or registrant is a member of the armed services, the owner or registrant has previously had the required financial responsibility, and financial responsibility had lapsed while the owner or registrant was on temporary emergency duty and the vehicle was not operated during the period of lapse of financial responsibility. This exemption shall continue for 30 days after the owner or registrant returns from duty as long as the vehicle is not operated until the required financial responsibility has been established.
3. Insurance coverage has terminated or financial responsibility has lapsed simultaneously with or subsequent to expiration of a seasonal registration.

SECTION 6 - QUIZ

1. The Pennsylvania Motor Vehicle Financial Responsibility Law requires minimum limits of:
 - a. 15/30/5 plus \$10,000 FPB Medical Expense
 - b. 15/30/10 plus \$15,000 FPB Medical Expense
 - c. 15/30/5 plus \$5,000 FPB Medical Expense
 - d. 25/50/10 plus \$5,000 FPB Medical Expense

2. All of the following types of ownership are eligible for a Personal Auto Policy except:
 - a. A vehicle titled to Mr. & Mrs. living in the same household
 - b. A vehicle titled to a corporation
 - c. A vehicle jointly owned and titled to father and son living in the same household
 - c. A vehicle titled to Mr. only

3. All of the following vehicles are eligible to be written on a Personal Auto Policy except:
 - a. A Jeep Cherokee SUV
 - b. A Ford F-150 one-half ton pickup not used for business
 - c. A Ford F-550 one-ton dump truck
 - d. A Chevrolet Impala sedan

4. All of the following are "family members" as defined by the Personal Auto Policy except:
 - a. Cousin Ernie from Oklahoma visiting for one week
 - b. A foster child under the care of the named insured
 - c. Grandmother living in the same household as the named insured
 - d. The named insured's 25 year-old son still living at home

5. Which vehicle is not "your covered auto" as defined in the PAP?
 - a. The named insured's utility trailer
 - b. A "newly acquired" Ford Focus titled to named insured
 - c. A Hertz rental private passenger vehicle rented while on Florida vacation
 - d. A loaner from the auto garage while the named insured's car is being inspected.

6. Rodney Jones has a PAP with a Toyota Camry insured currently with 100/300/50 Liability, basic FPB, 100/300 UM & UIM and Other Than Collision \$100 deductible. (No Collision) He trades in the vehicle for a new Cadillac. Which statement is incorrect?
 - a. He has until the end of the policy period to report for Liability coverage on the new vehicle.
 - b. He must report immediately to have Collision coverage
 - c. He must report within 14 days for Other Than Collision coverage
 - d. He will automatically have Collision coverage for 4 days with a \$500 deductible.

7. For which vehicle purchased by the named insured will the PAP provide automatic "newly acquired" coverage:
 - a. A newly purchased motor home
 - b. A newly purchased ATV
 - c. A newly purchased one-ton dump truck
 - d. A newly purchased private passenger vehicle

8. Susan works at ABC Agency. Her boss has asked her to go get lunch for the office. She has a PAP but has an accident while driving her Honda Civic on the way to the store. Who is not covered under Susan's policy as an "insured"?
 - a. Susan's boss
 - b. ABC Agency
 - c. Susan
 - d. Susan's mechanic because the brakes failed

9. All of the following would be "insureds" under a PAP except:
 - a. The named insured's resident 15 year-old unlicensed son
 - b. The named insured's 19 year-old daughter attending college
 - c. The named insured's neighbor using his car with permission
 - d. A car thief who steals the car and has an accident

10. Which item is not a covered supplementary payment for Part A Liability?
 - a. Defense costs for our insured
 - b. Providing a bail bond for our insured charged with a criminal offense
 - c. \$200 for loss of earnings for the named insured to testify in court
 - d. Pre-judgment interest awarded against our insured

11. All of the following are Part A Liability exclusions except:
 - a. Property damage to a piano our insured was transporting
 - b. Property damage to a car our insured rented from Budget.
 - c. BI and PD to a driver our insured intentionally forced off the road.
 - d. Using a private passenger vehicle for an insurance sales call

12. Which statement is incorrect?
 - a. A Limited tort selection limits recovery to economic loss only for a BI claim and a UM/UIM claim
 - b. Limited tort applies to property damage claims
 - c. Even though an insured selects limited tort, they are entitled to a full tort settlement if they have a "serious injury"
 - d. At time of application a producer must show the premium difference between full and limited tort

13. First Party Benefits
 - a. Are true "no-fault" benefits
 - b. Must be offered, including all options, to the client at time of application
 - c. Replaces Part B Medical Payments in the countrywide policy
 - d. All of the above are true

14. Exclusions under First Party Benefits include:
- a. Intentional loss
 - b. Committing a felony
 - c. Using a vehicle as a residence
 - d. All of the above
15. Uninsured Motorist and Underinsured Motorist Coverage
- a. Is one coverage form in Pennsylvania
 - b. Has no option to stack limits
 - c. Is a mandatory coverage in Pennsylvania
 - d. Requires another party be at fault causing bodily injury to an "insured" covered under the policy.
16. All of the following are defined as "uninsured motor vehicles" except:
- a. A commercial vehicle
 - b. A hit and run vehicle
 - c. A vehicle without any insurance or financial responsibility
 - d. A vehicle with insurance, however the insurance company denies the liability claim.
17. Pennsylvania offers all these options for UM and UIM coverage except:
- a. To reject the coverage in writing
 - b. To buy Uninsured Motorist Property Damage coverage
 - c. To stack limits within a policy
 - d. To carry limits lower than the Part A Liability limits
18. Part D Damage to Your Auto defines "collision" as:
- a. Impact with only another vehicle
 - b. Impact with vehicles, flood and earthquake
 - c. Upset of the vehicle and impact with a vehicle or object
 - d. Upset of the vehicle and fire, theft and glass breakage

19. Which of the following is a Part D, Damage to Your Auto exclusion?
- a. Mechanical and electrical breakdown
 - b. Freezing
 - c. Radar detectors
 - d. All of the above
20. Which statement is correct?
- a. All electronic equipment is covered under Collision
 - b. Permanently installed GPS systems are covered
 - c. Tapes, records and discs are covered for \$500
 - d. Non-owned trailers are not covered
21. The endorsement needed to provide coverage for using a company car would be:
- a. Miscellaneous Type Vehicle Endorsement
 - b. Amendment of Policy Provisions Endorsement - Pennsylvania
 - c. Extended Non-Owned Coverage - Vehicles Furnished Or Available For Regular Use.
 - d. Joint Ownership Coverage
22. Under the Amendment of Policy Provisions Endorsement - Pennsylvania:
- a. Covered newly acquired pickups are changed from 10,000 GVWR in the countrywide policy to 9,000 GVWR in Pennsylvania
 - b. Prejudgment interest is added as a supplementary payment
 - c. The financial responsibility limits of 15/30/5 for Part A Liability are stated
 - d. All of the above
23. The Pennsylvania Automobile Insurance Plan:
- a. Is available for all residents of the United States
 - b. Offers liability limits up to 100/300/50 but no FPB coverage
 - c. Requires the applicant have a valid PA drivers license
 - d. Can only be applied for and written by company personnel

24. Proof of financial responsibility:

- a. Can be provided by ID cards issued by the insurance agent for a two year period.
- b. Can be provided by ID cards issued by the insurance carrier for a six month period
- c. Must be provided in the case of a suspended license within three months of getting their license reinstated
- d. Must be produced at the time of the accident in the form of a certified letter from the insurance agent.

Chapter 6 Answers

1c, 2b, 3c, 4a, 5c, 6b, 7d, 8d, 9d, 10b, 11d, 12b, 13d, 14d, 15d, 16a, 17b, 18c, 19d, 20b, 21c, 22d, 23c, 24b

CHAPTER 7

Commercial Automobile Policy



Insurance Agents
& Brokers

CHAPTER 7 – COMMERCIAL AUTOMOBILE POLICY ('13)**GOALS**

- Describe the following Commercial Auto Policies and explain the coverage provided by:
 - Business Auto Coverage Form
 - Auto Dealers Coverage Form
 - Motor Carrier Coverage Form
- Identify Symbols 1 thru 19.
- Discuss who is an insured and who is not under a Business Auto Policy.
- Review the following Commercial Auto Endorsements:
 - Drive Other Car Coverage – Broadened Coverage for Named Insureds
 - Lessor – Additional Insured & Loss Payee
 - Individual Named Insured
 - Pollution – MCS – 90 Endorsement
- Supplementary Payments
- Motor Carrier Act of 1980
- MCS 90 – Endorsement
- Limits of Transportation Expenses

CHAPTER 7 – COMMERCIAL AUTOMOBILE POLICY

STATE EXAM: 5% OR 7-8 QUESTIONS

COMMERCIAL AUTOMOBILE POLICY ('13)

Commercial Auto Insurance usually is written as a stand-alone policy, but may be written as a part of the Commercial Package Policy.

As we examine Commercial Auto Insurance, you will see that there are many similarities to material we reviewed in Personal Auto. The primary focus of the Commercial Auto Insurance discussion will be devoted to the Business Auto Coverage, and some comparative references will be made to other coverage forms used in writing Commercial Auto Insurance.

COMMERCIAL AUTO COVERAGE FORMS

Business Auto Coverage Form - CA 00 01

The Business Auto Coverage (BAC) Form is designed to provide liability and/or physical damage coverage for owned, non-owned or hired autos which may be used in the insured's business operations.

Auto Dealers Coverage Form - CA 00 25

Those businesses that are auto dealers have unique exposures which are better protected by this coverage form instead of a Business Auto Coverage Form. This form provides a variety of coverages tailored exclusively for auto dealer risks.

Motor Carrier Coverage Form - CA 00 20

Trucks handle most of the cargo and freight shipments in the United States. Goods can be shipped in the owners' vehicles, by contract carriers or by common carriers. The Motor Carrier Coverage Form can be used for all three situations, but is most frequently used to insure the exposures of contract carriers and common carriers.

BUSINESS AUTO COVERAGE FORM (CA 00 01)

The Business Auto Coverage Form is the most commonly used coverage form providing protection for auto exposures faced by most businesses. Due to the great variety of exposures and uses of autos, this coverage form provides an opportunity to purchase narrow to very broad coverage depending on choices made by the named insured.

The Business Auto Coverage Form is made up of five sections:

- Section I - Covered Autos
- Section II - Liability Coverage
- Section III - Physical Damage Coverage
- Section IV - Business Auto Conditions
- Section V - Definitions

Section I – Covered Autos

The Business Auto Coverage Form (BAC) can be written to provide coverage for owned, non-owned and hired autos.

“Auto” is defined as any land motor vehicle, trailer or semitrailer designed for travel on public roads or any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged. However, “auto” does not include “mobile equipment”.

Coverage only applies to autos identified in the Declarations according to symbols 1 thru 9 and 19. If no symbol is entered next to coverage, that particular coverage is not applicable.

Symbols 1 thru 9 and 19 are defined as follows:

SYMBOL	DESCRIPTION
1	ANY "AUTO." Use for Liability coverage only.
2	OWNED "AUTOS" ONLY. Use for any coverage.
3	OWNED PRIVATE PASSENGER "AUTOS" ONLY. Use for any coverage.
4	OWNED AUTOS OTHER THAN PRIVATE PASSENGER "AUTOS". Use for any coverage.
5	OWNED "AUTOS" SUBJECT TO NO-FAULT. Use if No-Fault benefits are required by the state where auto garaged.
6	OWNED "AUTOS" SUBJECT TO COMPULSORY UNINSURED MOTORISTS LAW. Use if UM benefits cannot be rejected in the state where garaged.
7	SPECIFICALLY DESCRIBED "AUTOS" ONLY. Use for any coverage.
8	HIRED "AUTOS" ONLY. Use for any coverage leased, hired, rented or borrowed autos. Excludes autos owned by employees, partners of partnership, member of LLC, or members of their families.
9	NONOWNED "AUTOS" ONLY. Use for Liability coverage only on autos not owned, leased, hired, rented or borrowed by the insured and used in the insured's business.
19	MOBILE EQUIPMENT SUBJECT TO COMPULSORY OR FINANCIAL RESPONSIBILITY OR OTHER MOTOR VEHICLE INSURANCE LAW ONLY. Autos that would qualify under the definition of "mobile equipment" if they were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where they are licensed or principally garaged.

Newly-Acquired Autos

If Symbols 1 - 6 or 19 are used, there is automatic coverage for the remainder of the policy year. However, if Symbol 7 is used, the newly-acquired auto will have that coverage if:

1. All owned “autos” have that coverage; or
2. The newly-acquired replaces an “auto” with that coverage; and
3. The insurer is notified within 30 days.

The BAC provides automatic liability coverage for the following vehicles:

1. Trailers with 2,000 lbs. or less load capacity.
2. “Mobile equipment” carried or towed by a covered “auto.”
3. Temporary substitute autos.

Section II - Liability Coverage

Insuring Agreement

- The Business Auto Coverage promises to pay legal obligations of the “insured” for “bodily injury” and “property damage” caused by an accident and arising out of ownership, maintenance or use of a covered “auto.” The company will also defend, investigate and settle all lawsuits.
- The policy also promises to pay for any “covered pollution expense.”
- The right and duty to defend any insured for a suit asking for damages or a covered pollution cost or expense.

Who Is An Insured

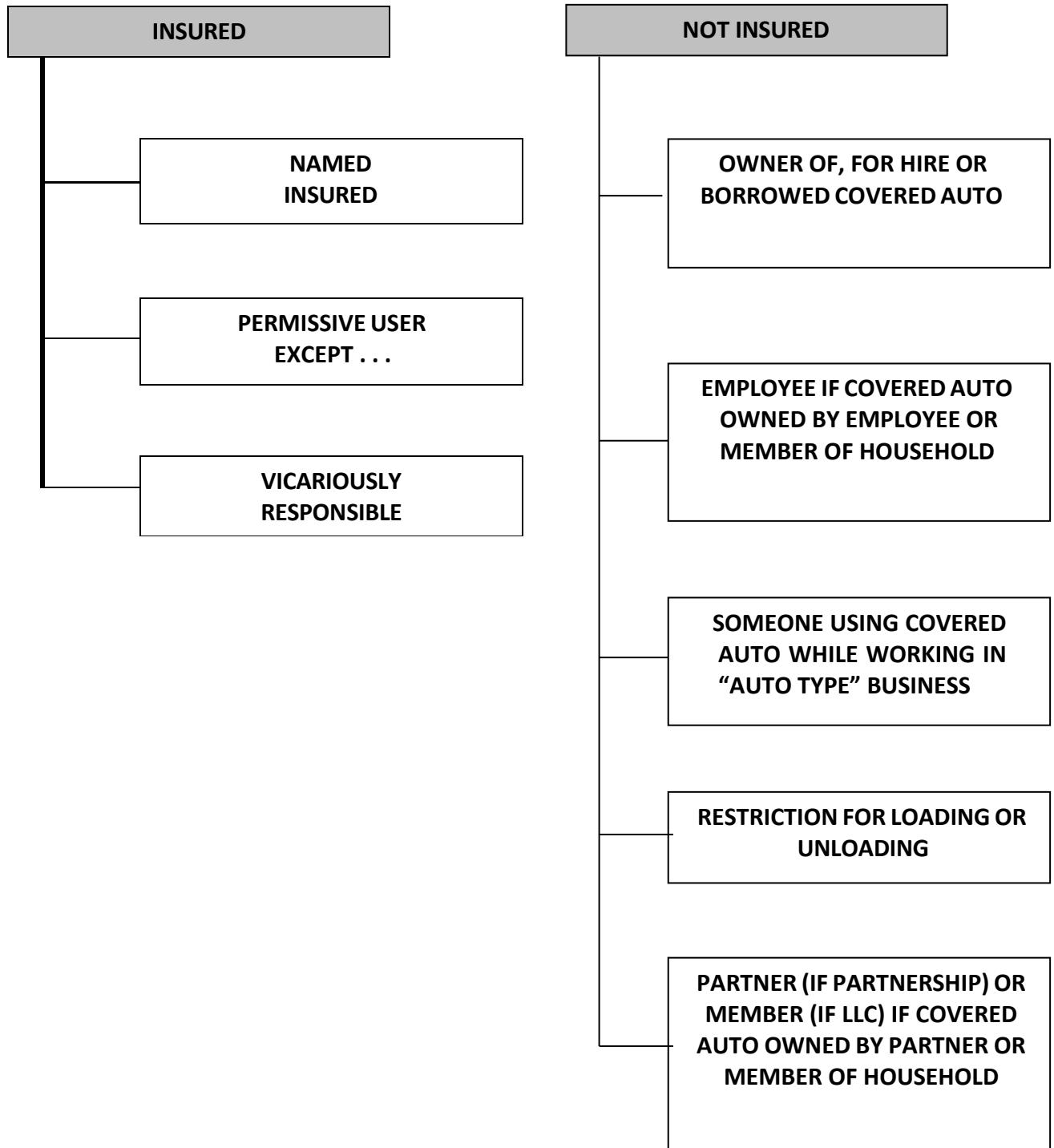
Insureds under this policy include:

1. The named insured,
2. Anyone using the auto with permission of the named insured, and
3. Those held vicariously liable.

An employee has been requested by his employer to drive a YMCA van with children attending a YMCA function. While driving the YMCA’s van the employee causes an accident. YMCA is covered under the YMCA’s Business Auto Coverage, because the YMCA is the named insured, and the van is a covered auto. The driver is a permissive user. The driver’s employer would be covered for the vicarious liability related to the accident.

BAP Coverages

WHO IS AN INSURED?



Supplementary Payments

- Costs incurred by insured at insurance companies request
- \$2,000 for cost of bail bonds
- Cost of Release Attachment Bonds
- Reasonable expenses including up to \$250 per day to assist with claim
- Pre-judgment and post-judgment interest

Exclusions - Liability

1. Expected or Intended Injury
2. Contractual Liability Except Assumed by "Insured Contract."
3. Workers Compensation
4. Employee Indemnification and Employer's Liability
5. Fellow Employee
6. Care, Custody or Control
7. Handling of Property
8. Movement of Property by Mechanical Device (forklift)
9. Operation of mobile equipment
10. Pollution

The BAC provides very limited pollution coverage for losses arising out of the discharge, dispersal, release or escape of "pollutants." This exclusion is designed to eliminate coverage for pollutants which are being transported by an auto, but there are two specific coverages provided under the definition of a "covered pollution cost or expense":

- a. The operating fluids of the covered auto

An auto accident caused by an insured, causes oil (pollutant) to leak from the auto's crankcase. The clean-up of the oil is covered.

- b. Accidents that occur away from the premises when the pollutant is neither in nor upon (cargo) the covered vehicle.

The insured is transporting home fuel oil and has an accident. All of the fuel oil (pollutant) that was being transported leaks onto the roadway. The clean-up of this fuel oil is NOT covered.

Transporting, loading or unloading "pollutants" can be covered by adding the *Pollution Liability – Broadened Coverage for Covered Autos endorsement (CA9948)*.

11. War
12. Racing
13. Completed Operations

Section III - Physical Damage Coverage

This coverage section provides protection from direct and accidental “loss” or damage to an insured’s own “auto,” and with the selection of a proper symbol sometimes a hired “auto.” The coverage very simply states, “We will pay for “loss” to a covered auto or its equipment.”

The three primary coverages available are **Collision, Comprehensive and Specified Causes of Loss Coverage.**

The **Comprehensive** and **Collision** Coverages are similar to what we examined in the Personal Auto Policy. The Specified Causes of Loss Coverage is Named Perils Form.

Specified Causes of Loss Coverage will only pay if the “loss” arises from fire, lightning or explosion, theft, windstorm, hail, or earthquake, flood, mischief or vandalism, sinking, burning, collision or derailment of any conveyance (ferry or train) transporting the covered “auto.”

Towing Coverage may be provided if selected by the insured, and a limit is shown on the Declarations. It only applies to private passenger types of covered “auto.”

Transportation Expenses - Coverage Extension

Although the limits of \$20 per day and a maximum of \$600 are the same as the PAP, this coverage extension is much more limited in that it will only pay if there is a total theft of a covered private passenger “auto.”

Loss Of Use Expenses - Coverage Extension

The BAC also provides \$20 per day with a maximum of \$600 for any covered loss to pay expenses for the loss of use of an auto rented or hired without a driver under a written rental contract.

Selected Exclusions

1. **Racing**
2. **Wear and tear**, freezing, mechanical or electrical breakdown or road damage to tires is not covered.
3. **Electronic Equipment and Media** - Note: Maximum of \$1,000 if permanently installed in a location not normally used by the manufactures of the auto.
4. **Diminution in value.** "Diminution in value" is defined as the actual or perceived loss in market value or resale value which results from a direct and accidental "loss".

Section IV – Business Auto Conditions

Duties in the Event of Accident, Claim, Suit or Loss include prompt notice, not payments, send copies of demands, notify police of theft and protect damaged property from further loss.

General Conditions

- **Other Insurance**

By the very nature of business operations, it is more common to see more than one policy applying to a loss situation. The Other Insurance Condition indicates which BAC policy is primary and which is excess.

If the loss involves a covered owned auto the BAC is primary. If the auto involved in the accident is a covered, non-owned auto the policy is excess.

When the Business Auto Coverage Form and another Business Auto Coverage Form apply on the same basis (whether primary or excess), then insurers of the respective policies will pay on a pro-rata basis.

- **Policy Period, Coverage Territory**

The policy is applicable to losses which occur during the policy period, and in the policy territory. The policy territory is restricted to the United States, its territories and possessions, Puerto Rico, or Canada.

The BAC also covers "losses" anywhere in the world for a private passenger auto leased, hired, rented or borrowed without a driver for 30 days or less and the suit is brought in the United States, its territories or possessions, Puerto Rico or Canada, as long as they have Symbol 8 for physical damage.

In addition, the policy also has the following conditions: misrepresentation, fraud, bankruptcy, no benefit to bailee and liberalization.

AUTO DEALERS COVERAGE FORM (CA 00 25)

The Auto Dealers Coverage Form has five sections as follows:

- Section I – Covered Autos Coverages;
- Section II – General Liability Coverages;
- Section III – Acts, Errors or Omissions Liability Coverages;
- Section IV – Conditions
- Section V – Definitions

Section I – Covered Auto Coverages

This section contains the following coverages, which are triggered by a covered designation symbol:

- Covered Autos Liability Coverage
- Physical Damage Coverage

Who Is An Insured

The Who Is An Insured section extends coverage to the same individuals and entities as the Business Auto Coverage Form, plus:

- If the Named Insured is an individual, the term “you” includes the spouse.
- Customers
 1. If no insurance, they are an “insured” up to the compulsory or financial responsibility limits where the “auto” is garaged.
 2. If insurance less than compulsory or financial responsibility limits, they are an “insured” for the amount the compulsory or financial responsibility limits exceed the limits of their insurance.
 3. “Employees” while using a covered “auto” the Named Insured does not own, hire or borrow in the Named Insured’s business or personal affairs.

Exclusions

Most of the exclusions found in the Covered Auto Liability section are the same as those in the Business Auto Coverage Form. However, because of the additional exposures created by selling autos and repairing and servicing customers' autos, the following exclusions also apply:

- Leased Autos
- Defective Products
- Work You Performed
- Damage To Impaired Property or Property Not Physically Damaged
- Products Recall
- Acts, Errors or Omissions

Physical Damage Coverage

This coverage, with the use of proper symbols, can be triggered to apply to autos owned and leased by the insured. Physical Damage Coverage for dealer's autos held for sale (Symbol 31) is normally written on a blanket basis, subject to either a reporting form basis or a non-reporting form basis. There are penalties for either under-reporting (reporting form) or under-insuring (non-reporting form).

Coverage options are Comprehensive, Specified Causes Of Loss and/or Collision. The exclusions are essentially the same as the Physical Damage exclusions in the Business Auto Coverage Form, with four additional exclusions.

- False Pretense – Someone caused the insured to voluntarily part with an "auto" by trick or scheme or under false pretense, or the insured acquired an "auto" from a seller who did not have legal title.
- Expected profit or loss of market value.
- Loss to any "auto" displayed or stored at a location not shown in the Declarations if the loss occurs more than 45 days after use of that location begins.
- Under Collision Coverage, loss to any "auto" being driven or transported from the point of purchase or distribution to a destination more than 50 road miles apart.

Section II – General Liability Coverages

This section provides coverage for “bodily injury”, “property damage”, “personal and advertising injury” and medical payments to other arising out of the insured’s premises and operations. The Insuring Agreements, Who Is An Insured definition and Exclusions are similar to those found in the Commercial General Liability (CGL) Coverage Form, with no major exceptions.

Section III – Acts, Errors Or Omissions Liability Coverage

This section insures against four liability exposures that fall outside the scope of “bodily injury”, “property damage” or “personal and advertising injury”.

- Failure of the insured to comply with disclosure laws relating to credit or lease terms, including truth-in-lending laws;
- Failure to comply with laws regulating the disclosure of accurate odometer reading in connection with the sale or lease of autos;
- Errors or omissions committed by the insured as a licensed insurance agent or broker in the placement of certain lines of insurance connected with the sale or lease of an auto.
- Liability arising out of defective titles in connection with auto sales or leasing.

Exclusions

1. Criminal, Fraudulent, Malicious, Dishonest Or Intentional Acts
2. “Bodily Injury”, “Property Damage” or “Personal And Advertising Injury”
3. Profit Gain
4. Contractual
5. Noncompensatory Damages
6. Quality Or Performance Of Goods – Failure to Conform To Statements
7. Recording And Distribution of Material Or Information In Violation Of Law
8. Discrimination
9. Bankruptcy Or Insolvency

Section IV – Conditions

The Auto Dealers Coverage Form Conditions are the same as those conditions which are part of the Business Auto Coverage Form and the Commercial General Liability (CGL) Coverage Form.

Motor Carriers Coverage Form (CA 00 20)

The Motor Carrier Coverage Form is an auto policy that has been designed as an alternative to the Truckers Coverage Form. Eligible types of trucking operations include:

1. Private Carriers own their own trucks and haul their own goods.
2. Carriers who transport passengers.
3. Combination carriers are companies that haul their own goods and property of others for hire.
4. Carriers of both passengers and freight are companies that carry both people and property.

Section II - Liability Coverage

The Motor Carrier coverage and exclusions are very similar to those in the BAC with some changes, especially related to ownership and use of trailers. This form promises to pay legal obligations of the “insured” for “Bodily Injury” and “Property Damage” caused by an accident and arising out of ownership, maintenance or use of a covered “auto.” The company will also defend, investigate and settle all lawsuits.

PROOF OF FINANCIAL RESPONSIBILITY

Notice of sanction for not providing proof of financial responsibility:

An applicant for registration of a vehicle shall acknowledge on a form developed by the Dept. of Transportation that the applicant knows that he may lose his operating privilege or vehicle registrations if he fails to maintain financial responsibility on the currently registered vehicle for the period of registration.

Manner of providing proof of financial responsibility:

Insurers shall provide financial responsibility identification cards to insureds which shall be valid only for the period for which coverage has been paid for by the insured. If the insurer & the insured both agree, the insurer may issue the financial responsibility identification card solely in electronic format. Financial responsibility identification cards shall disclose the period for which coverage has been paid by the insured & shall contain such other information as required by the department of insurance. When the insured has financed premiums through a premium finance company or where the insured is on an insurer sponsored or agency sponsored payment plan, Financial responsibility ID cards, maybe issued for periods of six months even though such payment by the insured maybe for a period less than six months. Nothing in this subsection shall be construed to require the immediate issuance of Financial responsibility ID cards where insured replaces an insured vehicle, adds a vehicle or increases coverages under an existing policy for which a premium adjustment is required.

If an insured chooses to provide proof of financial responsibility to be viewed in an electronic format on an electronic device, a police officer administering in good faith this subchapter shall be immune from any civil or criminal liability which arises from the insured's choice, including the inadvertent viewing of materials on the device other than the proof of financial responsibility, inadvertent deletion of information from this device, inadvertent interception of a communication while in the possession of the device and breakage which occurs to the device.

Proof of financial responsibility before restoring operating privilege or registration:

When the operating privilege of any person or the registration of any vehicle has been suspended or revoked relating to proof of financial responsibility following a violation or an accident, the department shall not restore the operating privilege or the applicable registration until the person furnishes proof of responsibility.

Proof of financial responsibility following violation or accident:

A defendant who is convicted of a traffic offense, other than parking, that requires a court appearance shall be required to show proof of financial responsibility covering the operation of the vehicle at the time of the offense. If the defendant fails to show proof of financial responsibility, the court shall notify the department. Upon receipt of the notice, the department shall revoke the registration of the vehicle. If the defendant is the owner of the vehicle, the department shall also suspend the operating privilege of the defendant.

If the department determines that the owner of a motor vehicle involved in an accident requiring notice to a police department did not maintain financial responsibility on the motor vehicle at the time of the accident, the department shall suspend the operating privilege of the owner, where applicable, and the department shall revoke the registration of the vehicle.

Required financial responsibility:

Every motor vehicle of the type required to be registered under this title which is operated or currently registered shall be covered by financial responsibility.

The Dept. of Transportation shall require that each motor vehicle registrant certify that the registrant is financially responsible at the time of registration or any renewal. The department shall refuse to register or renew the registration of the vehicle for failure to comply with this requirement or falsification of self-certification.

Upon registering a motor vehicle or renewing a motor vehicle registration, the owner of the motor vehicle shall be deemed to have given consent to produce proof, upon request, to the Dept. of Transportation or a police officer that the vehicle registrant has the required financial responsibility. Proof of financial responsibility may be satisfied by production of a financial responsibility ID card in paper or electronic form. If an owner of a motor vehicle is providing electronic proof to a police officer, the police officer shall only view content that

is reasonably necessary to demonstrate proof of financial responsibility. The owner of the electronic device assumes liability for any damage to the electronic device containing the financial responsibility ID card while in possession of the police officer or agents of the department.

The Dept. of Transportation shall suspend the registration of a vehicle for a period of three months if it determines the required financial responsibility was not secured and shall suspend the operating privilege of the owner or registrant for a period of three months if the department determines that the owner or registrant has operated or permitted the operation of the vehicle without the required financial responsibility. The operating privilege shall not be restored until the restoration fee for operating privilege provided by section 1960 (relating to reinstatement of operating privilege or vehicle registration) is paid.

In lieu of a registration suspension, an owner or registrant may pay to the department a civil penalty of \$500., the restoration fee prescribed under section 1960 and furnish proof of financial responsibility in a manner determined by the department. An owner or registrant may exercise this option no more than once in a twelve-month period.

When the department has revoked or suspended the registration of any vehicle under this chapter, the department shall not restore or transfer the registration until the suspension has been served or the civil penalty has been paid to the department and the vehicle owner furnished proof of financial responsibility in a manner determined by the department and submits an application for registration to the department, accompanied by the fee for restoration of registration provided by section 1960.

The following circumstances are exempt from these penalties:

1. The owner or registrant proves to the satisfaction of the department that the lapse in financial responsibility was for a period of less than 31 days and that the owner or registrant did not operate or permit the vehicle to be operated during the period of lapse in financial responsibility.
2. The owner or registrant is a member of the armed services, the owner or registrant has previously had the required financial responsibility, and financial responsibility had lapsed while the owner or registrant was on temporary emergency duty and the vehicle was not operated during the period of lapse of financial responsibility. This exemption shall continue for 30 days after the owner or registrant returns from duty as long as the vehicle is not operated until the required financial responsibility has been established.
3. Insurance coverage has terminated or financial responsibility has lapsed simultaneously with or subsequent to expiration of a seasonal registration.

SELECTED ENDORSEMENTS

Lessor – Additional Insured and Loss Payee (CA 20 01)

This endorsement adds a loss payable clause in favor of the lessor named in the endorsement.

Mobile Equipment (CA 20 15)

This endorsement provides automobile coverage for eligible mobile equipment.

Drive Other Car Coverage - Broadened Coverage for Named Insureds (CA 99 10)

Liability, Auto Medical Payments (not in Pennsylvania), Uninsured/Underinsured Motorists and Physical Damage can be provided for specifically named individuals (including individuals' spouses) while they are using a non-owned auto for their personal use. This endorsement is most commonly used for employees, partners and officers who are furnished company autos and do not have their own Personal Auto Policy.

Individual Named Insured (CA 99 17)

In situations where a vehicle is titled to an individual and the individual does not have a Personal Auto Policy (PAP) and they want to have the Business Auto Policy (BAP) cover this specific vehicle, this endorsement needs to be added to the BAP. It will cover the individual who needs to be named as an insured and the spouse and family members just like the PAP. This includes coverage for non-owned autos for personal use for physical damage.

COMMERCIAL CARRIER REGULATIONS

Motor Carrier Act of 1980

The Motor Carrier Act of 1980 requires coverage under Title 49, Code of Federal Regulations for Bodily Injury, Property Damage and Environmental Restoration Claims that arise from use and operation of an auto. Environmental Restoration means the restitution for the damage or destruction of natural resources arising out of the accidental discharge, dispersal, release or escape into or on to the land, atmosphere, watercourse, or body of water, of any goods transported by a motor carrier. Basically, the law is an incentive to maintain and operate their vehicle on a public highway in a safe manner. All entities who are paid to transport property across state lines and those entities transporting hazardous substances must meet the requirement stated under the law.

Minimum financial responsibility varies with the type of hauler and the type of materials being hauled. Minimum liability requirements include:

- \$750,000 for transporting non-hazardous property
- \$1,000,000 for transporting oil and hazardous waste
- \$5,000,000 for transporting hazardous substances such as radioactive materials.
- \$5,000,000 for transporting explosives and poisonous gasses.

All vehicles in excess of 10,000 pounds that haul cargo over state lines are subject to these limits. Also, tow trucks fall under this Act.

Pollution - MCS - 90 Endorsement

Those motor carriers which come under the Act of 1980 are held in a position of absolute liability. It makes no difference as to what precautions were taken to prevent a loss, the insured is held liable. The MCS - 90 will prevent the insured from receiving a \$10,000 per day penalty for knowingly not complying. This endorsement is not insurance protection, and should be treated as a surety bond. As is the case in a surety bond, the MCS - 90 has a provision that clearly states that the insured is required to pay back any payment for environmental restoration. To have pollution coverage, a motor carrier should purchase pollution coverage by endorsement or an auto policy that provides pollution protection.

SECTION 7 – QUIZ

1. Your insured's Business Auto Policy is written using symbol 7. Which of the following is true when an insured purchases an additional vehicle?
 - a. The insured must report the newly acquired auto within 30 days for coverage to continue
 - b. There is no automatic coverage for a newly acquired vehicle
 - c. The newly acquired auto is automatically covered for the remainder of the policy.
 - d. The newly acquired auto is covered automatically only if it is a private passenger type auto.

2. The insured's Business Auto Policy is written using a symbol 1 and your insured rents a vehicle from Ready Rent-A-Car. Who is an insured under the policy?
 - a. Ready Rent-A-Car only
 - b. Your insured only
 - c. Both Read Rent-A-Car and insured.
 - d. Neither Ready Rent-A-Car nor the insured

3. Which of the following is true regarding R&S partnerships which has a Business Auto Policy?
 - a. A partner is an insured while using autos owned by the partnership
 - b. A partner is an insured while using autos owned by family members
 - c. A partner is an insured while using personally owned autos
 - d. All of the above

4. All of the following are covered pollution claims under the Business Auto Coverage Form, EXCEPT:
 - a. The insured's auto strikes a gasoline truck causing the tank to rupture
 - b. A barrel of chemicals fall from the insured's trailer and ruptures
 - c. The insured's auto backs into a gasoline pump at the Serv U Gas Station
 - d. The insured's auto overturns in an accident and transmission fluid spills on the road causing another auto to crash.

5. Gunn GMC dealership has an Auto Dealers Coverage form. A salesman gives permission for a customer to test drive a car, and the customer never brings the car back. Which of the following is true?
 - a. The loss would be covered
 - b. The loss would be covered subject to the deductible
 - c. The loss is not covered, as theft is not a covered peril
 - d. The loss is not covered, as false pretense is excluded.
6. Which of the following represents the minimum limit of liability when transporting non-hazardous property?
 - a. \$300,000
 - b. \$500,000
 - c. \$750,000
 - d. \$1,000,000
7. Under the Motor Carrier Act of 1980, which form will prevent the insured from receiving a \$10,000 per day penalty for non-compliance with the act?
 - a. MCS-90
 - b. MCS - 50
 - c. MCS-25
 - d. MCS-10
8. Which of the following is true regarding Supplementary Payments of the Business Auto Coverage Form?
 - a. Pays both pre-judgment and post-judgment interest
 - b. Pays pre-judgment interest only
 - c. Pays post-judgement interest only
 - d. Pays no interest
9. Which of the following causes of loss to an auto will trigger collision coverage on the BAP?
 - a. Contact with an animal
 - b. Overturn of the vehicle
 - c. Flooding of the vehicle
 - d. Missiles or falling objects

10. Which of the following is considered a hired auto under symbol 8 of the Business Auto Coverage Form?
- a. Any auto the insured owns and leases
 - b. Autos rented or borrowed from employees
 - c. Autos the insured borrows, leases or rents
 - d. Any auto the insured uses during the policy period
11. All of the following are common liability exclusions under the Business Auto Coverage form, EXCEPT:
- a. Work related injuries to the insured's employees
 - b. Vehicles used in prearranged racing or speed contests
 - c. Intentional bodily injury or property damage caused by the insured
 - d. Bodily injury or property damage caused while the insured auto is being used in an auto business
12. Which of the following is NOT a specifically listed peril under comprehensive?
- a. Freezing or road damage to tires
 - b. Fire
 - c. Hail
 - d. Windstorm

Chapter 7 Answers

1a, 2b, 3a 4b, 5d, 6c, 7a, 8a, 9b, 10c, 11d, 12a

CHAPTER 8

Commercial Property Policies ('12)



Insurance Agents
& Brokers

CHAPTER 8 – COMMERCIAL PROPERTY POLICIES ('12)

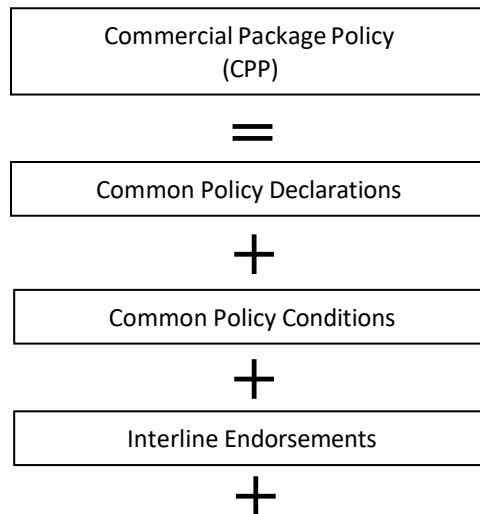
GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- Identify and discuss the components of a Commercial Package Policy.
- Identify information included on Common Policy Declarations?
- What are Common Policy Conditions?
- Define interline endorsements and name two.
- Identify the Farm Coverage Forms
- Identify the losses to livestock covered under the Broad Form that are not covered under the Basic Form.
- Identify three perils unique to Farm Coverage that are covered under the Basic Farm Property Form that are not covered under the Commercial Building and Personal Property Basic Cause of Loss Form.
- Define Livestock
- Define Farming
- How does the vacancy provision in the Farm Form differ from other policies?
- Review Farm Coverage
 - Coverage A – Dwellings
 - Coverage B – Other Private Structures
 - Coverage C – Household Personal Property
 - Coverage D – Loss of Use
 - Coverage E – Scheduled Farm Personal Property
 - Coverage F – Unscheduled Farm Personal Property
 - Coverage G – Barns, Outbuildings and Other Farm Structures
- Identify Commercial Property Coverage Forms:
 - Building and Personal Property Coverage Form
- Describe property covered under Building.
- Describe property covered under Business Personal Property.
- Describe property not covered (17 types).
- Identify the six additional coverages and the six coverage extensions.
- What valuation method is used to pay claims under the Business Personal Property Coverage Form?
- What coverages does the Business Income Form provide?
- Define Business Income.
- Name three optional Business Income forms.
 - Business Income (Without Extra Expense) Coverage Form
 - Extra Expense Coverage Form
- Describe the Legal Liability Coverage Form.
- List and explain the three Causes of Loss Forms
 - Basic Causes of Loss Form
 - Broad Causes of Loss Form
 - Special Causes of Loss Form
- Explain the following endorsements:
 - Ordinance and Law Coverage
 - Spoilage
 - Peak Season Limit of Insurance
 - Value Reporting Form
- Define Inland Marine.
- What are the 5 specific groups for which Inland Marine insurance can be provided?
- Explain the two different kinds of conditions under the Commercial Inland Marine Conditions Form.
- What is the difference between filed and unfiled Inland Marine Coverage Forms?
- Name and describe the six Filed Inland Marine Coverage Forms.
- Give examples of unfiled Inland Marine Forms.
- Explain the three different motor truck cargo forms and the two transportation policy forms.
- Understand what a “breakdown” is and is not.
- What is considered “Covered Equipment?”
- Discuss the exclusions in Equipment Breakdown.
- The suspension condition is unique to the Equipment Breakdown Policy. What makes it so unusual?

KEY TERMS

- Coverage Territory
- Livestock
- Custom Farming
- Farming
- Poultry
- Reporting Periods
- Business Income
- Filed Forms
- Non-Filed Forms

CHAPTER 8 - COMMERCIAL PROPERTY POLICIES**STATE EXAM: 7% OR 10-11 QUESTIONS****COMPONENTS OF A COMMERCIAL POLICY****Two or more of the following coverage parts:**

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

It is important for you to understand the component parts of the Commercial Package Policy. You will see the Commercial Package Policy is simply a method of organizing more than one coverage part. It is important to note that coverage is the same whether a policy stands alone or is combined in this package.

All types of risks are eligible for this program, except a homeowners-type risk.

COMMERCIAL POLICY COMPONENTS

COMMON POLICY DECLARATIONS

The Common Policy Declarations is part of each commercial policy, whether it includes only one or several of the eligible commercial coverage parts in the program. As expected it will list one or more Named Insureds, the mailing address, the policy period and the business description. It personalizes the policy to the insured.

The First Named Insured is the first party listed on the Named Insured line. The first named insured has a number of rights and duties to act on behalf of all other insureds. These duties are identified in the common conditions.

As you can see from the sample on page 3, the various coverage parts are listed and coverage is initiated by entering a premium in the space opposite the desired coverage. There is also an area to list the forms which would apply to all included coverage parts. Forms which apply to only one specific coverage part will be included in the declarations for that particular part.

COMMON POLICY CONDITIONS

The following six Common Policy Conditions will apply to all of the eligible coverage parts that are attached to a policy. They are detailed below and a sample of this form is also included on Page 4.

Cancellation

This common condition describes the rules required for cancellation of any policy in the package. The first named insured may cancel the policy at any time by notifying the company prior to the cancellation date. The company may cancel only by giving prior written notice to the first named insured. The notice must be mailed to the first named insured at the last known mailing address.

Pennsylvania amends the rules of cancellation for all commercial policies by requiring the attachment of a specific endorsement, Pennsylvania Changes – Cancellation and Nonrenewal (IL 02 46), which must be attached to each different coverage part within the package.

POLICY NUMBER:

INTERLINE
IL DS 00 04 98

COMMON POLICY DECLARATIONS

COMPANY NAME AREA	PRODUCER NAME AREA
NAMED INSURED: _____ MAILING ADDRESS: _____ POLICY PERIOD: FROM _____ TO _____ AT 12:01 A.M. STANDARD TIME AT YOUR MAILING ADDRESS SHOWN ABOVE.	
BUSINESS DESCRIPTION _____	

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

THIS POLICY CONSISTS OF THE FOLLOWING COVERAGE PARTS FOR WHICH A PREMIUM IS INDICATED. THIS PREMIUM MAY BE SUBJECT TO ADJUSTMENT.	
	PREMIUM
BOILER AND MACHINERY COVERAGE PART	\$ _____
COMMERCIAL AUTOMOBILE COVERAGE PART	\$ _____
COMMERCIAL CRIME COVERAGE PART	\$ _____
COMMERCIAL GENERAL LIABILITY COVERAGE PART	\$ _____
COMMERCIAL INLAND MARINE COVERAGE PART	\$ _____
COMMERCIAL PROPERTY COVERAGE PART	\$ _____
EMPLOYMENT-RELATED PRACTICES LIABILITY COVERAGE PART	\$ _____
FARM COVERAGE PART	\$ _____
LIQUOR LIABILITY COVERAGE PART	\$ _____
POLLUTION LIABILITY COVERAGE PART	\$ _____
PROFESSIONAL LIABILITY COVERAGE PART	\$ _____
	\$ _____
	TOTAL: \$ _____
Premium shown is payable: \$ _____ at inception. \$ _____	

FORMS APPLICABLE TO ALL COVERAGE PARTS (SHOW NUMBERS):
_____ _____ _____ _____ _____ _____ _____

Countersigned:	By:
(Date)	(Authorized Representative)

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

COMMON POLICY CONDITIONS

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

A. Cancellation

1. The first Named Insured shown in the Declarations may cancel this policy by mailing or delivering to us advance written notice of cancellation.
2. We may cancel this policy by mailing or delivering to the first Named Insured written notice of cancellation at least:
 - a. 10 days before the effective date of cancellation if we cancel for nonpayment of premium; or
 - b. 30 days before the effective date of cancellation if we cancel for any other reason.
3. We will mail or deliver our notice to the first Named Insured's last mailing address known to us.
4. Notice of cancellation will state the effective date of cancellation. The policy period will end on that date.
5. If this policy is cancelled, we will send the first Named Insured any premium refund due. If we cancel, the refund will be pro rata. If the first Named Insured cancels, the refund may be less than pro rata. The cancellation will be effective even if we have not made or offered a refund.
6. If notice is mailed, proof of mailing will be sufficient proof of notice.

B. Changes

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

C. Examination Of Your Books And Records

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

D. Inspections And Surveys

1. We have the right to:
 - a. Make inspections and surveys at any time;

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

- c. Recommend changes.

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

- a. Are safe or healthful; or

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

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

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

E. Premiums

The first Named Insured shown in the Declarations:

1. Is responsible for the payment of all premiums; and
2. Will be the payee for any return premiums we pay.

F. Transfer Of Your Rights And Duties Under This Policy

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

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

It is important to know the special Pennsylvania requirements. They apply differently depending on whether the policy is just being written or if it has been in force for a longer period of time:

- If the policy has been in effect for less than 60 days, the company can cancel for any reason by giving 30 days written notice.
- If the policy has been in effect for 60 days or more, the company can only cancel for approved reasons.

The company can cancel with 60 days written notice for reasons of:

- Substantial change in condition or loss experience;
- Loss or reduction of reinsurance available to the company;
- Material failure to comply with policy terms conditions or duties;
- Other reasons approved by the Insurance Commissioner;

The company can cancel with 15 days written notice for reasons of:

- Material misrepresentation
- Non-payment of premium

If the company is planning to nonrenew the coverage, they must provide 60 days written notice prior to the renewal.

If the company is planning to increase premium at renewal, they must provide 30 days written notice prior the effective date of premium increase.

If we do not renew this policy, we will notify the first named insured at least 60 days prior to the expiration date.

NOTICE OF CANCELLATION SUMMARY CHART

	15 Days	30 Days	60 Days
Policies in effect less than 60 days		Any reason	
Policies in effect 60 days or more	Material misrepresentation		Substantial increase in hazard
			Loss of reinsurance
	Non-payment of premium		Material failure to comply with policy terms, conditions or contractual duties
			Any other reason approved by the Commissioner

Changes

This condition states only the First Named Insured is authorized to contact the company to make changes in the terms of the policy with the insurer's consent.

Examination of Your Books and Records

The insurer has a right to inspect and audit the insured's books and records at any reasonable time during the policy period and for a period of up to 3 years after the policy period.

Inspection and Surveys

The insurer has a right to make inspections and surveys of the insured's premises. The condition goes on to say that the inspection or survey is not a guarantee that the premises or circumstances are safe or comply with safety laws. This condition is amended by Pennsylvania Law (see section 3.2).

Premiums

This condition simply states the First Named Insured is responsible for making payment and will be the payee for any return premiums.

Transfer of Your Rights and Duties Under This Policy

The insured may not transfer his/her rights and duties under the policy without the insurer's written consent, except in the case of the insured's death.

INTERLINE ENDORSEMENTS

These are endorsements that apply to all parts of the policy. For example:

- IL 09 10 – Pennsylvania Notice
- IL 02 46 – Pennsylvania Changes Cancellations & Nonrenewal

ONE OR MORE COVERAGE PARTS

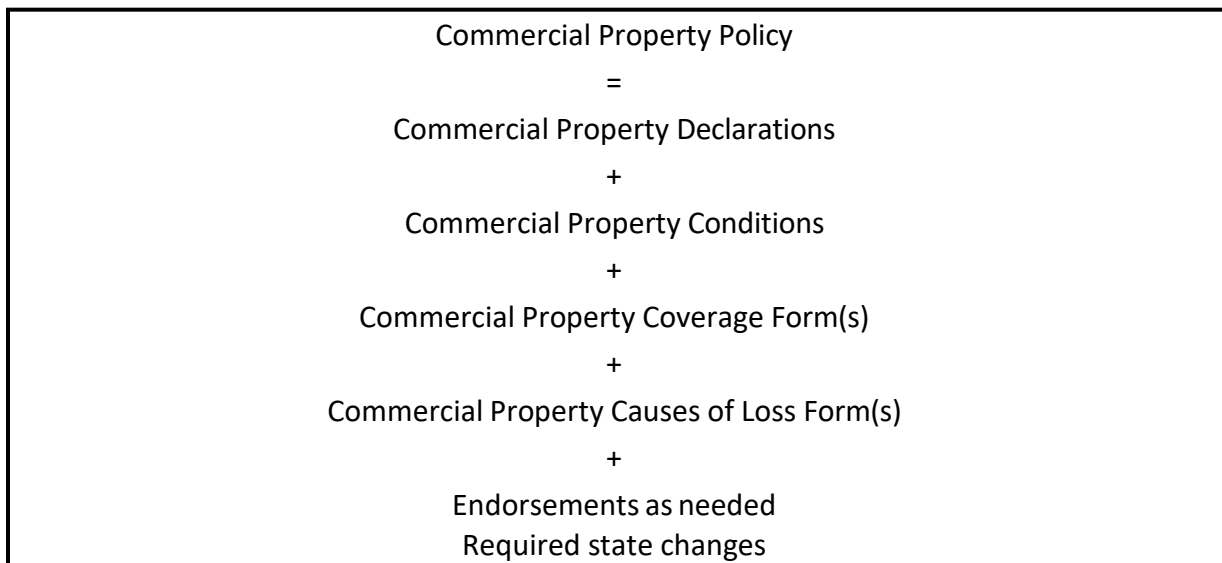
As the previous Commercial Package Policy chart shows, one or more coverage parts or forms may be written under the Commercial Package Policy. These coverage parts include the following:

- Commercial Property
- Commercial General Liability
- Crime
- Inland Marine
- Equipment Breakdown

- Farm Property
- Commercial Auto
- Employment Related Practices Liability
- Liquor Liability
- Pollution Liability
- Professional Liability

COMMERCIAL PROPERTY

The Commercial Property Policy provides insurance coverage to meet various property exposure needs of your insureds. It is very flexible and can be designed to modify coverage by the selection of coverage forms and appropriate endorsements.



COMMERCIAL PROPERTY CONDITIONS

Most of the commercial property conditions are repeated from other forms. However, there are a few that we need to review. These conditions also make up the businessowners common policy conditions.

Concealment, Misrepresentation or Fraud

Control of Property

The Control of Property condition states that an act or neglect by any person beyond the insured's direction or control, will not affect this insurance.

Insurance Under Two Or More Coverages

This condition states if two or more coverages apply to the same loss, the insurer will not pay more than the actual amount of loss.

Legal Action Against Us

Liberalization

No Benefit to Bailee

Other Insurance

Policy Period, Coverage Territory

Coverage Territory is the United States of America (including its territories and possessions), Puerto Rico and Canada.

Transfer of Rights of Recovery Against Others to Us (subrogation)

This condition is the subrogation condition by a different name. However, this condition specifically allows the insured to waive their right of recovery to anyone as long as they do it in writing and prior to the loss. In addition, it specifies that the insured can waive rights of recovery after a loss to any of the three parties listed below:

- Anyone who qualifies as an insured under the policy
- A parent or subsidiary company of the insured
- A tenant of the insured's building

COMMERCIAL PROPERTY COVERAGE FORMS

The following are the coverage forms will be covered on the exam:

- Building and Personal Property Coverage Form (similar to Businessowners Policy)
- Builders Risk Coverage Form
- Business Income (And Extra Expense) Coverage Form (similar to Businessowners Policy)
- Business Income (Without Extra Expense) Coverage Form
- Extra Expense Coverage Form
- Legal Liability

Building and Personal Property Coverage Form

This form is used to insure all types of commercial property with the exception of those classified as Builders Risk or Condominiums.

The coverage form specifies that the company will pay if the loss is a 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 form provides coverage for described buildings, business personal property and personal property of others, as listed on the Declarations Page.

Building

Building means the building or structure described in the Declarations, including:

- completed additions;
- fixtures (including outdoor fixtures);
- permanently installed machinery and equipment;
- personal property used to maintain or service the premises including:
 - fire extinguishing equipment
 - outdoor furniture
 - snow throwers
 - lawn mowers
 - floor coverings
- appliances used for refrigerating, ventilating, cooking, dishwashing or laundering;
- Building also means additions, alterations and repairs under construction if not covered elsewhere including materials, equipment, supplies and temporary structures that are on or within 100 feet of the described premises.

Business Personal Property

The insured's business personal 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 described premises, whichever is greater, consisting of:

- Furniture, fixtures, machinery and equipment.
- Stock materials used for making the insured's products or inventory.
- All other personal property owned by the named insured and used in the insured's business.
- Labor, materials, or services furnished or arranged by the named insured on personal property of others.
- Improvements and betterments added by an insured tenant.
- Any leased personal property the insured has a contractual obligation to insure such as a leased copier or phone system.

Personal Property of Others

Personal property of others in the insured's care, custody or control and 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 described premises, whichever is greater.

Property Not Covered

- Accounts, bills, currency, food stamps, evidence of debt, money, notes or securities;
- Animals, unless owned by others and the insured boards, or if owned by the insured and is the insured's stock;
- Autos held for sale;
- Bridges, roadways, walks, or other paved surfaces;
- Contraband, or property in the course of illegal trade or transportation;
- Excavations;
- Foundations of buildings, structures, machinery or boilers if their foundation is below the lowest basement floor or surface of the ground;
- Land, water, growing crops, or lawns;
- Personal property while airborne or waterborne;
- Pilings, piers, wharves or docks;
- Property specifically described under any other policy;
- Retaining walls that are not part of a building;
- Underground pipes, flues or drains;
- Electronic Data, except as provided under Additional Coverages – Electronic Data. Does not apply to:
 - (1) Stock or prepackaged software; or
 - (2) Electronic data which operates or controls the building's elevator, lighting, heating, ventilation, air conditioning or security system;
- Cost to replace or restore information on valuable papers and records, except as provided by Coverage Extensions;
- Vehicles or self-propelled machines (including aircraft or watercraft), except:
 - (1) vehicles or self-propelled machines or autos you make, process or warehouse,
 - (2) vehicles or self-propelled machines held for sale (other than autos),
 - (3) rowboats and canoes not in water at the described premises;

- Certain described property while outside of buildings (crops, grain);
- Other property such as unattached signs and fences except as provided by Coverage Extensions.

Covered Causes of Loss

The Building and Personal Property Coverage Form does not show any causes of loss, as the insured must select one of the available causes of loss forms. Causes of Loss forms will be discussed later in this section.

Additional Coverages (Automatically Included)

There are six Additional Coverages:

1. Debris Removal

Debris Removal pays to remove debris of covered property caused by a covered loss and reported within 180 days. The policy pays up to 25% of the amount of the loss and this amount is included in the limit of insurance. If this amount is not enough, the insured is entitled to \$25,000 in addition to the limit of insurance. If no covered property is damaged, the policy will pay up to \$5,000 for debris removal of other property.

The building is valued at \$100,000 and is insured for that amount. Following a \$10,000 fire, the insured learns that it will cost an additional \$7,500 to remove the debris. Debris removal will pay 25% of the \$10,000 loss (\$2,500) and then will use \$5,000 of the additional available \$25,000 to pay for the remaining amount for debris removal. If the entire structure had been destroyed, the insured would have had only the additional \$25,000 to cover the cost of any required debris removal.

This provision does not pay for pollution cleanup for land or water.

2. Preservation of Property

If you must remove property from the premises to protect it from a covered peril, the policy provides true “all risk” coverage for a period of 30 days.

3. Fire Department Service Charge

The policy will pay up to \$1,000 for your liability for fire department service charges. This is additional coverage and no deductible applies.

4. Pollutant Clean Up and Removal

The policy pays up to \$10,000 to extract pollutants from land or water at the described premises resulting from a covered cause of loss and reported within 180 days. The \$10,000 limit is the most the company will pay at any one location for the entire policy period.

5. Increased Cost of Construction

The policy pays up to \$10,000 or 5% of the limit of insurance, whichever is less. This coverage is used to pay for the increased cost of construction of damaged

property only incurred to comply with the enforcement of local laws or building ordinances (bringing the building up to code).

6. Electronic Data

The policy pays up to \$2,500 for all loss or damage in any one policy year for the cost to repair, replace or restore electronic data that is destroyed or corrupted by a covered cause of loss.

Coverage Extensions

There are seven (7) coverage extensions that apply if a coinsurance percentage of 80% or more is shown in the Declarations. These extensions are additional insurance.

1. Newly Acquired or Constructed Property

The policy provides:

- a. Up to \$250,000 for new buildings being built on the described premises and buildings acquired at other locations if similar use as the building described in the Declarations or used as a warehouse; and
- b. Up to \$100,000 for business personal property at any newly acquired location or newly constructed or newly acquired buildings at the location described in the Declarations.
- c. For up to 30 days.

2. Personal Effects and Property of Others

The policy pays up to \$2,500 per premises, except the peril of theft is excluded.

3. Valuable Papers and Records

The policy pays up to \$2,500 per described premises.

4. Property Off Premises

The policy pays up to \$10,000 for covered property while it is temporarily away from the described premises at a location you don't own or operate, or is at any fair, trade show or exhibition. No coverage is provided for property in the care, custody or control of salespersons or in or upon any vehicle.

5. Outdoor Property

The policy will pay for damage to outdoor fences, radio and television antennas including satellite dishes, trees, shrubs and plants but only from the following perils: Fire, Lightning, Aircraft, Riot and Explosion. The limit of coverage is \$1,000 but no more than \$250 for any one tree, shrub or plant.

6. Non-owned Detached Trailers

The policy provides up to \$5,000 coverage for non-owned trailers which are in the care of the insured or being used in the insured's business or for which the insured is contractually responsible. This coverage is excess over any other insurance.

7. Business Personal Property Temporarily in Portable Storage Units

- a. Storage unit must be 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.
- b. Up to \$10,000 regardless of the number of storage units, unless higher limit is shown in the Declarations.
- c. For up to 90 days.

Limits

The coverage form will pay for any one occurrence the amount shown in the Limit of Insurance on the Declarations. Outdoor signs whether attached to the building or not contain a \$2,500 limit.

Deductible

As in other policies, the deductible applies to the total amount of loss not the total covered loss.

Loss Conditions

- **Abandonment** – there can be no abandonment of any property.
- **Appraisal** – allows either the insured or the insurance company to demand appraisal of a loss.
- **Duties in the Event of Loss** – Notifying the company, protecting your property, cooperating in the investigation, etc.
- **Loss Payment** – allows the insurer at its option to pay, rebuild or repair the damaged or lost property.
- **Recovered Property** – if either the insured or the insurance company recovers property, that party must give the other prompt notice.
- **Vacancy** – if the building is vacant for more than 60 consecutive days the policy will not pay for any loss or damage from the following causes of loss:
 - Vandalism;
 - Sprinkler leakage (unless the system has been protected from freezing);
 - Building glass breakage;
 - Water damage;
 - Theft or attempted theft;
 - All other covered losses will be reduced by 15%.

Note: Under this form, if the policy is issued to a tenant, the building will be considered vacant when it does not contain enough business personal property to conduct customary operations. If the insured is the building owner, a building is considered vacant unless at least 31% of the total square footage is rented to others and/or used by the insured to conduct customary operations.

Valuation

Unless otherwise specified, all property (building and personal) will be valued on an ACV basis.

- Tenants Improvements and Betterments will be valued at ACV if replaced by the tenant. If not replaced by the tenant, they will be paid at a percentage of the original cost.
- If coinsurance has been satisfied and the loss is less than \$2,500, the company will settle a building loss on a Replacement Cost basis. This provision does not apply to awnings, appliances, floor coverings and outdoor equipment and furniture.
- Stock that has been sold but not delivered will be valued at the selling price.
- Glass will be valued at Replacement Cost with safety glazing material if required.
- Valuable papers and records will be valued at the cost of blank media plus the cost of labor to transcribe and copy the records.
- Coinsurance - a coinsurance condition is common to this form and was previously discussed in Chapter 3 – Property & Casualty basics.

Builders Risk

This coverage form is used to cover a new building in the course of construction or existing structures in the course of alteration or repair. The forms is written on a Completed Value Basis or on a Reporting Form Basis (see the end of this section for additional information on the value reporting form.)

Coverage begins on the effective date of the policy and ends with the earlier of the following:

- The policy expires or is canceled;
- The property is accepted by the purchaser;
- The insured's interest in the property ceases;
- The insured abandons the construction;
- 90 days after construction is complete; or
- 60 days after any building is occupied or put to its intended use.

The Completed Value Form has a 100% Coinsurance Clause which requires the insured to insure for the full completed value from day one, otherwise there can be a penalty for underinsuring for a loss during the policy period.

Business Income Coverage Form

This form provides the actual loss of income to a business when the loss results from a partial or total shutdown from the insured's operations. The shutdown must be caused by direct loss or damage to property at the described location due to a covered cause of loss. Coverage is provided during the period of restoration. This is the time that begins 72 hours after the direct loss and ends on the earlier of:

- a. the date the property at the described premises should have been repaired or replaced with reasonable speed and similar quality, or
- b. when business is resumed at a new permanent location.

The business income form includes the following coverages:

- **Business Income (BI=NICE)**
Business Income is defined as the net income (profit or loss before income taxes) that would have been earned or incurred plus all continuing operating expenses including payroll. This coverage has a coinsurance requirement, typically 50%, unless waived or suspended by one of the following Optional Coverages:
 - a. Agreed Value;
 - b. Monthly Limit of Indemnity ($\frac{1}{3}$, $\frac{1}{4}$ or $\frac{1}{6}$ of limit each month); or
 - c. Maximum Period of Indemnity (loss payment limited to 120 days).
- **Expenses to Reduce Loss (Extra Expense)**
 Covers the extra expenses incurred by a business to continue operations after a covered cause of loss. This coverage only pays those necessary expenses incurred to avoid further loss of business income. The 72-hour deductible does not apply to this coverage.
- **Civil Authority**
 Provides coverage for the actual loss of business income if a civil authority prohibits access to your premises due to direct physical loss by a covered cause of loss to neighboring property (within one mile of your premises). Coverage is provided for four weeks and begins 72 hours after the time of the action.
- **Alterations and New Buildings**
 Provides for loss of income resulting from a direct loss to new buildings and structures, alterations and additions, machinery equipment or building materials located within 100 feet of the premises.

- **Extended Business Income**

Provides business income starting when the period of restoration ends (when business income ends) and is good for a maximum of 60 days. This allows a business extra time to get up to speed.

Extra Expense Coverage Form

This form covers the extra expenses incurred by a business to continue operations after a covered cause of loss. This form differs from the Business Income form because it is designed primarily for a business that does not need business income coverage such as a service oriented business that cannot afford to stop operations. These would include insurance agencies, law offices, accounting firms, etc. These types of businesses must spend extra money to move their operation and/or rent equipment to keep the business operating.

Legal Liability Coverage Form

This coverage form pays for the insured's legal liability for loss or damage to property of others, rented, occupied or in the insured's care, custody or control resulting from a covered cause of loss. It includes coverage for loss of use and defense expenses. It is different from other property forms as coverage only applies if the insured is legally liable for the loss.

CAUSES OF LOSS FORMS

The commercial property coverage forms do not contain the Cause of Loss within the coverage form. It is necessary to attach a separate Causes of Loss form to the policy.

Basic Causes of Loss Form

This Causes of Loss form includes 11 named perils: fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, sinkhole collapse and volcanic action. (FL WHARVVVESSS)

Broad Causes of Loss Form

The broad form is almost identical to the Basic, except it gives coverage for 3 additional perils: (1) damage caused by falling objects; (2) weight of snow, ice, or sleet; (3) and water damage from leakage of appliances. The form also covers collapse and breakage of glass.

Special Causes of Loss Form

This form provides the most comprehensive coverage, because it promises to cover direct physical loss, unless specifically excluded. Exclusions include: artificially generated electrical current, delay, loss of use or loss of market, smoke, vapor or gas from agricultural smudging or industrial operations, wear and tear, rust or other corrosion, decay or deterioration, inherent vice, smog, settling, cracking, shrinking or expansion, insects, birds, rodents or other animals, mechanical breakdown, damage due to dampness or dryness, marring or scratching, explosion of steam boilers, continuous or repeated seepage of water, water or other liquids that leak from plumbing unless heat is maintained, dishonest acts of insureds and/or employees, voluntary parting of any property, rain, snow, ice or sleet to personal property in the open, collapse (except as an additional coverage), discharge or release of pollutants, weather conditions, acts or decisions and faulty, inadequate or defective planning.

Since the special form includes coverage for theft, there is a special limitation of \$2,500 that applies to: furs, jewelry, watches, precious and semi-precious stones, bullion, gold, silver or platinum patterns, dies, molds and forms. In addition, a special limit of \$250 applies for tickets, including lottery tickets, stamps and letters of credit.

There is an additional coverage extension of \$5,000 for personal property in transit while on a motor vehicle owned, leased or operated by the insured while between points in the coverage territory. However, this coverage only applies to limited perils.

There are also general exclusions that are common to all causes of loss forms. They include ordinance or law, earth movement, governmental action, nuclear hazard, utility services, war and military action, water (flood and surface water), fungus, wet rot, dry rot and bacteria.

All forms also provide coverage for fungus, wet rot and dry rot at a \$15,000 aggregate limit for all loss or damage sustained in any one policy year.

COMPARISON OF CAUSES OF LOSS FORMS

Causes of Loss	Basic CP 10 10	Broad CP 10 20	Special CP 10 30
Fire	YES	YES	
Lightning			
Explosion			
Windstorm & Hail			
Smoke			
Aircraft & Vehicles			
Riot & Civil Commotion			
Vandalism			
Sprinkler Leakage			
Sinkhole Collapse			
Volcanic Action			
Falling Objects	NO		
Weight of Ice, Snow or Sleet			
Water Damage			
Collapse			
Glass Breakage			
Theft			
Risk of Direct Physical Loss			YES (exclusions)

SELECTED ENDORSEMENTS

Ordinance or Law Coverage (CP 04 05)

This endorsement provides coverage for increased costs to comply with current codes and laws for both damaged and undamaged property, the cost for demolition and debris removal of undamaged property, and the loss of the value of the undamaged portion of the building.

Spoilage (CP 04 40)

The Spoilage Coverage Endorsement will cover loss to “perishable stock” (meat, dairy, poultry, fruit, ice cream, etc.) on the premises owned by the insured. Causes of Loss that are available include:

- Breakdown or contamination, which means change in temperature or humidity resulting from mechanical breakdown, or on-premises failure of refrigerating or cooling, or contamination by the refrigerant.
- Power Outage, which means a change in temperature or humidity resulting from complete or partial interruption of electrical power, either on or off the described premises.

Peak Season Limit of Insurance (CP 12 30)

The Peak Season Limit of Insurance endorsement allows the insured to increase the limit for business personal property, including stock, during a specified period of time. The endorsement shows the amount of increase and the period of time that the increased limit will be in effect. This is used for businesses which have a much higher volume of sales at certain times of the year and thus a fluctuating inventory level.

Value Reporting Form (CP 13 10)

Some businesses are subject to fluctuation of values which creates problems in writing the appropriate limits. This could be a manufacturer or retailer who has material or stock which varies widely from month to month. By using a Value Reporting Form the insured can avoid over-insuring or underinsuring their property.

When the Value Reporting Form endorsement is first written, the insured is charged a provisional premium. The insured is then required to make periodic reports of the actual values, usually on a weekly, monthly or quarterly basis. The final premium is calculated by multiplying the personal property rate times the average of the actual reported values.

As long as the insured follows the requirements of the Value Reporting Form Endorsement, the full policy limit is available to pay a covered loss at any time during the policy period. The problem is that insureds may not report on a timely or accurate basis. If the insured fails to submit reports, or if reports are late or inaccurate, a penalty may be incurred. There are three penalty provisions which are explained below:

1. If the first report is not submitted within 60 days of the last day of the first month of coverage and there is a covered claim, the insured will receive no more than 75% of the amount that the company would otherwise have paid.
2. If subsequent reports have not been made within 30 days from the last day of the previous month, then the payment for a loss will be based on the previous month's report.
3. If the insured under reports the values from the last report, the loss will be paid proportionally as there is a 100% coinsurance clause penalty.

If the amount reported is \$100,000, but the actual value is \$200,000, the proportion of the loss which would be paid would be 50%.

If the insured is not timely or accurate, he can be severely penalized at the time of loss.

COMMERCIAL INLAND MARINE

In the early history of the United States, most large shipments of goods were by water, and as the country changed over time, more available methods of shipping goods over land developed. Over land shipping changed the nature of the cargo exposures and produced a change in insurance coverages.

The property forms we have examined already are designed to cover property located at a fixed location. Inland Marine forms are not governed by the same composition of coverage and rate rules, and work well to provide coverage for property off-premises and in-transit.

STRUCTURE OF AN INLAND MARINE POLICY



NATIONWIDE MARINE DEFINITION

The purpose of this definition was to specify the types of property and coverages that may be insured on inland marine forms. The Nationwide Marine Definition was adopted in 1933 and significantly modified in 1953, 1976 and 1996. Inland Marine insurance may be written to provide coverage for virtually any type of risk that may be transported (moveable property). The five specific groups for which Inland Marine insurance can provide coverage are:

1. Imports
2. Exports
3. Domestic Shipments
4. Bridges, Tunnels and Other Instrumentalities of Transportation and Communication (such as piers, pipelines, transmission lines, towers, radio and television equipment).
5. Property Floater Risks (both personal and commercial)

COMMERCIAL INLAND MARINE CONDITIONS FORM

Inland Marine policies consist of not only a coverage form, but also a Commercial Inland Marine Conditions Form. In the next few pages we will review the standard Commercial Inland Marine Conditions Form. First, let's look at the specific conditions in the form:

Loss Conditions

1. Abandonment
2. Appraisal
3. Duties in the Event of Loss
4. Insurance Under Two or More Coverages
5. Loss Payment
6. Other Insurance
7. Pair, Sets or Parts
8. Recoveries
9. Reinstatement of Limit After Loss
10. Transfer of Rights of Recovery Against Others to Us

General Conditions

The General Conditions of the Inland Marine Conditions Form are:

1. Concealment, Misrepresentation or Fraud
2. Legal Action Against Us
3. No Benefit to Bailee
4. Policy Period
5. Valuation

Exclusions

Exclusions are similar in all Inland Marine coverage forms. They include earthquake, war, flood, surface water, government action, nuclear hazards, marring, scratching or exposure to light, loss of use, dishonest acts by the insured, accounting errors and inventory shortage.

Inland Marine Coverage Forms (Filed and Non-filed)

Inland Marine forms may be divided into two categories which are filed (or controlled) and non-filed (or noncontrolled). Let's look at the differences between the two.

- **Filed (or controlled)**

Of the many Inland Marine forms available, there are only a few that are actually filed. Filed means that the specific coverage form and/or premium rate must be filed with state regulatory authorities. As you know, insurance companies have the right to design their own coverage policies, and price those policies based on internally developed rates. Historically, however, filed forms have been written on relatively uniform and similar exposures. Therefore, the filed forms written from one insurance company to another are more consistent.

- **Non-filed (or noncontrolled)**

Non-filed lines of Inland Marine coverage tend to have greater variances in the exposures covered, thus making it difficult to provide uniformity related to coverages and pricing. When using non-filed forms, insurance companies are not required to file forms, rules or rates they use. The greatest number of coverages written in Inland Marine insurance are non-filed.

FILED FORMS

- **Accounts Receivable Coverage Form**

Many businesses have accounts for their customers, and typically will bill them monthly. Therefore, at any time customers owe money to these businesses. Records of the money owed to a business are called accounts receivable. This form will cover monies due to the insured from customers that become uncollectable due to the loss, damage or destruction of the accounts receivable records. It will also cover the cost to re-establish the accounts receivable and interest charges on any loan that was required to offset amounts that the insured is unable to collect prior to being paid by the insurance company.

- **Commercial Articles Form**

Commercial Articles covers cameras, projection machines, films and related equipment as well as musical instruments and related equipment. It also includes similar property of others in the insured's care, custody, or control.

The floater covers "Risks of Direct Physical Loss" to covered property except those Causes of Loss which are excluded.

- **Jewelers Block Coverage Form**

The Jewelers Block form covers the following types of property:

1. Stock in trade including jewelry, precious and semiprecious stones, precious metals, and stock used in the insured's business;
2. Property sold, but not yet delivered;
3. Property of others in the insured's care, custody or control.

Valuation

This provision replaces the Valuation in the Commercial Inland Marine General Conditions.

- a. The Actual Cash Value (ACV) of the property.
- b. The cost of reasonably restoring the property to its previous condition before "loss."
- c. The cost of replacing that property with substantially identical property.
- d. The lowest figure the insured placed on the property in inventories, stock books, stock papers or lists existing at the time of "loss."

Protective Safeguards

The insured must maintain those safeguards (like burglar alarms) which protect the covered property, and listed as existing and in proper working order at the time the policy is written. If the insured fails to keep the protective devices in working order, or does not put them into operation when the business is closed, the coverage to which the safeguard applies will be suspended.

- **Sign Coverage Form**

The Sign Coverage Form provides coverage for all types of signs that the insured owns or is contractually responsible for covering.

- Signs under this form must be specifically scheduled to be insured.
- This form covers "Direct Physical Loss" to covered property except those Causes of Loss that are excluded (open perils).
- 100% coinsurance is required.

- **Valuable Papers and Records Coverage Form**

Provides coverage for:

- Loss or damage to valuable papers and records which are the Named Insured's or someone else's property which is in the insured's care, custody, or control.
- Inscribed, printed or written documents, manuscripts or records, including abstracts, drawings, films, maps or mortgages.

- **Equipment Dealers Coverage Form**

Provides coverage for:

- A dealer's stock in trade
- Mobile agricultural equipment and construction equipment
- Similar property of others while in the care, custody, and control of the insured

This coverage is designed for businesses with sales and/or who service mobile agricultural and/or construction equipment.

NON-FILED FORMS

- **Bailees Customer**

A bailee is someone who has rightful possession of another's property, such as a dry cleaner. They are legally responsible to return property entrusted to them in a condition as good as or better than when the property was left with them.

Since CGL Policies have a care, custody or control exclusion, this form is necessary for a bailee to cover a customer's property while in their care, custody or control.

- **Contractors Equipment Floater**

Many contractors typically have an extensive inventory of equipment which can be spread over multiple locations, storage areas, and job sites.

The property covered varies with the different forms but could include machinery (bulldozers, backhoes, tractors, cranes, etc.) The two ways of writing this coverage are scheduled and blanket.

Coverage is written on an open peril or named peril basis and a coinsurance provision generally applies.

- **Electronic Data Processing Policies**

These are the three areas of coverage commonly found in EDP policies:

1. **Equipment** - coverage for “loss” to hardware.
2. **Data and Media** - coverage for “loss” to software.
3. **Time Element** - Extra Expenses and/or Business Income.

Losses include electrical and magnetic damage, mechanical breakdown, computer virus and accidental discharge of fire suppression systems. A coinsurance provision generally applies.

- **Installation Floater**

This form is designed to protect an insured who is contractually responsible to cover machinery, equipment, fixtures, carpeting, furnishings, and like property during and prior to installation. It is normally purchased by a subcontractor (heating and air conditioning contractor) who is installing an expensive piece of equipment (like an air conditioning compressor).

Property covered is the insured’s materials and supplies for installation. The property of others may be covered in the following situations: (1) during installation, (2) in transit, (3) at a job site, and (4) in storage - awaiting installation.

The Installation Floater is written on an Open Perils basis.

Transportation Coverages

Transportation Coverage is used to insure the goods (personal property being transported). There are three types of carriers who transport goods.

1. **Private** – A business who hires their own drivers to drive their own trucks.
2. **Contract** – Only hires out services to a limited number of customers. They are only liable when they are negligent.
3. **Common** – Transports property of others for a fee and is in effect a bailee. Common carriers issue a Bill of Lading which is a receipt from the carrier to the shipper for goods being transported. A Bill of Lading serves as a contract between the shipper and the carrier, outlining the responsibilities of each party. A released Bill of Lading limits the carrier’s liability to a specific amount.

Common Carrier Cargo Liability

The common law liability states that the carrier is responsible for the safe delivery of property. This is similar to the responsibility we looked at earlier in this chapter under bailment. Because of the high degree of responsibility, the owner of goods or personal property being transported has a good chance of recovering for damages from the carrier.

The carrier is not responsible for damage from the following:

1. Acts of God or Nature
2. Exercise of Public Authority
3. Acts of Public Enemy
4. Negligence of the Shipper
5. Inherent Vice or Nature of the Property

Motor Truck Cargo Forms

There are three basic types of cargo forms that are used to insure the carrier's legal liability to the property owner.

- **Motor Truck Cargo – Trucker's Form**
Liability coverage to cover cargo of others being transported by trucker. Covers trucker's liability for negligent transporting of goods.
- **Motor Truck Cargo – Shipper's Form**
Property coverage to cover owner's good on others' trucks (common carrier or contract carrier). The shippers' goods are covered while being transported by a common or contract carrier.
- **Motor Truck Cargo – Owner's Form**
Property coverage to cover owner's goods on owner's trucks.

Two (2) Transportation Policies

- **Transportation Policy – Annual Form**
Property coverage for business that is shipping incoming & outgoing goods on annual basis.
- **Transportation Policy – Trip Transit Form**
Property coverage for one specific trip.

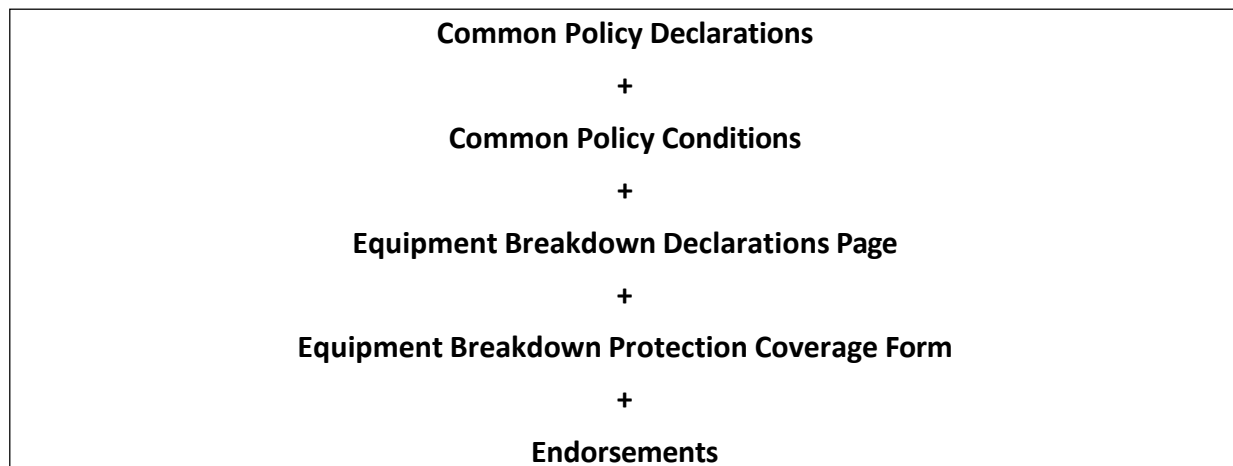
These policies are usually written on an open perils basis, although, some forms provide coverage on a named perils basis.

EQUIPMENT BREAKDOWN ('13)

For many years this coverage had been known as the Boiler & Machinery policy. It was difficult to persuade a business owner who didn't have a boiler to purchase a policy that had the name "boiler" displayed in its title. So the name of the coverage has been changed to Equipment Breakdown. It is important to note that the commercial property policy provides coverage for many external perils that can damage mechanical, electrical or boiler equipment. However, this coverage part provides protection against the internal perils of or breakdown to mechanical, electrical or steam boiler equipment. Many businesses face these more common exposures of mechanical breakdown of equipment and artificially generated electrical current that can damage the equipment. As you can see, the equipment breakdown coverage part fills an important gap in the commercial property policy.

The structure of the Equipment Breakdown Policy is shown below.

Structure of the Equipment Breakdown Policy



EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORM – EB 00 20

Direct Damage Coverage

Equipment Breakdown coverage form pays for direct damage to Covered Property caused by a Covered Cause of Loss.

Covered Property

The Equipment Breakdown Protection Coverage Form defines “Covered Property” as any property:

1. The insured owns; or
2. Is in the insured’s care, custody or control and for which the insured is legally liable.

Covered Cause of Loss

A “Covered Cause of Loss” in the Equipment Breakdown Protection Coverage Form is a “Breakdown” to “Covered Equipment”.

Definition of “Breakdown”

“Breakdown” means the following direct physical loss, that causes damage to “Covered Equipment” and necessitates its repair or replacement:

1. Failure of pressure or vacuum equipment;
2. Mechanical failure including rupture or bursting caused by centrifugal force; or
3. Electrical failure including arcing;

Note: Explosion, other than combustion explosions of steam equipment, is covered.

“Breakdown” does **not include**:

- Malfunction including but not limited to adjustment, alignment, calibration, cleaning or modification;
- Defects, erasures, errors, limitations or viruses in computer equipment and programs;
- Leakage at any valve, fitting, shaft seal, gland packing, joint or connection;
- Damage to any vacuum tube, gas tube or brush;
- Damage to any structure or foundation supporting the “Covered Equipment”;
- The functioning of any safety or protective device; or
- The cracking of any part on an internal combustion gas turbine exposed to the products of combustion.

“Covered Equipment”

“Covered Equipment” includes:

1. Equipment built to operate under internal pressure or vacuum other than weight or contents;
2. Electrical or mechanical equipment that is used in the generation, transmission or utilization of energy;
3. Communication equipment and “Computer Equipment”; and
4. Equipment owned by a Utility and used solely to supply utility services to the insured’s premises.
5. Examples of covered equipment include: steam boilers and similar pressure vessels, electrical generating and transmitting equipment, pumps, compressors, turbines and engines, air conditioning and refrigeration systems and equipment, production machinery used in manufacturing, etc.

Except for 4, the “Covered Equipment” must be located at a premises described in the Declarations and be owned, leased, or operated under the insured’s control.

The following are examples of losses under the Equipment Breakdown Protection Coverage Form to help you better understand “Covered Cause of Loss” and “Covered Equipment”.

- A condominium building sustained over \$55,000 damage when a large boiler overheated, because it did not have enough water in it.
- A church suffered a loss of approximately \$35,000 to its organ, public address system and choir robes when a cast iron boiler cracked and a fitting to a steam pipe split resulting in steam release.
- A transformer and switch gear sustained over \$50,000 damage when a squirrel got into the switch gear and caused a short circuit.

Equipment Breakdown Coverages

The following coverages are provided in the Equipment Breakdown Protection Coverage Form if either a limit or the word “INCLUDED” is shown for that coverage in the Declarations.

1. **Property Damage**

Covers direct damage to “Covered Property”, which includes loss of property in the insured’s care, custody or control. The property must be located at the premises shown in the Declarations.

2. **Expediting Expenses**

These are the extra costs to make temporary repairs or expedite permanent repairs.

3. **Business Income And Extra Expense or Extra Expense Only**

This coverage pays for the loss of income or the extra expenses incurred as a result of a “Breakdown” to “Covered Equipment”.

Unless a higher limit is shown in the Declarations, payment will be limited to the lesser of the actual loss of Business Income and/or Extra Expense up to 30 days or \$25,000.

Extended Period of Restoration Coverage is provided for five days following the “Period of Restoration”, unless replaced by a number of days shown in the Declarations.

If the insured has coverage for Ordinance or Law, the Period of Restoration is extended to include the additional time required for demolition, removal, repair, remodeling or reconstruction.

There is no Business Income or Extra Expense coverage for media or data that cannot be replaced or restored.

4. **Spoilage Damage**

Coverage for goods damaged by or due to lack or excess of power, light, heat, steam or refrigeration.

5. **Utility Interruption**

Extends Business Income, Extra Expense and Spoilage damage if the cause of the loss is due to the breakdown of equipment owned by the insured’s utility.

6. **Newly Acquired Premises**

The newly acquired premises will be covered for the broadest coverage and highest limits and deductible applicable to existing premises. Coverage is limited to the number of days shown in the Declarations for Newly Acquired Premises.

7. **Ordinance or Law Coverage**

Covers the loss in value of the undamaged portion of the building, the cost to demolish a damaged building, and the increased costs expended to repair or reconstruct.

8. **Errors and Omissions**

Pays for any loss or damage that would not be covered because of an error or omission committed unintentionally by the insured in the description or location of the property);

9. Brands & Labels

Covers the costs to stamp damaged merchandise “SALVAGE” or remove the labels and re-label in order to comply with any law.

10. Contingent Business Income and Extra Expense Only Coverage

The Business Income And Extra Expense Coverage is extended to cover a “Breakdown” of “Covered Equipment” at a premises not owned or operated by the insured which prevents the delivery of services or materials or results in the loss of sales).

Selected Exclusions

Many of the Equipment Breakdown exclusions are the same as you encountered in earlier policies such as:

1. Ordinance Or Law;
2. Earth Movement;
3. Water (flood, surface water, etc.);
4. Nuclear Hazard; and
5. War Or Military Action.

The Equipment Breakdown form also excludes:

1. Explosions that occur outside “Covered Equipment.”
2. Fire that results in a “Breakdown,” occurs at the same time as a “Breakdown” or ensues from a “Breakdown.”
3. Fungus, Wet Rot and Dry Rot, except for loss or damage resulting from a breakdown.
4. Virus, bacterium or other microorganism, except for loss or damage resulting from a breakdown.
5. Explosion from within the furnace or passage of the furnace of a chemical recovery type boiler.
6. Damage to “Covered Equipment” undergoing a pressure or electrical test.
7. Water or other means to extinguish a fire if the attempt is unsuccessful.
8. Depletion, deterioration, corrosion, erosion, or wear and tear, unless a “Breakdown” occurs resulting in loss or damage.
9. Caused by any of the following if coverage provided by another policy, whether collectable or not:
 - a. Aircraft or vehicles;

- b. Freezing;
 - c. Lightning;
 - d. Sinkhole collapse;
 - e. Smoke;
 - f. Riot, civil commotion or vandalism; or
 - g. Weight of snow, ice or sleet.
- 10. Windstorm or hail.
- 11. Delay or interruption of business, except under Business Income, Extra Expense or Utility Interruption coverages.
- 12. For Business Income, Extra Expense or Utility Interruption coverages:
 - a. Business that could not be carried on if the breakdown had not occurred;
 - b. Failure to use due diligence to operate business; or
 - c. Loss of a contract extending beyond the time business could have resumed.
- 13. Lack or excess of power, light, heat, steam or refrigeration, except under Business Income, Extra Expense, Spoilage Damage, or Utility Interruption coverages.
- 14. For Utility Interruption coverage:
 - a. Acts of sabotage;
 - b. Collapse;
 - c. Deliberate acts of load-shedding by the supplying utility;
 - d. Freezing;
 - e. Aircraft, missile or vehicle;
 - f. Falling objects from an aircraft or missile;
 - g. Lightning
 - h. Riot, civil commotion or vandalism;
 - i. Sinkhole collapse;
 - j. Smoke; or
 - k. Weight of snow, ice or sleet.
- 15. Any indirect loss, except under Business Income, Extra Expense, Spoilage Damage or Utility Interruption coverages.
- 16. Neglect of the insured.

The following coverages are **automatically included** in the Equipment Breakdown Protection Coverage Form. Unless a higher limit or “INCLUDED” is shown in the Declarations, the most that will be paid for any loss is **\$25,000** for each coverage.

1. Ammonia Contamination
2. Consequential Loss
3. Data and Media
4. Hazardous Substance
5. Water Damage

Policy also includes:

6. Limited Coverage for Fungus, Wet Rot and Dry Rot
 - Property damage is limited to \$15,000.
 - Business Income or Extra Expense are limited to 30 days, unless changed in the Declarations.
7. Increased Cost of Loss and Related Expenses for Green Upgrades
 - Unless a different limit is shown in the Declarations, “Green” upgrades are limited to 25% of the total property damage, subject to a maximum of \$100,000.
 - Business Income or Extra Expense are limited to 30 days, unless changed in the Declarations.

Valuation

All property is insured on a replacement cost basis. However, if the damaged property is not repaired or replaced within 24 months of the breakdown, settlement will be at the smaller of ACV or the cost to repair or replace.

If the insured or the insurance company repairs damaged equipment, enhancing safety while maintaining existing function, the policy will pay up to an additional 25% of the property damage amount.

Deductibles

There are four deductible options under the Equipment Breakdown Protection Coverage Form. One or more of these deductibles can be applied under the same form. For example, a dollar deductible could be used for Property Damage and a time deductible could apply to any Business Income And Extra Expense loss.

The four deductible options are:

1. Dollar Deductible
2. Time Deductible
3. Multiple Of Daily Value Deductible
4. Percentage Of Loss Deductible

Suspension Condition

Whenever “Covered Equipment” is found to be in, or exposed to, a dangerous condition, any representative of the insurance company may immediately suspend the insurance for that “Covered Equipment”. This can be done by delivering or mailing a written notice of suspension to the insured’s last known address or the address where the “Covered Equipment” is located.

Once suspended, the insurance can be reinstated only by endorsement. If the insurance is suspended, the insured will receive a pro rata refund of premium.

SELECTED ENDORSEMENT

Actual Cash Value (EB 99 59)

If this endorsement is attached, our payment will be the lesser of:

1. The cost to repair or replace the damaged property; or
2. Actual Cash Value.

FARM PROPERTY

There are a large number of farms in the U.S. with unique business and residential exposures since farmers live and work on their farms. The Farm Program has certain characteristics of both personal lines and commercial lines.

FARM PROPERTY COVERAGE FORM — FP 00 12

The Farm Property Coverage Form agrees to pay for direct physical loss or damage to Covered Property at the “insured location” described on the Declarations Page. Other locations may be included if they are identified within the form. To be a covered loss, the direct physical loss must arise from a Covered Cause of Loss.

Coverage A - Dwellings

The dwelling is almost identical to Homeowners Coverage A with a special limit of \$1,000 for antennas and satellite dishes attached to the covered dwelling.

Conditions

In a provision similar to one you reviewed in the Homeowners Policy, it states that lost or damaged property will be paid on a replacement cost basis, if the insured carries a limit of insurance equal to at least 80% of the structure’s replacement cost value. If the insured does not comply with this provision, the policy will pay the larger of actual cash value or a proportional value of the amount carried divided by the amount required (80% X replacement cost value).

Coverage B - Other Private Structures

Other private structures is almost identical to Homeowners Coverage B, however, any structure used for farming must be scheduled and covered under Coverage G – other farm structures. Coverage is provided to unattached private structures owned by the insured including, but not limited to, storage sheds, playhouses, or gazebos.

Coverage C - Household Personal Property

Household Personal Property applies to property the insured would use in his/her normal living situation and not related to operating a farm or ranch.

Special Limits in Coverage C of the Farm Property Coverage Form are same or similar to the Homeowners Policy.

Coverage Extensions to Coverages A - Dwelling, Coverage B - Other Structures, and Coverage C - Household Personal Property

The Farm Property Coverage Form is unique in the way it presents Extensions of Coverage. Some Extensions of Coverage apply to Coverages A, B, and C, and others only apply to Coverage C.

Extensions of Coverages A, B and C

- Trees, shrubs and plants coverage is similar to the Homeowners except the trees, shrubs, plants and lawns must be located within 250 feet of a covered “dwelling” for coverage to apply.

Extensions of Coverage to Coverage C Only

- Household personal property of named insureds away from the “insured location” is subject to a limit of 10% of the Household Personal Property Limit or \$1,000, whichever is greater. Coverage is provided anywhere in the world.
- Refrigerated Products - Not “Farm Personal Property”
The form will pay up to \$500 for loss or damage to the contents of a refrigerated unit in the “dwelling” caused by a change in temperature due to interruption of electrical service to the refrigeration equipment.
- If the named insured is a tenant, building improvements and alterations will be paid up to 10% of Coverage C.

Coverage D - Loss of Use

Coverage D is similar to the Homeowners Policy.

FARM PERSONAL PROPERTY COVERAGE FORM—FP 00 13

Coverage E - Scheduled Farm Personal Property

In this form, each class of property to be covered is indicated by an amount shown on the declarations.

Covered Property

Covered Property includes grain, hay, farm products and machinery, livestock (except in transit or at stockyards), poultry (excluding turkeys unless specified), computers related to farm management, miscellaneous equipment (tools), borrowed equipment, bees, worms, fish and other animals, and portable structures and buildings.

Property Not Covered

It does not cover growing crops, trees, plants, shrubs or lawns and household personal property, etc.

Special Limits

Since many items are specifically scheduled in this Form, there are few Special Limits. The Special Limits which do exist are:

1. \$10,000 on any one stack of hay, straw or fodder (feed) in the open.
2. "Poultry" is paid at market value.
3. \$3,000 on any one item of miscellaneous equipment.
4. Per head of "livestock" (if not specifically described) will receive the least of ACV of the animal destroyed or damaged or \$2,000.

All losses here are settled on an ACV basis.

Coverage Extensions

Coverage Extensions under Coverage E include:

1. Newly acquired livestock up to 25% of Coverage E if reported within 30 days.
2. Property in the custody of a common or contract carrier up to \$1,000.
3. Miscellaneous equipment away from the "insured property" up to 25% of Coverage E.
4. Other types of property, such as grain and hay, away from the "insured property" up to 10% of Coverage E.
5. Newly acquired additional farm machinery, equipment and vehicles, up to a limit of \$100,000 for 30 days.
6. Replacement machinery, equipment and vehicles, the value of the old equipment plus \$75,000 for 30 days.

Coverage F - Unscheduled Farm Personal Property

Provides property coverage for property and equipment used in the business of farming. Coverage F is provided using a single blanket limit of insurance on all unscheduled farm personal property. A limit of insurance for Coverage F must be shown on the declarations page for coverage to apply.

Covered Property

All types of "farm personal property" are covered at the "insured location," except those listed under Property Not Covered.

Property Not Covered

1. Household Personal Property
2. Racehorses and show horses.
3. Growing crops.
4. Contents of chicken houses.
5. Irrigation equipment.

Off premises coverage includes farm implements, tools, farm machinery, feed and livestock, but not while in transport by others or at a stockyard. Coverage is limited to \$2,000 on any one head of livestock one year or older and \$1,000 per head if under one year. This coverage is subject to an 80% coinsurance requirement. Losses here are settled on an ACV basis.

Coverage Extensions under Coverage F include farm products in the open such as hay, grain, straw or fodder up to 10% of Coverage F for limited perils only. Also, farm personal property in the custody of a common or contract carrier up to a \$1,000 limit.

Coverage G - Barns, Outbuildings and Other Farm Structures Coverage Form—FP 00 14

This form is used to insure farm structures such as barns, silos, pens, fences, corrals, portable buildings and structures and outdoor radio and TV equipment and other described structures used in operation of a farm or ranch. A Limit of Insurance for Other Farm Structures must be shown on the Declarations Page under Coverage G.

Coverage Extensions include damage to power and light poles is covered up to \$1,000 per occurrence and new farm structures on the “insured location” are covered up to \$100,000 if reported within 60 days.

LIVESTOCK COVERAGE FORM - FP 00 40

This particular form provides coverage to livestock on a named perils basis, and the livestock can be written on a schedule or blanket basis. Livestock includes cattle, horses, sheep, goats, swine, mules and donkeys. This coverage is primarily designed for sale to owners, but there is nothing to preclude a non-owner from purchasing this coverage.

This named peril coverage is similar to that found under the Basic Causes of Loss under the Farm Property Coverage Form - FP 00 10.

MOBILE AGRICULTURAL MACHINERY & EQUIPMENT FORM

This form is used to provide open peril coverage for mobile agricultural machinery and equipment used in the everyday operations of the farm. Examples of equipment that can be covered include tractors, combines and bailers. However, irrigation equipment and self-propelled combines for hire are excluded. Coverage can be written on a scheduled or blanket basis.

CAUSES OF LOSS

This section of the Farm Property Coverage Form includes all three of the Causes of Loss provisions: Basic, Broad and Special. Coverage is activated by an entry on the Declarations Page.

Basic

The Basic Cause of Loss Form provides protection arising out of 14 named Causes of Loss. They are:

1. Fire and lightning, except damage that results from use of open fire for curing or drying tobacco in a barn;
2. Windstorm or hail;
3. Explosion - does not include explosion of alcohol stills, steam boilers and similar steam equipment;
4. Riot or civil commotion;
5. Aircraft;
6. Vehicles;
7. Smoke, but does not include loss by smoke from agricultural smudging or industrial operations;
8. Vandalism, but there is no coverage for “vacant” buildings if vacant over 30 days.
9. Theft;
10. Sinkhole Collapse;
11. Volcanic Action;
12. Collision - Coverage E and Coverage F only:
For collisions causing:
 - a. Damage to Covered Farm Machinery;
 - b. Death of Covered Livestock including overturn of a transporting vehicle or if livestock is run into or struck moving along or standing on a public road;
 - c. Damage to Other Farm Personal Property while that property is in or on a motor vehicle involved in a collision or is overturned;
13. Earthquake loss to livestock;
14. Flood loss to livestock.

Broad

The Broad Causes of Loss covers the perils listed in the basic form and adds the following losses to livestock: electrocution, attack by dogs or wild animals, accidental shootings on the insured location, drowning (except swine under 30 days old), loading or unloading.

Plus, breakage of glass, weight of ice, snow or sleet, sudden and accidental tearing apart of heat, hot water or air conditioning systems, accidental discharge or leaking of water or steam from a system, freezing of plumbing system, and sudden and accidental damage from artificially generated electrical systems to electric devices, appliances or wires.

Special

The Special Causes of Loss covers risks of direct physical loss except those specifically excluded. Exclusions include:

1. Fire if caused by curing tobacco;
2. Collapse (except as provided in additional coverages);
3. Rain, snow, ice or sleet to personal property in the open;
4. Windstorm or hail to dairy or farm products in the open;
5. Freezing of plumbing, heating or air conditioning or appliances, due to the insured's neglect, if the building is unoccupied;
6. Explosion to alcohol stills, boilers and steam pipes in farm buildings;
7. Freezing, thawing, weight of water or ice on fences, patios, swimming pools, foundations, retaining walls, piers or docks;
8. Theft in or to a "dwelling" under construction, or materials and supplies used in the construction;
9. Voluntary parting of property;
10. Inventory shortage;
11. Vandalism and malicious mischief, if the dwelling is vacant more than 30 days;
12. Wear and tear, inherent vice, mechanical breakdown, rust or other corrosion, mold, rot and similar causes of loss;
13. Damage to farm equipment as a result of foreign objects being taken into any farm machinery or mechanical harvester;
14. Artificially generated electric current;
15. Dishonest acts of an insured or employees;
16. Smoke from agricultural smudging or industrial operations;
17. Birds, vermin, rodents, or insects;
18. Pollution;
19. Settling, cracking, bulging or expansion; and
20. Concurrent Causation types of loss.

Causes of Loss	Basic	Broad	Special
Fire and Lightning	YES		
Explosion (a)			
Windstorm & Hail (a) (b)			
Smoke (a)			
Aircraft & Vehicles (A)			
Riot & Civil Commotion			
Vandalism (a) (b)			
Sprinkler Leakage (b)			
Sinkhole Collapse (a)			
Volcanic Action (a)			
Theft (a) (b)			
Collision (a)			
Flood and Earthquake to "Livestock"			
Weight of Ice, Snow or Sleet (a)	NO		
Water Damage (a)			
Collapse (a) (c)			
Glass Breakage (a)			
Falling Objects (a)			
Loading/Unloading Accidents (a)			
Accidental Shooting of Covered Livestock (a)			
Drowning of Livestock (a)			
Risk of Direct Physical Loss			
(a) These causes of loss are subject to limitations. (b) These causes of loss can be excluded by endorsement. (c) These causes of loss are provided by the Additional Coverages provisions.			

EXCLUSIONS

Exclusions that are common to almost all the coverages found in the Farm Property Coverage Part include:

1. Ordinance or Law;
2. Earth movement which excludes earthquakes, etc.;
3. Intentional Loss;
4. Government Action
5. Nuclear Hazard
6. Off-premises power failure;
7. War and Military Action
8. Water that excludes flood, mudslides, sewer and drain backup.

ADDITIONAL COVERAGES

Additional coverages include:

- **Debris Removal** – 25% of the loss included in the limit of insurance plus an additional 5% of the limit of insurance.
- **Reasonable Repairs**
- **Damage to Property Removed** – all risk coverage for 30 days
- **Fire Department Service Charge** – will pay up to \$1,000 for liability assumed by a contract or agreement.
- **Collapse**
- **Pollutant Clean Up and Removal** – up to \$10,000

There are several Additional Coverages under the Farm Property Coverage Form under Coverages A, B, C and D including:

1. **Removal of Fallen Trees** – up to \$1,000, but no more than \$500 for any one tree.
2. **Credit Card, Fund Transfer Card, Forgery and Counterfeit Money** - \$500 limit.

Additional Coverage to Coverage E and Coverage F - This Additional Coverage provides \$2,000 for the cost of restoring, researching or replacing records of farm operations.

CONDITIONS

The conditions of the Farm Property Coverage Form are very similar to those found in the Commercial Property Policy. One unique condition to Farm Property is related to **“unoccupancy”** or **“vacancy.”** If a building or structure is “unoccupied” or “vacant” greater than 120 consecutive days, the Limit of Insurance applicable to buildings or structures and their contents is automatically reduced by 50%, unless an endorsement is attached to extend the period of “unoccupancy” or “vacancy.”

DEFINITIONS

“Business” means a trade, profession, occupation, enterprise or activity other than farming or custom farming, which is engaged in for money or other compensation.

“Business property” means property pertaining to any trade, profession or occupation other than farming.

“Custom Farming” means performance of specific planting, cultivating, harvesting or similar specific “farming” operations by an “insured” at a farm that is not an “insured location”, when the performance is for, and under the direction or supervision of, the owner or operator of the farm. It does not include:

1. Operations at a premises rented to, leased to or controlled by an “insured”;
2. Operations for which no compensation in goods or money is received; or
3. A neighborly exchange of services.

Custom Farming operations are excluded if the insured’s receipts from custom farming exceed \$5,000 for the twelve months before the date of the loss.

“Dwelling” means a building used principally for family residential purposes and includes mobile homes, modular and manufactured homes.

“Farming” means the operation of an agricultural or aquacultural enterprise and includes operations of roadside stands on the named insured’s farm premises maintained solely for the sale of farm products produced principally by the named insured.

“Farm Employee” is an employee whose principle duties are connected with maintenance or use of the “insured’s” farm or farm equipment.

“Farm personal property” means equipment, supplies and products of farming or ranching operations including, but not limited to, seeds, feed, fertilizer, “livestock,” other animals, agricultural machinery and equipment.

“Insured” in the Farm Liability Coverage Form is similar to who is an insured under the CGL and Homeowners forms.

If the named insured is:

1. An individual, “insured” includes resident relatives, any other person under the age of 21 in the care of an “insured”, and a full-time student who was a member of the household before moving out to attend school and under the age of 24 if a relative or under the age of 21 if in the care of an “insured”;
2. A partnership or joint venture, partners and members and their spouses are “insureds” with respect to “farming operations”;
3. A limited liability company, the members and managers are “insureds” with respect to “farming operations”; or
4. A corporation, the executive officers, directors and stockholders are “insureds” with respect to their duties.

“Insured” also means:

1. All employees for acts within the scope of their employment;
2. Any person or organization acting as the named insured’s real estate manager;
3. Any person or organization that is not a business who is legally responsible for the “insured’s” animals or watercraft that are covered under the policy; and
4. Any person using a covered vehicle on an “insured location”.

“Insured location” means any location, including its private approaches described on the Declarations Page. This is very similar to insured locations under the Homeowners Policy.

“Livestock” means cattle, swine, sheep, goats, horses, mules and donkeys.

“Poultry” means fowl kept by the named insured for sale or use.

“Vacancy” means that a building or structure is in a state where it does not contain sufficient furnishings or other property customary to its intended use. A single piece of furniture would not be sufficient for customary use.

“Specified Causes of Loss” means fire, 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, and water damage arising from a loss by fire or windstorm or hail in which it causes an opening in the building.

SECTION 8 - QUIZ

1. All of the following are components of the Commercial Package Policy (CPP), EXCEPT:
 - a. Common Policy Declarations
 - b. Common Policy Conditions
 - c. Common Policy Exclusions
 - d. Coverage Parts
2. A Commercial Package Policy that has been in force for more than 60 days may be cancelled for non-payment of premium by giving the insured how many days' notice?
 - a. 10
 - b. 15
 - c. 30
 - d. 60
3. In the Building and Personal Property Coverage Form, Business Personal Property includes all of the following except:
 - a. Property of others in the insured's care, custody or control.
 - b. A tenant's use interest in improvements and betterments.
 - c. Stock.
 - d. Machinery and equipment.
4. All of the following are considered Building as described in the Building and Personal Property Coverage Form except:
 - a. Stock.
 - b. Permanently installed machinery and equipment.
 - c. Floor covering.
 - d. Outdoor furniture.
5. The Building and Personal Property Coverage Form lists which one of the following as "property not covered?"
 - a. Machinery and equipment
 - b. Animals owned by others boarded by the insured
 - c. Bridges, roadways and walks
 - d. Outdoor furniture

6. Which of the following is correct about Debris Removal under the Building and Personal Property Coverage Form?
- a. Debris removal is found in the Extensions of Coverage
 - b. Debris Removal pays to remove debris of covered property caused by a covered loss and reported with 90 days
 - c. Debris Removal pays for pollution cleanup from land or water.
 - d. Policy pays up to 25% of the amount of the loss included in the limit of insurance, and if necessary, up to \$25,000 in addition to the limit of insurance.
7. All of the following losses are excluded if a building has been vacant for 60 consecutive days, EXCEPT:
- a. Water damage
 - b. Fire
 - c. Theft or attempted theft
 - d. Vandalism
8. If a building has been vacant for 60 consecutive days, all losses not excluded, will be reduced by _____?
- a. 10%
 - b. 15%
 - c. 20%
 - d. 25%
9. Under a Building and Personal Property Coverage Form, the insured buys \$300,000 coverage on a building valued at \$500,000. The policy has an 80% coinsurance clause. A fire causes \$60,000 damage to the building. How much will the policy pay?
- a. \$40,000
 - b. \$45,000
 - c. \$50,000
 - d. \$60,000

10. Which of the following coverage is most likely to be needed by an attorney's office?
- a. Business Income
 - b. Extended Business Income
 - c. Extra Expense
 - d. Ordinance and Law Coverage
11. BNR corporation has a Value Reporting form with \$500,000 coverage written on January 1. All required reports are made on time. The June report showed an inventory of \$100,000, when the actual inventory was \$200,000. On July 1, BNR had a fire loss of \$200,000. How much will BNR be paid?
- a. \$100,000
 - b. \$150,000
 - c. \$180,000
 - d. \$200,000
12. Which of the following forms would be appropriate for a business with a predictable fluctuating inventory?
- a. Value reporting form
 - b. Inflation guard option
 - c. Peak season endorsement
 - d. Monthly reporting form
13. Which of the following is NOT a type of property group described in the Nationwide Marine Definition?
- a. Imports
 - b. Buildings
 - c. Domestic Shipments
 - d. Bridges, tunnels and other instrumentalities of transportation and communication.

14. Which of the following is true about Commercial Inland Marine forms?
- a. Filed forms means that the coverage form and/or rates must be filed with state regulatory authorities.
 - b. Most of the coverages written under Inland Marine are filed.
 - c. Unfiled lines of Inland Marine include Accounts Receivable and Sign Coverage.
 - d. Filed lines of Inland Marine Coverage tend to have a greater variance of exposure.
15. Which inland marine form would be sold to a commercial photographer?
- a. A Professional photography form
 - b. Accounts receivable
 - c. Contractors equipment form
 - d. Commercial Articles form
16. What percentage of coinsurance is required under the sign coverage form?
- a. 100%
 - b. 80%
 - c. 50%
 - d. Coinsurance is not required
17. All of the following are excluded under the Commercial Property Policy, EXCEPT:
- a. Mechanical breakdown
 - b. Fire that ensues from an explosion
 - c. Artificially generated electric current that damages an electrical device, appliance or wires
 - d. Explosion of steam boilers, steam pipes or steam turbines
18. During the testing of pressure vessels in a boiler, the pressure builds up causing the boiler to explode destroying the boiler and other equipment. How does the equipment breakdown policy respond?
- a. Pay the loss in full
 - b. Pay for the boiler, but not the other equipment
 - c. Pay for nothing
 - d. Pay for the other equipment, but not the boiler

19. All of the following are Additional Coverages in the Equipment Breakdown policy EXCEPT:
- a. Ammonia Contamination
 - b. Supplementary Payments
 - c. Hazardous Substance
 - d. Water Damage
20. The limit on the Declarations Page of the Equipment Breakdown policy applies per loss. Which of the following is not subject to a sublimit of \$25,000 unless an additional limit is shown ?
- a. Consequential Loss
 - b. Property Damage
 - c. Ammonia Contamination
 - d. Data and Media
21. Custom farming operations are excluded if the insured's custom farming receipts exceed _____ during the 12 months before the date of the loss.
- a. \$5,000
 - b. \$2,500
 - c. \$2,000
 - d. \$1,000
22. Under the farm policy, if a building is vacant or unoccupied for more than 120 consecutive days, the limit of insurance is automatically reduced by _____?
- a. 10%
 - b. 25%
 - c. 50%
 - d. 75%
23. Under the definition of livestock, livestock includes all of the following, EXCEPT:
- a. cattle
 - b. swine
 - c. sheep
 - d. alpacas

24. While picking corn, a scrap of metal is taken into the corn picker resulting in damages of \$1,500. How will the loss be paid?
- a. Loss will be paid in full.
 - b. Loss will be paid minus the deductible.
 - c. It will pay nothing since damage to farm equipment is a result of foreign objects taken into farm machinery is excluded
 - d. Nothing will be paid since corn pickers and other harvesting equipment are not covered property

Chapter 8 Answers

1c, 2b, 3a, 4a, 5c, 6d, 7b, 8b, 9b, 10c, 11a, 12c, 13b, 14a, 15d, 16a, 17b, 18c, 19b, 20b, 21a, 22c, 23d, 24c

CHAPTER 9

Commercial General Liability ('13)



Insurance Agents
& Brokers

CHAPTER 9 – COMMERCIAL GENERAL LIABILITY ('13)

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What are the two types of Commercial General Liability (CGL) forms and what is the difference between them?
- What are the two major sublines of the CGL and give examples of each.
- Contractual liability is generally excluded from the CGL, however there is coverage for 6 insured contracts. Name them. (Hint: LEASE-T)
- Discuss Coverage B – Personal and Advertising Injury Liability
- Discuss Coverage C – Medical Payments
- Describe Supplementary Payments and coverages to which they apply.
- Who is an insured under a CGL? (Review chart in Chapter 7)
- What are the six Limits of Insurance for the CGL policy?
- Review these important definitions:
 - Advertisement
 - Auto
 - Bodily injury
 - Coverage territory
 - Employee
 - Executive officer
 - Impaired property

- Insured Contract
- Loading or unloading
- Mobile equipment
- Occurrence
- Personal and advertising injury
- Products and completed operations hazard
- Property damage
- Temporary worker
- Volunteer worker
- Your product
- Your work
- Identify and define the following features of a claims made policy:
 - Trigger
 - Retroactive date
 - Extended reporting periods
 - Basic extended reporting period
 - Supplemental extended reporting period

KEY TERMS

- Mobile Equipment
- Trigger
- Retroactive Date
- Farming

CHAPTER 9 - COMMERCIAL GENERAL LIABILITY ('13)

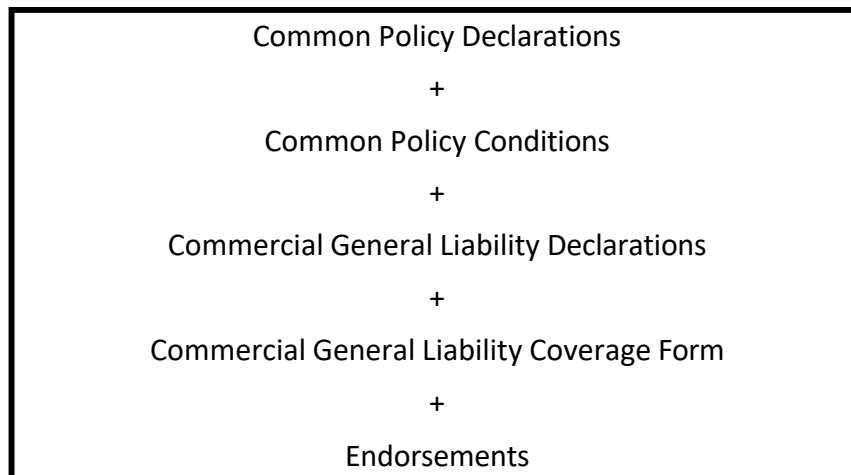
STATE EXAM: 7% OR 10-11 QUESTIONS

INTRODUCTION

The insurance policy used to provide Liability Protection for individuals, businesses and other organizations is the Commercial General Liability (CGL) Policy. It is designed to cover the insured's legal liability that arises out of injuries or damages suffered by its customers, tenants or the public. The name of the policy contains the word "General" because it insures most liability areas other than Automobile and Employers Liability.

COMPONENTS OF A COMMERCIAL GENERAL LIABILITY POLICY

We have illustrated the structure below:



Types of Forms

There are two Commercial General Liability Coverage forms available: the Occurrence Form and the Claims Made Form. These two coverage forms contain the exact same coverage, the only difference being how a claim is triggered or activated.

1. Occurrence - CG 00 01

This form is the one used most often to provide CGL coverage. Under this form coverage applies for injury or damage that occurs during the policy period, regardless of when the claim is reported to the insurer.

2. Claims-Made - CG 00 02

This form provides coverage for claims occurring on or after the retroactive date that are made during the policy period or the extended reporting period, even if the injury or damage occurred years before the current policy term. We will discuss the specific features of the retroactive dates and the extended reporting periods later in this section.

Section I - Coverages

Bodily Injury and Property Damage Liability (Coverage A)

This coverage promises to pay the insured's legal obligations for damages for bodily injury or property damage to which this insurance applies. In addition, the insurer promises to defend any lawsuits.

Premises and Operations

Provides coverage for exposures at the insured's business location (on premises and off premises due to your operations):

1. Customer slips and falls on a wet floor in your restroom.
2. Your employee carpenter drops a hammer from a roof you are replacing (away from your business location) and injures someone walking by.

These are negligent acts occurring both at the premises and off the premises but arising from the business operations of the insured.

Products and Completed Operations

Provides coverage for exposures away from the insured's business location. Products liability begins when the customer takes possession of the product and the product is removed from the insured's premises. Completed Operations begins when the insured's work has been completed and has been put to its intended use.

1. A customer buys a steamer from a retail store (insured). When the customer gets home and uses the steamer it malfunctions, causing steam to blow back in the customer's face. (Products Claim)

2. The roof you have finished replacing leaks six weeks later and causes \$4,000 damage to the interior of the building. (Completed Operations Claim)

Section I Exclusions

The following are important exclusions that apply to Coverage A – Bodily Injury and Property Damage. This insurance does not apply to:

- Expected or intended acts (intentional),
- Contractual liability, **EXCEPT the six insured contracts:**
 - Lease of premises;
 - Easement or license agreement;
 - Agreement to indemnify a municipality;
 - Sidetrack agreement;
 - Elevator maintenance agreement.
- Tort Liability of a Third Party
 - Liquor liability for those in the liquor business, however, coverage is provided for host liquor liability;
 - Workers Compensation and Similar Laws
 - Employee injuries (Workers' Compensation, Employer's Liability and similar laws);
 - Pollution, except pollution caused by a hostile fire and fluids that escape from mobile equipment and some other incidental exceptions;
 - Aircraft, auto or watercraft, EXCEPT:
 - watercraft ashore on the insured's premises;
 - non-owned watercraft less than 26 feet;
 - parking customers' autos on or next to premises;
 - insured contract for aircraft and watercraft;
 - operation of machinery or equipment that is mobile equipment (cherry pickers, compressor pumps and cleaning equipment); and
 - Transportation & Racing of Mobile Equipment;
 - War risks;

LEASE-T

- Damage to property the insured owns, rents or occupies or personal property in the insured's care, custody or control EXCEPT damage by fire to premises.
- Property damage to the insured's product;
- Property damage to the insured's work;
- Property damage to impaired property or property not physically injured;
- Products recall;
- Personal and advertising injury;
- Damage to or loss of use of electronic data;
- Damage due to distribution of material that violates statutes (CAN SPAM Act or TCPA Act); and
- Employment related practices.

Personal and Advertising Injury Liability (Coverage B)

This coverage promises to pay those sums for which the insured becomes legally obligated for personal injury or advertising injury caused during the policy period. For this coverage, personal injury means libel, slander, invasion of privacy, false arrest or detention, malicious prosecution and wrongful entry or eviction. Advertising injury means libel, slander violation of privacy, copyright infringement or misappropriation of advertising ideas. The limits for Coverage B losses are expressed as dollars (\$\$\$) per person or organization rather than the normal per occurrence limits.

Exclusions

- Acts committed by an insured knowing the act would violate the rights of another;
- Publishing any material the insured knows is false;
- Material published before the policy period;
- Criminal acts committed by or at the direction of the insured;
- Contractual liability;
- Breach of contract;
- Failure of goods, products or services to perform;
- Wrong description of prices;
- Infringement of copyright, patent, trademark or trade secret;
- Insured's whose business is advertising, broadcasting, publishing or an internet provider (chat rooms, bulletin boards)
- Electronic chatrooms or bulletin boards;
- Unauthorized use of another's name or product;

- Pollution;
- Pollution-related'
- War

Medical Payments (Coverage C)

This will pay for medical expenses for bodily injury caused by an accident on the premises the named insured owns or rents or uses, and for accidents because of their operations. Medical expenses are paid regardless of fault or negligence and must be incurred within one year from the date of the accident. Medical payments are considered part of the occurrence limit.

Exclusions

- To any insured except volunteer workers;
- To a hired person;
- To your tenants injured on their rental premises;
- To a person hired to work or covered under Workers' Compensation;
- For any products or completed operations;
- To a person injured in any physical exercise of games, sports or athletic contests;
- If excluded under Coverage A.

Damage to Premises Rented to You (Fire Damage)

The most that will be paid under Coverage A for damages because of property damage to any one premises, while rented to you, or in the case of damage by fire, while rented to you or temporarily occupied by you with permission of the owner.

Supplementary Payments - Coverages A and B

The CGL Coverage Form contains a section that pays resulting expenses from the insurer's defense of any claim or "suit" in addition to the limits in the policy. Supplementary Payments covered under Coverage A - Bodily Injury and Property Damage Liability and Coverage B - Personal and Advertising Injury Liability include:

1. All expenses the insurer incurs.
2. Up to \$250 for the cost of bail bonds because of an accident or traffic law violation(s) arising out of the use of a vehicle to which the Bodily Injury coverage applies.
3. Premiums on bonds to release attachments.
4. Interest on any judgment (both pre-judgment and post-judgment interest).

5. Other reasonable expenses incurred by the insured at the insurance company's request. This could include travel expenses to attend a trial or the insured sending a copy of a police report, etc. This includes the actual loss of earnings up to \$250 a day because of time off work.
6. All costs taxed against the insured in the "suit."

These Supplementary Payments are in addition to the policy limits.

Section II – Who is an Insured (who is covered under the policy)

WHO IS AN INSURED

1. NAMED INSUREDS	LIMITATIONS
a. Individual. Includes spouse	Conduct of any business of which you are the whole owner.
b. Partnership or Joint Venture. Includes partners, members and their spouses.	Conduct of your business.
c. Limited Liability Company. Includes members and managers.	Members: Conduct of your business. Managers: Respect to their duties as trustees.
d. Corporations. Includes "executive officers," directors and stockholders.	"Executive officers" and directors: Respect to their duties. Stockholders: Respect to their liability as stockholders.
e. Trust. Includes trustees.	Respect to their duties as trustees.
2. OTHERS	LIMITATIONS
a. "Employees" and "volunteer workers", other than "executive officers" of corporation and managers of limited liability company.	Acting within the scope of their employment.
b. Persons other than "employees" and "volunteer workers".	While acting as your real estate manager.
c. Any person with temporary custody of your property if you die.	Liability arising out of the maintenance or use of that property.
d. Your legal representative if you die.	Respect to their duties
3. Newly acquired or formed organization if named insured has a majority interest	Not partnership, joint venture or limited liability company. Covered for 90 days after acquisition or formation

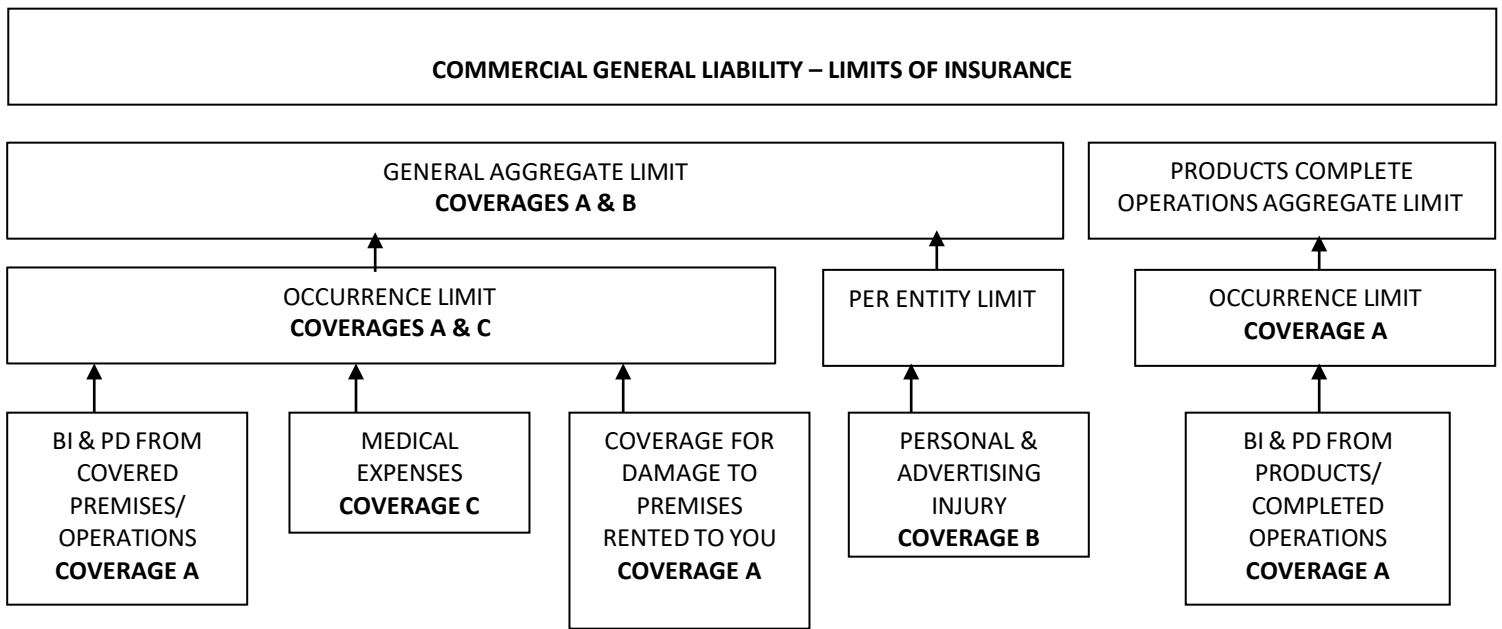
There are three categories of insureds found in the CGL:

1. **Named Insureds** - those persons or organizations who are specifically named on the CGL Declarations.
2. **Automatic Insureds** - those persons or organizations who qualify automatically as insureds, because they qualify as a member of a category like employees.
3. **Additional Insureds** - those persons or organizations who qualify, because they either are specifically named or qualify as a member of a listed category. These insureds are added by endorsement.

Section III - Limits of Insurance

There are six limits for the CGL, which may apply differently to different coverages.

1. **General Aggregate**
The General Aggregate is the most that will be paid during the policy period for Coverages A & B for all covered claims other than the products and completed operations claims.
2. **Products and Completed Operations Aggregate**
The Products and Completed Operations Aggregate is the most that will be paid under Coverage A during the policy period for all covered products and/or completed operations claims.
3. **Personal and Advertising Injury (Per Person or Organization)**
Coverage B - Personal and Advertising Injury Liability contains a limit separate from the occurrence limit, but is subject to the general aggregate limit.
4. **Per Occurrence**
The Occurrence Limit is the most the insurer will pay for damages under Coverages A & C regardless of the number of insureds, claims made or suits brought resulting from any one occurrence. This limit is subject to the General Aggregate or Products and Completed Operations Aggregate, whichever applies.
5. **Medical Expense**
Coverage C - Medical Payments contains the Medical Expense Limit per person for medical expenses. As is the case in the Damage to Premises Rented to You Limit, this is a sublimit, since a payment under this Coverage reduces the amount payable under the occurrence limit. Likewise, this will reduce the General Aggregate Limit.
6. **Damage to Premises Rented to You (Fire Damage)**
The Damage to Premises Rented to You Limit is the most that will be paid under Coverage A for any one premises, while rented to the named insured. This limit may be referred to as sublimit, since payment here reduces the amount payable under both the Occurrence Limit and the General Aggregate Limit.



Section IV - Conditions

1. In the event of a claim, occurrence or lawsuit, the insured must make prompt notice to and cooperate with the insurer.
2. Other insurance – in most circumstances the CGL coverage form is primary.
3. Separation of insureds – the CGL policy applies as though each insured has its own separate policy. If one insured brings a covered claim against another insured under the same policy, the policy will pay the claim.
4. Premium audit – under the CGL the insured pays what is described as a “deposit premium”. At the end of the year, the company will conduct an audit to determine the amount of the actual earned premium. If the insured’s business increased over the policy year, they will owe additional premium. If the insured’s business decreased over the year they will receive a refund.
5. Transfer of rights of recovery – addresses how subrogation will work.

Section V - Definitions

Advertisement

A notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers. This includes electronic media (internet, facebook, etc.)

Auto

A land motor vehicle or trailer designed for use on public roads including any equipment attached to said vehicle.

Bodily Injury

Bodily injury means bodily injury, sickness or disease sustained by a person, including death.

Coverage Territory

1. The United States of America, its territories and possessions, Puerto Rico and Canada.
2. Coverage is worldwide for injuries or damages if the goods or products are made or sold by the named insured in the coverage territory for activities of a person temporarily outside the coverage territory, and for internet activities.

Employee

Includes a leased worker but not a temporary worker.

Executive Officer

A person holding an officer's position created by the insured's charter, constitution, bylaws or similar documents.

Impaired Property

Tangible property but not the insured's property that cannot be used or is less useful because it includes the insured's product or work that is known to be or thought to be defective, inadequate or dangerous.

Insured Contract (six)

- Lease of premises
- Easement or license agreement
- Agreement to indemnify a municipality
- Sidetrack agreement
- Elevator maintenance agreement
- Tort liability of a Third Party

LEASE-T

Loading or Unloading

The handling of property

Mobile Equipment

Includes the following types of land vehicles and the attached equipment;

1. Bulldozers, farm machinery, forklifts and other vehicles designed for use off public roads.
2. Vehicles maintained for use solely on or next to the named insured's premises.
3. Vehicles on crawler treads.
4. Vehicles maintained to provide mobility to permanently mounted power cranes, shovels, loaders, diggers, etc.

Occurrence

An accident including continuous or repeated exposure to substantially the same conditions.

Walden Pool Company uses a small bulldozer to dig a pool in a customer's backyard. While backing the bulldozer, Walden's employee strikes the neighbor's fence. There is no apparent damage after the first time, but soon after being struck for the third time a section of the fence collapses. This would qualify as an "occurrence."

Personal and Advertising Injury

"Personal and advertising injury" means injury from the following offenses:

1. False arrest, detention or imprisonment.
2. Malicious prosecution.
3. Wrongful eviction, wrongful entry or invasion of privacy.
4. Oral or written publication of material that slanders or libels or violates a person's right of privacy.
5. The use of another's advertising ideas in the insured's advertisement.
6. Infringement of copyright, trade dress or slogan in the insured's advertisement.

Products and Completed Operations Hazard

Bodily injury or property damage that arises out of the insured's product.

Property Damage

Property damage means:

1. Physical injury to tangible property, including its loss of use, and
2. Loss of use of tangible property not physically injured.

Electronic data is not tangible property.

Temporary Worker

A person who is furnished to the insured to substitute for a permanent employee on leave or someone used to meet a seasonal or short-term workload condition.

Volunteer Worker

A person who is not an employee of the insured and donates his/her own time (without payment) under the insured's direction.

Your Product

"Your product" means any goods or products manufactured, sold, handled, distributed or disposed of by the named insured. It includes warranties and representations.

Your Work

"Your work" means work or operations performed by the named insured or on behalf of the named insured as well as materials and parts furnished in connection with the work. It also includes warranties and representations.

Occurrence versus claims-made

The Occurrence Form is the one used most often to provide CGL coverage. Under this form coverage applies for injury or damage that occurs during the policy period, regardless of when the claim is reported to the insurer.

The Claims-Made Form provides coverage for claims occurring on or after the retroactive date that are made during the policy period or the extended reporting period, even if the injury or damage occurred years before the current policy term.

Claims-Made Features**Trigger**

The trigger is simply how coverage for a claim is activated. Under the Claims-Made Coverage Form the event that triggers coverage is a demand for damages by a third-party.

Retroactive Date

The retroactive date determines when coverage starts. In order for coverage to apply, the occurrence that gives rise to a claim must take place after the retroactive date. There are three things you need to know in order to handle a claim under a Claims-Made Form with a retroactive date:

1. When was the occurrence?
2. What is the retroactive date?
3. When was the claim made?

If the occurrence was before the retroactive date, there is **no coverage** under the current policy. If the occurrence was after the retroactive date and the claim was made during the policy period, coverage applies. This is true even if another Claims-Made Policy was in effect when the actual loss occurred.

The retroactive date is usually the effective date of the first Claims-Made Policy and normally stays the same (does not move forward) each year as successive Claims-Made Policies are renewed.

Prior Acts

In the event that no retroactive date is indicated on the declarations, there will be coverage for all incidents (prior acts) that took place prior to the beginning of the policy, if a claim is made during the policy period.

Extended Reporting Periods (also known as “tail” coverage)

Extended reporting periods are used to provide coverage for claims that are reported after a Claims-Made Policy ends. Remember, in a Claims-Made Policy once the policy ends there is no continued coverage for claims that are made. These periods provide additional time for claims to be reported but do not extend coverage beyond the policy period.

Basic Extended Reporting Period (BERP)

This “tail” is provided automatically at no additional cost and consists of:

- a. Mini-tail which gives an additional 60 days after policy termination to make any claims that occurred during the policy period.
- b. Midi-tail which gives up to five (5) years after policy termination to make a claim, provided the occurrence is reported within 60 days of policy termination and the loss occurred during the policy period.

Supplemental Extended Reporting Period (SERP)

This “tail” extends the reporting period forever. This is an endorsement that must be purchased and it must be requested in writing by the insured within 60 days of policy

termination. The one-time premium charge for this endorsement cannot exceed 200% of the last annual CGL premium. Coverage still only applies to claims that occurred during the policy period the supplemental tail reacts like an occurrence policy.

Claim Information

Any insurer who cancels or nonrenews a Claims-Made CGL must provide claim and occurrence information to the first named insured pertaining to any policy issued over the previous 3 years. This information must be sent within:

1. 30 days of termination if the insurer canceled or nonrenewed the policy, or
2. within 60 days of the expiration of the policy period if the insured makes a written request.

SECTION 9 - QUIZ

1. All of the following are true of the 2 types of CGL forms (occurrence & claims made), EXCEPT:
 - a. The most commonly written coverage form is the occurrence form.
 - b. The claims-made form provides coverage for claims occurring on or after the retroactive date that are made during the policy period or the extended reporting period
 - c. The occurrence form is activated when a covered loss occurs during the policy period
 - d. Under the occurrence form, claims must be presented within 5 years of the occurrence

2. Which of the following is not covered under "Property Damage"?
 - a. Physical injury to tangible property
 - b. Loss of use of tangible property that has sustained physical injury
 - c. Loss of use of tangible property that is not physically injured
 - d. Extra Expenses incurred due to physical injury to tangible property

3. All of the following are major coverages provided by the CGL, EXCEPT:
 - a. Contractual Liability
 - b. Bodily Injury and Property Damage
 - c. Personal Injury and Advertising Injury
 - d. Medical payments

4. For Bodily Injury, Property Damage & Medical Payments under the CGL, which of the following limits apply if the aggregate limit is NOT met?
 - a. Per entity
 - b. Per occurrence
 - c. Bodily injury
 - d. Property damage

5. Under the CGL, which of the following exposures does a slip and fall on a wet floor fall under?
 - a. Indirect loss
 - b. Medical expense
 - c. Premises & operations
 - d. Products & completed operations
6. Under a claims-made form, coverage may be provided from a date that precedes the effective date of the policy. Which of the following represents that date?
 - a. Retroactive date
 - b. Anniversary date
 - c. Occurrence date
 - d. Claims made date
7. Which of the following is covered under Personal & Advertising Injury of the CGL?
 - a. Written publication of material that the insured knows is not true
 - b. Criminal act committed at the instruction of the insured
 - c. Failure of a product to perform as advertised
 - d. Unknowingly inflicting injury that violates the rights of another
8. An extended reporting period under a claims-made form provides coverage in which of the following ways?
 - a. Provides an additional 30 days coverage beyond the policy term
 - b. Provides an additional 10 years coverage beyond the policy term
 - c. Provides coverage for claims made beyond the policy term
 - d. Provides coverage for any gap between the claims-made and occurrence forms
9. Which of the following is covered under Supplementary payments of the CGL?
 - a. Defense costs of the plaintiff
 - b. All court costs taxed against the insured
 - c. Loss of earnings up to \$500 per day
 - d. Post judgment interest only

10. Which of the following would be covered under Medical Payments of the CGL?
- a. Employee of the insured
 - b. Your tenant injured on their rental premises
 - c. Person injured while playing softball on the company team
 - d. Volunteer worker
11. Which of the following areas of exposure are covered under Coverage A, Bodily Injury and Property Damage Liability in the CGL?
- I. Premises
 - II. Personal Injury
 - III. Operations
 - IV. Products/Completed Operations
- a. Premises and Personal Injury Only (I and II)
 - b. Premises and Operations Only (I and III)
 - c. Premises, Operations and Products/Completed Operations (I, III, IV)
 - d. Premises, Personal Injury, Operations and Products/Completed Operations (I, II, III, IV)
12. Your insured is RDS, Inc. Which of the following statements best represents the “insureds” under RDS’s unendorsed Commercial General Liability Coverage?
- a. RDS, Inc. only
 - b. RDS, Inc. and its officers, directors, stockholders and employees
 - c. RDS, Inc. and its officers, directors, stockholders and employees, plus ABC, Inc., a company in which RDS has 25% ownership
 - d. RDS, Inc., its officers, directors, stockholders and employees, and their family members
13. Your insured has a CGL with limits of \$300,000 per occurrence, \$600,000 general aggregate and \$100,000 Damage to Premises Rented to You. All of the following are true, EXCEPT:
- a. Payment under Damage to Premises Rented to You will reduce the per occurrence limit
 - b. Damage to Premises Rented to You will pay damages due to fire loss
 - c. Payment under Damage to Premises Rented to You will not reduce the general aggregate
 - d. Damage to Premises Rented to You will pay for fire loss to premises temporarily occupied by the named insured

14. All of the following are true of pollution liability, EXCEPT:
- a. Fluids that escape from mobile equipment are covered
 - b. Pollution caused by hostile fire is covered
 - c. Pollution coverage can be endorsed onto the CGL
 - d. The CGL excludes all pollution
15. Jack hosts a cocktail party for his customers. One of the customers drives home from the party in an intoxicated state and is involved in an at fault accident. How will Jack's CGL respond if he is sued?
- a. This is a covered loss and Jack's policy will provide protection
 - b. Jack's policy needs to be endorsed to cover this loss
 - c. Jack is not legally liable so his CGL will deny coverage
 - d. This loss is not covered
16. Your insured plumber installed a hot water heater in a home which later malfunctioned and caused fire and water damage. All of the following are covered under the plumber's CGL policy, EXCEPT:
- a. Damage to the home
 - b. Damage to the hot water heater
 - c. Damage to the homeowner's personal property
 - d. Bodily injury to the owner of the home
17. Robertson Manufacturing has a Commercial General Liability Policy with limits of \$300,000 per occurrence and \$600,000 aggregate. Robertson was sued for \$300,000 for bodily injury arising out of a faulty product, and the claimant was awarded this amount by the court. The cost of defense was \$50,000. What is the total amount that will be paid by the CGL?
- a. \$300,000; defense costs are excluded
 - b. \$300,000; defense costs are included in the occurrence limit
 - c. \$300,000; unless the policy is endorsed to cover defense costs
 - d. \$350,000; defense costs are paid in addition to the occurrence limit

18. Bill's CGL has limits of \$500,000 per occurrence and \$1,000,000 General aggregate. On May 1, two persons were injured in an occurrence on Bill's premises. The first person collected \$400,000 on July 1 for his injuries. On August 1, the second injured party filed a lawsuit seeking \$600,000 in damages. What amount of coverage is available for this 2nd claim?
- a. \$100,000
 - b. \$500,000
 - c. \$600,000
 - d. \$1,000,000

Chapter 9 Answers

1d, 2d, 3a, 4b, 5c, 6a, 7d, 8c, 9b, 10d, 11c, 12b, 13c, 14d, 15a, 16b, 17d, 18a.

CHAPTER 10

Commercial Crime ('15)



Insurance Agents
& Brokers

CHAPTER 10 – COMMERCIAL CRIME ('15)

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- Define “Burglary,” “Robbery,” “Theft,” “Employee,” and “money and securities.”
- Explain the difference between the two Crime Coverage Forms
 - Discovery Form
 - Loss Sustained Form
- Describe the following:
 - Employee Theft
 - Forgery or Alteration
 - Inside the Premises – Theft of Money and Securities
 - Inside the Premises – Robbery and Safe Burglary of Other Property
 - Outside the Premises
 - Computer Fraud
 - Funds Transfer Fraud

- Money Orders and Counterfeit Paper Currency
- What is the difference between burglary and safe burglary?
- What are the two methods of writing employee theft?
- Discuss the 4 Other Crime Coverages.
 - Lessees of Safe Deposit Boxes (CR 04 09)
 - Securities Deposited With Others
 - Guests’ Property
 - Safe Depository
- Encourage review of the Crime Coverage Summary Chart.

KEY TERMS

- Burglary
- Robbery

CHAPTER 10 - COMMERCIAL CRIME

STATE EXAM: 2% OR 3 QUESTIONS

COMMERCIAL CRIME ('15)

Commercial Crime Coverage can protect an organization or business from loss due to the unlawful taking of property or items of value like money. Many of the other policies restrict these type losses or exclude theft coverage. Crime coverage can be written to cover either commercial or government exposures. The commercial crime coverage part can be written as part of the Commercial Package Policy (CPP) or as a monoline policy.

“Burglary” means the unlawful taking of property from within a premises by a person or unlawfully entering or breaking out of a premises as evidenced by marks of forcible entry or exit.

“Robbery” is the unlawful taking of property from a person by actual violence or threat of violence.

“Theft” is the unlawful taking of “money”, “securities” or “other property”. This definition provides the broadest coverage since it includes any unlawful taking.

An **“employee”** is a person in the service of the insured (including 30 days after termination), who is compensated directly by the insured, and who is directed and controlled by the insured;

The property that is subject to loss under the crime forms are:

1. **“Money”** means currency, coins and bank notes, and travelers checks, register checks and money orders held for sale to the public.
2. **“Securities”** are negotiable or nonnegotiable instruments or contracts that represent “money” or property. This includes tokens, tickets, stamps and evidences of debt issued in connection with credit or charge cards.
3. **“Other property”** is any tangible property other than “money” and “securities” that has intrinsic value.

CRIME COVERAGE FORMS

There are two Commercial Crime Coverage forms - the Discovery Form (CR 00 20) and the Loss Sustained Form (CR 00 21). There are also two Government Crime Coverage forms – the Discovery Form (CR 00 24) and the Loss Sustained Form (CR 00 25)

The coverages provided by the Commercial Crime Form and the Government Crime forms are the same with one important difference. The limits on the Commercial Crime Forms are on a **per loss** basis while the Government Crime Forms can be written on a **per loss and on a per employee** basis.

1. **Discovery Form** (*similar to CGL Claims-Made Form*)

Pays for losses resulting from acts committed **at any time** and discovered during the policy year or during the Extended Period To Discover Loss, which is 60 days from the date of termination or one year from the date of termination for “employee benefit plans”. This Extended Period To Discover Loss terminates immediately upon the effective date of other Crime insurance.

2. **Loss Sustained Form** (*similar to the CGL Occurrence Form*)

Applies to losses that result from acts committed **during the policy period** and discovered during the policy period or within one year from the date of termination. The Extended Period To Discover Loss under the Loss Sustained Form also terminates immediately upon the effective date of other Crime insurance.

Coverages

Both the Discovery Form and the Loss Sustained Form contain eight coverages. These coverages are:

1. **Employee Theft**

Employee theft is not covered under Commercial Property forms. Nor is it covered under any of the other Crime coverages. This is the only coverage part that covers if an employee takes ANYTHING.

The Employee Theft Insuring Agreement agrees to pay for loss of or damage to money, securities and other property. This means all property owned or used by the insured, or in the insured’s custody. The loss must result from theft committed by an employee, whether identified or not, acting alone or in collusion with others.

There are two methods of writing Employee Theft - Blanket or Schedule. Blanket coverage applies to all employees. Scheduled coverage applies to specific persons or specific positions listed in the Declarations.

2. Forgery Or Alteration

This coverage pays for loss resulting from forgery or alteration of checks, drafts, promissory notes or similar written documents made or drawn upon the insured or an agent of the insured.

If the insured is sued for refusing to pay any forged or altered instrument, the insurance company will pay reasonable legal expenses incurred by the insured in defense of that suit. These expenses are paid in addition to the Forgery Or Alteration Limit of Insurance.

3. Inside the Premises – Theft of Money and Securities

This provides coverage for loss of money and securities inside the insured's premises or banking premises that results directly from **theft, disappearance or destruction**. If a fire destroys it If a thief steals it If it simply disappears, it is covered. However, there is no coverage if an employee steals or takes it because the only place for coverage of employees is under employee theft.

In addition to the loss of money and securities, coverage is provided for damage to the premises or a locked safe, vault, cash register, cash box or cash drawer resulting from a theft or attempted theft.

4. Inside The Premises - Robbery And Safe Burglary Of Other Property

This coverage applies to property other than money and securities if the loss is due to robbery of a custodian or safe burglary. The robbery or safe burglary must occur inside the premises. Coverage is also provided for damage to the premises or a locked safe or vault resulting from an actual or attempted robbery or safe burglary.

A **custodian** is the insured or a partner or employee of the insured who has custody of the property inside the premises. However, a watchperson or janitor is not considered a custodian.

Safe burglary is defined as the unlawful taking of property from within a locked safe or vault evidenced by marks of forced entry or the taking of the safe or vault.

5. Outside the Premises

The Outside The Premises Coverage covers theft, disappearance or destruction of money and securities in the custody of a messenger or an armored motor vehicle company. A **messenger** is the insured or a relative, partner, member or employee of the insured who has custody of the property outside the premises.

This coverage also applies to loss due to “robbery” of other property in the custody of a messenger or an armored motor vehicle company.

6. Computer Fraud

The Computer Fraud Coverage agrees to pay for the loss of or damage to money, securities and other property resulting from the use of a computer to fraudulently cause the transfer of that property from inside the premises or banking premises to a person or place outside those premises.

7. Funds Transfer Fraud

This coverage pays for the loss of money or securities resulting from a fraudulent instruction directing a financial institution to transfer, pay or deliver the money or securities from the insured’s account.

8. Money Orders and Counterfeit Paper Currency

This coverage pays for loss resulting from accepting, in exchange for merchandise, money or services, money orders that are not paid by the issuer or counterfeit paper currency.

Other Crime Coverages

Lessees of Safe Deposit Boxes (CR 04 09)

This endorsement provides coverage for two categories of property.

1. **Securities** are covered for theft, disappearance or destruction while they are in a safe deposit box, in a vault, inside the depository premises or temporarily elsewhere inside the depository premises during the course of deposit or removal from the safe deposit box.
2. **Other property** is only covered from actual or attempted burglary, robbery or vandalism. The name and address of the depository must be named on the schedule.

Securities Deposited With Others (CR 04 10)

This endorsement provides coverage for securities of others in a custodian’s care for theft, disappearance or destruction. Coverage is provided inside and outside the custodian’s premises and on deposit for safe keeping in a depository. Each custodian and depository must be named in the schedule.

Guests’ Property (CR 04 11)

This endorsement covers property of guests while the property is in a safe deposit box, inside the premises or while the property is in the insured’s possession. Coverage also applies for reasonable legal expenses the insured incurs from refusal to pay for loss or damage to guest’s property.

Safe Depository (CR 04 12)

This endorsement provides bailee's coverage for the property of others at a depository that is not a financial institution. Coverage is provided for two areas.

1. Provides legal liability for clients' property located in a vault, or safe deposit box or elsewhere inside the premises.
2. Provides coverage for direct damage (legal liability not required) to clients' property from actual or attempted robbery or burglary. Coverage also applies to resulting damage to the premises, a locked safe, vault or safe deposit box if you are the owner of the premise or are liable for damage to it.

Coverage Territory

With the exception of the Forgery Or Alteration and Computer Fraud coverages, the Crime Policy covers losses that occur in the United States, its territories and possessions, Puerto Rico or Canada. The Forgery Or Alteration and Computer Fraud coverages apply to losses occurring anywhere in the world.

Valuation

Crime forms valuation is as follows:

- Money will be paid at face value.
- Securities will be paid at closing value when the loss is discovered.
- Loss of property other than money and securities will be paid at actual cash value.

All Crime Forms

Loss of precious metals, precious or semi-precious stones, pearls, furs, manuscripts, drawings or records is limited to \$5,000 for any one "occurrence". This special limit can be increased by endorsement.

Virtual Currency

An exclusion is added to all policies and coverage forms unless endorsements add back coverage for this exposure to exclude digital currency or crypto currency such as Bitcoin.

To provide coverage for the voluntary parting and transfer of property on the basis of unauthorized instructions you need these endorsements:

- Fraudulent Impersonation (CR 04 17)
- Fraudulent Impersonation of Employees
- Fraudulent Impersonation of Customers and Vendors

Data Security Breach

Data security breach of confidential personal information exclusion has been added to the coverage forms to exclude payment for fees, costs, fines and penalties associated with this event.

Crime Coverage Summary Chart

Coverage	Covered Property	Covered Causes of Loss
Employee Theft	Money, securities and other property.	Employee theft
Forgery or Alteration	Checks, drafts or similar written documents.	Forgery or alteration
Inside the Premises – Theft of Money and Securities	loss of money and securities inside the premises or banking premises damage to the premises or attempted theft of money and securities - loss or damage to a locked safe, vault, cash register/box/drawer, inside the premises resulting from theft or attempted theft	Theft, disappearance and destruction
Inside the Premises – Robbery or Safe Burglary of Other Property	- Property other than money and securities inside the premises from actual or attempted robbery of a custodian Inside the premises in a safe or vault from actual or attempted safe burglary Damage to the premises resulting from actual or attempted robbery Safe burglary of other property and loss or damage to a locked safe or vault from actual or attempted robbery or safe burglary	Robbery or safe burglary
Outside the Premises	Loss of money and securities outside the premises in the care of a messenger or armored vehicle company Loss or damage to other property outside the premises in the care of a messenger or armored vehicle company	Theft, disappearance or destruction Robbery or attempted robbery
Computer Fraud	Money, securities and other property	Computer fraud
Funds Transfer Fraud	Loss of money or securities	Fraud
Money Orders and Counterfeit Money	Money	Accepting invalid money orders or counterfeit paper currency.
Lessees of Safe Deposit Boxes	Securities Property other than money and securities	Theft, disappearance and destruction Burglary, robbery or vandalism
Securities Deposited With Others	Securities	Theft, disappearance and destruction
Guests' Property	All property	Negligence
Safe Depository	Property Property other than money	Negligence Burglary and robbery

CHAPTER 10 - QUIZ

1. Burglary is:
 - a. The unlawful taking of property from a person by actual violence or threat of violence.
 - b. The unlawful taking of property from within a premises by entering into or leaving a premises where there are visible signs of forcible entry or exit.
 - c. The unlawful taking of property from a person or premises.
 - d. The act of stealing.
2. Which of the following types of crime best describes the unlawful taking of property from a person while threatening to cause bodily harm?
 - a. Burglary
 - b. Robbery
 - c. Theft
 - d. Extortion
3. The territory, as shown in the Crime Policy General Conditions, is:
 - a. Anywhere in the world.
 - b. United States of America only.
 - c. United States of America and Canada only.
 - d. United States, its territories and possessions, Puerto Rico and Canada.
4. A person is considered an employee up to how many days after termination?
 - a. 30
 - b. 60
 - c. 160
 - d. 365
5. Securities include all of the following, EXCEPT:
 - a. Tickets
 - b. Stamps
 - c. Credit card evidences of debt
 - d. Travelers Checks

6. Employee Theft coverage applies to which of the following types of property?
 - a. money only
 - b. money and securities only
 - c. money, securities & other property
 - d. property other than money & securities
7. Under the Crime Loss Sustained Form, coverage applies to losses resulting from acts committed during the policy period and discovered within _____ from the date of termination.
 - a. 180 days
 - b. 1 year
 - c. 5 years
 - d. 7 years
8. The coverage territory for all crime coverage, except Forgery & Alterations coverage, is?
 - a. Worldwide
 - b. United States only
 - c. United States, its territories and possessions, Puerto Rico and Canada
 - d. United States, Puerto Rico, Canada & Mexico
9. Theft of money is covered from which of the following causes of loss?
 - a. Theft only
 - b. Theft and disappearance
 - c. Theft and destruction
 - d. Theft, disappearance and destruction
10. Which of the following statements about Computer Fraud Coverage is correct?
 - a. "Computer fraud" is the theft of property arising out of the use of a computer to fraudulently transfer property from inside the premises to a person or place outside the premises.
 - b. "Computer fraud" does not include theft of property arising from the use of a computer.
 - c. Covered property only covers "money" and "securities."
 - d. "Computer fraud" includes the acts of employees, directors, trustees or representatives so long as the loss arises from the use of a computer to fraudulently transfer property.

Chapter 10 Answers

1b, 2b, 3d, 4a, 5d, 6c, 7b, 8c, 9d, 10a

CHAPTER 11

Businessowners ('13) Policy - Property



Insurance Agents
& Brokers

CHAPTER 11 – BUSINESSOWNERS ('13) POLICY

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What is the purpose of the Businessowners Policy (BOP)?
- Name the coverages automatically included in the BOP.
- What risks are eligible for coverage?
- What risks are ineligible?
- Describe what property is included under the Building.
- Discuss property covered and not covered.
- Review, in detail, the Additional Coverages Charts.
- List and describe the Coverage Extensions for the Businessowners Policy (also in chart format).
- Discuss the Causes of Loss
- Be familiar with Section I – Exclusions.
- What are the Concurrent Causation exclusions?
- What is the limit of insurance for outdoor signs attached to the building?
- How much coverage is provided under Business Personal Property Limit – Seasonal Increase?
- How does vacancy affect the Property Coverage?
- Explain the Loss Valuation Clause under Section I.
- Discuss the following Optional Coverages:
 - Outdoor signs
 - Money and securities
 - Employee dishonesty
 - Equipment Breakdown
- What are the coverages under Section II – Liability?
- How does the Businessowners Policy Liability coverage format differ from CGL?
- Identify the Supplementary Payments.
- What are the two differences in exclusions under the BOP compared to the CGL?
- What is the Professional Services Exclusion?
- Who is an insured? (Encourage review of chart in Chapter 8)
- Name the five limits within the Businessowners Liability.
- Know the definition of Products and Completed Operations hazard and how it differs from CGL.
- Discuss Common Policy Conditions such as:
 - Changes and who can make them.
 - Other Insurance – how does it differ from the CGL?
 - Recovery Against Others to Us (Subrogation)
 - Rights and Duties Under This Policy (Assignment)
 - Examination of Books
- Review the following endorsements:
 - Hired and Non-Owned Auto Liability
 - Protective Safeguards
 - Utility Services – Direct Damage
 - Utility services – Time Element

KEY TERMS

- Period of Restoration

CHAPTER 11 – BUSINESSOWNERS ('13) POLICY

STATE EXAM: 3% OR 4-5 QUESTIONS

CHARACTERISTICS AND PURPOSE

The Businessowners Policy (BOP) is a package policy designed to provide property & liability coverage for small to medium sized business. Designed like the Homeowners Policy, the BOP allows the small to medium sized business the option of buying coverage that is designed to satisfy most of their commercial insurance needs (property, business income and liability) with a single, simple, affordable policy. There are few decisions to make and few options to consider. This policy is an alternative to the more complex Commercial Package Policy (CPP). In fact, many of the coverages found in the CPP are identical to those in the BOP.

Since it's meant to be a complete package, the BOP automatically provides Business Income & Extra Expense Coverage for up to 12 months, some business income from dependent properties, built-in inflation guard, peak season coverage (up to 25% of business personal property), glass expense and fire extinguisher system recharge expense. The policy is written on a Special Form and it is on a replacement cost basis. Instead of a coinsurance requirement the policy has an insurance to value requirement which requires a limit of insurance equal to 80% or more of the full replacement cost of the property immediately before the loss. This is similar to processes found in Homeowners and Dwelling Forms. The policy has the following optional coverages available:

1. Outdoor signs
2. Money and securities
3. Employee dishonesty
4. Equipment Breakdown

ELIGIBILITY

The main distinction between the CPP + CGL and the BOP is not coverage, but eligibility. Literally, almost any business can purchase a commercial package and choose their coverages as needed (a-la-carte). The size or complexity of the business does not matter; anyone can buy a CPP. However, the BOP is meant for smaller to medium sized, low-risk businesses.

Those eligible risks would include:

- Apartment buildings and residential condominiums;
- Office buildings including office condominiums not exceeding six stories or a total of 100,000 square feet;

- Mercantile occupancies if the total floor area does not exceed 35,000 square feet and whose sales do not exceed \$6 million;
- Personal property in an office with less than 35,000 square feet per building;
- Service and processing risks as long as no more than 25% of gross sales come from off-premises operations including:
 - Bakeries
 - Barber and beauty shops
 - Dental laboratories
 - Dry cleaning and laundry stores
 - Engraving and photoengraving
 - Funeral homes
 - Mailing or addressing
 - Photocopying, printing, and lithographing
 - Photography
 - Shoe repair shops
 - Tailoring
 - Taxidermy
 - Television and appliance installation and service
 - Watch, clock, and jewelry repair
- Contractors such as carpentry, residential construction, drywall installation, landscape gardening, etc. as long as annual payroll does not exceed \$300,000
- Restaurants
 - Limited Cooking Restaurants (cafés, coffee shops, pizzerias)
No more than 7,500 square feet and a seating capacity of no more than 75 people. Alcohol can be beer or wine only and those sales cannot be more than 25% of total gross sales.
 - Fast Food Restaurant (McDonalds, Wendy's, etc.)
No more than 7,500 square feet and a seating capacity of no more than 150 people. Alcohol can be beer or wine only and those sales cannot be more than 25% of total gross sales.
 - Casual Dining Restaurants
No more than 7,500 square feet and a seating capacity of no more than 150 people. Alcohol can be beer, wine and liquor but those sales cannot be more than 50% of total gross sales.
 - Fine Dining Restaurants
No more than 7,500 square feet and a seating capacity of no more than 150 people. Alcohol can be beer, wine and liquor but those sales cannot be more than 50% of total gross sales.

- Convenience Store with Gasoline Pumps

Gasoline sales may not exceed 75% of total convenience store sales. There can be no automotive service or repair, carwash, propane or kerosene tank filling or restaurant operations.

- Wholesalers

No more than 25% of gross sales can come from retail sales and no more than 25% of the total square footage can be open to the public.

Eligible Risks Summary

- Apartment Buildings
- Office Buildings – including office condominiums not exceeding 6 stories or a total of 100,000 square feet.
- Mercantile, Processing or Service Risks (Bakeries, Barber Shops, Dry Cleaners, Funeral Homes, Printers, Shoe Repair, Tailoring, Repair Shops, etc.), if the total floor area of the building does not exceed 35,000 square feet and whose sales do not exceed \$6,000,000.
- Contractors whose annual payroll does not exceed \$300,000 and no work done over 3 stories.
- Convenience Stores – with a minimum of 3,000 square feet; if gas sales - no auto repair or service, no car wash, and no propane or kerosene tank filling.
- Motels – not exceeding 3 stories, no bar or lounge and not seasonal.
- Restaurants – all restaurants limited to 7,500 square feet. Fast food, casual and fine dining restaurants maximum seating capacity of 150 (limited cooking 75). Fast food and limited cooking – beer and wine only 25% of sales; casual and fine dining – alcohol only 50% of sales.
- Self-Storage Facilities – no more than 2 stories and no storage of industrial materials, chemicals or cold storage.
- Wholesale Risks – with no more than 25% retail sales and 25% of area open to public.

Ineligible Risks

The type of exposure here usually takes it out of the low risk category. Ineligible business includes:

1. Manufacturers
2. Banks, credit unions, stockbrokers, and other financial institutions
3. Wholesalers not specified
4. Places of amusement (carnivals, bowling alleys, amusement parks)
5. Processing and service not specifically identified as eligible
6. Auto dealers, repair or service stations, parking lots and garages
7. Household personal property

8. Full cooking Restaurants, Bars and Pubs (too much alcohol)
9. Businesses located in buildings which contain ineligible processing or manufacturing operations
10. Contractors not specified (heavy construction, demolition, larger general contractors)

BUSINESSOWNERS SECTION I – PROPERTY

Many of the property coverage provisions in the BOP are similar to those found in the Commercial Property forms reviewed in the preceding chapter. The Commercial Property forms most applicable to the Section I of the BOP are:

Section I

Building & Personal Property Coverage Form

Causes of Loss – Special Form

Business Income Form

Peak Season Endorsement

Automatic Increase in Insurance

Endorsements

Protective Safeguards

Utility Services – Direct Damage

Utility Services – Time Element

COVERAGE

Covered Property

- **Buildings**

Building means the building or structure described on the Declarations Page, including:

- Completed additions;
- Fixtures (including outdoor fixtures);
- Permanently installed machinery and equipment;

- Your personal property in apartments or rooms furnished by you as landlord (not included in the CPP);
- Personal property used to service or maintain the building (like outdoor furniture, floor covering and appliances used for maintaining the building).

Also included in the meaning of building are additions and repairs in progress and material, equipment, supplies, and temporary structures within 100 feet of the described premises which are used for making additions or repairs, if no other insurance is available for such property.

- **Business Personal Property**

Business Personal Property is the insured's personal property located in or on the building described on the Declarations Page, or in the open (or in a vehicle) within 100 feet of the described premises. This property may include the following items:

1. Property the insured owns and uses in his/her business.
2. Property of others in the insured's care, custody or control, but only for the amount the insured may be legally liable for, plus the cost of labor, material or services furnished or arranged by the named insured on personal property of others (not included in the CPP).
3. Use interest in tenants' improvements. The coverage may include the value of improvements and betterments made by the insured, at his or her expense, which a lease agreement states are a part of the building and cannot be legally removed.
4. Any leased personal property that the insured has a contractual obligation to insure.
5. Exterior building glass if insured is a tenant and no limit of insurance for the building is shown in the declarations. The glass must be owned by or in the care, custody or control of the insured (not included in the CPP).

Property Not Covered

A shorter list of property not covered is contained in the BOP forms than we found in the Commercial Property Policy. These excluded items of property are:

1. Aircraft, automobiles, trucks and other vehicles subject to motor vehicle registration.
2. Money or securities, except as provided in the:
 - (a) Money and Securities Optional Coverage; or
 - (b) Employee Dishonesty Optional Coverage.
3. Contraband.

4. Land, water, growing crops or lawns.
5. Outdoor fences, radio or television antennas (including satellite dishes), signs (other than those attached to the buildings), trees, shrubs or plants, except as provided in the:
 - (a) Outdoor Property Coverage Extension; or
 - (b) Outdoor Signs Optional Coverage.
6. Watercraft (including motors and equipment) while afloat.
7. Accounts, bills, food stamps, other evidences of debt, accounts receivable or valuable papers and records, except as otherwise provided in the policy.
8. Computers permanently installed or designed to be permanently installed in any aircraft, watercraft, truck or the vehicle subject to motor vehicle registration, unless held as stock.
9. Electronic data, except as provided under Additional Coverages – Electronic Data. Does not apply to prepackaged software held as stock.
10. Animals, except animals owned by others and boarded by the insured, or if owned by the insured, as stock while inside a building.

In ISO's version of the BOP the following limitations apply:

1. Loss or damage to the following property is excluded.
 - a. Steam boilers, steam pipes, steam engines, steam turbines, or hot water heaters if caused by a condition inside the equipment, except explosion within the furnace or flues.
 - b. Hot water heaters if caused by a condition inside the equipment except explosion.
 - c. Inventory shortage.
 - d. Property transferred to others on the basis of unauthorized instructions.
 - e. Interior building damage caused by rain, snow, sleet, ice, sand or dust unless:
 - (1) The building first sustains damage by a Covered Cause of Loss to its roof or walls; or
 - (2) The loss is caused by the thawing of snow, sleet or ice on the building.
 - f. Lawns, trees, shrubs or plants which are part of a vegetated roof caused by:
 - (1) Dampness or dryness of the atmosphere or soil;
 - (2) Changes in temperature;
 - (3) Disease;

- (4) Frost or hail; or
 - (5) Rain, snow, ice or sleet.
- 2. Loss or damage to the following types of property are excluded unless caused by a “specified cause of loss” or glass breakage:
 - a. Animals, unless killed or their destruction is made necessary.
 - b. Fragile articles. Does not apply to:
 - (1) Glass that is part of the exterior or interior of the building.
 - (2) Containers of property held for sale.
 - (3) Photographic or scientific instrument lenses.
- 3. Loss or damage caused by theft is limited to \$2,500 for the following types of property:
 - a. Furs or any garments lined with fur.
 - b. Jewelry, watches, jewels, pearls, precious and semi-precious stones, bullion, gold, silver, platinum and other precious metals, except jewelry and watches worth less than \$100 per item.
 - c. Patterns, dies, molds and forms.

Additional Coverages

Additional Coverages found in the BOP are similar to those in the Commercial Property Policy.

ADDITIONAL COVERAGE	WHAT IS COVERED?	WHAT IS NOT COVERED?
DEBRIS REMOVAL *	1. Reported within 180 days of the loss. 2. 25% of paid loss plus the deductible. 3. If: a. Loss plus debris removal exceeds policy limit; or b. Debris removal exceeds the 25% limitation; Will pay additional \$25,000. 4. If no covered property is damaged, will pay up to \$5,000 per location for the removal of other property.	1. Cost to extract pollutants from land or water. 2. Cost to remove, restore or replace polluted land or water.
PRESERVATION OF PROPERTY *	If moved to protect from a Covered Cause of Loss, then covered for any cause of loss up to 30 days.	Personal Property Off Premises Coverage Extension will apply if moved to protect from a cause of loss that is not covered.
FIRE DEPARTMENT SERVICE CHARGE *	Up to \$2,500 if assumed by contract or required by local ordinance Only \$1,000 in the CPP *	
COLLAPSE	1. Buildings, if caused by: a. Hidden decay, hidden insect or vermin damage or defective materials or methods during construction. b. Use of defective material or methods after construction if caused by hidden decay, insect or vermin damage, "specified cause of loss", breakage of building glass, weight of people or personal property, or weight of rain on the roof. 2. Antennas (including satellite dishes), awnings, gutters, down-spouts, yard fixtures, swimming pools, piers, wharves, docks, diving platforms, retaining walls, walks roadways and other paved surfaces, if direct result of the collapse of a building. 3. Personal property and damage not caused by collapse of a building: a. Must be caused by a cause of loss in 1. above; b. Must be within a building; and c. The property is not of a kind listed in 2. above.	Settling, cracking, shrinkage, bulging or expansion.

***The CPP automatically provides coverage.**

ADDITIONAL COVERAGE	WHAT IS COVERED?	WHAT IS NOT COVERED?
WATER DAMAGE, OTHER LIQUIDS, POWDER OR MOLTEN MATERIAL	Cost to tear out and replace any part of the building necessary to repair the system or appliance.	Cost to repair the defect that caused the damage.
BUSINESS INCOME	- Business Income: - Actual loss sustained. 72 hour waiting period, unless changed to begin immediately following the loss by adding BP 04 41. - Up to 12 months. - Extended Business Income limited to 60 days, unless period is increased. - Additional limit of insurance.	- Ordinary payroll is excluded after 60 days, unless period is increased. - Delay in rebuilding or resuming operations due to strikers. - Loss of contract, except during period restoration.
EXTRA EXPENSE	- Necessary expenses to: - Continue operations; or - Minimize suspension of operations. - Expediting expenses to extent they reduce loss. - Up to 12 months. - Additional limit of insurance.	- Delay in rebuilding or resuming operations due to strikers. - Loss of contract, except during period of restoration.
POLLUTANT CLEAN UP AND REMOVAL *	- At the described premises. - Reported within 180 days of the loss. \$10,000 per location for the policy period.	Costs to test for, monitor or assess the existence of pollutants.
CIVIL AUTHORITY	- Access denied to premises due to Covered Cause of Loss to other premises within one mile. - Business Income and Extra Expense. 72 hour waiting period, unless changed to begin immediately following the loss by adding BP 04 41. - Limited to four weeks.	
MONEY ORDERS AND COUNTERFEIT MONEY	- Good faith acceptance of invalid money orders or counterfeit money. - Up to \$1,000.	
FORGERY OR ALTERATION	- Outgoing checks, drafts or similar written promise of payment. - Up to \$2,500 unless higher limit is shown on Dec Page.	

***The CPP automatically provides coverage.**

ADDITIONAL COVERAGE	WHAT IS COVERED?	WHAT IS NOT COVERED?
INCREASED COST OF CONSTRUCTION *	1. If buildings insured on a replacement cost basis. 2. Due to ordinance or law regulating construction. 3. Up to \$10,000 per building. 4. Additional limit of insurance. 5% of building limit or \$10,000 whichever is less *	1. If required to comply before the loss, and failed to comply. 2. Ordinance or law requiring testing for, removal of, etc. of pollutants. 3. Repairs made more than two years after the loss.
BUSINESS INCOME FROM DEPENDENT PROPERTIES	1. 72 hour waiting period. 2. Up to \$5,000, unless higher limit shown in Declarations.	If due to the loss or damage to dependent property's electronic data.
GLASS EXPENSES	1. Temporary plates or board up openings. 2. Removal of obstructions.	
FIRE EXTINGUISHER SYSTEMS RECHARGE EXPENSE	Up to \$5,000.	If discharged during installation or testing.
ELECTRONIC DATA * \$2,500 *	1. Damage to, destruction of or corruption of electronic data. 2. Covered Causes of Loss include virus, harmful code or similar instruction. 3. Up to \$10,000 for all loss sustained in any one policy year, unless a higher Limit of Insurance is shown in the Declarations.	1. Acts of an employee or an entity hired to inspect, install, maintain or repair the system. 2. Electronic Data which operates a building's elevator, lighting, heating, ventilation, air conditioning or security system.
INTERRUPTION OF COMPUTER OPERATIONS	1. Business Income and Extra Expense. 2. Damage to, destruction of or corruption of electronic data. 3. Covered Causes of Loss include virus, harmful code or similar instruction. 4. Up to \$10,000 for all loss sustained in any one policy year, unless a higher Limit of Insurance is shown in the Declarations. 5. No Extended Business Income.	1. Acts of an employee or an entity hired to inspect, install, maintain or repair the system. 2. Electronic Data which operates a building's elevator, lighting, heating, ventilation, air conditioning or security system.
LIMITED COVERAGE FOR FUNGI, WET ROT, DRY ROT AND BACTERIA	1. Direct physical loss. 2. Cost to tear out and replace. 3. Cost of testing. 4. Up to \$15,000 per policy period. 5. Business Income and Extra Expenses loss limited to 30 days.	

***The CPP automatically provides coverage.**

Coverage Extensions

There are six Coverage Extensions provided under the BOP. You should keep in mind that each extension is additional insurance.

COVERAGE EXTENSION	WHAT IS COVERED?	WHAT IS NOT COVERED?
NEWLY ACQUIRED OR CONSTRUCTED PROPERTY	- Buildings; - New buildings being constructed on same premises. - Newly-acquired at other premises if similar use or warehouse. - Up to \$250,000. 30 days. - Personal property: - Up to \$100,000. 30 days.	
PERSONAL PROPERTY OFF PREMISES	- In transit. - At premises not owned, leased or operated. - Up to \$10,000.	- At premises owned, leased or operated by the insured. - Money and securities. - Valuable papers and records. - Accounts receivable.
OUTDOOR PROPERTY *	- Fences, radio and TV antennas (including satellite dishes), signs, (other than signs attached to building), trees, shrubs and plants. - Includes debris removal for a covered loss. - Fire, lightening, explosion, riot or civil commotion, or aircraft. - Up to \$2,500, but no more than \$1,000 for any one tree, shrub or plant. *\$1,000 and \$250 for any tree, shrub or plant. *	All causes of loss except those listed under the Coverage Extension.
PERSONAL EFFECTS *	- Owned by the insured, officers, partners or employees. - Up to \$2,500.	- Tools or equipment used in the insured's business. - theft.
VALUABLE PAPERS AND RECORDS *	- Cost to research, replace or restore. - Up to \$10,000 at described premises. - Up to \$5,000 off premises. \$2,500 *	- Property held as samples or for delivery after sale. - In storage off premises. - Programming errors or faulty data processing equipment. - Errors in processing or copying.
ACCOUNTS RECEIVABLE	- Amounts unable to collect due to a covered cause of loss. - Interest on loans. - Collection expenses. - Up to \$10,000 at described premises. - Up to \$5,000 off premises.	- Programming errors or faulty data processing equipment. - Errors in processing or copying. - Alteration of records. - Accounting errors. - Loss can only be proved by audit or inventory.
BUSINESS PERSONAL PROPERTY TEMPORARILY IN PORTABLE STORAGE UNITS	- Includes a detached trailer. - Within 100 feet of the described buildings. - Up to \$10,000	- If property stored more than 90 days. - If storage unit has been in use more than 90 days.

***The CPP automatically provides coverage.**

CAUSES OF LOSS

Under Section I of the BOP buildings and business personal property are insured for risks of direct physical damage unless otherwise excluded or limited. Therefore, the BOP Covered Causes of Loss are similar to the Commercial Property Causes Of Loss - Special Form.

The BOP can be endorsed with the Named Perils endorsement, which limits the Covered Causes of Loss to:

- Fire
- Lightning
- Explosion
- Windstorm and Hail
- Smoke
- Aircraft and Vehicles
- Riot and Civil Commotion
- Vandalism
- Sprinkler Leakage
- Sinkhole Collapse
- Volcanic Action
- Transportation

EXCLUSIONS

The exclusions that apply to Section I of the BOP include:

1. Ordinance or Law
2. Earth Movement
3. Governmental Action (seizure or destruction of property)
4. Nuclear Hazard
5. Failure of utility services if failure originates away from the described premises
6. War and Military Action
7. Flood, surface water, mudslide, waterborne material, etc.
8. Certain Computer-Related Losses (failure or malfunction)
9. Fungi, Wet Rot, or Dry Rot

The exclusion does not apply:

- a. As a result of fire or lightning; or
 - b. To the coverage provided under Additional Coverage – Limited Coverage For Fungi, Wet Rot, Dry Rot and Bacteria.
10. Virus or Bacteria (capable of inducing illness or disease)

11. Electrical Apparatus - Artificially generated electrical current which damages an electrical device, appliance or wires is not covered, unless fire follows.
12. Consequential Losses (for delay or loss of market)
13. Smoke, Vapor, Gas (from agricultural smudging or industrial operations)
14. Steam Apparatus (no coverage for damage caused by the explosion of steam boilers, pipes, engines or turbines unless fire follows, and then only damage caused by the fire will be paid.
15. Frozen Plumbing (only if the insured fails to maintain heat or drain and shutoff water supply)
16. Dishonesty (by insureds or employees)
17. False Pretense (no coverage for theft by trickery)
18. Exposed Property (no coverage for personal property left in the open and damaged by rain, snow or ice)
19. Collapse (except as described in additional coverage)
20. Pollution
21. Neglect of an insured.
22. Other Types of Loss

There are several types of losses not covered by the BOP Property Special Form which are commonly excluded under many commercial and personal lines property forms. Some specific Causes of Loss this policy coverage form excludes are: wear and tear, rust, corrosion, decay, settling and cracking, mechanical breakdown, and loss to personal property due to dampness or dryness or other extreme temperature changes.

23. Errors or omissions in programming, processing or storing data or processing or copying valuable papers.
24. Errors in design, installation, testing, maintenance or repair of computer system or electronic data.
25. Electrical disturbance of electronic data except as provided under Coverage Extensions.
26. Continuous or repeated seepage or leakage of water that occurs over a period of 14 days or more.

THE FOLLOWING ARE ALL CONCURRENT CAUSATION EXCLUSIONS

27. Weather Conditions - The BOP Property Special Form will not pay if weather conditions contribute to an excluded event. As an example, excess snowfall causes a landslide, which is excluded under earth movement.
28. Acts or Decisions - This exclusion eliminates coverage for a loss in which the damage claims are a result of the actions or decisions of any person, group, organization or governmental body. This exclusion also applies to the failure to act or make a decision.
29. Negligent Work - The exclusion is related to loss from alleged faulty, inadequate or defective planning, zoning, development, design, workmanship, construction, or improper material use or maintenance.

LIMITS OF INSURANCE

1. Outdoor Signs

The only specified limit detailed in the Limits section is the \$1,000 limit on outdoor signs attached to the building.

2. Automatic Increase in Building Limit

The Limits Section also explains how the policy provides an automatic increase in the building limit. The amount of increase is raised automatically by 8% or by the selected annual percentage shown on the Declarations Page.

Your insured has a BOP Property Policy with a limit for her building of \$100,000. The automatic annual increase is 8%. The policy increases on a daily basis so that at the end of the policy period the building limit has increased to \$108,000.

3. Seasonal Increase Limit

The business personal property limit is automatically increased by 25% to reflect seasonal increases of business personal property. However, this provision applies only if the limit of insurance is 100% of the average monthly values during the 12 months prior to the loss.

BUSINESSOWNERS SECTION II – LIABILITY

COVERAGES

Businessowners Liability

The Businessowners Liability is similar to the Commercial General Liability Coverage Form in terms of content, but it differs in format. You will not find Coverage A - Bodily Injury and Property Damage, Coverage B - Personal and Advertising Injury Liability, and Coverage C - Medical Payments as we saw in the CGL. In the Businessowners Policy, Coverages A and B are combined under the heading of Business Liability. Coverage C - Medical Payments is labeled as Medical Expenses in the Businessowners Liability Coverage Form.

All the liability exposure areas we examined in Commercial General Liability are contained within this coverage. You will recall that the CGL promises to pay for the legal obligations for damages for “Bodily injury”, “Property damage”, “Personal injury”, or “Advertising injury” to which this insurance applies. This insurance applies to “bodily injury” and “property damage” that arises from an “occurrence” that takes place in the “coverage territory.” The “coverage territory” is the same as in the CGL.

One difference between the CGL and the BOP is that the BOP is ONLY written on an occurrence basis.

Additionally, the insuring agreement promises that the insurer will defend any “suit” seeking damages related to “bodily injury,” “property damage,” “personal injury,” or “advertising injury.”

Included in the policy premium are basic limits: Liability of \$300,000 per occurrence and \$600,000 aggregate, Medical Payments of \$5,000 and Damage to Premises Rented To You of \$50,000. The BOP provides coverage for:

- premises and operations
- products/completed operations
- personal injury liability
- advertising injury liability

Coverage Extension - Supplementary Payments

The Supplementary Payments Coverage Extension is the same as the CGL. It includes:

- All expenses the insurer incurs to defend the insured.
- Up to \$250 for the cost of bail bonds because of an accident or traffic law violation arising out of the use of a covered vehicle (mobile equipment).
- Premiums on appeal bonds, and bonds to release attachments.

- Other reasonable expenses incurred at the insurance company's request.
- All costs taxed against the insured in the "suit."
- Pre-judgment interest and post-judgment interest.

Now, in order to better analyze the liability coverage of the Businessowners Form, we need to move on to exclusions.

EXCLUSIONS

The numerous exclusions found in the Businessowners Policy are identical to those we examined in Commercial General Liability with **two additional exceptions**.

- **The Aircraft, Auto Or Watercraft exclusion** in the CGL has an exception for non-owned watercraft less than 26 feet in length. The exception in the same exclusion in the Businessowners Policy applies to non-owned watercraft less than 51 feet in length.
- The Businessowners Policy contains a specific exclusion for professional services. The **Professional Services Exclusion** states that this insurance does not apply to "bodily injury," "property damage," "personal injury," or "advertising injury" due to rendering or failure to render any professional services. This coverage form states that this includes, but is not limited to:
 1. Legal, accounting or advertising services.
 2. Preparing, approving or failing to prepare or approve maps, drawings, opinions, reports, surveys, change orders, designs or specifications.
 3. Supervisory, inspection or engineering services.
 4. Medical, surgical, dental, x-ray or nursing services treatment, advice or instruction.
 5. Any health or therapeutic service treatment, advice or instruction.
 6. Any service, treatment, advice or instruction for the purpose of appearance or skin enhancement, hair removal or replacement or personal grooming.
 7. Optometry or optical or hearing aid services.
 8. Body piercing services.
 9. Services in the practice of pharmacy, but this does not apply to an insured whose operations include those of a retail druggist or drugstore.

The CGL does not have a specific professional services exclusion.

Medical Expenses

Medical Expenses is a coverage similar to that discussed in earlier chapters. One obvious change is the title of Medical Expenses instead of Medical Payments. Unlike Business Liability, this coverage is not subject to Legal Liability. The coverage will pay medical expenses for “bodily injury” caused by accident in the “coverage territory” and during the policy period. The expenses must be incurred and reported to the company within one year of the date of the accident.

The coverage is intended for premises and operations only, and not for products and completed operations.

Selected Exclusions

This insurance will not pay expenses for “bodily injury:”

- 1) to any insured;
- 2) to a person hired to do work for the insured or a tenant of an insured;
- 3) to a person injured on a part of the premises you own or rent that the person normally occupies;
- 4) to someone who is covered under a workers compensation or similar law;
- 5) to a person injured while practicing, instructing or participating in any physical exercises or games, sports or athletic contests;
- 6) included within the products completed operations hazard; and
- 7) those areas excluded under Business Liability Coverage.

Medical Expenses coverage contains its own limit of insurance.

WHO IS AN INSURED

The Who is an Insured Section in the Businessowners Policy is the same as the CGL except in regard to newly acquired or newly formed organizations. You may remember that in the CGL, there is coverage for newly acquired or newly formed organizations, unless the organization is a partnership, joint venture, or limited liability company. This automatic coverage is for a period up to 90 days. The unendorsed BOP has no automatic coverage.

You may wish to refresh your memory in this area by referring to the Who is an Insured chart below that was provided in the CGL section.

1. NAMED INSUREDS	LIMITATIONS
a. Individual. Includes spouse b. Partnership or Joint Venture. Includes partners, members and their spouses. c. Limited Liability Company. Includes members and managers. d. Corporations. Includes “executive officers,” directors and stockholders. e. Trust. Includes trustees.	Conduct of any business of which you are the whole owner. Conduct of your business. Members: Conduct of your business. Managers: Respect to their duties as trustees. “Executive officers” and directors: Respect to their duties. Stockholders: Respect to their liability as stockholders. Respect to their duties as trustees.
2. OTHERS	LIMITATIONS
a. “Employees” and “volunteer workers”, other than “executive officers” of corporation and managers of limited liability company. b. Persons other than “employees” and “volunteer workers”. c. Any person with temporary custody of your property if you die. d. Your legal representative if you die.	Acting within the scope of their employment. While acting as your real estate manager. Liability arising out of the maintenance or use of that property. Respect to their duties

LIMITS OF INSURANCE

As you might expect, the Businessowners Liability Limits Section is very similar to the CGL, but it is not exactly the same. The Businessowners has a single limit for liability and medical expense, which covers personal and advertising injury liability as well as “bodily injury” and “property damage.”

For the five limits within the Businessowners Liability Coverage Form, the limits represent the most the coverage form will pay for the following:

Liability and Medical Expense Limit

This is the most that will be paid on any one “occurrence” for those losses covered under Business Liability and Medical Expense coverages.

Medical Expenses Limit

In addition to being subject to the “occurrence” limit discussed above, medical expenses are first subject to a per person limit that is shown in the Declarations. This will reduce the General Aggregate Limit.

Damage to Premises Rented to You

“Damage to Premises Rented to You” coverage, as we saw in the CGL has a per fire limit, however, in the Businessowners Liability Coverage Form the General Aggregate does not apply to “Damage to Premises Rented to You.”

Products / Completed Operations Aggregate Limit

This is the most that will be paid during the policy period for this type of claims. This limit applies regardless of the number of claims during the policy period.

General Aggregate Limit

This is the most that will be paid for all other injury or damage, including medical expenses, arising from all “occurrences” during the policy period. The General Aggregate limit is twice the Liability and Medical Expenses limit shown on the declarations.

LIABILITY AND MEDICAL EXPENSE CONDITIONS

- Bankruptcy of the insured does not relieve the insurance company of its obligations.
- Duties in the event of occurrence offense, claim or suit requires notification & cooperation.
- **Financial Responsibility Law** condition states that if the Businessowners Liability Coverage Form is certified as required evidence of motor vehicle financial responsibility (which only would apply to mobile equipment in this coverage form), the policy will comply with the provisions of the law to the

extent of the coverage and limits of insurance required by that law. The CGL has no corresponding condition.

- Legal action against us means the insured must comply with conditions prior to starting a legal action against the insurer.
- Separation of Insureds means the limits apply separately to each insured.

DEFINITIONS

“Advertisement” means a notice that is broadcast or published to the general public or specialized market about your goods products or services for the purpose of attracting customers.

“Auto” means a land motor vehicle designed for travel on public roads including any attached equipment trailer, semi-trailer or any other land vehicle subject to compulsory financial responsibility law.

“Bodily injury” means bodily injury, sickness or disease including death.

“Coverage territory” means the United States of America, its territories and possessions, Puerto Rico and Canada. Coverage is worldwide for injury or damages arising out of the insureds goods or products or, while temporarily outside the coverage territory.

“Employee” includes a leased worker but not a temporary worker.

“Hostile fire” means one which becomes uncontrollable or breaks out from where it was intended to be.

“Impaired property” is tangible property that is not your product or work, but cannot be used, or is less useful because it incorporates your product or work that is known or thought to be defective, deficient, inadequate or dangerous.

“Insured contract” - See definition from CGL (LEASE-T)

“Leased worker” means a person leased to the insured by a labor leasing firm.

“Loading or unloading” means the handling of property

“Mobile equipment” means vehicles other than “autos” not licensed for road use. These would include bulldozers, farm machinery, forklifts, vehicles on crawler treads, etc.

“Occurrence” means an accident, including continuous or repeated exposure to substantially the same general harmful conditions.

“Personal and advertising injury” means injury arising out of false arrest, detention, imprisonment, malicious prosecution, wrongful entry or eviction, invasion of privacy, oral or written publication that libels or slanders a person or organization, the use of another’s advertising idea in your “advertisement”, infringing upon another's copyright, trade dress or slogan in your “advertisement.” “Personal injury” does not apply to the business of advertising, publishing, broadcasting or telecasting done by or for the named insured.

“Products and completed operations hazard” means bodily injury or property damage occurring away from your premises & arising out of your product. However, the definition is broadened to include liability coverage for the consumption of the insured’s products on the insured’s premises, as would be the case with a delicatessen, fast food restaurant or other eligible business.

“Property damage” means:

- a. Physical injury to tangible property, including loss of use of that property;
- b. Loss of use of tangible property that is not physically injured.

Electronic data is not tangible property.

“Your product” means any goods or products manufactured, sold, handled, or disposed of by the insured.

“Your work” means work or operations performed by the insured or on the insured's behalf, and materials and parts or equipment furnished in connection with such work.

DEDUCTIBLES

The deductibles shown on the Declarations Page of the Businessowners Policy will apply to any covered loss. However, a \$500 deductible applies to all of the following optional coverages, and any deductible here is not in addition to the policy deductible:

1. Money & Securities
2. Employee Dishonesty
3. Outdoor Signs
4. Forgery and alteration

No \$ deductible applies to the following:

1. Fire department service charge
2. Business income or extra expense (subject to 72 hour waiting period)
3. Civil authority
4. Fire Extinguisher systems recharge expense

PROPERTY LOSS CONDITIONS

- **Abandonment**
- **Appraisal**
- **Duties in the Event of Loss or Damage**

These are similar to those found in other property policies. They include providing timely notice, protecting the property from further damage, providing an inventory of damaged property, and sending a signed proof of loss within 60 days after the insurance company's request. Also included is the requirement to notify the police if a law may have been broken.

- **Legal Action Against Us**

Action cannot be taken unless the insured has complied fully with all terms of the policy and action must be brought within 2 years of the loss.

- **Recovered Property**

Either party must give prompt notice to the other. The insured has the option to keep recovered property or retain the insurance payment already made.

- **Resumption of Operations**

The company will reduce payments under Business Income and/or Extra Expense to the extent the insured can resume operations

- **Valuation**

In the BOP Property Standard and Special forms, Replacement Cost is the basis of value for all covered property. In order to receive full replacement cost coverage, the insured must carry a limit of insurance equal to at least 80% of the replacement cost of the property and must actually repair or replace the damaged or lost property. The following types of property, however, are valued on an Actual Cash Value basis:

1. Used merchandise,
2. Property of others, unless insured is liable under a written contract. If liable under a written contract, valuation based upon the contract amount, subject to the lesser of the replacement cost or the Limit of Insurance.,
3. Household contents, except personal property in apartments or rooms furnished by the insured as landlord,
4. Manuscripts,
5. Fine arts (all of which are valued on an ACV basis),
6. Tenant's Improvements & Betterments are valued at replacement cost if repairs are promptly made,
7. Valuable Papers and Records valued at the cost of blank media,

8. Money valued at face value, and
9. Securities valued at their value at the close of business on the day the loss is discovered.

- **Vacancy**

If the insured's property is vacant for a period of more than 60 consecutive days, the policy will pay nothing for losses arising from the following Causes of Loss (definitions of vacancy are the same as CPP):

1. Vandalism,
2. Sprinkler leakage, unless you have protected the system against freezing,
3. Building glass breakage,
4. Water Damage, and
5. Theft or attempted theft.

If loss results from any other covered Causes of Loss then the payment is reduced by 15%.

- **Loss Payment - Pennsylvania Changes**

In Pennsylvania, the BOP forms are required to be modified by the Pennsylvania Changes endorsement (BP 01 42). The primary difference found in this form is that the insurance company is required to respond within 15 days after receiving the completed proof of loss from the insured. The company must advise that they accept, reject or need more time to analyze the loss. If they advise they need more time, they must respond again within 30 days. Thereafter they must advise the insured every 45 days of their progress. In addition to this requirement, the endorsement includes provisions regarding transfer of rights following death of the insured, as well as cancellation, non-renewal and increase of premium provisions as discussed earlier.

The **Loss Payment Provision** of the BOP is very similar to the Loss Settlement Provision of the Homeowners Policy.

PROPERTY GENERAL CONDITIONS

1. **Control of Property**

Any act or neglect of any person, other than the insured, and not at the insureds direction or control will not affect this insurance.

2. **Mortgage Holders**

This provision requires the insurance company to pay the mortgage holder as their interests appear. The mortgage holder can pay premiums and file proofs of loss. They are also protected & guaranteed to collect the outstanding

balance on a mortgage, even if the insured violates a policy condition and does not get paid.

3. **No Benefit to Bailee**

No person or organization, other than the insured, who has custody of covered property will benefit from this insurance.

4. **Policy Period Coverage Territory**

Losses are only covered if they take place during the policy period.

The coverage territory is the United States, its territories and possessions, Puerto Rico and Canada.

OPTIONAL COVERAGES

The BOP may be broadened by adding any or all of the following optional coverages by indicating a limit of insurance on the Declarations Page. Optional Coverages are written into the body of the BOP and activated by the entry on the Declarations Page. Coverage does not apply unless the insured has paid the appropriate additional premium. These optional coverages are:

- **Outdoor Signs**

This optional coverage extends coverage to all outdoor signs (whether they are attached to buildings or not) at the insured premises. A limit of liability is shown on the Declarations Page. The coverage is on an open perils basis with few exclusions (only wear and tear for example) and subject to the deductible shown in the Declarations. This coverage is similar to the Commercial Inland Marine Sign Form.

- **Money And Securities**

The Money And Securities Optional Coverage covers theft, disappearance or destruction of the insured's money and securities while on the described premises, in transit, at a bank, or within the living quarters of the insured or an employee who has custody of the property. A limit is purchased for Inside The Premises and a separate limit is purchased for Outside The Premises. This coverage is similar to the Commercial Crime Coverage Inside the Premises – Theft of Money & Securities and Outside the Premises Coverage.

- **Employee Dishonesty**

This optional will pay for loss of business, loss to personal property, including both money and securities caused by a dishonest employee and discovered within 1 year from policy expiration. This coverage is similar to the Commercial Crime Coverage – Employee Theft. Typical limits would be \$10,000 on premises and \$5,000 off premises.

- **Equipment Breakdown**

This option is a limited type of Equipment Breakdown Coverage. The coverage pays for the sudden breakdown of pressure, mechanical or electrical machinery or equipment that necessitates repair or replacement. The covered objects must be owned or in the care of the insured at the described premises. This coverage is similar to the Commercial Equipment Breakdown Coverage Form.

PROPERTY DEFINITIONS

“Computer” means programmable electronic equipment used to store and process data.

“Counterfeit money” means an imitation of money intended to deceive and to be taken as genuine.

“Electronic data” means information, facts or computer programs stored on computer software, on floppy disk, CD-ROMs, etc.

“Fungi” means any type or form of fungus including mold or mildew and any mycotoxins Spores scents or byproducts produced or released by fungi.

“Money” means currency coins banknotes travelers checks registered checks and money orders held for sale.

“Period Of Restoration” means the period of time that begins 72 hours after the time of direct physical loss or damage for Business Income loss or immediately after the time of direct physical loss or damage for extra expense coverage, caused by or resulting from a covered cause of loss at the described premises; and ends on the earlier of: the date when the property at the described premises should be repaired, replaced or rebuilt with reasonable speed and similar quality, Or the date when business is resumed at a new permanent location.

“Securities” means negotiable and nonnegotiable instruments or contracts representing either money or other property and includes tokens, tickets, and evidences of debt issued in connection with credit or charge cards.

BUSINESSOWNERS SECTION III – COMMON POLICY CONDITIONS

Cancellation

Cancellation conditions in a BOP are similar to those on the Commercial Property Policy. It will also include the **Pennsylvania Changes - Cancellation and Nonrenewal** (IL 02 46 09 00).

Changes

Changes are the same as in Common Policy Conditions for the Commercial Property Policy. Remember that only the First Named Insured is authorized to request changes to the policy with the insurance company's consent.

Concealment, Misrepresentation or Fraud

Similar to the same condition in the Commercial Property form, the policy will be void if the named insured conceals, misrepresents a material fact regarding the coverage, the property or a claim made.

Examination of Books

Permits the insurance company to examine the insured's records and books up to 3 years from the policy expiration date.

Inspections and Surveys

Gives the insurance company the right to inspect and survey for underwriting purposes but not the obligation to inspect.

Insurance Under Two or More Coverages

If two or more coverages apply in the BOP, only the actual amount of the loss will be paid.

Liberalization

Under this BOP condition, a revision in the BOP which broadens coverage (without an additional premium) within 45 days prior to the inception date or during the policy period will apply immediately to the BOP which is in effect.

Other Insurance

The BOP is excess over any other insurance.

Premiums

The Premiums Condition states the First Named Insured is responsible for payment of premium, and may receive any appropriate refund (such as a refund after policy cancellation). This condition states that the insurance company is entitled to an additional premium if a change in the insured's operations and exposures occurs during the policy period.

Premium Audit

When the BOP Declarations shows a premium as an “advance premium” it means that the premium shown is subject to a final audit by the insurance company. After policy expiration the company will review the insured’s financial records and recalculate the annual premium based upon the insured’s records.

Transfer of Rights of Recovery Against Others to Us (Subrogation)

With regard to a property loss, the insured may waive the right of recovery to anyone in writing prior to a loss and even after a loss to an insured, a parent or subsidiary company or a tenant. With regard to a liability loss, the insured may waive rights in writing prior to a loss, but may not waive rights to anyone after a loss.

Transfer of Your Rights and Duties Under This Policy (Assignment)

This provision in the BOP Common Policy Conditions is modified in Pennsylvania by the endorsement Pennsylvania Changes (BP 01 42). Under the modified condition, the insured’s rights and duties may not be transferred without the insurer’s written consent except in the case of death of an individual named insured. If the insured dies during the BOP policy period, the company will insure the legal representative of the insured for a period of 180 days or until end of policy whichever is longer (unless the property is sold).

SELECTED ENDORSEMENTS

Although there are many endorsements available in the Businessowners program, the number is small in comparison with the Commercial General Liability Coverage Form. Many of the Businessowners endorsements correspond with the CGL endorsements. There is one endorsement that does not correspond, and which is commonly added to a Businessowners Policy.

HIRED AND NON-OWNED AUTO LIABILITY - BP 04 04

This endorsement provides liability coverage for Business Auto exposures. **Hired Autos** mean any auto hired, rented, leased or borrowed by the business. An example of a hired auto is a car rented by an employer on company business.

“Non-owned” auto means an auto not owned, leased, or borrowed by the named insured that is used in connection with the named insured’s business.

Examples would be:

1. An employee using their personal car to go pick up the mail or office supplies on behalf of the named insured's business, or
2. The insured rents a truck to haul some business property.

This endorsement is used for an insured entity that does not own any auto, and does not have a Commercial Auto Policy. For example, the insured may be an owner of a retail store that provides no delivery, or the owner or business entity may have no reason to own an auto for business purposes.

Unless the named insured has only incidental auto exposures, then it is preferable to provide coverage for commercial auto exposure through the use of commercial auto forms.

PROTECTIVE SAFEGUARDS (BP 04 30)

This endorsement applies only to the peril of fire.

The objective of this endorsement is to identify protective devices the insured has on his or her insured property, and to assure that the insured who has received a premium discount for protective devices does in fact maintain the devices. An insured who does not notify the insurer that the device (or devices) is not in working order is subject to coverage suspension. If the system is shut off due to breakage, leakage, freezing or opening of sprinkler heads, the insured has 48 hours to restore the system before they must notify the insurer.

UTILITY SERVICES – DIRECT DAMAGE (BP 04 56)

This endorsement is designed to pay for loss to the insured's property resulting from an interruption of utility services listed in the Schedule of this endorsement. The three main categories of utility services are:

- Water supply services
- Communication supply services (including telephone, radio, microwave or television).
- Power supply services (property supplying electricity, steam or gas)

The interruption of utility services must arise from direct damage to the utility company from a covered cause of loss. For example, a fire would be a covered cause of loss, but an equipment malfunction would not.

The endorsement only applies to direct physical loss to covered property.

UTILITY SERVICES – TIME ELEMENT (BP 04 57)

This time element endorsement will provide coverage for a loss of income or extra expenses arising from a loss of the utility services that is shown on the schedule of this endorsement. The loss to the property of utility service must arise from a Covered Cause of Loss, such as a fire at a switching station.

In the case of both of these utility services endorsements, the coverage is very similar to endorsements by the same name in the Commercial Property endorsements.

SECTION 11 - QUIZ

1. The BOP was designed for?
 - a. All types of businesses
 - b. Small to medium sized businesses
 - c. Medium to large businesses
 - d. Large businesses

2. Which of the following is NOT an eligible optional coverage under the BOP?
 - a. Outdoor signs
 - b. Money and securities
 - c. Employee dishonesty
 - d. Hired & non-owned auto

3. All of the following are eligible for a BOP, EXCEPT:
 - a. Office building 7 stories tall or a total of 100,000 square feet
 - b. Apartment building
 - c. Mercantile risk where the total floor area of the building does not exceed 35,000 sq ft
 - d. Contractor whose annual payroll does not exceed \$300,000 and no work is done over 3 stories

4. Which of the following is eligible for a BOP?
 - a. Credit union
 - b. Insurance agency
 - c. Stockbroker
 - d. Local bank

5. Which of the following reasons is a permitted reason for the insurer to cancel the BOP as provided in the Pennsylvania Changes after the policy has been in effect for 60 days?
 - a. The risk has significantly changed
 - b. Non-payment of premium
 - c. A material failure of the insured to comply with policy provisions
 - d. All of the above are valid reasons

6. Which of the following is included in the meaning of building under the BOP?
 - a. Machinery and equipment not permanently installed
 - b. Warehouse located away from the described premises
 - c. Stock
 - d. Material, equipment and supplies within 100 feet of the described premises
7. BOP personal property coverage includes all the following items EXCEPT:
 - a. Furniture
 - b. Machinery and equipment (not permanently installed)
 - c. Personal property in apartments or rooms furnished by the insured as landlord
 - d. Stock
8. Which of the following is considered property not covered under the BOP?
 - a. Land, water, growing crops or lawns
 - b. Animals boarded by the insured
 - c. Stock
 - d. Computers
9. Loss or damage caused by theft of patterns, dies, molds and forms is limited to _____?
 - a. \$1,000
 - b. \$1,500
 - c. \$2,500
 - d. \$5,000
10. If the insured's building has been vacant for more than 60 days and sustains a \$10,000 vandalism loss, disregarding any deductible, the BOP provides which of the following as the amount of loss to be paid?
 - a. \$8,500
 - b. \$10,000
 - c. \$5,000
 - d. There is no coverage

11. In the BOP, the term “Business Income” can best be described by which statement?
- a. “Business Income” includes net income (net profit or loss before income tax) that would be earned.
 - b. “Business Income” includes continuing normal operations expenses
 - c. “Business Income” includes income (profit) that would be earned
 - d. “Business Income” includes net income that would be earned and continuing normal operating expenses
12. Julie owns a retail store, Julie’s Cool Junk, which is insured under a BOP and is endorsed with the Utility Services – Direct Damage (BP 04 56) with Power supply services selected. Thunderstorms cause the river to rise and flooding of the local power company. Which of the following losses would be covered?
- a. Damage to power station
 - b. Damage to Julie’s perishable foods
 - c. Loss of Income from closing the shop
 - d. None of the above since the loss arose from a non-covered cause of loss
13. The Businessowners Liability Coverage is composed of the following format:
- a. Coverage A – Bodily Injury and Property Damage and Coverage B – Personal and Advertising Injury
 - b. Coverage A – Bodily Injury and Property Damage, Coverage B – Personal and Advertising Injury and Coverage C – Medical Payments.
 - c. Business Liability and Medical Expenses
 - d. Business Liability and Personal and Advertising Injury
14. The Hired Auto and Nonowned Auto Liability (BP 04 04) endorsement is frequently attached to a BOP. To which of the following types of autos may this coverage be extended?
- a. “Hired autos” (any auto leased, hired or borrowed by the insured) only
 - b. “Nonowned auto” only
 - c. Both “hired autos” and “nonowned auto.”
 - d. None of the above.

Chapter 11 Answers
1b, 2d, 3a, 4b, 5d, 6d, 7c, 8a, 9c, 10d, 11d, 12d, 13c, 14c

CHAPTER 12

Workers Compensation Insurance



Insurance Agents
& Brokers

CHAPTER 12 – WORKERS COMPENSATION INSURANCE

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What is the purpose of Workers Compensation Insurance?
- What are the five common law obligations that employers have to their employees?
- What are the three common law defenses of an employer?
- Explain the No-Fault concept.
- What is a monopolistic state? List them.
- What is the penalty if employers fail to comply with the law?
- What are the seven compliance requirements for employers?
- Under the Pennsylvania Workers Compensation Act, what employment is covered?
- What types of employment are exempt from coverage?
- What are the four types of benefits provided under Workers Compensation?
- Can an injured worker use a healthcare provider of their choice?
- Explain income benefits.
- What are the four types of disability?
- Under death benefits, how much is the burial allowance and know the survivors benefits.
- What is covered under Rehabilitation Benefits?
- What is the Subsequent Injury Fund and what is the purpose of the Fund?

- Discuss the Federal Workers Compensation Laws
 - Federal Employers Liability
 - U.S. Longshore and Harbor Workers Compensation Act
 - The Jones Act – The Merchant Marine Act of 1920.
- Item #3 is divided into 3 major sections. What are they?
- Identify the Limits of Insurance under 3B – Employers Liability.
- Name 4 situations where Employers Liability will pay.
- Name the Employers Liability Exclusions.
- What is the purpose of Part Three – Other States Insurance?
- What is the purpose of the Voluntary Compensation - Employer Liability Coverage Endorsement?
- Explain Job Classification.
- What is an Experience Modification Factor and how is it derived?
- What is SWIF?

KEY TERMS

- Fellow Servant Rule
- Monopolistic State Funds
- Occupational Disease
- Self-Insurance

CHAPTER 12 – WORKERS COMPENSATION INSURANCE

STATE EXAM - 5% OR 7-8 QUESTIONS

Workers Compensation provides coverage to employees for accidental bodily injury and/or occupational diseases that arise out of, or in the course of, their employment. Before the enactment of Workers Compensation Laws an employee who was injured on the job would have had to sue their employer and prove negligence to be compensated for their injuries.

Employer's Common Law Obligations

To this day, employers have the following common law obligations to their employees;

1. Provide a reasonably safe place to work.
2. Provide reasonably safe tools.
3. Provide reasonably qualified fellow employees.
4. Set up safety rules and enforce them.
5. Warn employees of any known dangers of the job.

Common Law Defenses of Employer

Prior to the passage of Workers Compensation Laws, employers could use one or more of the following defenses:

1. **Assumption of Risk**
Here the defense says that the injured person was aware of the danger, and by voluntarily exposing himself/herself to the risk, was not entitled to collect for his/her injuries.
2. **Contributory Negligence**
An employee who contributed in any way (even as little as 1%) to his/her own injury was not entitled to any recovery. This was rather harsh defense, since few accidents involved no contribution by the employee.
3. **Fellow Servant Rule or Negligent Act by a Fellow Employee**
An employee who was injured by the negligent act of a fellow employee should not be the responsibility of the employer. The argument was that if the employee was injured by a fellow employee, he/she should bring claim against the person who caused the injury.

No-Fault Concept

Today, employees give up their right to sue their employers in exchange for the Workers Compensation Laws that guarantee medical, income, rehabilitation and death benefits. Employers pay these specified damages without regard to fault. The Workers Compensation System became what is called the **exclusive or sole remedy** to the employee. In Pennsylvania, Workers Compensation coverage is compulsory.

WORKERS COMPENSATION LAWS

The passage of Workers Compensation Laws began in 1914 and spread to every state. Now, all 50 states plus the District of Columbia and Puerto Rico have Workers Compensation Laws. These laws are the foundation of the Workers Compensation System.

Types of Workers Compensation Law

Most states, including Pennsylvania, are called “competitive states.” In these states, employers are allowed to obtain their Workers Compensation coverage through private insurers, state markets or be a qualified self-insurer. In Pennsylvania, the state market is the State Workers Insurance Fund (SWIF).

Monopolistic State Funds

In the states of North Dakota, Ohio, Washington and Wyoming, an employer can only purchase Workers Compensation through the respective state fund. These states are called monopolistic states.

Compulsory

All states except Texas have a Workers Compensation Law that is compulsory (mandatory) for most employments. Texas is the only state which has an elective law for all employments.

Penalty for Failure to Comply

Employers who do not comply with this law and are found guilty of a misdemeanor can be fined up to a \$2,500 and up to one-year imprisonment for **each day** the employer is in violation of the requirement to maintain worker’s compensation coverage. If the employer is found guilty of a felony, this can result in the potential fine of up to \$15,000 and up to seven years imprisonment for **each day** the employer intentionally violated this requirement. Further, the employer and those individuals responsible to act on its behalf may be required to pay all benefits awarded by a workers’ compensation judge.

COMPLIANCE REQUIREMENTS

Following are the notice requirements:

1. Employers must present a Workers Compensation Information Form to all new employees stating what benefits are available, that all injuries should be reported and the employee’s right to appeal. The form must indicate the name of the insurance company providing the coverage.
2. Employers must post in a prominent place the notice stating, “Remember it is important to tell your employer about your injury”.

3. Employers may establish a healthcare provider list with at least six designated providers. The employee is obligated to use a provider from the list for at least 90 days. After 90 days, the employee can go to their own provider as long as they give 5 days notice. If no list is provided, the employee may choose his/her own provider.
4. Employees must notify their employer of an injury with 21 days to be eligible for benefits. Notice given after 120 days may result in denial of benefits.
5. The employer must notify the Department of Labor and Industry within 48 hours of an accident resulting in death. All accidents resulting in injury, except those where the employee is back to work within one day, must be reported within 7 days and a copy must be provided to the employer's insurer.
6. Employers are required to record all injuries.
7. A Notice of Denial must be sent to the Department of Labor and Industry and the employee within 21 days of disability. Employees may request a hearing if coverage has been denied.

PENNSYLVANIA WORKERS COMPENSATION ACT

Employment Covered

In Pennsylvania, all private and public employments are subject to the Workers Compensation Act. Employers may be exempt from providing coverage to an employee whose religious group prohibits benefits from insurance, provided that the religious group makes provisions for its members.

Exempt

Despite the inclusive nature of the Pennsylvania Workers Compensation Law, there are certain individuals who are exempt due to the nature of their employment. The following types of employees are exempt:

1. Domestic servants or workers (maid, nanny, cook, etc.);
2. Casual workers (gardener, someone who is not normally employed by you such as a handyman, etc.);
3. Agricultural employment (employees who earn less than \$1,200 per year or who work less than 30 days per year). An example of this category could be a migrant worker.
4. Real estate salespersons; and
5. Elected officials of the Commonwealth or any of its subdivisions.

Elective Options

Executive officers are subject to the law, but may elect to be excluded under Workers Compensation. Likewise, an employer of domestic workers may elect to provide Workers Compensation through the use of an endorsement.

Covered Injuries

Workers Compensation applies to those injuries and death which arise out of the course and scope of employment.

Many states indicate that the following activities are outside the course and scope of employment and the person's injuries would not be covered:

1. An injury caused by the employee's willful intention and attempt to injure himself/herself (suicide attempt).
2. Is caused by the employees' violation of law including illegal drug use, however, the burden of proof of such fact rests upon the employer.
3. No coverage for injury or death caused by military activities by armed forces of the United States or a foreign power.
4. If injury or death would not have resulted but for the intoxication of the employee. However, the burden of proof of such intoxication rests with the employer.

Occupational Disease

An occupational disease is a disease arising out of and in the course of employment, which causes damage or physical harm to the body. It also includes disease which may naturally result from the occupational disease. Examples of occupational disease include black lung, silicosis, asbestosis, and those diseases that arise from repetitious traumatic activity (carpal tunnel syndrome). Occupational diseases do not include those diseases to which the general public is exposed, such as flu or a cold. Some diseases are mandated by state laws as occupational diseases for certain workers in specific vocations.

Benefits Provided

- **Unlimited Medical Benefits**

Unlimited Medical Benefits are all reasonable and necessary medical expenses due to work related injury or disease. If an employer posts a healthcare provider list (with at least 6 providers), the employee must use these providers for at least 90 days. After 90 days, the employee can go to their own provider as long as they give a 5-day notice. If the employer doesn't have a list, the employee may choose any health provider.

- **Income Benefits**

Income Benefits are $66\frac{2}{3}$ % of the average weekly wage, subject to minimum and maximum benefits. Benefits begin on day 8 after a 7-day waiting period and are retroactive if the disability lasts beyond 14 days.

There are four types of disability:

1. Permanent Total Disability – permanent and can't ever work again
2. Temporary Partial Disability – can do some work. Benefits payable up to 500 weeks. Light duty may apply.
3. Permanent Partial Disability – scheduled benefits (loss of finger of hand, loss of hearing or sight)
4. Temporary Total Disability – short term total disability (broken leg).
5. Impairment Rating

- **Death Benefits**

Include:

\$3,000 burial allowance

AND

These Survivor Benefits

- Family (Spouse & Children) – $66\frac{2}{3}\%$ *
- Family (Spouse & Child) – 60% *
- Spouse Only – 51% *
- Child Only – 32% *

*These percentages are the wages of the deceased, but not in excess of the statewide average weekly wage. Minimum payable under death benefits will not be less than 50% of the statewide average weekly wage.

Spouse benefits are payable for life or remarriage (then 2 year lump sum). Children benefits are payable to age 18 or to age 23 if still in school.

- **Rehabilitation Benefits**

Covers necessary therapy (physical, occupation) and devices (wheelchairs, etc.) to aid in the rehabilitation process. Vocational training is also covered.

Subsequent Injury Fund

Most states have what is referred to as a Subsequent Injury Fund which pays a portion of all claims by an employee who has had a previous injury, and who suffers another injury.

Jill applies for a job as welder with Northwest Construction Co. At Jill's previous job she had an accident that caused her to lose sight in one eye. The loss of sight in no way prevents Jill from being a top notch welder, so Northwest hires her. Several months after she begins work, she is involved in an accident that renders her completely blind, and she is considered under the Workers Compensation Law as totally and permanently disabled.

Purpose

The Subsequent Injury Fund was designed with two purposes in mind:

1. **To equitably allocate the costs of providing benefits in cases where an injury combines with a pre-existing condition(s).** In the above example, the employer is now facing a claim in which her Workers Compensation Coverage is going to be responsible for considerably more than if the employer had hired someone without previous injury. The Second Injury Fund is designed so that the employer's Workers Compensation does not have to shoulder all the payment.
2. **To encourage hiring and retaining the physically challenged.**
By the fact that the employer is not held responsible for all the payment, and not severely penalized for this type of loss, an employer will be more inclined to hire a qualified person with a previous injury.

How The Subsequent Injury Fund Pays

The Workers Compensation insurer will pay the claim to an amount equal to what they would have been responsible for if it had been the only injury. So, in our example of Jill, the Workers Compensation insurer of Northwest would pay for the loss of one eye and the subsequent injury fund would pay the remaining portion of the claim.

General Note

Special Consideration for Contractors and Subcontractors – General contractors who hire subcontractors are required to get proof of Workers Compensation Coverage from that subcontractor. In the event that the subcontractor does not have Workers Compensation Insurance, the general contractor will be liable for coverage to the employees of the subcontractor.

FEDERAL WORKERS COMPENSATION LAWS

There are several groups of employees that are subject to coverage for work-related injuries and occupational disease under Federal Workers Compensation Laws and Employer Liability Laws:

- **Federal Employers Liability Act (FELA)**
The Federal Employers Liability Act was passed to provide the exclusive remedy for railroad employees who receive work-related injuries caused by the negligence of their employers. FELA is only applicable to common carriers using a railroad involved in interstate commerce. This law is based on negligence, unlike the Workers Compensation Laws that are no-fault. Under FELA the worker must show that the railroad was negligent, and this negligence was the proximate cause of the injury.

- **U.S. Longshore and Harbor Workers Compensation Act**

This Federal Act was designed to provide compensation and medical benefits to land-based employees (those that are not masters or members of the crew) while working on navigable waters. Covered workers here include those whose job involves loading and unloading ships, ship construction and repair, and construction and maintenance of docks, piers, and wharves. Those individuals who come under this act are entitled to unlimited medical benefits (subject to reasonable medical standards) and prescribed weekly disability benefits.

- **The Jones Act – The Merchant Marine Act of 1920**

The Merchant Marine Act of 1920, which is commonly referred to as the Jones Act, is a Federal Employers Liability Law which provides seamen with a tort remedy when they incur a work related injury. The Jones act was passed to provide a way for seamen to successfully bring a negligence claim against his/her employer. The law removes or modifies the Common Law Defenses as we saw in FELA. The law only applies to American seamen on American ships. A seaman is any person employed on the vessel so as to accomplish the ship's mission. This could be any person anywhere from navigator to a cook.

- **Federal Mine Safety and Health Act (Mine Act)**

The Mine Act provides the framework for the actions of the Mine Safety and Health Administration (MHSa), and covers all mine operators and miners throughout the United States, Puerto Rico, the Virgin Islands, America Samoa, Guam and the Trust Territory of the Pacific Islands. The mission of the MHSa is to administer the provisions of the Mine Act, including the inspection of all underground mines at least four times a year to enforce compliance with mandatory safety and health standards in order to eliminate fatal accidents, minimize health risks, and to promote improved safety and health conditions. In addition, miners can report violations and request additional inspections.

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

Most companies use a Workers' Compensation and Employers Liability Policy that was formulated by the National Council on Compensation Insurance (NCCI).

The policy contains an information (declarations) page and the following sections:

- General Section
- Part One - Workers Compensation Policy
- Part Two - Employer Liability Insurance
- Part Three - Other States Insurance
- Part Four - Your Duties If Injury Occurs
- Part Five - Premium
- Part Six – Conditions

Information Page (Declarations)

The part of the policy which individualizes the insurance contract is the Declarations Page. In the Workers Compensation Policy, this is called the Information Page. It contains important information which is divided into four items:

1. Identification of the Named Insured.
2. The Policy Period.
3. Item 3 is divided into three major sections:
 - 3A** – Workers Compensation Insurance – identifies which states are included for coverage.
 - 3B** – Employers Liability Coverage Limits.
 - 3C** – Other States Coverage.
4. Premium Information.

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY		WC 00 00 01 B
Original Printing	Effective July 1, 1996	Standard

INFORMATION PAGE
(With New Jersey Requirements)

Blank Insurance Company

N.J. Employer Registration No.

NCCI Company No.

POLICY NO.

PRIOR POLICY NO.

1. The Insured: _____ Individual _____ Partnership
Mailing address: _____
Other workplaces not shown above: _____ Corporation or _____

2. The policy period is from _____ to _____ at the insured's mailing address.

3. A. Workers Compensation Insurance: Part One of the policy applies to the Workers' Compensation Law of the states listed here:

B. Employers Liability Insurance: Part Two of the policy applies to work in each state listed in Item 3.A. The limits of our liability under Part Two are:

Bodily Injury by Accident	\$ _____	each accident
Bodily Injury by Disease	\$ _____	policy limit
Bodily Injury by Disease	\$ _____	each employee

C. Other States Insurance: Part Three of the policy applies to the states, if any, listed here:

D. This policy includes these endorsements and schedules:

4. The premium for this policy will be determined by our Manuals of Rules, Classifications, Rates and Rating Plan. All information required below is subject to verification and change by audit.

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium
Premium for increased limits Part Two, if applicable Total premium subject to the experience modification Premium modified to reflect experience modification of _____ Other premium charges Total Estimated Standard Premium				
Premium Discount, if applicable Expense Constant Charge Total Estimated Premium Second Injury Fund Surcharge Uninsured Employers Fund Surcharge				

Minimum Premium \$ _____ Total Estimated Cost \$ _____

Deposit Premium _____

Name of Producer _____ Countersigned by _____

Servicing Office _____ Date _____

© Compensation Rating and Inspection Bureau

GENERAL SECTION

The primary function of this section is a description of who is an insured, the locations covered, and a definition of the “Workers Compensation Law.”

PART ONE – WORKERS COMPENSATION INSURANCE (3A)

This insurance applies to bodily injury caused by accident or disease. Bodily injury by accident must occur during the policy period.

Bodily injury by disease must result from conditions of the employee’s employment, and the employee’s last day of exposure to the conditions causing the disease must happen during the policy period.

We Will Pay

The Workers Compensation Policy instead of using the term insuring agreement, identifies this policy provision as We Will Pay. In the most simple language, it states that the policy will pay promptly when the benefits required under the Workers Compensation Law are due from the named insured employer.

We Will Defend

Even though Workers Compensation is a no-fault coverage, disputes do occur. The insurer promises to defend the insured against any claims seeking benefits payable under the Workers Compensation Part of this policy.

Payments You Must Make

Since the Part One - Workers Compensation provisions promise to pay for those legal obligations that are outlined in the State Workers Compensation Law, those items excluded are Payments You Must Make (exclusions). These excluded items are legal obligations for:

1. The insured employer’s serious and willful misconduct.
2. The insured employer knowingly employing an employee in violation of the law.
3. The insured fails to comply with Health or Safety Laws or Regulations.
4. The insured discharges, coerces or otherwise discriminates against any employee in violation of any Workers Compensation Law.

PART TWO – EMPLOYERS LIABILITY INSURANCE (3B)

Nature

Despite the fact that the vast majority of work-related accidents are compensable under Part One - Workers Compensation Insurance, there are other injuries and diseases which can arise out of employment in which an employer may be held legally obligated.

We Will Pay - Insuring Agreement

This section states what the insurer promises to pay. It is the Insuring Agreement. Overall, the coverage promises to pay for the insured's liability to pay damages, because of bodily injury to an employee as a result of an accident and/or disease arising from employment by the insured. The accident or last exposure to conditions of employment must occur during the policy period, and any suit must be brought in the coverage territory.

The policy actually gives some examples of situations where it will pay. They include:

1. Third-party claims (action over) or those claims made against the employer by others (third parties) who have been held liable for an employee injury.

ABC Inc. is sued by a manufacturer who had to pay an employee of ABC Inc. due to a lawsuit. Now the manufacturer sues ABC Inc. stating that ABC Inc. didn't properly train their employee.

2. Care and loss of services; these claims include loss of consortium claims that are brought by the injured employee's spouse
3. Consequential bodily injury to a spouse or immediate relative of the employee. An example of this kind of situation would be a spouse, when learning of his wife's work related injury, suffers a heart attack and files suit against the employer.
4. Dual capacity occurs when an employee is injured and the employer may be sued in a capacity other than the employer.

Ben is employed by ABC Ladder Manufacturing. While at work, Ben was using a ladder manufactured by ABC to change a light bulb when the ladder broke. Ben fell and broke his arm. Ben filed a Workers Compensation claim as the employee but is also suing ABC as the manufacturer of the ladder (faulty product).

Selected Exclusions

Although there are not many exclusions to Part Two - Employers Liability Insurance, we will review only a few of the ones that are more important.

1. Liability assumed under a contract.
2. Punitive damages if a worker is employed in violation of law.
3. Bodily injury to an employee while employed in violation of law.
4. Workers' Compensation is excluded under Part Two - Employers Liability.
5. Bodily injury intentionally caused by the employer.
6. Bodily injury outside the U.S., its territories and Canada except for those outside on a temporary basis.
7. Wrongful Discharge and Discrimination of any employee (Employment-Related Practices Exclusion).
8. Violation of Federal Laws.

Limits

In Part Two - Employers Liability, there are three limits (100/500/100):

1.	Bodily Injury by Accident - Each Accident	\$100,000
2.	Bodily Injury by Disease - Policy Limit	\$500,000
3.	Bodily Injury by Disease - Each Employee	\$100,000

PART THREE – OTHER STATES INSURANCE (3C)

An insured employer who has ongoing operations in a state should list that state in Item 3A of the Information Page. However, if the insured's home office is in Pennsylvania, but the insured has offices in Maryland and Delaware, then Pennsylvania, Maryland and Delaware should all be listed. There may be times when an insured employer has Workers Compensation and Employers Liability exposures in other states where the insured does not have ongoing operations.

The purpose of the Part Three - Other States Insurance is to provide coverage for incidental exposures in those states other than those listed in Item 3A. These incidental exposures are for temporary, traveling to or through other states and occasional work in those states. Part Three - Other States Insurance is not designed to provide Workers Compensation and Employers Liability Insurance in every state on a blanket basis.

As we saw earlier, individual state laws vary in terms of benefit levels.

How This Insurance Applies

Part Three - Other States Insurance Coverage is triggered by specific wording in 3C of the Information Page. If the state in which the benefits apply is listed, then there is coverage. Part Three will not provide coverage for exposures in monopolistic state fund states (ND, OH, WA, WY).

PART FOUR – YOUR DUTIES IF INJURY OCCURS

The majority of requirements listed in this section are similar to those found in other liability policies, like giving prompt notice of claims, and sending any summons, demands or other legal papers to the insurer. However, two duties are somewhat different. One, the insured should provide immediate medical and other services required by the Workers Compensation Law. Secondly, the insured should not voluntarily make any payments and assume any obligations except at the insured's own cost.

PART FIVE - PREMIUM

This section, as its title indicates, focuses on premium and provides general information on how the premium is determined. It also addresses the right of the insurer to audit the insured's records.

PART SIX - CONDITIONS

The Conditions Section addresses the insurer's right to inspect the insured's workplaces, cancel the policy and prohibits the insured from assigning the policy.

SELECTED ENDORSEMENT

Voluntary Compensation and Employer Liability Coverage Endorsement - 00 03 11A

The purpose of this endorsement is to provide coverage to those individuals who are not covered under Pennsylvania's Workers Compensation Law. These workers could be domestics, farm and casual workers. These exempt employees may bring suit against the employer for an on-the-job injury resulting from the employer's failure to meet his/her/its common law obligations. To avoid this problem, an employer may elect to provide coverage on a voluntary basis for exempt employees. The addition of this endorsement to the Workers Compensation Policy provides the coverage. Before anything is paid, the person receiving the benefits must release the insured and insurer from all responsibility for injury and death.

PREMIUM COMPUTATION

JOB CLASSIFICATION

Each job is classified according to its job activity characteristics and the danger directly related to performing the job. The higher the risk the higher the rate for the job classification. Each job is assigned a numerical classification code. Here are examples of two classifications out of the manual:

- **Clerical Office Employee** - has a classification code of **0953** which has a rate \$.37 per \$100 of payroll. A clerical office class excludes work or service areas, and the clerical work area is separated from other work areas by partitions, walls or floors.
- **Salespersons, Collectors, or Messenger** - Outside is classified **0951** which receive a rate of \$.79. These are employees engaged in such duties away from the employer's premises. This classification does not apply to employees who deliver merchandise.

The payroll information for each classification is recorded, and a premium is assigned for each job classification for the insured. The rate is computed per \$100 of payroll. If a company has a payroll of \$50,000 for Clerical Office Employee - 0953, the computation would be: $\$50,000/\$100 = 500 \text{ units} \times .37 = \$185$. The various premiums for each job classification are then summed, and an expense constant (expense item added to each policy to cover expenses common to all policies) equals the state premium.

EXPERIENCE MODIFICATION FACTOR

Experience Modification measures the individual employer's loss experience against the average loss experience for its job classification. Future premiums are based upon past loss experience. Each year the Pennsylvania Compensation Rating Bureau (PCRB) calculates the factor to be applied to the insured's renewal premium. The experience modification factor for its current policy year is generally based on the insured's loss experience over three prior years, ending one year prior to the policy effective date.

Current Experience Modification Factor is derived from the insured's own past loss history. The current policy period is not used in determining that factor.			
	Policy Inception	Policy Expiration	Experience Modification Factor
Renewal Policy	06/15/13	06/15/14	**
Current Policy	06/15/12	06/15/13	
Past Policy	06/15/11	06/15/12	The experience from these three years (good or bad) determines the experience modification factor for the renewal policy.
Past Policy	06/15/10	06/15/11	
Past Policy	06/15/09	06/15/10	

To determine the experience modification factor for 13-14, the rating bureau uses the losses and final audited premium for 11-12, 10-11 and 09-10. An experience modification of less than 1 is good and more than 1 is unfavorable.

**If the insured has a standard premium of \$10,000 and experience modifier of .65 then the insured would have experience premium of \$6,500 instead of \$10,000. If the insured in the same example had an experience modifier of 1.15, he/she would have to pay \$11,500 instead of the standard premium of \$10,000.

PREMIUM DISCOUNTS

Generally speaking, an insurance company's expense for underwriting, issuing and servicing a policy with a large premium is less than handling several policies with smaller premiums. A premium discount is applied to the policy when the standard premium is at least \$5,000. The size of the discount increases as the premium increases.

OTHER SOURCES OF COVERAGE

1. Self-Insurance

Self-insurance in Pennsylvania is permitted for both individuals and groups. In order to qualify for Self-insurance, an employer must provide a security equal to a specified percentage of the outstanding liability and have an adequate and competent administrative staff.

2. State Workers Insurance Fund (SWIF)

The Fund is a competitive state fund which provides Workers Compensation Insurance similar to that provided by private insurers. The Fund, similar to those found in several other states, serves as the market of last resort, because there is no assigned risk plan in Pennsylvania. An employer who makes an application to the Fund may designate a broker as the employer's representative, but the Fund does not pay commissions, and brokers are not permitted to issue Certificates of Insurance.

SECTION 12 - QUIZ

1. Which of the following is NOT a common law obligation of an employer to its employees?
 - a. Provide a reasonable safe place to work
 - b. Provide reasonably safe tools
 - c. Provide reasonably qualified fellow employees
 - d. Employer is not required to set up safety rules or enforce them

2. Prior to the passage of Workers Compensation Laws, employers could use common law defenses. Which of the following is not a common law defense?
 - a. Assumption of risk
 - b. Respondeat superior
 - c. Contributory negligence
 - d. Fellow-servant rule

3. In all states except Texas, Workers Compensation Laws stipulate that the benefits under workers compensation are:
 - a. Elective as to all employments.
 - b. Compulsory for most employments and elective for others (i.e., domestic and farm).
 - c. Compulsory for hazardous employments and elective for others.
 - d. Compulsory only if the employer has more than 25 employees.

4. On which of the following is worker's compensation coverage rated?
 - a. Employees' earnings
 - b. Employers' payroll
 - c. Employers' gross claims
 - d. Employers' gross annual sales

5. Which of the following doctrines bars employees from suing employers in court to obtain compensation for injuries covered by workers' compensation?
 - a. Employer's liability
 - b. No fault doctrine
 - c. Workman contributory doctrine
 - d. Exclusive or sole remedy doctrine

6. Which of the following is true regarding compliance requirements under worker's compensation?
 - a. Employers are required to establish a healthcare provider list with at least 10 providers
 - b. Employers are required to establish a healthcare provider list with at least 6 providers
 - c. Employers may establish a healthcare provider list with at least 10 designated providers
 - d. Employers may establish a healthcare provider list with at least 6 designated providers

7. The Workers Compensation Laws say they will pay for those injuries and diseases that arise out of the course and scope of employment. Which of the following is a covered injury?
 - a. An employee is ordered to go up on scaffolding during a violent windstorm to secure some equipment
 - b. An employee who is injured in an auto accident after consuming a large enough amount of alcohol to have a blood alcohol level of .20
 - c. An employee who breaks his hand in a fight after a fellow worker makes barking sounds upon seeing a picture of the injured worker's girlfriend
 - d. An employee breaks his arm while arm wrestling another employee at lunchtime

8. All of the following are types of disability, EXCEPT:
 - a. Permanent total
 - b. Temporary total
 - c. Temporary permanent
 - d. Permanent partial

9. All of the following types of employees are exempt from PA's worker's compensation law, EXCEPT:
- a. Domestic servants such as a cook or nanny
 - b. Migrant worker who works less than 30 days per year
 - c. Part time workers who work less than 20 hours per week
 - d. Real estate salespersons
10. Under PA law if an employee is killed on the job, worker's compensation pays a burial allowance of _____?
- a. \$3,000
 - b. \$5,000
 - c. \$10,000
 - d. There is no dollar limit, policy pays for the entire funeral
11. All of the following are the benefits provided under worker's compensation, EXCEPT:
- a. Unlimited medical benefits
 - b. Unlimited income benefits up to 80% of the average weekly wage
 - c. Death benefits
 - d. Rehabilitation benefits
12. An injured employee is entitled to reasonable expenses to be retrained. This would be an example of which worker's compensation benefit?
- a. Physical rehabilitation
 - b. Medical rehabilitation
 - c. Vocational rehabilitation
 - d. Educational rehabilitation

13. Which of the following would provide coverage for an employer when a worker is injured on the job and the spouse of the injured worker sues the employer?
- a. Worker's Compensation
 - b. Employer's Liability
 - c. No fault insurance
 - d. Commercial General Liability
14. The Merchant Marine Act of 1920, or what is commonly called the Jones Act, applies to the following persons:
- a. Those land-based employees who work navigable waters and ways adjoining
 - b. American seamen on American vessels
 - c. Employees of a merchant or retail operation
 - d. Employees who are leased to load and unload ships
15. The Longshore and Harbor Workers Act applies to the following persons:
- a. Those land-based employees who work navigable waters and ways adjoining
 - b. American seamen on American vessels
 - c. Employees of a merchant or retail operation
 - d. Employees of restaurants and retail stores located on ways adjoining navigable waters.

Chapter 12 Answers

1d, 2b, 3b, 4b, 5d, 6d, 7a, 8c, 9c, 10a, 11b, 12c, 13b, 14b, 15a

CHAPTER 13

Other Types of Property & Casualty Insurance



Insurance Agents
& Brokers

CHAPTER 13 – OTHER TYPES OF P&C INSURANCE

GOALS

You should be able to discuss the following topics and questions after completing this Chapter.

- What is an Umbrella/Excess Liability Policy and describe coverage provided?
- What is underlying coverage and SIR in Umbrellas?
- Describe the following Liability Policies and who needs them:
 - Professional Liability
 - Directors and Officers Liability
 - Employee Benefits
 - Employment Practices Liability
- What conditions must be met before coverage can be placed in the surplus lines market?
- Who are the three parties to a surety bond?
- What three criteria do bond underwriters use to determine if they will provide a bond to a principal?
- Discuss the following types of bonds:
 - Contract bonds
- Name three types of contract bonds.
 - License and permit bonds
 - Judicial bonds
- Explain the Aircraft Hull coverage.
- What are the Major Coverages under Ocean Marine Insurance?
- What is Protection and Indemnity (P&I)?
- Who is eligible for Flood Insurance?

- How is WYO different than Government.
- What is the purpose of Flood Insurance?
- What is the standard deductible on a flood policy and how does it differ from other property policies?
- Discuss the limits of Flood Insurance and how they differ between the Emergency Program and the Regular Program.
- What is a Risk Retention Group?
- What are Risk Purchasing Groups?
- What is Federal Crop Insurance?
- What is Boatowners/Personal Watercraft, Recreational Vehicle and Mobile Home policies.
- What is the FAIR Plan? What does FAIR stand for?

KEY TERMS

- Obligor
- Obligee
- Guarantor
- Hull Coverage
- NFIP
- FAIR Plans
- Risk Retention Groups
- Risk Purchasing Groups

CHAPTER 13 – OTHER COVERAGES AND OPTIONS

STATE EXAM: 8% OR 12 QUESTIONS

UMBRELLA/EXCESS LIABILITY POLICIES

Whether we are talking about a commercial or personal excess/umbrella policy, the purpose of the policy is to provide liability coverage. To what extent coverage is provided varies greatly with the type of excess policy. In most excess policies, the coverage will be at least as broad as found in the underlying policies. In umbrella policies, there could be broader coverage, and the umbrella could pay even if the underlying contract excludes coverage. These policies will have a self-insured retention (SIR). This is similar to a deductible, but it only applies if the loss is paid by the umbrella/excess policy when the underlying policy does not provide coverage (the loss is excluded).

Limits for these types of policies vary greatly, but most policies begin at \$1 million. Personal lines umbrellas are usually offered in increments of \$1 million not to exceed \$5 million. Commercial umbrellas and many excess policies are written with limits in increments of \$1 million rising up to hundreds of millions.

PERSONAL (DL 98 01)

Personal umbrella/excess liability policies are written to provide coverage for non-business liability of individuals. These policies are used to provide coverage in the following two areas:

1. First, the primary purpose of these policies is to provide higher limits of liability over the limits of the required underlying policies. Typically, an individual will have a personal auto policy and a homeowners policy. These would be considered the underlying policies.

An insured who has a \$500,000 limit of liability under his auto policy and \$1 million liability under his/her umbrella, is involved in an at fault accident. He/she is found liable for \$1.1 million in damages, the loss would pay as follows: \$500,000 would be paid by the underlying auto policy and the umbrella would provide \$600,000 of excess coverage above the auto liability limit. In this example, please note that the insured wasn't responsible for ANY payment. In the event that the insured fails to maintain the required underlying limit of insurance, he/she would be responsible for the required underlying limit (in this case \$500,000), but the umbrella policy would still pay it's \$600,000.

- Second, in certain situations the umbrella/excess policy could provide liability coverage that is broader than underlying coverage.

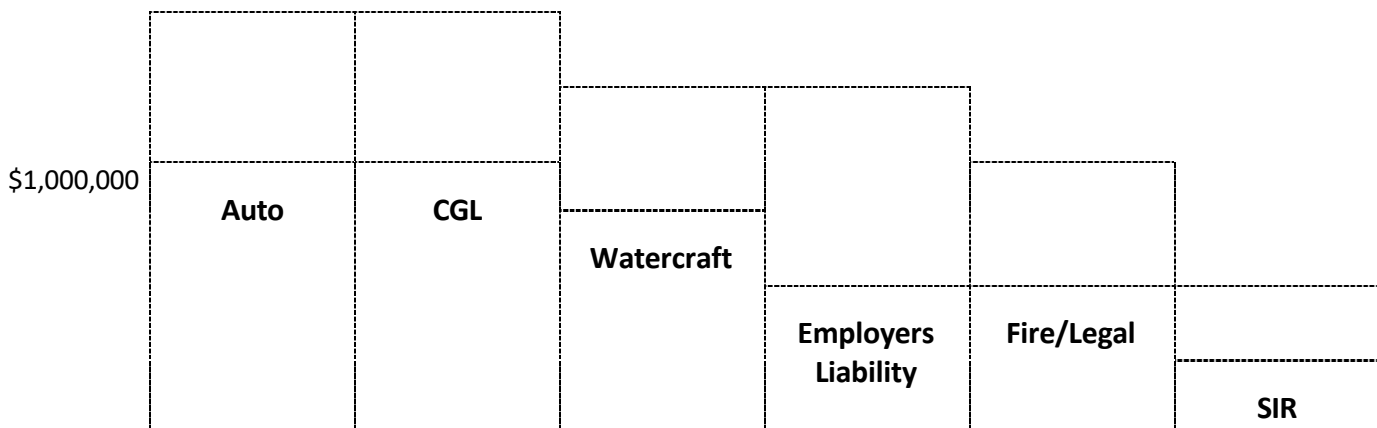
An example of this might be a broader definition of territory, especially when compared to that found in the automobile liability insurance. If an insured is traveling in Spain and has an accident while driving a car the underlying personal auto policy would not respond as this is out of the coverage territory, however the umbrella may respond and pay the claim from the first dollar, subject to what is called the self-insured retention. The self-insured retention is similar to a deductible, but it only applies if the loss is paid by the umbrella/excess policy when the underlying policy does not provide coverage (the loss is excluded). The typical self-insured retention for a personal excess/umbrella policy is \$250.

COMMERCIAL (CU 00 01)

The commercial umbrella/excess liability coverage provides the same type coverage for the commercial customer as the personal umbrella/excess does for the individual. However, higher limits will be available for the commercial customer. Typically, a commercial insured could have a Business Auto, Commercial General Liability and Employer's Liability policies as underlying coverage. The commercial umbrella/excess liability policy is written to provide business liability coverage for the following three areas:

- As excess coverage over the required underlying limits of the primary liability policies. For example, if an insured maintains \$500,000 of liability coverage under his commercial auto policy he may secure higher limits of liability by purchasing an umbrella policy of \$5 million. In this situation, the underlying Commercial Auto Policy would provide coverage up to \$500,000, with the umbrella policy providing excess limits up to an additional \$5 million.
- As additional coverage in those situations where the underlying policy does not respond to a claim.
- To drop down and provide primary coverage when aggregate limits are exhausted on the primary policy.

The self-insured retention on a commercial umbrella is likely to be much higher than that of the personal umbrella, typically \$10,000.



SPECIALTY LIABILITY INSURANCE

Specialty liability insurance refers to various specialty policies that are used to fill in gaps caused by exclusions in the standard personal and commercial policies we have previously examined. These policies provide coverage for legal liability from the failure to use due care and the degree of skill required and expected in a particular profession. These policies provide coverage from negligence, errors and omissions or other aspects of rendering professional services. Coverage is typically written on a claims made basis and fraudulent, deceitful or criminal acts are excluded. Those policies that cover the medical field such as physicians, surgeons, hospitals, dentists, opticians, chiropractors, veterinarians and nurses are called malpractice policies. Errors and omissions policies are used to cover the professional liability of accountants, attorneys, architects, engineers and insurance agents and brokers.

PROFESSIONAL LIABILITY

The policies which cover the professional liability exposures of various business and individuals can have various names. However, all are intended to provide liability coverage for litigation that alleges failure to meet what would be considered to be a professional standard. These allegations may be brought against those in the medical profession such as hospitals, doctors, nurses, chiropractors, dentists, opticians, druggists, veterinarians, etc.

Medical Malpractice is the name used for professional liability for those in the medical profession and it covers liability exposures arising from the treatment of patients. Examples would include: failing to properly diagnose an illness, prescribe proper treatment or medications, making errors while performing surgery or performing improper rehabilitation procedures.

However, professional liability exposure is not limited to medical professionals. Similar allegations of failure to meet professional standards may be made against accountants, architects, attorneys, consultants, engineers, funeral directors, insurance agents, realtors, surveyors and many others. Frequently the name used for this professional liability coverage is **Errors and Omissions**. Some common examples of professional errors and omissions policies include:

- **Lawyer's Professional Liability Policy (Errors & Omissions)** provides protection for legal liability arising from a negligent act or error in rendering or failing to render professional services and personal injury in connection with rendering or failing to render professional services.

- **Insurance Agents and Brokers Errors & Omissions** covers legal liability exposures that producers face in their service to clients such as the failure to recommend proper coverage, the failure to process applications, the failure to add additional coverage as requested by clients or the failure to carry out instructions of an insurance company.

DIRECTORS AND OFFICERS LIABILITY

Often referred to as D&O coverage, this type of policy protects corporate officers and members of the corporation's board of directors from allegations of "wrongful acts" which are not in the best interests of the corporation. For example, stockholders in the corporation may file suit against the directors and officers alleging mismanagement that caused the price of the corporations' stock to fall. Also creditors, regulatory bodies or those who have a contractual relationship with the corporation may initiate legal action for alleged wrongdoings. This policy can also provide coverage to reimburse the corporation for those payments which the directors and officers are legally obligated to pay to third parties, and the corporation is permitted to indemnify the directors and officers for such payment.

In an earlier chapter we saw that the commercial general liability policy would provide coverage for a corporation's officers and directors for liability arising out of bodily injury coverage for a corporation's officers and directors for liability arising out of bodily injury to others or damage to others' property. However, exclusions in both the CGL and the Homeowners policy necessitate the need for individuals acting as an officer or director to be covered under a D&O policy. This is a non-standard policy and is written on a claims made basis. In essence, a D&O policy is an errors and omissions policy for corporate officers and the board of directors.

Employee Benefits Liability

This coverage provides protection to a person or organization who become legally obligated to pay because of an act, error or omission committed in the administration of employee benefits. Examples would include:

1. The insured fails to add an employee's beneficiary to a life insurance plan provided by the employer.
2. The insured fails to add an employee to the company health plan. The employee later becomes hospitalized with a serious illness and discovers he does not have health insurance. The employee then sues the insured for his benefits.

Internet Liability and Network Protection (Cyber Liability)

This policy addresses first and third party risks associated with E-business, the internet, networks and informational assets. This policy can provide protection for hacking.

EMPLOYMENT PRACTICES LIABILITY INSURANCE (EPLI)

This policy covers businesses against claims by employees that their legal rights as employees of the company have been violated. Coverage can be offered as a separate policy or as an endorsement to a D&O policy. The need for this policy is important because employment practices liability coverage is excluded from all other primary personal and commercial insurance policies.

It provides protection to employers from the following types of exposures:

1. Refusal to employ, termination of employment, failure to promote, demotion, breach of employment contract, negative evaluation, discipline, defamation or humiliation of the person based on discrimination;
2. Work related sexual-harassment;
3. Other work related verbal, mental, physical or emotional abuse directed at a person related to race, color, national origin, gender, marital status, age, sexual orientation, physical or mental conditions or any other protected class. These types of abuse are referred to as creating a hostile work environment.

SURETY BONDS

The nature of risk in surety bonds is much different than it is in insurance. Under an insurance policy, the insurance company accepts the transfer of risk from the insured. In surety, the risk always stays with the principal. Unlike insurance, the surety bond is simply a monetary guarantee of the principal's performance on an obligation to a third party. Any amount that has been paid by the surety on behalf of a principal is still owed by the principal to the surety.

Suretyship is the practice of guaranteeing obligations using a three party contract. The three parties to a surety bond are:

1. **Principal (Obligor)** – The principal is the person or organization who is responsible to fulfill the obligation set forth in the contract. This is the party who purchases the bond.
2. **Obligee** – the obligee is the person or organization who is the beneficiary of the obligation set forth in the contract or agreement. It is for their benefit that the bond is written.
3. **Surety (Guarantor)** – Is the person or organization who guarantees that the principal will meet their obligation to the obligee. Usually, this is an insurance company who provides this bond for a fee.

In theory, when the surety agrees to guarantee the performance of the principal it never expects to pay any losses. Since the surety doesn't anticipate losses, the premiums for the bond are more like a service fee for issuing the surety bond. Obviously, in the real world, losses are paid but the surety expects to be reimbursed by the principal for all losses. The surety expects to be able to collect from the principal by the use of proper underwriting and collateral.

TYPES OF BONDS

1. **Contract bonds** – These bonds are used in the construction business and guarantee that contractors will carry out their contractual obligations.

- a. **Bid Bond** – This bond guarantees a project owner that the contractor bidding on a contract will enter into the contract and furnish all required bonds. The bid bond is conditioned on the contract being awarded to the principal. What it actually guarantees is that the surety will pay the obligee (project owner) the difference between the amount of the bid and the bid that is finally accepted should the contractor be unable to actually enter into the contract.

Messer County decides to add a wing to the courthouse. Jim Bob Construction Co. submits a bid for \$150,000. Jim Bob, in calculating his cost, made a \$60,000 error. Jim Bob is awarded the contract at the \$150,000 bid which was \$40,000 less the next lower bidder. Jim Bob decides that he can't afford to do the job, so he defaults on the bid.

Jim Bob had a Bid Bond written by Guarantee Insurance Co. Guarantee must pay \$40,000, the difference between the bid finally awarded and Jim Bob's bid.

- b. **Performance Bond** – This bond guarantees the owner that the contractor will complete the project in accordance with all plans and specifications of the contract.
 - c. **Maintenance Bond** – This bond guarantees that the contractor will correct all defects in both workmanship and materials for a specified period of time.
2. **License and Permit Bonds** – These bonds authorize individuals to engage in a particular activity. An example would be when a person or organization needs a license required by a political subdivision to operate a business. Those requiring license bonds could be barbers, beauticians, electricians, plumbers and those who sell liquor.
 3. **Judicial Bonds** – These bonds are used in the legal process. Examples would include:
 - a. **Appeal Bond** – This bond guarantees that a judgment will be paid if an appeal is upheld.

- b. **Attachment Bond** – this bond indemnifies a party whose assets have been wrongfully attached.
- c. **Bail Bond** – This bond guarantees that a defendant will appear as required by the court.
- d. **Fiduciary Bond** – This bond guarantees the faithful and honest performance of fiduciaries such as guardians or administrators of estates.

OCEAN MARINE INSURANCE

Ocean Marine Insurance is one of the oldest forms of insurance protection. It has evolved to its present state principally due to Lloyd's of London, which is still the principal writer of Ocean Marine Insurance. It is primarily an unregulated policy from the standpoint of rates and policy forms.

MAJOR COVERAGES

Hull Coverage

This coverage insures for damage or loss of the vessel from covered perils. Vessels can include ships, barges and even drilling rigs. A common provision found in the hull coverage section is known as the Running Down Clause or Collision Clause. It not only provides coverage for damage to the insured vessel, but also for the property damage to other ships and their cargo. There is NO coverage for damage to other property such as piers, wharves, docks or other structures or for loss of life. Coverage can be written on a single vessel or on a fleet basis.

Cargo Coverage

This coverage insures for damage to the cargo, the property that is accepted by the carrier and for which a freight cargo fee has been paid. It does not include coverage for the crew's personal effects or that of passengers. Coverage is written on a voyage policy or an open cargo basis. An open basis means that the policy is usually written without an expiration date and on a reporting form. If a warehouse to warehouse clause is added, it will cover the cargo on both sea and land.

Who is responsible to insure the cargo is governed by the terms of the contract upon which the goods are bought or sold. The following are common terms used in transporting goods:

Free Along Side (FAS) – The seller is responsible for loss or damage until the goods have been delivered alongside the vessel or designated dock. The goods then become the buyer's responsibility.

Free On Board (FOB) – The seller is responsible for the loss or damage until the goods have been placed on board the vessel. The goods then become the buyer's responsibility.

Cost & Freight (C&F) – The seller is responsible for the goods until they enter the custody of the ocean carrier. The seller's price of the goods includes the transportation cost to a named point. The goods then become the buyer's responsibility.

Cost, Insurance & Freight (CIF) – The seller is responsible for the goods and provides insurance to a named destination point. The seller's price includes the goods, insurance and transportation fees to the named destination. The goods then become the buyer's responsibility.

Freight Coverage

This coverage insures for the indirect loss coverage (loss of income). It refers to the revenues earned for transporting cargo. When transporting passengers, this is known as passage money coverage.

Protection and Indemnity (P&I)

This coverage insures for legal liability of the ship-owner from bodily injury and property damage to third parties. In addition to the third parties we expect, the policy also provides liability for bodily injury to passengers, ship visitors, and the crew (who are covered under the Jones act). This coverage also provides property damage caused by a collision to other ships and structures (piers, wharves, bridges, etc.), as well as the loss of cargo cause by the ship-owners negligence.

Perils

Ocean marine policies may be written on either an open peril basis or a named peril basis. The open peril policy has standard exclusions including loss due to war, strikes, decay, deterioration and inherent vice. The named peril policies provide coverage for either perils of the sea (capsizing, collision, sinking, stranding, wind or wave action); or perils on the sea (barratry or fraud, earthquake, fire, lightning, jettison, pirates and thieves, etc.)

Implied Warranties

The concept of warranties is a very important concept in Marine Insurance. This is probably due to the fact that both the insured and the insurer rely so heavily on the statements of each other. A breach of warranty will almost always void a marine policy. The following are common warranties in Marine Insurance:

- No deviation in voyage – the vessel must follow an agreed route.
- Vessel must be seaworthy – it must have a competent captain and crew.
- The purpose of the voyage must be legal.
- The cargo must be properly packaged.

Loss Adjustment

Losses under an ocean marine policy are subject to the following loss adjustment provisions:

- General Average – refers to a partial loss that results to protect a marine venture. For example, if high seas due to storm conditions threaten the sinking of the ship, the crew might jettison (throw overboard) a certain portion of the cargo to help lift the ship higher in the water. Those owners of the jettisoned cargo would not be the only persons to suffer a loss. All losses would be prorated among the various parties to the venture.
- Particular Average – refers to a partial loss where there is no requirement to share the loss. In this case the loss would be borne entirely by the individual owner whose cargo was damaged or lost.

FLOOD INSURANCE

In 1968, Congress passed the National Flood Insurance Act and created the National Flood Insurance Program (NFIP). There are two main objectives of the NFIP:

1. To provide a system that allows individuals and business property owners to purchase coverage from the catastrophic effects of flood at reasonable rates.
2. To act as an incentive to communities to reduce future flood losses by proper floodplain management. This would include things like improving land use to minimize future flood losses, construct storm drains, building river dikes, requiring flood proof buildings, etc.

PRIVATE VS. NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

Flood insurance is underwritten by the Federal Government and administered by the Federal Emergency Management Agency (FEMA). Any licensed producer may make application for flood coverage to FEMA or to any Write-Your-Own carrier (WYO). A write-your-own carrier writes and services flood policies in their own name. The company will receive an expense allowance for policies written and claims processed while the Federal Government retains responsibility for underwriting losses. The rates, rules and policy language written through a WYO are identical to that written as direct NFIP business. All claim decisions are approved by the NFIP.

ELIGIBILITY

Communities must ask to participate in the NFIP. When communities first join the program, they enter the emergency program. During this initial phase of participation, very limited dollar amounts of flood insurance are available.

Once the community completes a detailed mapping and identification of its flood hazard areas and has complied with the NFIP's requirements, it enters the regular program. At this point the community's property owners are eligible for higher limits of coverage.

COVERAGES

The standard flood insurance policy is a single peril policy. It covers damage by or from the peril of flood. The definition of flood means:

1. A 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 from:
 - a. Overflow of inland tidal waters,
 - b. Unusual and rapid accumulation or runoff of surface waters from any source,
 - c. Mudflow.
2. 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 as defined above.

To be eligible for coverage the structure must be an eligible building. Building is defined as a structure with two or more outside rigid walls and a fully secure roof that is affixed to a permanent site. It could also be a manufactured home or mobile home which is affixed to a permanent foundation. A 30-day waiting period applies for new business and endorsements to increase coverage. An exception to the 30-day waiting period applies in the event that the applicant is purchasing coverage prior to and/or in conjunction with a loan. In this case, there is no waiting period.

Property Not Covered

The flood policy does not cover property in the open, property over water, accounts, currency, records, land trees, crops, building items and personal property under an elevated level or in a basement except for mechanicals (furnace, hot water heater) and very limited contents (washer, dryer, freezer).

LIMITS

EMERGENCY PROGRAM FLOOD INSURANCE LIMITS			
BUILDINGS	Basic Limits	Additional Limits	Total Limits
Single Family	\$ 35,000	\$0	\$ 35,000
2-4 Family Dwelling	\$ 35,000	\$0	\$ 35,000
Other Residential	\$100,000	\$0	\$100,000
Non-residential	\$100,000	\$0	\$100,000
CONTENTS			
Residential	\$ 10,000	\$0	\$ 10,000
Non-Residential	\$100,000	\$0	\$100,000

REGULAR PROGRAM FLOOD INSURANCE LIMITS			
BUILDING	Basic Limits	Additional Limits	Total Limits
Single Family	\$ 60,000	\$190,000	\$250,000
2-4 Family Dwelling	\$ 60,000	\$190,000	\$250,000
Other Residential	\$175,000	\$ 75,000	\$250,000
Non-residential	\$175,000	\$325,000	\$500,000
CONTENTS COVERAGE (per unit)			
Residential	\$ 25,000	\$ 75,000	\$100,000
Non-Residential	\$150,000	\$350,000	\$500,000

Keep in mind some property is subject to internal limits.

DEDUCTIBLES

All flood insurance is written with a standard deductible of \$1,000. This is required for regular program communities. The insured may select higher deductibles for lower premiums. The standard deductible applies separately to building and contents. A policy written with the standard deductible of \$1,000 for building and contents would apply a \$1,000 deductible to the building and an additional \$1,000 deductible to the contents.

DIFFERENCES IN CONDITIONS (DIC)

A difference in conditions policy is written to supplement coverage provided by other commercial property insurance or to fill the gaps in commercial coverage provided by the other property coverage forms. Overall, this coverage is designed to tailor coverage to an insured's specific needs. It is a very flexible nonstandard, stand-alone policy. Examples of coverages written under a DIC would include flood, earthquake, mysterious disappearance, and weather conditions. DIC policies commonly contain large deductibles such as \$25,000 or more. Policies are usually secured through the surplus lines market.

RESIDUAL MARKETS INCLUDING FAIR PLANS

Residual markets are designed to provide insurance protection where other markets are typically either not available or affordable for many potential insureds. Residual markets are insurance markets outside or in addition to the normal agency/ company marketing system. In almost all cases these markets were developed because private insurers found that a particular exposure was not commercially insurable.

These markets are classified in three ways:

- (1) Government programs - flood & crop
- (2) Specialty pools - nuclear & aviation
- (3) Shared market mechanism - frequently called assigned risk plans. These are usually organized or sponsored by the state insurance department and then insurers licensed within the state participate in the writing of insurance and paying of the losses.

FAIR PLANS - (Fair Access to Insurance Requirements)

The fair plan is a state supervised pool. Its purpose is to assure that no property owner is denied basic property insurance without impartial evaluation of the individual exposure. Coverage offered through the fair plan is basic property insurance. Policies only cover for fire, extended coverages, and vandalism and malicious mischief. Normally unbound applications are submitted to the plan, which in turn inspects the property, and advises the producer of eligibility.

Sometimes recommendations for improvements are required to make the property eligible for coverage. Generally speaking, the fair plan will insure risks that are marginal and normally not acceptable in the regular market.

However, even the FAIR plan considers the following exposures to be uninsurable:

- Fire damaged property that has not been repaired
- Property with poor housekeeping
- Property in violation of building codes, public policy, or law
- Property vacant and open to trespass

Denial to write coverage is not permitted on the basis of environmental hazards that are not within the control of the applicant.

ALTERNATIVE FUNDING MECHANISMS

One of the methods of handling risk is retention. By retaining a loss, the insured may reduce or eliminate the payment of small claims and the associated expenses by an insurer. Retention encourages an insured to promote safety and the reduction of claims. The insured more readily sees a direct correlation between safety and resulting reduction of the frequency and severity of claims when they are paying for each and every claim either out of their pocket or designated fund. Retention is sometimes used as a funding method because desired coverage is not available in the normal insurance market.

The product Liability Risk Retention Act of 1981, commonly called the Risk Retention Act, was passed to make it easier for organizations with product liability exposures to use an alternative method to finance their losses. This was designed to address a crisis in the product liability insurance area in the late 1970s by encouraging the use of alternative funding mechanisms.

A further promotion of risk retention came about with the passage of the Liability Risk Retention Act of 1986. Although risk retention groups and purchasing groups are not radical departures from the standard insurance market, they provide an alternative way for a business or organization to protect themselves from liability losses.

RISK RETENTION GROUPS

A Risk Retention Group (RRG) is an insurer formed by several organizations to cover liability losses for those organizations. The RRG only needs to meet the capitalization needs and the chartering requirements of one state.

The following are characteristics common to all RRGs:

1. Members of an RRG must be involved in a similar or related business.
2. The RRG is owned by its members.
3. It must have “Risk Retention Group” in its name.
4. It must be chartered or licensed as an insurance company in at least one state.

An RRG can be licensed in one state and conduct business in other states. Also, an RRG is not subject to all the individual state laws in which it may operate. A Risk Retention Group can provide most forms of liability insurance EXCEPT Workers Compensation. These forms of liability insurance may differ in some respects since the RRG is not subject to the same state approval process as other insurers. Coverage can be tailored to the member’s needs.

RISK PURCHASING GROUPS

A purchasing group is a group that maintains as one of its purposes the purchase of liability insurance on a group basis. It purchases insurance only for its member's liability exposures. It is comprised of members with similar interests, businesses, products or trade. It is domiciled in a specific state. Unlike an RRG, the Purchasing Group does not bear any risk. However, members of a Risk Purchasing Group may benefit from good group results in various ways, including dividends. Since the purchasing group is not subject to state laws requiring rate and policy form approval, it can offer better rates for the same coverage. Groups should be able to negotiate more favorable insurance terms than individual insureds and provide broader coverage than may be found in standard markets.

FEDERAL CROP INSURANCE (RMA)

The Federal Crop Insurance Act enacted in 1938 created the Federal Crop Insurance Corporation (FCIC), operated and managed by the Risk Management Agency (RMA), as an agency of the Department of Agriculture to administer a federal crop insurance program. The FCIC was undertaken to insure wheat yields against loss by drought, flood, hail, frost, insects, diseases and all natural hazards for a premium based on the past loss history of the particular area. Over the years there have been many amendments and revisions to this program. The current program dates from the Federal Crop Insurance Act of 1980, which established a new federal "all-risk" crop insurance program.

Basic/Catastrophic Crop Insurance

The current program was intended to replace all other forms of federal disaster protection for farmers. The all-risk coverage of the FCIC protects against all losses caused by natural conditions beyond the control of the farmer. Farmers may purchase crop insurance from private insurers against named perils or on an all risk basis and receive a premium credit when purchasing a federal policy.

The 1980 Act authorized the FCIC to expand its coverage to include all commercial crops in all agricultural counties and to subsidize farmer premium payments.

The delivery system was expanded to include private insurance companies and licensed producers. Private insurance companies are permitted to sell federal crop insurance and have now become the primary marketing arm for multi-peril crop insurance.

Private insurance companies conduct all aspects of the business: marketing, loss adjustment, claim payments and data and information services. These companies receive

compensation for their administrative and operating expenses and these companies are reinsured by FCIC.

Covered Causes of Loss

For most field crops, practically every unavoidable cause of loss is insured. For certain other crops, only the most catastrophic and frequent causes of loss may be covered. Losses from unavoidable causes of acts of God are covered under Federal Crop Insurance.

Losses not covered include:

- Mismanagement
- Theft
- Poor market conditions
- Neglect (failure to use approved practices)
- Losses caused by the insured involving criminal acts.

Optional Units

In general, the insured must insure his interest in all acreage of a particular crop which is planted in the county. The principal exception to this rule stems from the “Unit” insurance rule.

“Unit” insurance permits the writing of separate coverage for separate acreage. The benefit of having unit insurance, if you qualify, is that for indemnity payment purposes production on each unit is considered without regard to production on other units, or without regard to the insured’s total production of the insured crop.

There are two types of units:

1. Units Based on Crop Interest
Unit insurance coverage, at no extra cost, is automatic when there are different ownership interests.
2. Optional Units

When certain locations, farming practice, and recordkeeping criteria are met, coverage can be written on a unit basis. For optional units, there is an additional 10% premium charge.

Coverage Level

The FCIC’s multi-peril policies indemnify insureds through the use of what may be referred to as a “yield guarantee plan.” The FCIC guarantees a specific yield at the approximate cost of production, and pays the farmer for every bushel or pound his yield falls below the guarantee. The maximum guarantee the FCIC will allow is 75% of the mean yield. Indemnity is limited to a maximum of 75% of the historical yield to reduce morale hazard. Under the current program for most crops, yield coverage options are 50, 65 and 75 percent of average yields.

Individual Crop

If a farmer elects to insure some crops and not to insure other crops for which insurance was available, any loss on noninsured crops will not be considered in computing the individual FJHA emergency loan eligibility.

Price Election

Price election coverage varies from crop to crop and is set several months before the application deadline based on a percentage of the estimated market price of the crop during the term of the policy. The 1980 Act requires FCIC to offer one price election that is not less than 90% of the projected market price for the commodity. Premium costs rise in tandem with increases in price protection.

Federal Crop Insurance covers loss of yield, but does not cover loss of value of crops or decline in the market.

Small Grain

Provisions that apply to small grains refer to cereal grains which include barley, wheat, oats, etc. Corn is not classified as a small grain; it is a “coarse grain.”

Application

The application deadline for crop insurance varies by crop but is generally about one month before the normal planting date for the crop.

Dates are established by the Federal Crop Insurance Corporation for various crops in all regions of the country. Application for coverage or reports and requests to continue coverage must be submitted by those dates.

Life of Policy

The policy provides coverage on an annual basis; however, it may be continued by the insured by making the necessary reports and paying a renewal premium.

OTHER POLICIES

AIRCRAFT HULL INSURANCE (PHYSICAL DAMAGE)

Aviation insurance borrows from Marine insurance by calling the insurance which covers the actual aircraft Hull insurance. Aircraft coverage is usually limited to the aircraft described in the declarations and typically includes equipment whether in the aircraft or temporarily removed for service or repair. This physical damage coverage usually is separated on where the plane is located: either on the ground or in the air. Hull insurance uses the old term, all risk, which means everything is covered, except that which is specifically excluded.

COVERAGE TYPES

There are usually three potential coverages under physical damage for hull insurance:

1. **All Risk – Ground and Flight** – This broad coverage pays for direct physical damage to the covered aircraft. In addition to coverage related to crashing or other collisions, it also includes theft or disappearance of the aircraft after take-off if the aircraft is not found or heard from with a specified number of days (usually 60).
2. **All Risk – Not in Motion** – Although this coverage has the name all risk, there are only a limited number of things that can happen to an aircraft when it is not in motion. It would include, but is not limited to: fire, lightning, hail, windstorm, vandalism and theft. This coverage is restricted to loss while the aircraft is on the ground and not in motion under its own power. This coverage would cover the aircraft as it was pushed into a hanger for storage, service or repair, or towed from one place to another on the ground. There is no coverage while the aircraft is taxiing.
3. **All Risk – Not in Flight** – This coverage is similar to All Risk – Not in Motion, but the major difference is that there is coverage while the aircraft is taxiing.

Deductibles

Typically, there are two deductibles found in Hull Insurance. There is a deductible that is applicable to in motion and the other deductible is applicable to not in motion.

Hull Exclusions

Common hull exclusions include:

Not registered as airworthy.

Operated by someone other than the pilot named in the declarations.

Operated for a use not shown in the declarations.

Confiscation by a governmental agency due to a violation of the law, such as the use of aircraft to transport illegal drugs.

Loss settlement for the Hull is usually based on actual cash value. Sometimes, however, the aircraft is written on a stated amount.

Liability Coverages

Despite the high value of aircraft, usually the greatest potential loss exposure arises from the damage that aircraft may do to property on the ground as well as to the people in the plane and on the ground. Due to the catastrophic nature of these exposures, larger aircraft are commonly insured through specialized aviation pools.

AIRCRAFT LIABILITY

- **Combined Coverage for Bodily Injury and Property Damage** – Aircraft liability coverage can be written to cover the legal liability of the named insured to pay for bodily injury to any and all persons including passengers and property damages arising out of the use or ownership of covered aircraft. Policies may be written in a combined single limit (CSL) for all covered bodily injury and property damage.
- **Combined Coverage for Bodily Injury (Except for Passengers) and Property Damage** – This is a variation of the previous coverage that does not include coverage for bodily injury to passengers. The coverage is limited to bodily injury to those persons on the ground and property damage.
- **Coverage for Bodily Injury to Passengers Only** – This covers only for bodily injury to passengers. It contains a separate per passenger and per accident limit.
- **Coverage for Property Damage** - This coverage will pay for the obligations imposed by law for damages because of damage to property arising out of the ownership, maintenance, or use of covered aircraft. Usually the limit is per accident.

BOATOWNERS/PERSONAL WATERCRAFT

The boatowners policy is a multiline contract that provides coverage for both property & liability. The coverage form has some of the same characteristics as the personal auto policy coverage only it applies to losses that occur within the navigational limits that are defined in the application and the policy.

Boatowners coverages can include:

Section I – Property

Coverage here is generally written on an open peril basis, subject to named exclusions, some of those exclusions include wear and tear, inherent vice, mold, freezing, dishonest or illegal acts, weathering and mechanical and electrical breakdown. Covered property not only covers the boat but also motors and boat trailers.

Section II – Boatowners Liability

This coverage pays for bodily injury and property damage arising out of a claim or suit brought against any insured for damages due to the ownership, maintenance or use of the boat. Uninsured boaters coverage, which is very similar to uninsured motorists coverage, can be added to this policy. Medical payments are also included in this policy. Medical payments can actually pay for limited medical expenses to the insured, passengers and even under some policies water skiers can be covered.

RECREATIONAL VEHICLES

Many personal automobile companies will not provide coverage for these type of vehicles (ATVs, dune buggies, motorcycles, snowmobiles, etc.). Also, the coverage provided by the standard ISO auto policy is restrictive. Therefore, insureds should purchase a recreational vehicle policy which provides automobile coverage on these types of vehicles, tailoring the coverage to meet the needs of the recreational vehicle owner.

FARMOWNERS/RANCHOWNERS POLICY

This policy is very similar to a Homeowners Policy, providing comprehensive coverage to the farm owner. It can provide property coverage on the farm dwelling and person property, as well as on barns, stables and other farm outbuildings. Liability coverage is also included in this policy.

MOBILE HOME POLICY

As we learned earlier, mobile homes are not eligible for coverage under a Homeowners Policy. However, this is a Homeowners type policy that has been adapted to meet the needs of mobile homeowners. The policy can provide coverage on the mobile home, other structures, personal property and additional living expenses. Personal liability and medical payments to others is also included in the mobile home policy.

PET INSURANCE

Pet insurance is basically health insurance for a pet which includes annual premiums, deductibles, copays and limits. The policies primarily cover:

1. Accident
2. Illness (pre-existing conditions are **NOT** covered)
3. Wellness

Policies vary on coverage and price and are primarily purchased for cats and dogs. However, a specialized policy for exotic animals may be available.

SECTION 13 - QUIZ

1. All of the following would be a purpose of an umbrella/excess policy, EXCEPT:
 - a. Provide higher limits of liability over underlying policies
 - b. Provide broader coverage in certain situations
 - c. Provide coverage when underlying aggregates are exhausted
 - d. Provide coverage if an underlying policy has been cancelled

2. Which of the following is NOT true of a self-insured retention (SIR) in an umbrella policy?
 - a. SIR only applies when the underlying policy is in force but does not provide coverage, and the umbrella responds and pays the claim
 - b. The insured is responsible for payment of the SIR on all losses
 - c. The SIR is similar to a deductible
 - d. Both personal and commercial umbrellas will have an SIR

3. ABC Furniture store has a CGL policy with limits of \$500,000 per occurrence and a \$1,000,000 general aggregate limit. ABC has a \$3,000,000 commercial umbrella policy with a \$5,000 self insured retention. A customer is awarded \$600,000 for injuries received during a slip and fall on the insured's premises. How will the policies respond to this loss?
 - a. CGL pays \$500,000 and the umbrella pays \$100,000
 - b. CGL pays the entire \$600,000
 - c. The policies each pay \$300,000
 - d. CGL pays \$500,000, the umbrella pays \$95,000 and the insured pays \$5,000 self-insured retention

4. Medical malpractice insurance would be purchased by all of the following professionals, EXCEPT:
 - a. Medical doctor
 - b. Funeral director
 - c. Nurse
 - d. Veterinarian

5. All of the following are true of a Director's & Officer's policy, EXCEPT:
 - a. A D&O policy is necessary due to exclusions in both the CGL & Homeowners policies
 - b. A D&O policy is written on a claims made basis
 - c. A D&O policy is a standard policy
 - d. A D&O policy acts like an errors & omissions policy for corporate officers and boards of directors
6. An employment practices liability policy (EPLI) provides protection to an employer from all of the following, EXCEPT:
 - a. Bodily injury suffered by an employee on the job
 - b. An employee alleging work related sexual harassment
 - c. An employee alleging work related emotional abuse
 - d. An employee alleging the employer created a hostile work environment
7. Which of the following are the three parties to a surety bond?
 - a. Principal, obligor & obligee
 - b. Obligee, Surety & guarantor
 - c. Obligor, beneficiary & guarantor
 - d. Principal, obligee & surety
8. Which of the following is the person or organization who purchases a bond?
 - a. Obligee
 - b. Principal
 - c. Surety
 - d. Beneficiary
9. Each of the following is a type of surety bond, EXCEPT?
 - a. Contract bond
 - b. License & Permit bond
 - c. Employee dishonesty bond
 - d. Judicial bond
10. The National Flood Insurance Program was created by _____?
 - a. United States Congress
 - b. National Association of Insurance Commissioners
 - c. All property insurance companies
 - d. National banks

11. Which of the following is true about Write-Your-Own flood carriers?
- a. Claim decisions do not need to be approved by the NFIP
 - b. The federal government still retains reasonability for all underwriting losses
 - c. A WYO company is paid a commission of 205 of the policy premium
 - d. The rates used by a WYO carrier are different than the NFIP's rates
12. Muddy Waters purchases a Standard Flood Insurance Policy written under the Dwelling Coverage Form. Muddy's policy has \$100,000 on the Building and \$50,000 on personal property (contents). The policy is written with the standard deductible for a regular program community. A covered flood causes \$20,000 damage to the building and \$10,000 to the personal property (contents). How much will the flood policy pay on this loss?
- a. \$30,000
 - b. \$29,750
 - c. \$29,500
 - d. \$28,000
13. Which of the following represent the maximum limits of insurance available for a non-residential, commercial building under the emergency program of NFIP?
- a. \$500,000
 - b. \$250,000
 - c. \$100,000
 - d. \$50,000
14. Which of the following represent the maximum limits of insurance available for a 2-4 family dwelling and contents under the regular program of the NFIP?
- a. \$100,000 on the building and \$25,000 on the contents
 - b. \$250,000 on the building and \$50,000 on the contents
 - c. \$200,000 on the building and \$100,000 on the contents
 - d. \$250,000 on the building and \$100,000 on the contents
15. How does a property become eligible for flood insurance?
- a. The community where the property is located must be approved by the NFIP
 - b. The county where the property is located must be approved by the NFIP
 - c. The state where the property is located must be approved by the NFIP
 - d. All property is automatically eligible

16. Which of the following is true regarding deductibles under the NFIP?
- a. The standard deductible is \$500 and applies separately to building and contents
 - b. The standard deductible is \$1,000 and applies separately to building and contents
 - c. There is no deductible
 - d. The insured may select a lower deductible for a higher premium
17. Which of the following statements is correct about FAIR Plans?
- a. FAIR Plans were developed to provide property insurance for state and county fairs and other exhibitions that are supported by either state or federal funds
 - b. The purpose of FAIR plans is to assure that no property owner is denied basic property insurance without impartial evaluation of the individual exposure.
 - c. The FAIR Plan must accept all risks submitted
 - d. The Federal Government's only role is to provide Reinsurance
18. The FAIR Plans provide basic property insurance. Which of the following Causes of Loss is not found in the basic property insurance?
- a. Fire
 - b. Burglary and Robbery
 - c. Riot or Civil Commotion
 - d. Vandalism and Malicious Mischief
19. Which of the following statements is correct about Difference in Conditions (DIC) insurance policies?
- a. DIC policies always include flood and earthquake.
 - b. DIC policies are typically written through the standard market.
 - c. The purpose of a DIC is to supplement the coverage provided by other property insurance or to fill the gaps in coverage provided by other property coverage forms.
 - d. DIC policies are standard policies usually written with a \$5,000 deductible.

20. Which of the following is not a characteristic of a Risk Retention Group?
- Owned by members
 - Members of RRG must be involved in similar or related business or activity
 - Must have “Risk Retention Group” in its name
 - Does not need to be licensed as insurance company since it does not sell insurance to the general public
21. Which of the following statements about Risk Purchasing Groups is correct?
- A Risk Purchasing Group is a group that maintains as one of its purposes the purchase of liability insurance on a group basis.
 - A Risk Purchasing Group purchases insurance not only for its members’ liability exposures, but may all purchase life and health benefits.
 - Similar to a Risk Retention Group, the Purchasing Group does bear some of the risk.
 - The Purchasing Group is subject to state laws requiring rate and policy form approval.
22. Which of the following are the major coverages under ocean marine insurance?
- Hull, cargo, freight and bodily injury
 - Hull, cargo, freight, protection and damage
 - Hull, cargo, freight, protection and indemnity
 - Hull, cargo, freight and indemnity
23. Which of the following coverages insures for damage or loss to a ship, barge or even drilling rigs?
- Hull
 - Cargo
 - Freight
 - Protection & Indemnity
24. All of the following are implied warranties under ocean marine, EXCEPT:
- No deviation in voyage
 - Vessel must be seaworthy
 - Purpose of the voyage must be legal
 - The cargo is not required to be packaged properly

Chapter 13 Answers

1d, 2b, 3a, 4b, 5c, 6a, 7d, 8b, 9c, 10a, 11b, 12d, 13c, 14d, 15a, 16b, 17b, 18b, 19c, 20d, 21a, 22c, 23a, 24d

POLICY FORMS

HOMEOWNERS-3 (HO-3)

PERSONAL AUTO (PAP)

BUSINESSOWNERS (BOP)



**Insurance Agents
& Brokers**

HOMEOWNERS 3 – SPECIAL FORM – PENNSYLVANIA

AGREEMENT

We will provide the insurance described in this policy in return for the premium and compliance with all applicable provisions of this policy.

DESCRIPTION OF ACTUAL CASH VALUE

Throughout this policy, the following is added to any provision which uses the term actual cash value:

Actual cash value is calculated as the amount it would cost to repair or replace covered property, at the time of loss or damage, with material of like kind and quality, subject to a deduction for deterioration, depreciation and obsolescence. Actual cash value applies to valuation of covered property regardless of whether that property has sustained partial or total loss or damage.

The actual cash value of the lost or damaged property may be significantly less than its replacement cost.

DEFINITIONS

A. In this policy, "you" and "your" refer to the "named insured" shown in the Declarations and the spouse if a resident of the same household. "We", "us" and "our" refer to the Company providing this insurance.

B. In addition, certain words and phrases are defined as follows:

1. "Aircraft Liability", "Hovercraft Liability", "Motor Vehicle Liability" and "Watercraft Liability", subject to the provisions in **b.** below, mean the following:

a. Liability for "bodily injury" or "property damage" arising out of the:

- (1)** Ownership of such vehicle or craft by an "insured";
- (2)** Maintenance, occupancy, operation, use, loading or unloading of such vehicle or craft by any person;
- (3)** Entrustment of such vehicle or craft by an "insured" to any person;
- (4)** Failure to supervise or negligent supervision of any person involving such vehicle or craft by an "insured"; or
- (5)** Vicarious liability, whether or not imposed by law, for the actions of a child or minor involving such vehicle or craft.

b. For the purpose of this definition:

- (1)** Aircraft means any contrivance used or designed for flight except model or hobby aircraft not used or designed to carry people or cargo;
- (2)** Hovercraft means a self-propelled motorized ground effect vehicle and includes, but is not limited to, flarecraft and air cushion vehicles;
- (3)** Watercraft means a craft principally designed to be propelled on or in water by wind, engine power or electric motor; and
- (4)** Motor vehicle means a "motor vehicle" as defined in **7.** below.

2. "Bodily injury" means bodily harm, sickness or disease, including required care, loss of services and death that results.

3. "Business" means:

- a.** A trade, profession or occupation engaged in on a full-time, part-time or occasional basis; or
- b.** Any other activity engaged in for money or other compensation, except the following:

- (1)** One or more activities, not described in **(2)** through **(4)** below, for which no "insured" receives more than \$2,000 in total compensation for the 12 months before the beginning of the policy period;
- (2)** Volunteer activities for which no money is received other than payment for expenses incurred to perform the activity;
- (3)** Providing home day care services for which no compensation is received, other than the mutual exchange of such services; or
- (4)** The rendering of home day care services to a relative of an "insured".

4. "Employee" means an employee of an "insured", or an employee leased to an "insured" by a labor leasing firm under an agreement between an "insured" and the labor leasing firm, whose duties are other than those performed by a "residence employee".

5. "Insured" means:

- a.** You and residents of your household who are:
 - (1)** Your relatives; or
 - (2)** Other persons under the age of 21 and in your care or the care of a resident of your household who is your relative;
- b.** A student enrolled in school full-time, as defined by the school, who was a resident of your household before moving out to attend school, provided the student is under the age of:
 - (1)** 24 and your relative; or
 - (2)** 21 and in your care or the care of a resident of your household who is your relative; or
- c.** Under Section II:
 - (1)** With respect to animals or watercraft to which this policy applies, any person or organization legally responsible for these animals or watercraft which are owned by you or any person described in **5.a.** or **b.** "Insured" does not mean a person or organization using or having custody of these animals or watercraft in the course of any "business" or without consent of the owner; or
 - (2)** With respect to a "motor vehicle" to which this policy applies:
 - (a)** Persons while engaged in your employ or that of any person described in **5.a.** or **b.**; or
 - (b)** Other persons using the vehicle on an "insured location" with your consent.

Under both Sections I and II, when the word an immediately precedes the word "insured", the words an "insured" together mean one or more "insureds".

6. "Insured location" means:

- a.** The "residence premises";
- b.** The part of other premises, other structures and grounds used by you as a residence; and
 - (1)** Which is shown in the Declarations; or
 - (2)** Which is acquired by you during the policy period for your use as a residence;
- c.** Any premises used by you in connection with a premises described in **a.** and **b.** above;

d. Any part of a premises:

- (1)** Not owned by an "insured"; and
 - (2)** Where an "insured" is temporarily residing;
- e.** Vacant land, other than farm land, owned by or rented to an "insured";
 - f.** Land owned by or rented to an "insured" on which a one-, two-, three- or four-family dwelling is being built as a residence for an "insured";
 - g.** Individual or family cemetery plots or burial vaults of an "insured"; or
 - h.** Any part of a premises occasionally rented to an "insured" for other than "business" use.

7. "Motor vehicle" means:

- a.** A self-propelled land or amphibious vehicle; or
- b.** Any trailer or semitrailer which is being carried on, towed by or hitched for towing by a vehicle described in **a.** above.

8. "Occurrence" means an accident, including continuous or repeated exposure to substantially the same general harmful conditions, which results, during the policy period, in:

- a.** "Bodily injury"; or
- b.** "Property damage".

9. "Property damage" means physical injury to, destruction of, or loss of use of tangible property.

10. "Residence employee" means:

- a.** An employee of an "insured", or an employee leased to an "insured" by a labor leasing firm, under an agreement between an "insured" and the labor leasing firm, whose duties are related to the maintenance or use of the "residence premises", including household or domestic services; or
- b.** One who performs similar duties elsewhere not related to the "business" of an "insured".

A "residence employee" does not include a temporary employee who is furnished to an "insured" to substitute for a permanent "residence employee" on leave or to meet seasonal or short-term workload conditions.

11. "Residence premises" means:

- a.** The one-family dwelling where you reside;

b. The two-, three- or four-family dwelling where you reside in at least one of the family units; or

c. That part of any other building where you reside;

and which is shown as the "residence premises" in the Declarations.

"Residence premises" also includes other structures and grounds at that location.

SECTION I – PROPERTY COVERAGES

A. Coverage A – Dwelling

1. We cover:

a. The dwelling on the "residence premises" shown in the Declarations, including structures attached to the dwelling; and

b. Materials and supplies located on or next to the "residence premises" used to construct, alter or repair the dwelling or other structures on the "residence premises".

2. We do not cover land, including land on which the dwelling is located.

B. Coverage B – Other Structures

1. We cover other structures on the "residence premises" set apart from the dwelling by clear space. This includes structures connected to the dwelling by only a fence, utility line, or similar connection.

2. We do not cover:

a. Land, including land on which the other structures are located;

b. Other structures rented or held for rental to any person not a tenant of the dwelling, unless used solely as a private garage;

c. Other structures from which any "business" is conducted; or

d. Other structures used to store "business" property. However, we do cover a structure that contains "business" property solely owned by an "insured" or a tenant of the dwelling, provided that "business" property does not include gaseous or liquid fuel, other than fuel in a permanently installed fuel tank of a vehicle or craft parked or stored in the structure.

3. The limit of liability for this coverage will not be more than 10% of the limit of liability that applies to Coverage A. Use of this coverage does not reduce the Coverage A limit of liability.

C. Coverage C – Personal Property

1. Covered Property

We cover personal property owned or used by an "insured" while it is anywhere in the world. After a loss and at your request, we will cover personal property owned by:

a. Others while the property is on the part of the "residence premises" occupied by an "insured"; or

b. A guest or a "residence employee", while the property is in any residence occupied by an "insured".

2. Limit For Property At Other Locations

a. Other Residences

Our limit of liability for personal property usually located at an "insured's" residence, other than the "residence premises", is 10% of the limit of liability for Coverage C, or \$1,000, whichever is greater. However, this limitation does not apply to personal property:

(1) Moved from the "residence premises" because it is:

(a) Being repaired, renovated or rebuilt; and

(b) Not fit to live in or store property in; or

(2) In a newly acquired principal residence for 30 days from the time you begin to move the property there.

b. Self-storage Facilities

Our limit of liability for personal property owned or used by an "insured" and located in a self-storage facility is 10% of the limit of liability for Coverage C, or \$1,000, whichever is greater. However, this limitation does not apply to personal property:

(1) Moved from the "residence premises" because it is:

(a) Being repaired, renovated or rebuilt; and

(b) Not fit to live in or store property in; or

(2) Usually located in an "insured's" residence, other than the "residence premises".

3. Special Limits Of Liability

The special limit for each category shown below is the total limit for each loss for all property in that category. These special limits do not increase the Coverage C limit of liability.

- a. \$200 on money, bank notes, bullion, gold other than goldware, silver other than silverware, platinum other than platinumware, coins, medals, scrip, stored value cards and smart cards.
- b. \$1,500 on securities, accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, personal records, passports, tickets and stamps. This dollar limit applies to these categories regardless of the medium (such as paper or computer software) on which the material exists.

This limit includes the cost to research, replace or restore the information from the lost or damaged material.
- c. \$1,500 on watercraft of all types, including their trailers, furnishings, equipment and outboard engines or motors.
- d. \$1,500 on trailers or semitrailers not used with watercraft of all types.
- e. \$1,500 for loss by theft of jewelry, watches, furs, precious and semiprecious stones.
- f. \$2,500 for loss by theft of firearms and related equipment.
- g. \$2,500 for loss by theft of silverware, silver-plated ware, goldware, gold-plated ware, platinumware, platinum-plated ware and pewterware. This includes flatware, hollowware, tea sets, trays and trophies made of or including silver, gold or pewter.
- h. \$2,500 on property, on the "residence premises", used primarily for "business" purposes.
- i. \$1,500 on property, away from the "residence premises", used primarily for "business" purposes. However, this limit does not apply to antennas, tapes, wires, records, disks or other media that are:
 - (1) Used with electronic equipment that reproduces, receives or transmits audio, visual or data signals; and
 - (2) In or upon a "motor vehicle".
- j. \$1,500 on portable electronic equipment that:
 - (1) Reproduces, receives or transmits audio, visual or data signals;

- (2) Is designed to be operated by more than one power source, one of which is a "motor vehicle's" electrical system; and

- (3) Is in or upon a "motor vehicle".

- k. \$250 for antennas, tapes, wires, records, disks or other media that are:

- (1) Used with electronic equipment that reproduces, receives or transmits audio, visual or data signals; and

- (2) In or upon a "motor vehicle".

4. Property Not Covered

We do not cover:

- a. Articles separately described and specifically insured, regardless of the limit for which they are insured, in this or other insurance;

- b. Animals, birds or fish;

- c. "Motor vehicles".

This includes a "motor vehicle's" equipment and parts. However, this Paragraph 4.c. does not apply to:

- (1) Portable electronic equipment that:

- (a) Reproduces, receives or transmits audio, visual or data signals; and

- (b) Is designed so that it may be operated from a power source other than a "motor vehicle's" electrical system.

- (2) "Motor vehicles" not required to be registered for use on public roads or property which are:

- (a) Used solely to service a residence; or

- (b) Designed to assist the handicapped;

- d. Aircraft, meaning any contrivance used or designed for flight, including any parts whether or not attached to the aircraft.

We do cover model or hobby aircraft not used or designed to carry people or cargo;

- e. Hovercraft and parts. Hovercraft means a self-propelled motorized ground effect vehicle and includes, but is not limited to, flarecraft and air cushion vehicles;

- f. Property of roomers, boarders and other tenants, except property of roomers and boarders related to an "insured";

- g. Property in an apartment regularly rented or held for rental to others by an "insured", except as provided in **E.10. Landlord's Furnishings** under **Section I – Property Coverages**;
- h. Property rented or held for rental to others off the "residence premises";
- i. "Business" data, including such data stored in:
 - (1) Books of account, drawings or other paper records; or
 - (2) Computers and related equipment.

We do cover the cost of blank recording or storage media and of prerecorded computer programs available on the retail market;
- j. Credit cards, electronic fund transfer cards or access devices used solely for deposit, withdrawal or transfer of funds except as provided in **E.6. Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery And Counterfeit Money** under **Section I – Property Coverages**; or
- k. Water or steam.

D. Coverage D – Loss Of Use

The limit of liability for Coverage **D** is the total limit for the coverages in **1. Additional Living Expense**, **2. Fair Rental Value** and **3. Civil Authority Prohibits Use** below.

1. Additional Living Expense

If a loss covered under **Section I** makes that part of the "residence premises" where you reside not fit to live in, we cover any necessary increase in living expenses incurred by you so that your household can maintain its normal standard of living.

Payment will be for the shortest time required to repair or replace the damage or, if you permanently relocate, the shortest time required for your household to settle elsewhere.

2. Fair Rental Value

If a loss covered under **Section I** makes that part of the "residence premises" rented to others or held for rental by you not fit to live in, we cover the fair rental value of such premises less any expenses that do not continue while it is not fit to live in.

Payment will be for the shortest time required to repair or replace such premises.

3. Civil Authority Prohibits Use

If a civil authority prohibits you from use of the "residence premises" as a result of direct damage to neighboring premises by a Peril Insured Against, we cover the loss as provided in **1. Additional Living Expense** and **2. Fair Rental Value** above for no more than two weeks.

4. Loss Or Expense Not Covered

We do not cover loss or expense due to cancellation of a lease or agreement.

The periods of time under **1. Additional Living Expense**, **2. Fair Rental Value** and **3. Civil Authority Prohibits Use** above are not limited by expiration of this policy.

E. Additional Coverages

1. Debris Removal

a. We will pay your reasonable expense for the removal of:

- (1) Debris of covered property if a Peril Insured Against that applies to the damaged property causes the loss; or
- (2) Ash, dust or particles from a volcanic eruption that has caused direct loss to a building or property contained in a building.

This expense is included in the limit of liability that applies to the damaged property. If the amount to be paid for the actual damage to the property plus the debris removal expense is more than the limit of liability for the damaged property, an additional 5% of that limit is available for such expense.

b. Fallen Trees

- (1) If circumstances of a loss meet those specified in (2) below, we will pay your reasonable expense, up to \$1,000, for the removal from the "residence premises" of:

- (a) Your trees felled by the peril of Windstorm Or Hail or Weight Of Ice, Snow Or Sleet; or
- (b) A neighbor's trees felled by a Peril Insured Against under Coverage **C**.

The \$1,000 limit is the most we will pay in any one loss, regardless of the number of fallen trees. No more than \$500 of this limit will be paid for the removal of any one tree.

This coverage is additional insurance.

- (2) Tree removal coverage as described in **b.(1)** above applies only if:

- (a) The trees damage a structure covered under this policy;
- (b) Windstorm or Hail or Weight of Ice, Snow or Sleet causes damage to a structure covered under this policy and the Pennsylvania Governor declares the area in which the "residence premises" is located to be a disaster area as a result of such weather conditions; or
- (c) The trees do not damage a structure covered under the policy, but:
 - (i) Block a driveway on the "residence premises" which prevents a "motor vehicle", that is registered for use on public roads or property, from entering or leaving the "residence premises"; or
 - (ii) Block a ramp or other fixture designed to assist a handicapped person to enter or leave the dwelling building.

2. Reasonable Repairs

- a. We will pay the reasonable cost incurred by you for the necessary measures taken solely to protect covered property that is damaged by a Peril Insured Against from further damage.
- b. If the measures taken involve repair to other damaged property, we will only pay if that property is covered under this policy and the damage is caused by a Peril Insured Against. This coverage does not:
 - (1) Increase the limit of liability that applies to the covered property; or
 - (2) Relieve you of your duties, in case of a loss to covered property, described in **C.4.** under Section I – Conditions.

3. Trees, Shrubs And Other Plants

We cover trees, shrubs, plants or lawns, on the "residence premises", for loss caused by the following Perils Insured Against:

- a. Fire or Lightning;
- b. Explosion;
- c. Riot or Civil Commotion;
- d. Aircraft;
- e. Vehicles not owned or operated by a resident of the "residence premises";

- f. Vandalism or Malicious Mischief; or
- g. Theft.

We will pay up to 5% of the limit of liability that applies to the dwelling for all trees, shrubs, plants or lawns. No more than \$500 of this limit will be paid for any one tree, shrub or plant. We do not cover property grown for "business" purposes.

This coverage is additional insurance.

4. Fire Department Service Charge

We will pay up to \$500 for your liability assumed by contract or agreement for fire department charges incurred when the fire department is called to save or protect covered property from a Peril Insured Against. We do not cover fire department service charges if the property is located within the limits of the city, municipality or protection district furnishing the fire department response.

This coverage is additional insurance. No deductible applies to this coverage.

5. Property Removed

We insure covered property against direct loss from any cause while being removed from a premises endangered by a Peril Insured Against and for no more than 30 days while removed.

This coverage does not change the limit of liability that applies to the property being removed.

6. Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery And Counterfeit Money

- a. We will pay up to \$500 for:

- (1) The legal obligation of an "insured" to pay because of the theft or unauthorized use of credit cards issued to or registered in an "insured's" name;
- (2) Loss resulting from theft or unauthorized use of an electronic fund transfer card or access device used for deposit, withdrawal or transfer of funds, issued to or registered in an "insured's" name;
- (3) Loss to an "insured" caused by forgery or alteration of any check or negotiable instrument; and
- (4) Loss to an "insured" through acceptance in good faith of counterfeit United States or Canadian paper currency.

All loss resulting from a series of acts committed by any one person or in which any one person is concerned or implicated is considered to be one loss.

This coverage is additional insurance. No deductible applies to this coverage.

b. We do not cover:

(1) Use of a credit card, electronic fund transfer card or access device:

- (a)** By a resident of your household;
- (b)** By a person who has been entrusted with either type of card or access device; or
- (c)** If an "insured" has not complied with all terms and conditions under which the cards are issued or the devices accessed; or

(2) Loss arising out of "business" use or dishonesty of an "insured".

c. If the coverage in a. above applies, the following defense provisions also apply:

- (1)** We may investigate and settle any claim or suit that we decide is appropriate. Our duty to defend a claim or suit ends when the amount we pay for the loss equals our limit of liability.
- (2)** If a suit is brought against an "insured" for liability under **a.(1)** or **(2)** above, we will provide a defense at our expense by counsel of our choice.
- (3)** We have the option to defend at our expense an "insured" or an "insured's" bank against any suit for the enforcement of payment under **a.(3)** above.

7. Loss Assessment

a. We will pay up to \$1,000 for your share of loss assessment charged during the policy period against you, as owner or tenant of the "residence premises", by a corporation or association of property owners. The assessment must be made as a result of direct loss to property, owned by all members collectively, of the type that would be covered by this policy if owned by you, caused by a Peril Insured Against under Coverage A, other than:

- (1)** Earthquake; or
- (2)** Land shock waves or tremors before, during or after a volcanic eruption.

The limit of \$1,000 is the most we will pay with respect to any one loss, regardless of the number of assessments. We will only apply one deductible, per unit, to the total amount of any one loss to the property described above, regardless of the number of assessments.

- b. We do not cover assessments charged against you or a corporation or association of property owners by any governmental body.**
- c. Paragraph Q. Policy Period under Section I – Conditions does not apply to this coverage.**

This coverage is additional insurance.

8. Collapse

- a. The coverage provided under this Additional Coverage – Collapse applies only to an abrupt collapse.**
- b. 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.**
- c. This Additional Coverage – Collapse does not apply to:**
 - (1)** A building or any part of a building that is in danger of falling down or caving in;
 - (2)** A part of a building that is standing, even if it has separated from another part of the building; or
 - (3)** A building or any part of a building that is standing, even if it shows evidence of cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion.
- d. We insure for direct physical loss to covered property involving abrupt collapse of a building or any part of a building if such collapse was caused by one or more of the following:**
 - (1)** The Perils Insured Against named under Coverage C;
 - (2)** Decay, of a building or any part of a building, that is hidden from view, unless the presence of such decay is known to an "insured" prior to collapse;
 - (3)** Insect or vermin damage, to a building or any part of a building, that is hidden from view, unless the presence of such damage is known to an "insured" prior to collapse;

- (4) Weight of contents, equipment, animals or people;
 - (5) Weight of rain which collects on a roof; or
 - (6) Use of defective material or methods in construction, remodeling or renovation if the collapse occurs during the course of the construction, remodeling or renovation.
- e. Loss to an awning, fence, patio, deck, pavement, swimming pool, underground pipe, flue, drain, cesspool, septic tank, foundation, retaining wall, bulkhead, pier, wharf or dock is not included under d.(2) through (6) above, unless the loss is a direct result of the collapse of a building or any part of a building.
- f. This coverage does not increase the limit of liability that applies to the damaged covered property.

9. Glass Or Safety Glazing Material

- a. We cover:
- (1) The breakage of glass or safety glazing material which is part of a covered building, storm door or storm window;
 - (2) The breakage of glass or safety glazing material which is part of a covered building, storm door or storm window when caused directly by earth movement; and
 - (3) The direct physical loss to covered property caused solely by the pieces, fragments or splinters of broken glass or safety glazing material which is part of a building, storm door or storm window.
- b. This coverage does not include loss:
- (1) To covered property which results because the glass or safety glazing material has been broken, except as provided in a.(3) above; or
 - (2) On the "residence premises" if the dwelling has been vacant for more than 60 consecutive days immediately before the loss, except when the breakage results directly from earth movement as provided in a.(2) above. A dwelling being constructed is not considered vacant.
- c. This coverage does not increase the limit of liability that applies to the damaged property.

10. Landlord's Furnishings

We will pay up to \$2,500 for your appliances, carpeting and other household furnishings, in each apartment on the "residence premises" regularly rented or held for rental to others by an "insured", for loss caused by a Peril Insured Against in Coverage C, other than Theft.

This limit is the most we will pay in any one loss regardless of the number of appliances, carpeting or other household furnishings involved in the loss.

This coverage does not increase the limit of liability applying to the damaged property.

11. Ordinance Or Law

- a. You may use up to 10% of the limit of liability that applies to Coverage A for the increased costs you incur due to the enforcement of any ordinance or law which requires or regulates:
- (1) The construction, demolition, remodeling, renovation or repair of that part of a covered building or other structure damaged by a Peril Insured Against;
 - (2) The demolition and reconstruction of the undamaged part of a covered building or other structure, when that building or other structure must be totally demolished because of damage by a Peril Insured Against to another part of that covered building or other structure; or
 - (3) The remodeling, removal or replacement of the portion of the undamaged part of a covered building or other structure necessary to complete the remodeling, repair or replacement of that part of the covered building or other structure damaged by a Peril Insured Against.
- b. You may use all or part of this ordinance or law coverage to pay for the increased costs you incur to remove debris resulting from the construction, demolition, remodeling, renovation, repair or replacement of property as stated in a. above.
- c. We do not cover:
- (1) The loss in value to any covered building or other structure due to the requirements of any ordinance or law; or

- (2) The costs to comply 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 in or on any covered building or other structure.

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.

This coverage is additional insurance.

12. Grave Markers

We will pay up to \$5,000 for grave markers, including mausoleums, on or away from the "residence premises" for loss caused by a Peril Insured Against under Coverage C.

This coverage does not increase the limits of liability that apply to the damaged covered property.

SECTION I – PERILS INSURED AGAINST

A. Coverage A – Dwelling And Coverage B – Other Structures

1. We insure against direct physical loss to property described in Coverages A and B.
2. We do not insure, however, for loss:
 - a. Excluded under Section I – Exclusions;
 - b. Involving 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;except as provided in E.8. Collapse under Section I – Property Coverages; or

c. Caused by:

- (1) Freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system or of a household appliance, or by discharge, leakage or overflow from within the system or appliance caused by freezing. This provision does not apply if you have used reasonable care to:

- (a) Maintain heat in the building; or
- (b) Shut off the water supply and drain all systems and appliances of water.

However, if the building is protected by an automatic fire protective sprinkler system, you must use reasonable care to continue the water supply and maintain heat in the building for coverage to apply.

For purposes of this provision, a plumbing system or household appliance does not include a sump, sump pump or related equipment or a roof drain, gutter, downspout or similar fixtures or equipment;

- (2) Freezing, thawing, pressure or weight of water or ice, whether driven by wind or not, to a:
 - (a) Fence, pavement, patio or swimming pool;
 - (b) Footing, foundation, bulkhead, wall, or any other structure or device that supports all or part of a building, or other structure;
 - (c) Retaining wall or bulkhead that does not support all or part of a building or other structure; or
 - (d) Pier, wharf or dock;
- (3) Theft in or to a dwelling under construction, or of materials and supplies for use in the construction until the dwelling is finished and occupied;
- (4) Vandalism and malicious mischief, and any ensuing loss caused by any intentional and wrongful act committed in the course of the vandalism or malicious mischief, if the dwelling has been vacant for more than 60 consecutive days immediately before the loss. A dwelling being constructed is not considered vacant;

(5) Mold, fungus or wet rot. However, we do insure for loss caused by mold, fungus or wet rot that is hidden within the walls or ceilings or beneath the floors or above the ceilings of a structure if such loss results from the accidental discharge or overflow of water or steam from within:

(a) A plumbing, heating, air conditioning or automatic fire protective sprinkler system, or a household appliance, on the "residence premises"; or

(b) A storm drain, or water, steam or sewer pipes, off the "residence premises".

For purposes of this provision, a plumbing system or household appliance does not include a sump, sump pump or related equipment or a roof drain, gutter, downspout or similar fixtures or equipment; or

(6) Any of the following:

(a) Wear and tear, marring, deterioration;

(b) Mechanical breakdown, latent defect, inherent vice or any quality in property that causes it to damage or destroy itself;

(c) Smog, rust or other corrosion, or dry rot;

(d) Smoke from agricultural smudging or industrial operations;

(e) Discharge, dispersal, seepage, migration, release or escape of pollutants unless the discharge, dispersal, seepage, migration, release or escape is itself caused by a Peril Insured Against named under Coverage C.

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;

(f) Settling, shrinking, bulging or expansion, including resultant cracking, of bulkheads, pavements, patios, footings, foundations, walls, floors, roofs or ceilings;

(g) Birds, rodents or insects;

(h) Nesting or infestation, or discharge or release of waste products or secretions, by any animals; or

(i) Animals owned or kept by an "insured".

Exception To c.(6)

Unless the loss is otherwise excluded, we cover loss to property covered under Coverage A or B resulting from an accidental discharge or overflow of water or steam from within a:

(i) Storm drain, or water, steam or sewer pipe, off the "residence premises"; or

(ii) Plumbing, heating, air conditioning or automatic fire protective sprinkler system or household appliance on the "residence premises". This includes the cost to tear out and replace any part of a building, or other structure, on the "residence premises", but only when necessary to repair the system or appliance. However, such tear out and replacement coverage only applies to other structures if the water or steam causes actual damage to a building on the "residence premises".

We do not cover loss to the system or appliance from which this water or steam escaped.

For purposes of this provision, a plumbing system or household appliance does not include a sump, sump pump or related equipment or a roof drain, gutter, downspout or similar fixtures or equipment.

Section I – Exclusion A.3. Water, Paragraphs a. and c. that apply to surface water and water below the surface of the ground do not apply to loss by water covered under c.(5) and (6) above.

Under 2.b. and c. above, any ensuing loss to property described in Coverages A and B not precluded by any other provision in this policy is covered.

B. Coverage C – Personal Property

We insure for direct physical loss to the property described in Coverage C caused by any of the following perils unless the loss is excluded in Section I – Exclusions.

1. Fire Or Lightning**2. Windstorm Or Hail**

This peril includes loss to watercraft of all types and their trailers, furnishings, equipment, and outboard engines or motors, only while inside a fully enclosed building.

This peril does not include loss to the property contained in a building caused by rain, snow, sleet, sand or dust unless the direct force of wind or hail damages the building causing an opening in a roof or wall and the rain, snow, sleet, sand or dust enters through this opening.

3. Explosion**4. Riot Or Civil Commotion****5. Aircraft**

This peril includes self-propelled missiles and spacecraft.

6. Vehicles**7. Smoke**

This peril means sudden and accidental damage from smoke, including the emission or puffback of smoke, soot, fumes or vapors from a boiler, furnace or related equipment.

This peril does not include loss caused by smoke from agricultural smudging or industrial operations.

8. Vandalism Or Malicious Mischief**9. Theft**

- a. This peril includes attempted theft and loss of property from a known place when it is likely that the property has been stolen.
- b. This peril does not include loss caused by theft:
 - (1) Committed by an "insured";
 - (2) In or to a dwelling under construction, or of materials and supplies for use in the construction until the dwelling is finished and occupied;
 - (3) From that part of a "residence premises" rented by an "insured" to someone other than another "insured"; or
 - (4) That occurs off the "residence premises" of:
 - (a) Trailers, semitrailers and campers;
 - (b) Watercraft of all types, and their furnishings, equipment and outboard engines or motors; or

- (c) Property while at any other residence owned by, rented to, or occupied by an "insured", except while an "insured" is temporarily living there. Property of an "insured" who is a student is covered while at the residence the student occupies to attend school as long as the student has been there at any time during the 90 days immediately before the loss.

10. Falling Objects

This peril does not include loss to property contained in a building unless the roof or an outside wall of the building is first damaged by a falling object. Damage to the falling object itself is not included.

11. Weight Of Ice, Snow Or Sleet

This peril means weight of ice, snow or sleet which causes damage to property contained in a building.

12. Accidental Discharge Or Overflow Of Water Or Steam

- a. This peril means accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning or automatic fire protective sprinkler system or from within a household appliance.
- b. This peril does not include loss:
 - (1) To the system or appliance from which the water or steam escaped;
 - (2) Caused by or resulting from freezing except as provided in Peril Insured Against **14. Freezing**;
 - (3) On the "residence premises" caused by accidental discharge or overflow which occurs off the "residence premises"; or
 - (4) Caused by mold, fungus or wet rot unless hidden within the walls or ceilings or beneath the floors or above the ceilings of a structure.
- c. In this peril, a plumbing system or household appliance does not include a sump, sump pump or related equipment or a roof drain, gutter, downspout or similar fixtures or equipment.
- d. Section I – Exclusion **A.3. Water**, Paragraphs **a.** and **c.** that apply to surface water and water below the surface of the ground do not apply to loss by water covered under this peril.

13. Sudden And Accidental Tearing Apart, Cracking, Burning Or Bulging

This peril means sudden and accidental tearing apart, cracking, burning or bulging of a steam or hot water heating system, an air conditioning or automatic fire protective sprinkler system, or an appliance for heating water.

We do not cover loss caused by or resulting from freezing under this peril.

14. Freezing

- a. This peril means freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system or of a household appliance, but only if you have used reasonable care to:

(1) Maintain heat in the building; or

(2) Shut off the water supply and drain all systems and appliances of water.

However, if the building is protected by an automatic fire protective sprinkler system, you must use reasonable care to continue the water supply and maintain heat in the building for coverage to apply.

- b. In this peril, a plumbing system or household appliance does not include a sump, sump pump or related equipment or a roof drain, gutter, downspout or similar fixtures or equipment.

15. Sudden And Accidental Damage From Artificially Generated Electrical Current

This peril does not include loss to tubes, transistors, electronic components or circuitry that is a part of appliances, fixtures, computers, home entertainment units or other types of electronic apparatus.

16. Volcanic Eruption

This peril does not include loss caused by earthquake, land shock waves or tremors.

SECTION I – EXCLUSIONS

- A. We do not insure for loss caused directly or indirectly by any of the following. Such loss is excluded regardless of any other cause or event contributing concurrently or in any sequence to the loss. These exclusions apply whether or not the loss event results in widespread damage or affects a substantial area.

1. Ordinance Or Law

Ordinance Or Law means any ordinance or law:

- a. Requiring or regulating the construction, demolition, remodeling, renovation or repair of property, including removal of any resulting debris. This Exclusion **A.1.a.** does not apply to the amount of coverage that may be provided for in **E.11**. Ordinance Or Law under Section I – Property Coverages;
- b. The requirements of which result in a loss in value to property; or
- c. Requiring 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.

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.

This Exclusion **A.1.** applies whether or not the property has been physically damaged.

2. Earth Movement

Earth Movement means:

- a. Earthquake, including land shock waves or tremors before, during or after a volcanic eruption;
- b. Landslide, mudslide or mudflow;
- c. Subsidence or sinkhole; or
- d. Any other earth movement including earth sinking, rising or shifting.

This Exclusion **A.2.** applies regardless of whether any of the above, in **A.2.a.** through **A.2.d.**, is caused by an act of nature or is otherwise caused.

However, direct loss by fire, explosion or theft resulting from any of the above, in **A.2.a.** through **A.2.d.**, is covered.

3. Water

This means:

- a. 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;
- b. Water which:
- (1) Backs up through sewers or drains; or

(2) Overflows or is otherwise discharged from a sump, sump pump or related equipment;

c. Water below the surface of the ground, including water which exerts pressure on, or seeps, leaks or flows through a building, sidewalk, driveway, patio, foundation, swimming pool or other structure; or

d. Waterborne material carried or otherwise moved by any of the water referred to in **A.3.a.** through **A.3.c.** of this exclusion.

This Exclusion **A.3.** applies regardless of whether any of the above, in **A.3.a.** through **A.3.d.**, is caused by an act of nature or is otherwise caused.

This Exclusion **A.3.** applies to, but is not limited to, escape, overflow or discharge, for any reason, of water or waterborne material from a dam, levee, seawall or any other boundary or containment system.

However, direct loss by fire, explosion or theft resulting from any of the above, in **A.3.a.** through **A.3.d.**, is covered.

4. Power Failure

Power Failure means the failure of power or other utility service if the failure takes place off the "residence premises". But if the failure results in a loss, from a Peril Insured Against on the "residence premises", we will pay for the loss caused by that peril.

5. Neglect

Neglect means neglect of an "insured" to use all reasonable means to save and preserve property at and after the time of a loss.

6. War

War includes the following and any consequence of any of the following:

- a. Undeclared war, civil war, insurrection, rebellion or revolution;
- b. Warlike act by a military force or military personnel; or
- c. Destruction, seizure or use for a military purpose.

Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

7. Nuclear Hazard

This Exclusion **A.7.** pertains to Nuclear Hazard to the extent set forth in **N.** Nuclear Hazard Clause under Section **I** – Conditions.

8. Intentional Loss

a. Intentional Loss means any loss arising out of any act an "insured" commits or conspires to commit with the intent to cause a loss.

In the event of such loss, no "insured" is entitled to coverage, even "insureds" who did not commit or conspire to commit the act causing the loss.

b. However, this exclusion will not apply to deny payment to the "insured" who did not cooperate in or contribute to the creation of the loss if the loss:

- (1) Is otherwise covered property under Coverage **A**, **B** or **C** of the policy; and
- (2) Arises out of abuse to that innocent "insured" by another "insured".

With respect to this provision, abuse means:

- (a) Abuse as defined in the Pennsylvania Protection From Abuse Act; or
- (b) Attempting to cause or intentionally, knowingly or recklessly causing damage to covered property so as to intimidate or attempt to control the behavior of another person.

If we pay a claim under this provision **8.b.**, our payment to the "insured" is limited to that "insured's" insurable interest in the property. In no event will we pay more than the Limit of Liability.

9. Governmental Action

Governmental Action means the destruction, confiscation or seizure of property described in Coverage **A**, **B** or **C** by order of any governmental or public authority.

This exclusion does not apply to such acts ordered by any governmental or public authority that are taken at the time of a fire to prevent its spread, if the loss caused by fire would be covered under this policy.

B. We do not insure for loss to property described in Coverages **A** and **B** caused by any of the following. However, any ensuing loss to property described in Coverages **A** and **B** not precluded by any other provision in this policy is covered.

1. Weather conditions. However, this exclusion only applies if weather conditions contribute in any way with a cause or event excluded in **A.** above to produce the loss.

2. Acts or decisions, including the failure to act or decide, of any person, group, organization or governmental body.
3. Faulty, inadequate or defective:
 - a. Planning, zoning, development, surveying, siting;
 - b. Design, specifications, workmanship, repair, construction, renovation, remodeling, grading, compaction;
 - c. Materials used in repair, construction, renovation or remodeling; or
 - d. Maintenance;
 of part or all of any property whether on or off the "residence premises".

SECTION I – CONDITIONS

A. Insurable Interest And Limit Of Liability

Even if more than one person has an insurable interest in the property covered, we will not be liable in any one loss:

1. To an "insured" for more than the amount of such "insured's" interest at the time of loss; or
2. For more than the applicable limit of liability.

B. Deductible

Unless otherwise noted in this policy, the following deductible provision applies:

With respect to any one loss:

1. Subject to the applicable limit of liability, we will pay only that part of the total of all loss payable that exceeds the deductible amount shown in the Declarations.
2. If two or more deductibles under this policy apply to the loss, only the highest deductible amount will apply.

C. Duties After Loss

In case of a loss to covered property, we have no duty to provide coverage under this policy if the failure to comply with the following duties is prejudicial to us. These duties must be performed either by you, an "insured" seeking coverage, or a representative of either:

1. Give prompt notice to us or our agent;
2. Notify the police in case of loss by theft;
3. Notify the credit card or electronic fund transfer card or access device company in case of loss as provided for in **E.6. Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery And Counterfeit Money under Section I – Property Coverages**;

4. Protect the property from further damage. If repairs to the property are required, you must:
 - a. Make reasonable and necessary repairs to protect the property; and
 - b. Keep an accurate record of repair expenses;
5. Cooperate with us in the investigation of a claim;
6. Prepare an inventory of damaged personal property showing the quantity, description, actual cash value and amount of loss. Attach all bills, receipts and related documents that justify the figures in the inventory;
7. As often as we reasonably require:
 - a. Show the damaged property;
 - b. Provide us with records and documents we request and permit us to make copies; and
 - c. Submit to examination under oath, while not in the presence of another "insured", and sign the same;
8. Send to us, within 60 days after our request, your signed, sworn proof of loss which sets forth, to the best of your knowledge and belief:
 - a. The time and cause of loss;
 - b. The interests of all "insureds" and all others in the property involved and all liens on the property;
 - c. Other insurance which may cover the loss;
 - d. Changes in title or occupancy of the property during the term of the policy;
 - e. Specifications of damaged buildings and detailed repair estimates;
 - f. The inventory of damaged personal property described in **6.** above;
 - g. Receipts for additional living expenses incurred and records that support the fair rental value loss; and
 - h. Evidence or affidavit that supports a claim under **E.6. Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery And Counterfeit Money under Section I – Property Coverages**, stating the amount and cause of loss.

D. Loss Settlement

In this Condition **D.**, the terms "cost to repair or replace" and "replacement cost" do not include the increased costs incurred to comply with the enforcement of any ordinance or law, except to the extent that coverage for these increased costs is provided in **E.11. Ordinance Or Law** under Section **I** – Property Coverages. Covered property losses are settled as follows:

1. Property of the following types:

- a. Personal property;
- b. Awnings, carpeting, household appliances, outdoor antennas and outdoor equipment, whether or not attached to buildings;
- c. Structures that are not buildings; and
- d. Grave markers, including mausoleums;

at actual cash value at the time of loss but not more than the amount required to repair or replace.

2. Buildings covered under Coverage **A** or **B** at replacement cost without deduction for depreciation, subject to the following:

- a. If, at the time of loss, the amount of insurance in this policy on the damaged building is 80% or more of the full replacement cost of the building immediately before the loss, we will pay the cost to repair or replace, without deduction for depreciation, but not more than the least of the following amounts:

- (1) The limit of liability under this policy that applies to the building;
- (2) The replacement cost of that part of the building damaged with material of like kind and quality and for like use; or
- (3) The necessary amount actually spent to repair or replace the damaged building.

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

- b. If, at the time of loss, the amount of insurance in this policy on the damaged building is less than 80% of the full replacement cost of the building immediately before the loss, we will pay the greater of the following amounts, but not more than the limit of liability under this policy that applies to the building:

- (1) The actual cash value of that part of the building damaged; or

- (2) That proportion of the cost to repair or replace, without deduction for depreciation, that part of the building damaged, which the total amount of insurance in this policy on the damaged building bears to 80% of the replacement cost of the building.

- c. To determine the amount of insurance required to equal 80% of the full replacement cost of the building immediately before the loss, do not include the value of:

- (1) Excavations, footings, foundations, piers, or any other structures or devices that support all or part of the building, which are below the undersurface of the lowest basement floor;

- (2) Those supports described in (1) above which are below the surface of the ground inside the foundation walls, if there is no basement; and

- (3) Underground flues, pipes, wiring and drains.

- d. We will pay no more than the actual cash value of the damage until actual repair or replacement is complete. Once actual repair or replacement is complete, we will settle the loss as noted in 2.a. and b. above.

However, if the cost to repair or replace the damage is both:

- (1) Less than 5% of the amount of insurance in this policy on the building; and

- (2) Less than \$2,500;

we will settle the loss as noted in 2.a. and b. above whether or not actual repair or replacement is complete.

- e. You may disregard the replacement cost loss settlement provisions and make claim under this policy for loss to buildings on an actual cash value basis. You may then make claim for any additional liability according to the provisions of this Condition **D. Loss Settlement**, provided you notify us, within 180 days after the date of loss, of your intent to repair or replace the damaged building.

E. Loss To A Pair Or Set

In case of loss to a pair or set we may elect to:

- 1. Repair or replace any part to restore the pair or set to its value before the loss; or
- 2. Pay the difference between actual cash value of the property before and after the loss.

F. Appraisal

If you and we fail to agree on the amount of loss, either may demand an appraisal of the loss. In this event, each party will choose a competent and impartial appraiser within 20 days after receiving a written request from the other. The two appraisers will choose an umpire. If they cannot agree upon an umpire within 15 days, you or we may request that the choice be made by a judge of a court of record in the state where the "residence premises" is located. The appraisers will separately set the amount of loss. If the appraisers submit a written report of an agreement to us, the amount agreed upon will be 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 set the amount of loss.

Each party will:

1. Pay its own appraiser; and
2. Bear the other expenses of the appraisal and umpire equally.

G. Other Insurance And Service Agreement

If a loss covered by this policy is also covered by:

1. Other insurance, we will pay only the proportion of the loss that the limit of liability that applies under this policy bears to the total amount of insurance covering the loss; or
2. A service agreement, this insurance is excess over any amounts payable under any such agreement. Service agreement means a service plan, property restoration plan, home warranty or other similar service warranty agreement, even if it is characterized as insurance.

H. Suit Against Us

No action can be brought against us unless there has been full compliance with all of the terms under Section I of this policy and the action is started within two years after the date of loss.

I. Our Option

We may repair or replace any part of the damaged property with material or property of like kind and quality if we give you written notice of our intention to do so within 15 working days after we receive your signed, sworn proof of loss.

J. Loss Payment

We will adjust all losses with you. We will pay you unless some other person is named in the policy or is legally entitled to receive payment. Loss will be payable 60 days after we receive your proof of loss and:

1. Reach an agreement with you;

2. There is an entry of a final judgment; or

3. There is a filing of an appraisal award with us.

K. Abandonment Of Property

We need not accept any property abandoned by an "insured".

L. Mortgage Clause

1. If a mortgagee is named in this policy, any loss payable under Coverage **A** or **B** will be paid to the mortgagee and you, as interests appear. If more than one mortgagee is named, the order of payment will be the same as the order of precedence of the mortgages.
2. If we deny your claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee:
 - a. Notifies us of any change in ownership, occupancy or substantial change in risk of which the mortgagee is aware;
 - b. Pays any premium due under this policy on demand if you have neglected to pay the premium; and
 - c. Submits a signed, sworn statement of loss within 60 days after receiving notice from us of your failure to do so. Paragraphs **F.** Appraisal, **H.** Suit Against Us and **J.** Loss Payment under Section **I** – Conditions also apply to the mortgagee.
3. If we decide to cancel or not to renew this policy, the mortgagee will be notified at least 10 days before the date cancellation or nonrenewal takes effect.
4. If we pay the mortgagee for any loss and deny payment to you:
 - a. We are subrogated to all the rights of the mortgagee granted under the mortgage on the property; or
 - b. At our option, we may pay to the mortgagee the whole principal on the mortgage plus any accrued interest. In this event, we will receive a full assignment and transfer of the mortgage and all securities held as collateral to the mortgage debt.
5. Subrogation will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim.

M. No Benefit To Bailee

We will not recognize any assignment or grant any coverage that benefits a person or organization holding, storing or moving property for a fee regardless of any other provision of this policy.

N. Nuclear Hazard Clause

1. "Nuclear Hazard" means any nuclear reaction, radiation, or radioactive contamination, all whether controlled or uncontrolled or however caused, or any consequence of any of these.
2. Loss caused by the nuclear hazard will not be considered loss caused by fire, explosion, or smoke, whether these perils are specifically named in or otherwise included within the Perils Insured Against.
3. This policy does not apply under Section I to loss caused directly or indirectly by nuclear hazard, except that direct loss by fire resulting from the nuclear hazard is covered.

O. Recovered Property

If you or we recover any property for which we have made payment under this policy, you or we will notify the other of the recovery. At your option, the property will be returned to or retained by you or it will become our property. If the recovered property is returned to or retained by you, the loss payment will be adjusted based on the amount you received for the recovered property.

P. Volcanic Eruption Period

One or more volcanic eruptions that occur within a 72-hour period will be considered as one volcanic eruption.

Q. Policy Period

This policy applies only to loss which occurs during the policy period.

R. Concealment Or Fraud

We provide coverage to no "insureds" under this policy if, whether before or after a loss, an "insured" has:

1. Intentionally concealed or misrepresented any material fact or circumstance;
 2. Engaged in fraudulent conduct; or
 3. Made false statements;
- relating to this insurance.

S. Loss Payable Clause

If the Declarations shows a loss payee for certain listed insured personal property, the definition of "insured" is changed to include that loss payee with respect to that property.

If we decide to cancel or not renew this policy, that loss payee will be notified in writing.

SECTION II – LIABILITY COVERAGES**A. Coverage E – Personal Liability**

If a claim is made or a suit is brought against an "insured" for damages because of "bodily injury" or "property damage" caused by an "occurrence" to which this coverage applies, we will:

1. Pay up to our limit of liability for the damages for which an "insured" is legally liable; and
2. Provide a defense at our expense by counsel of our choice, even if the suit is groundless, false or fraudulent. We may investigate and settle any claim or suit that we decide is appropriate. Our duty to settle or defend ends when our limit of liability for the "occurrence" has been exhausted by payment of a judgment or settlement.

B. Coverage F – Medical Payments To Others

We will pay the necessary medical expenses that are incurred or medically ascertained within three years from the date of an accident causing "bodily injury". Medical expenses means reasonable charges for medical, surgical, x-ray, dental, ambulance, hospital, professional nursing and prosthetic devices. Medical expenses do not include expenses for funeral services. This coverage does not apply to you or regular residents of your household except "residence employees". As to others, this coverage applies only:

1. To a person on the "insured location" with the permission of an "insured"; or
2. To a person off the "insured location", if the "bodily injury":
 - a. Arises out of a condition on the "insured location" or the ways immediately adjoining;
 - b. Is caused by the activities of an "insured";
 - c. Is caused by a "residence employee" in the course of the "residence employee's" employment by an "insured"; or
 - d. Is caused by an animal owned by or in the care of an "insured".

SECTION II – EXCLUSIONS**A. "Motor Vehicle Liability"**

1. Coverages E and F do not apply to any "motor vehicle liability" if, at the time and place of an "occurrence", the involved "motor vehicle":
 - a. Is registered for use on public roads or property;

- b. Is not registered for use on public roads or property, but such registration is required by a law, or regulation issued by a government agency, for it to be used at the place of the "occurrence"; or
 - c. Is being:
 - (1) Operated in, or practicing for, any prearranged or organized race, speed contest or other competition;
 - (2) Rented to others;
 - (3) Used to carry persons or cargo for a charge; or
 - (4) Used for any "business" purpose except for a motorized golf cart while on a golfing facility.
2. If Exclusion **A.1.** does not apply, there is still no coverage for "motor vehicle liability", unless the "motor vehicle" is:
- a. In dead storage on an "insured location";
 - b. Used solely to service a residence;
 - c. Designed to assist the handicapped and, at the time of an "occurrence", it is:
 - (1) Being used to assist a handicapped person; or
 - (2) Parked on an "insured location";
 - d. Designed for recreational use off public roads and:
 - (1) Not owned by an "insured"; or
 - (2) Owned by an "insured" provided the "occurrence" takes place:
 - (a) On an "insured location" as defined in Definition **B.6.a., b., d., e. or h.**; or
 - (b) Off an "insured location" and the "motor vehicle" is:
 - (i) Designed as a toy vehicle for use by children under seven years of age;
 - (ii) Powered by one or more batteries; and
 - (iii) Not built or modified after manufacture to exceed a speed of five miles per hour on level ground;
- e. A motorized golf cart that is owned by an "insured", designed to carry up to four persons, not built or modified after manufacture to exceed a speed of 25 miles per hour on level ground and, at the time of an "occurrence", is within the legal boundaries of:
 - (1) A golfing facility and is parked or stored there, or being used by an "insured" to:
 - (a) Play the game of golf or for other recreational or leisure activity allowed by the facility;
 - (b) Travel to or from an area where "motor vehicles" or golf carts are parked or stored; or
 - (c) Cross public roads at designated points to access other parts of the golfing facility; or
 - (2) A private residential community, including its public roads upon which a motorized golf cart can legally travel, which is subject to the authority of a property owners association and contains an "insured's" residence.

B. "Watercraft Liability"

- 1. Coverages **E** and **F** do not apply to any "watercraft liability" if, at the time of an "occurrence", the involved watercraft is being:
 - a. Operated in, or practicing for, any prearranged or organized race, speed contest or other competition. This exclusion does not apply to a sailing vessel or a predicted log cruise;
 - b. Rented to others;
 - c. Used to carry persons or cargo for a charge; or
 - d. Used for any "business" purpose.
- 2. If Exclusion **B.1.** does not apply, there is still no coverage for "watercraft liability" unless, at the time of the "occurrence", the watercraft:
 - a. Is stored;
 - b. Is a sailing vessel, with or without auxiliary power, that is:
 - (1) Less than 26 feet in overall length; or
 - (2) 26 feet or more in overall length and not owned by or rented to an "insured"; or
 - c. Is not a sailing vessel and is powered by:
 - (1) An inboard or inboard-outdrive engine or motor, including those that power a water jet pump, of:
 - (a) 50 horsepower or less and not owned by an "insured"; or

- (b) More than 50 horsepower and not owned by or rented to an "insured"; or
- (2) One or more outboard engines or motors with:
 - (a) 25 total horsepower or less;
 - (b) More than 25 horsepower if the outboard engine or motor is not owned by an "insured";
 - (c) More than 25 horsepower if the outboard engine or motor is owned by an "insured" who acquired it during the policy period; or
 - (d) More than 25 horsepower if the outboard engine or motor is owned by an "insured" who acquired it before the policy period, but only if:
 - (i) You declare them at policy inception; or
 - (ii) Your intent to insure them is reported to us in writing within 45 days after you acquire them.

The coverages in (c) and (d) above apply for the policy period.

Horsepower means the maximum power rating assigned to the engine or motor by the manufacturer.

C. "Aircraft Liability"

This policy does not cover "aircraft liability".

D. "Hovercraft Liability"

This policy does not cover "hovercraft liability".

E. Coverage E – Personal Liability And Coverage F – Medical Payments To Others

Coverages E and F do not apply to the following:

1. Expected Or Intended Injury

"Bodily injury" or "property damage" which is expected or intended by an "insured", even if the resulting "bodily injury" or "property damage":

- a. Is of a different kind, quality or degree than initially expected or intended; or
- b. Is sustained by a different person, entity or property than initially expected or intended.

However, this Exclusion E.1. does not apply to "bodily injury" or "property damage" resulting from the use of reasonable force by an "insured" to protect persons or property;

2. "Business"

- a. "Bodily injury" or "property damage" arising out of or in connection with a "business" conducted from an "insured location" or engaged in by an "insured", whether or not the "business" is owned or operated by an "insured" or employs an "insured".

This Exclusion E.2. applies but is not limited to an act or omission, regardless of its nature or circumstance, involving a service or duty rendered, promised, owed, or implied to be provided because of the nature of the "business".

- b. This Exclusion E.2. does not apply to:

- (1) The rental or holding for rental of an "insured location";
 - (a) On an occasional basis if used only as a residence;
 - (b) In part for use only as a residence, unless a single-family unit is intended for use by the occupying family to lodge more than two roomers or boarders; or
 - (c) In part, as an office, school, studio or private garage; and
- (2) An "insured" under the age of 21 years involved in a part-time or occasional, self-employed "business" with no employees;

3. Professional Services

"Bodily injury" or "property damage" arising out of the rendering of or failure to render professional services;

4. "Insured's" Premises Not An "Insured Location"

"Bodily injury" or "property damage" arising out of a premises:

- a. Owned by an "insured";
 - b. Rented to an "insured"; or
 - c. Rented to others by an "insured";
- that is not an "insured location";

5. War

"Bodily injury" or "property damage" caused directly or indirectly by war, including the following and any consequence of any of the following:

- a. Undeclared war, civil war, insurrection, rebellion or revolution;
- b. Warlike act by a military force or military personnel; or

- c. Destruction, seizure or use for a military purpose.

Discharge of a nuclear weapon will be deemed a warlike act even if accidental;

6. Communicable Disease

"Bodily injury" or "property damage" which arises out of the transmission of a communicable disease by an "insured";

7. Sexual Molestation, Corporal Punishment Or Physical Or Mental Abuse

"Bodily injury" or "property damage" arising out of sexual molestation, corporal punishment or physical or mental abuse; or

8. Controlled Substance

"Bodily injury" or "property damage" arising out of the use, sale, manufacture, delivery, transfer or possession by any person of a Controlled Substance as defined by the Federal Food and Drug Law at 21 U.S.C.A. Sections 811 and 812. Controlled Substances include but are not limited to cocaine, LSD, marijuana and all narcotic drugs. However, this exclusion does not apply to the legitimate use of prescription drugs by a person following the lawful orders of a licensed health care professional.

Exclusions **A.** "Motor Vehicle Liability", **B.** "Watercraft Liability", **C.** "Aircraft Liability", **D.** "Hovercraft Liability" and **E.4.** "Insured's Premises Not An "Insured Location" do not apply to "bodily injury" to a "residence employee" arising out of and in the course of the "residence employee's" employment by an "insured".

F. Coverage E – Personal Liability

Coverage **E** does not apply to:

1. Liability:

- a. For any loss assessment charged against you as a member of an association, corporation or community of property owners, except as provided in **D.** Loss Assessment under Section **II** – Additional Coverages;
- b. Under any contract or agreement entered into by an "insured". However, this exclusion does not apply to written contracts:
 - (1) That directly relate to the ownership, maintenance or use of an "insured location"; or
 - (2) Where the liability of others is assumed by you prior to an "occurrence"; unless excluded in **a.** above or elsewhere in this policy;

- 2. "Property damage" to property owned by an "insured". This includes costs or expenses incurred by an "insured" or others to repair, replace, enhance, restore or maintain such property to prevent injury to a person or damage to property of others, whether on or away from an "insured location";

- 3. "Property damage" to property rented to, occupied or used by or in the care of an "insured". This exclusion does not apply to "property damage" caused by fire, smoke or explosion;

- 4. "Bodily injury" to any person eligible to receive any benefits voluntarily provided or required to be provided by an "insured" under any:

- a. Workers' compensation law;
- b. Non-occupational disability law; or
- c. Occupational disease law;

- 5. "Bodily injury" or "property damage" for which an "insured" under this policy:

- a. Is also an insured under a nuclear energy liability policy issued by the:

- (1) Nuclear Energy Liability Insurance Association;
- (2) Mutual Atomic Energy Liability Underwriters;
- (3) Nuclear Insurance Association of Canada;

or any of their successors; or

- b. Would be an insured under such a policy but for the exhaustion of its limit of liability; or

- 6. "Bodily injury" to you or an "insured" as defined under Definition **5.a.** or **b.**

This exclusion also applies to any claim made or suit brought against you or an "insured" to:

- a. Repay; or
- b. Share damages with;

another person who may be obligated to pay damages because of "bodily injury" to an "insured".

G. Coverage F – Medical Payments To Others

Coverage **F** does not apply to "bodily injury":

- 1. To a "residence employee" if the "bodily injury":

- a. Occurs off the "insured location"; and
- b. Does not arise out of or in the course of the "residence employee's" employment by an "insured";

2. To any person eligible to receive benefits voluntarily provided or required to be provided under any:
 - a. Workers' compensation law;
 - b. Non-occupational disability law; or
 - c. Occupational disease law;
3. From any:
 - a. Nuclear reaction;
 - b. Nuclear radiation; or
 - c. Radioactive contamination; all whether controlled or uncontrolled or however caused; or
 - d. Any consequence of any of these; or
4. To any person, other than a "residence employee" of an "insured", regularly residing on any part of the "insured location".

SECTION II – ADDITIONAL COVERAGES

We cover the following in addition to the limits of liability:

A. Claim Expenses

We pay:

1. Expenses we incur and costs taxed against an "insured" in any suit we defend;
2. Premiums on bonds required in a suit we defend, but not for bond amounts more than the Coverage E limit of liability. We need not apply for or furnish any bond;
3. Reasonable expenses incurred by an "insured" at our request, including actual loss of earnings (but not loss of other income) up to \$250 per day, for assisting us in the investigation or defense of a claim or suit;
4. Interest on the entire judgment which accrues after entry of the judgment and before we pay or tender, or deposit in court that part of the judgment which does not exceed the limit of liability that applies; and
5. Prejudgment interest awarded against an "insured" on that part of the judgment we pay. Any prejudgment interest awarded against an "insured" is subject to the applicable Pennsylvania Rules of Civil Procedure.

B. First Aid Expenses

We will pay expenses for first aid to others incurred by an "insured" for "bodily injury" covered under this policy. We will not pay for first aid to an "insured".

C. Damage To Property Of Others

1. We will pay, at replacement cost, up to \$1,000 per "occurrence" for "property damage" to property of others caused by an "insured".

2. We will not pay for "property damage":

- a. To the extent of any amount recoverable under Section I;
- b. Caused intentionally by an "insured" who is 13 years of age or older;
- c. To property owned by an "insured";
- d. To property owned by or rented to a tenant of an "insured" or a resident in your household; or
- e. Arising out of:
 - (1) A "business" engaged in by an "insured";
 - (2) Any act or omission in connection with a premises owned, rented or controlled by an "insured", other than the "insured location"; or
 - (3) The ownership, maintenance, occupancy, operation, use, loading or unloading of aircraft, hovercraft, watercraft or "motor vehicles".

This Exclusion e.(3) does not apply to a "motor vehicle" that:

- (a) Is designed for recreational use off public roads;
- (b) Is not owned by an "insured"; and
- (c) At the time of the "occurrence", is not required by law, or regulation issued by a government agency, to have been registered for it to be used on public roads or property.

D. Loss Assessment

1. We will pay up to \$1,000 for your share of loss assessment charged against you, as owner or tenant of the "residence premises", during the policy period by a corporation or association of property owners, when the assessment is made as a result of:
 - a. "Bodily injury" or "property damage" not excluded from coverage under Section II – Exclusions; or
 - b. Liability for an act of a director, officer or trustee in the capacity as a director, officer or trustee, provided such person:
 - (1) Is elected by the members of a corporation or association of property owners; and
 - (2) Serves without deriving any income from the exercise of duties which are solely on behalf of a corporation or association of property owners.

2. Paragraph I. Policy Period under Section II – Conditions does not apply to this Loss Assessment Coverage.
3. Regardless of the number of assessments, the limit of \$1,000 is the most we will pay for loss arising out of:
 - a. One accident, including continuous or repeated exposure to substantially the same general harmful condition; or
 - b. A covered act of a director, officer or trustee. An act involving more than one director, officer or trustee is considered to be a single act.
4. We do not cover assessments charged against you or a corporation or association of property owners by any governmental body.

SECTION II – CONDITIONS

A. Limit Of Liability

Our total liability under Coverage E for all damages resulting from any one "occurrence" will not be more than the Coverage E Limit Of Liability shown in the Declarations. This limit is the same regardless of the number of "insureds", claims made or persons injured. All "bodily injury" and "property damage" resulting from any one accident or from continuous or repeated exposure to substantially the same general harmful conditions shall be considered to be the result of one "occurrence".

Our total liability under Coverage F for all medical expense payable for "bodily injury" to one person as the result of one accident will not be more than the Coverage F Limit Of Liability shown in the Declarations.

B. Severability Of Insurance

This insurance applies separately to each "insured". This condition will not increase our limit of liability for any one "occurrence".

C. Duties After "Occurrence"

In case of an "occurrence", you or another "insured" will perform the following duties that apply. We have no duty to provide coverage under this policy if your failure to comply with the following duties is prejudicial to us. You will help us by seeing that these duties are performed:

1. Give written notice to us or our agent as soon as is practical, which sets forth:
 - a. The identity of the policy and the "named insured" shown in the Declarations;
 - b. Reasonably available information on the time, place and circumstances of the "occurrence"; and

- c. Names and addresses of any claimants and witnesses;
2. Cooperate with us in the investigation, settlement or defense of any claim or suit;
3. Promptly forward to us every notice, demand, summons or other process relating to the "occurrence";
4. At our request, help us:
 - a. To make settlement;
 - b. To enforce any right of contribution or indemnity against any person or organization who may be liable to an "insured";
 - c. With the conduct of suits and attend hearings and trials; and
 - d. To secure and give evidence and obtain the attendance of witnesses;
5. With respect to C. Damage To Property Of Others under Section II – Additional Coverages, submit to us within 60 days after the loss a sworn statement of loss and show the damaged property, if in an "insured's" control;
6. No "insured" shall, except at such "insured's" own cost, voluntarily make payment, assume obligation or incur expense other than for first aid to others at the time of the "bodily injury".

D. Duties Of An Injured Person – Coverage F – Medical Payments To Others

1. The injured person or someone acting for the injured person will:
 - a. Give us written proof of claim, under oath if required, as soon as is practical; and
 - b. Authorize us to obtain copies of medical reports and records.
2. The injured person will submit to a physical exam by a doctor of our choice when and as often as we reasonably require.

E. Payment Of Claim – Coverage F – Medical Payments To Others

Payment under this coverage is not an admission of liability by an "insured" or us.

F. Suit Against Us

1. No action can be brought against us unless there has been full compliance with all of the terms under this Section II.
2. No one will have the right to join us as a party to any action against an "insured".
3. Also, no action with respect to Coverage E can be brought against us until the obligation of such "insured" has been determined by final judgment or agreement signed by us.

G. Bankruptcy Of An "Insured"

Bankruptcy or insolvency of an "insured" will not relieve us of our obligations under this policy.

H. Other Insurance

This insurance is excess over other valid and collectible insurance except insurance written specifically to cover as excess over the limits of liability that apply in this policy.

I. Policy Period

This policy applies only to "bodily injury" or "property damage" which occurs during the policy period.

J. Concealment Or Fraud

We do not provide coverage to an "insured" who, whether before or after a loss, has:

1. Intentionally concealed or misrepresented any material fact or circumstance;
2. Engaged in fraudulent conduct; or
3. Made false statements;

relating to this insurance.

SECTIONS I AND II – CONDITIONS**A. Liberalization Clause**

If we make a change which broadens coverage under this edition of our policy without additional premium charge, that change will automatically apply to your insurance as of the date we implement the change in your state, provided that this implementation date falls within 60 days prior to or during the policy period stated in the Declarations.

This Liberalization Clause does not apply to changes implemented with a general program revision that includes both broadenings and restrictions in coverage, whether that general program revision is implemented through introduction of:

1. A subsequent edition of this policy; or
2. An amendatory endorsement.

B. Waiver Or Change Of Policy Provisions

A waiver or change of a provision of this policy must be in writing by us to be valid. Our request for an appraisal or examination will not waive any of our rights.

C. Cancellation

1. You may cancel this policy at any time by returning it to us or by letting us know in writing of the date cancellation is to take effect.

2. We may cancel this policy only for the reasons stated below by notifying the "insured" named in the Declarations in writing of the date cancellation takes effect. This cancellation notice may be delivered to or mailed to the "insured" named in the Declarations at the mailing address shown in the policy or at a forwarding address. Proof of mailing will be sufficient proof of notice.

- a. When this policy has been in effect for less than 60 days and is not a renewal with us, we may cancel for any reason by notifying the "insured" named in the Declarations at least 30 days before the cancellation takes effect.

- b. When this policy has been in effect for 60 days or more, or at any time if it is a renewal with us, we may cancel only for one or more of the following reasons by notifying the "insured" named in the Declarations at least 30 days prior to the proposed cancellation date:

- (1) This policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by us;
- (2) There has been a substantial change or increase in hazard in the risk assumed by us subsequent to the date the policy was issued;
- (3) There is a substantial increase in hazard insured against by reason of willful or negligent acts or omissions by the "insured";
- (4) The "insured" has failed to pay the premium by the due date, whether payable to us or to our agent or under any finance or credit plan; or
- (5) For any other reason approved by the Pennsylvania Insurance Commissioner.

This provision shall not apply if the named "insured" has demonstrated by some overt action to us or to our agent that the "insured" wishes the policy to be cancelled.

Delivery of such written notice by us to the "insured" named in the Declarations at the mailing address shown in the policy or at a forwarding address shall be equivalent to mailing.

3. When this policy is cancelled, the premium for the period from the date of cancellation to the expiration date will be refunded pro rata.

4. If the return premium is not refunded with the notice of cancellation or when this policy is returned to us, we will refund it within a reasonable time after the date cancellation takes effect.

D. Nonrenewal

We will not fail to renew this policy except for one of the reasons referred to in **C.** Cancellation above. We may refuse to renew for one of the listed reasons by mailing to the "insured" named in the Declarations at the mailing address shown in the policy or at a forwarding address written notice at least 30 days prior to the expiration date of this policy.

This provision does not apply if:

1. We have indicated our willingness to renew and the "insured" has failed to pay the premium by the due date; or
2. The named "insured" has indicated to us or our agent that the "insured" does not wish the policy to be renewed.

Delivery of such written notice by us to the "insured" named in the Declarations at the mailing address shown in the policy or at a forwarding address shall be equivalent to mailing.

E. Assignment

Assignment of this policy will not be valid unless we give our written consent.

F. Subrogation

An "insured" may waive in writing before a loss all rights of recovery against any person. If not waived, we may require an assignment of rights of recovery for a loss to the extent that payment is made by us.

If an assignment is sought, an "insured" must sign and deliver all related papers and cooperate with us.

Subrogation does not apply to Coverage **F** or Paragraph **C.** Damage To Property Of Others under Section **II** – Additional Coverages.

G. Death

If any person named in the Declarations or the spouse, if a resident of the same household, dies, the following apply:

1. We insure the legal representative of the deceased but only with respect to the premises and property of the deceased covered under the policy at the time of death;
2. Insurance under this policy will continue as provided in **a.** or **b.** below, whichever is later:
 - a. For 180 days after your death regardless of the policy period shown in the Declarations, unless your premises and property, covered under the policy at the time of your death, are sold prior to that date; or
 - b. Until the end of the policy period shown in the Declarations, unless your premises and property, covered under the policy at the time of your death, are sold prior to that date.

Coverage during the period of time after your death is subject to all the provisions of this policy including payment of any premium due for the policy period shown in the Declarations and any extension of that period; and

3. "Insured" includes:

- a. An insured who is a member of your household at the time of your death, but only while a resident of the "residence premises"; and
- b. With respect to your property, the person having proper temporary custody of the property until appointment and qualification of a legal representative.

PERSONAL AUTO POLICY

AGREEMENT

In return for payment of the premium and subject to all the terms of this policy, we agree with you as follows:

DEFINITIONS

- A.** Throughout this policy, "you" and "your" refer to:
1. The "named insured" shown in the Declarations; and
 2. The spouse if a resident of the same household.

If the spouse ceases to be a resident of the same household during the policy period or prior to the inception of this policy, the spouse will be considered "you" and "your" under this policy but only until the earlier of:

1. The end of 90 days following the spouse's change of residency;
2. The effective date of another policy listing the spouse as a named insured; or
3. The end of the policy period.

- B.** "We", "us" and "our" refer to the Company providing this insurance.

- C.** For purposes of this policy, a private passenger type auto, pickup or van shall be deemed to be owned by a person if leased:

1. Under a written agreement to that person; and
2. For a continuous period of at least 6 months.

Other words and phrases are defined. They are in quotation marks when used.

- D.** "Bodily injury" means bodily harm, sickness or disease, including death that results.

- E.** "Business" includes trade, profession or occupation.

- F.** "Family member" means a person related to you by blood, marriage or adoption who is a resident of your household. This includes a ward or foster child.

- G.** "Occupying" means:

1. In;
2. Upon; or
3. Getting in, on, out or off.

- H.** "Property damage" means physical injury to, destruction of or loss of use of tangible property.

- I.** "Trailer" means a vehicle designed to be pulled by a:

1. Private passenger auto; or

2. Pickup or van.

It also means a farm wagon or farm implement while towed by a vehicle listed in **1.** or **2.** above.

- J.** "Your covered auto" means:

1. Any vehicle shown in the Declarations.
2. A "newly acquired auto".
3. Any "trailer" you own.
4. Any auto or "trailer" you do not own while used as a temporary substitute for any other vehicle described in this definition which is out of normal use because of its:
 - a. Breakdown;
 - b. Repair;
 - c. Servicing;
 - d. Loss; or
 - e. Destruction.

This Provision (**J.4.**) does not apply to Coverage For Damage To Your Auto.

- K.** "Newly acquired auto":

1. "Newly acquired auto" means any of the following types of vehicles you become the owner of during the policy period:

- a. A private passenger auto; or
- b. A pickup or van, for which no other insurance policy provides coverage, that:

(1) Has a Gross Vehicle Weight Rating of 10,000 lbs. or less; and

(2) Is not used for the delivery or transportation of goods and materials unless such use is:

(a) Incidental to your "business" of installing, maintaining or repairing furnishings or equipment; or

(b) For farming or ranching.

2. Coverage for a "newly acquired auto" is provided as described below. If you ask us to insure a "newly acquired auto" after a specified time period described below has elapsed, any coverage we provide for a "newly acquired auto" will begin at the time you request the coverage.

- a. For any coverage provided in this policy except Coverage For Damage To Your Auto, a "newly acquired auto" will have the broadest coverage we now provide for any vehicle shown in the Declarations. Coverage begins on the date you become the owner. However, for this coverage to apply to a "newly acquired auto" which is in addition to any vehicle shown in the Declarations, you must ask us to insure it within 14 days after you become the owner.

If a "newly acquired auto" replaces a vehicle shown in the Declarations, coverage is provided for this vehicle without your having to ask us to insure it.

- b. Collision Coverage for a "newly acquired auto" begins on the date you become the owner. However, for this coverage to apply, you must ask us to insure it within:

- (1) 14 days after you become the owner if the Declarations indicate that Collision Coverage applies to at least one auto. In this case, the "newly acquired auto" will have the broadest coverage we now provide for any auto shown in the Declarations.

- (2) Four days after you become the owner if the Declarations do not indicate that Collision Coverage applies to at least one auto. If you comply with the 4 day requirement and a loss occurred before you asked us to insure the "newly acquired auto", a Collision deductible of \$500 will apply.

- c. Other Than Collision Coverage for a "newly acquired auto" begins on the date you become the owner. However, for this coverage to apply, you must ask us to insure it within:

- (1) 14 days after you become the owner if the Declarations indicate that Other Than Collision Coverage applies to at least one auto. In this case, the "newly acquired auto" will have the broadest coverage we now provide for any auto shown in the Declarations.

- (2) Four days after you become the owner if the Declarations do not indicate that Other Than Collision Coverage applies to at least one auto. If you comply with the 4 day requirement and a loss occurred before you asked us to insure the "newly acquired auto", an Other Than Collision deductible of \$500 will apply.

PART A – LIABILITY COVERAGE

INSURING AGREEMENT

- A. We will pay damages for "bodily injury" or "property damage" for which any "insured" becomes legally responsible because of an auto accident. Damages include prejudgment interest awarded against the "insured". We will settle or defend, as we consider appropriate, any claim or suit asking for these damages. In addition to our limit of liability, we will pay all defense costs we incur. Our duty to settle or defend ends when our limit of liability for this coverage has been exhausted by payment of judgments or settlements. We have no duty to defend any suit or settle any claim for "bodily injury" or "property damage" not covered under this policy.

- B. "Insured" as used in this Part means:

1. You or any "family member" for the ownership, maintenance or use of any auto or "trailer".
2. Any person using "your covered auto".
3. For "your covered auto", any person or organization but only with respect to legal responsibility for acts or omissions of a person for whom coverage is afforded under this Part.

4. For any auto or "trailer", other than "your covered auto", any other person or organization but only with respect to legal responsibility for acts or omissions of you or any "family member" for whom coverage is afforded under this Part. This Provision (B.4.) applies only if the person or organization does not own or hire the auto or "trailer".

SUPPLEMENTARY PAYMENTS

We will pay on behalf of an "insured":

1. Up to \$250 for the cost of bail bonds required because of an accident, including related traffic law violations. The accident must result in "bodily injury" or "property damage" covered under this policy.
2. Premiums on appeal bonds and bonds to release attachments in any suit we defend.
3. Interest accruing after a judgment is entered in any suit we defend. Our duty to pay interest ends when we offer to pay that part of the judgment which does not exceed our limit of liability for this coverage.

4. Up to \$200 a day for loss of earnings, but not other income, because of attendance at hearings or trials at our request.
5. Other reasonable expenses incurred at our request.

These payments will not reduce the limit of liability.

EXCLUSIONS

A. We do not provide Liability Coverage for any "insured":

1. Who intentionally causes "bodily injury" or "property damage".
2. For "property damage" to property owned or being transported by that "insured".
3. For "property damage" to property:
 - a. Rented to;
 - b. Used by; or
 - c. In the care of; that "insured".

This Exclusion (A.3.) does not apply to "property damage" to a residence or private garage.

4. For "bodily injury" to an employee of that "insured" during the course of employment. This Exclusion (A.4.) does not apply to "bodily injury" to a domestic employee unless workers' compensation benefits are required or available for that domestic employee.
5. For that "insured's" liability arising out of the ownership or operation of a vehicle while it is being used as a public or livery conveyance. This Exclusion (A.5.) does not apply to a share-the-expense car pool.
6. While employed or otherwise engaged in the "business" of:
 - a. Selling;
 - b. Repairing;
 - c. Servicing;
 - d. Storing; or
 - e. Parking;

vehicles designed for use mainly on public highways. This includes road testing and delivery. This Exclusion (A.6.) does not apply to the ownership, maintenance or use of "your covered auto" by:

 - a. You;
 - b. Any "family member"; or
 - c. Any partner, agent or employee of you or any "family member".

7. Maintaining or using any vehicle while that "insured" is employed or otherwise engaged in any "business" (other than farming or ranching) not described in Exclusion A.6.

This Exclusion (A.7.) does not apply to the maintenance or use of a:

- a. Private passenger auto;
- b. Pickup or van; or
- c. "Trailer" used with a vehicle described in a. or b. above.

8. Using a vehicle without a reasonable belief that that "insured" is entitled to do so. This Exclusion (A.8.) does not apply to a "family member" using "your covered auto" which is owned by you.
9. For "bodily injury" or "property damage" for which that "insured":
 - a. Is an insured under a nuclear energy liability policy; or
 - b. Would be an insured under a nuclear energy liability policy but for its termination upon exhaustion of its limit of liability.

A nuclear energy liability policy is a policy issued by any of the following or their successors:

- a. Nuclear Energy Liability Insurance Association;
- b. Mutual Atomic Energy Liability Underwriters; or
- c. Nuclear Insurance Association of Canada.

A nuclear energy liability policy is a policy issued by any of the following or their successors:

- a. Nuclear Energy Liability Insurance Association;
- b. Mutual Atomic Energy Liability Underwriters; or
- c. Nuclear Insurance Association of Canada.

B. We do not provide Liability Coverage for the ownership, maintenance or use of:

1. Any vehicle which:
 - a. Has fewer than four wheels; or
 - b. Is designed mainly for use off public roads.

This Exclusion (B.1.) does not apply:

 - a. While such vehicle is being used by an "insured" in a medical emergency;
 - b. To any "trailer"; or
 - c. To any non-owned golf cart.
2. Any vehicle, other than "your covered auto", which is:
 - a. Owned by you; or
 - b. Furnished or available for your regular use.
3. Any vehicle, other than "your covered auto", which is:
 - a. Owned by any "family member"; or
 - b. Furnished or available for the regular use of any "family member".

However, this Exclusion (B.3.) does not apply to you while you are maintaining or "occupying" any vehicle which is:

- a. Owned by a "family member"; or
 - b. Furnished or available for the regular use of a "family member".
4. Any vehicle, located inside a facility designed for racing, for the purpose of:
- a. Competing in; or
 - b. Practicing or preparing for;
- any prearranged or organized racing or speed contest.

LIMIT OF LIABILITY

- A. The limit of liability shown in the Declarations for each person for Bodily Injury Liability is our maximum limit of liability for all damages, including damages for care, loss of services or death, arising out of "bodily injury" sustained by any one person in any one auto accident. Subject to this limit for each person, the limit of liability shown in the Declarations for each accident for Bodily Injury Liability is our maximum limit of liability for all damages for "bodily injury" resulting from any one auto accident.

The limit of liability shown in the Declarations for each accident for Property Damage Liability is our maximum limit of liability for all "property damage" resulting from any one auto accident.

This is the most we will pay regardless of the number of:

- 1. "Insureds";
 - 2. Claims made;
 - 3. Vehicles or premiums shown in the Declarations; or
 - 4. Vehicles involved in the auto accident.
- B. No one will be entitled to receive duplicate payments for the same elements of loss under this coverage and:
- 1. Part B or Part C of this policy; or

- 2. Any Underinsured Motorists Coverage provided by this policy.

OUT OF STATE COVERAGE

If an auto accident to which this policy applies occurs in any state or province other than the one in which "your covered auto" is principally garaged, we will interpret your policy for that accident as follows:

- A. If the state or province has:
- 1. A financial responsibility or similar law specifying limits of liability for "bodily injury" or "property damage" higher than the limit shown in the Declarations, your policy will provide the higher specified limit.
 - 2. A compulsory insurance or similar law requiring a nonresident to maintain insurance whenever the nonresident uses a vehicle in that state or province, your policy will provide at least the required minimum amounts and types of coverage.
- B. No one will be entitled to duplicate payments for the same elements of loss.

FINANCIAL RESPONSIBILITY

When this policy is certified as future proof of financial responsibility, this policy shall comply with the law to the extent required.

OTHER INSURANCE

If there is other applicable liability insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide for a vehicle you do not own, including any vehicle while used as a temporary substitute for "your covered auto", shall be excess over any other collectible insurance.

PART B – MEDICAL PAYMENTS COVERAGE

INSURING AGREEMENT

- A. We will pay reasonable expenses incurred for necessary medical and funeral services because of "bodily injury":
- 1. Caused by accident; and
 - 2. Sustained by an "insured".
- We will pay only those expenses incurred for services rendered within 3 years from the date of the accident.

- B. "Insured" as used in this Part means:

- 1. You or any "family member":
 - a. While "occupying"; or
 - b. As a pedestrian when struck by;
a motor vehicle designed for use mainly on public roads or a trailer of any type.
- 2. Any other person while "occupying" "your covered auto".

EXCLUSIONS

We do not provide Medical Payments Coverage for any "insured" for "bodily injury":

1. Sustained while "occupying" any motorized vehicle having fewer than four wheels.
2. Sustained while "occupying" "your covered auto" when it is being used as a public or livery conveyance. This Exclusion (2.) does not apply to a share-the-expense car pool.
3. Sustained while "occupying" any vehicle located for use as a residence or premises.
4. Occurring during the course of employment if workers' compensation benefits are required or available for the "bodily injury".
5. Sustained while "occupying", or when struck by, any vehicle (other than "your covered auto") which is:
 - a. Owned by you; or
 - b. Furnished or available for your regular use.
6. Sustained while "occupying", or when struck by, any vehicle (other than "your covered auto") which is:
 - a. Owned by any "family member"; or
 - b. Furnished or available for the regular use of any "family member".However, this Exclusion (6.) does not apply to you.
7. Sustained while "occupying" a vehicle without a reasonable belief that that "insured" is entitled to do so. This Exclusion (7.) does not apply to a "family member" using "your covered auto" which is owned by you.
8. Sustained while "occupying" a vehicle when it is being used in the "business" of an "insured". This Exclusion (8.) does not apply to "bodily injury" sustained while "occupying" a:
 - a. Private passenger auto;
 - b. Pickup or van; or
 - c. "Trailer" used with a vehicle described in a. or b. above.
9. Caused by or as a consequence of:
 - a. Discharge of a nuclear weapon (even if accidental);
 - b. War (declared or undeclared);
 - c. Civil war;
 - d. Insurrection; or
 - e. Rebellion or revolution.

10. From or as a consequence of the following, whether controlled or uncontrolled or however caused:

- a. Nuclear reaction;
- b. Radiation; or
- c. Radioactive contamination.

11. Sustained while "occupying" any vehicle located inside a facility designed for racing, for the purpose of:

- a. Competing in; or
- b. Practicing or preparing for; any prearranged or organized racing or speed contest.

LIMIT OF LIABILITY

- A. The limit of liability shown in the Declarations for this coverage is our maximum limit of liability for each person injured in any one accident. This is the most we will pay regardless of the number of:
 1. "Insureds";
 2. Claims made;
 3. Vehicles or premiums shown in the Declarations; or
 4. Vehicles involved in the accident.
- B. No one will be entitled to receive duplicate payments for the same elements of loss under this coverage and:
 1. Part A or Part C of this policy; or
 2. Any Underinsured Motorists Coverage provided by this policy.

OTHER INSURANCE

If there is other applicable auto medical payments insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide with respect to a vehicle you do not own, including any vehicle while used as a temporary substitute for "your covered auto", shall be excess over any other collectible auto insurance providing payments for medical or funeral expenses.

PART C – UNINSURED MOTORISTS COVERAGE

INSURING AGREEMENT

- A. We will pay compensatory damages which an "insured" is legally entitled to recover from the owner or operator of an "uninsured motor vehicle" because of "bodily injury":

1. Sustained by an "insured"; and
2. Caused by an accident.

The owner's or operator's liability for these damages must arise out of the ownership, maintenance or use of the "uninsured motor vehicle".

Any judgment for damages arising out of a suit brought without our written consent is not binding on us.

- B. "Insured" as used in this Part means:

1. You or any "family member".
2. Any other person "occupying" "your covered auto".
3. Any person for damages that person is entitled to recover because of "bodily injury" to which this coverage applies sustained by a person described in 1. or 2. above.

- C. "Uninsured motor vehicle" means a land motor vehicle or trailer of any type:

1. To which no bodily injury liability bond or policy applies at the time of the accident.
2. To which a bodily injury liability bond or policy applies at the time of the accident. In this case its limit for bodily injury liability must be less than the minimum limit for bodily injury liability specified by the financial responsibility law of the state in which "your covered auto" is principally garaged.
3. Which is a hit-and-run vehicle whose operator or owner cannot be identified and which hits:
 - a. You or any "family member";
 - b. A vehicle which you or any "family member" are "occupying"; or
 - c. "Your covered auto".
4. To which a bodily injury liability bond or policy applies at the time of the accident but the bonding or insuring company:
 - a. Denies coverage; or
 - b. Is or becomes insolvent.

However, "uninsured motor vehicle" does not include any vehicle or equipment:

1. Owned by or furnished or available for the regular use of you or any "family member".

2. Owned or operated by a self-insurer under any applicable motor vehicle law, except a self-insurer which is or becomes insolvent.
3. Owned by any governmental unit or agency.
4. Operated on rails or crawler treads.
5. Designed mainly for use off public roads while not on public roads.
6. While located for use as a residence or premises.

EXCLUSIONS

- A. We do not provide Uninsured Motorists Coverage for "bodily injury" sustained:

1. By an "insured" while "occupying", or when struck by, any motor vehicle owned by that "insured" which is not insured for this coverage under this policy. This includes a trailer of any type used with that vehicle.
2. By any "family member" while "occupying", or when struck by, any motor vehicle you own which is insured for this coverage on a primary basis under any other policy.

- B. We do not provide Uninsured Motorists Coverage for "bodily injury" sustained by any "insured":

1. If that "insured" or the legal representative settles the "bodily injury" claim and such settlement prejudices our right to recover payment.
2. While "occupying" "your covered auto" when it is being used as a public or livery conveyance. This Exclusion (B.2.) does not apply to a share-the-expense car pool.
3. Using a vehicle without a reasonable belief that that "insured" is entitled to do so. This Exclusion (B.3.) does not apply to a "family member" using "your covered auto" which is owned by you.

- C. This coverage shall not apply directly or indirectly to benefit any insurer or self-insurer under any of the following or similar law:

1. Workers' compensation law; or
2. Disability benefits law.

- D. We do not provide Uninsured Motorists Coverage for punitive or exemplary damages.

LIMIT OF LIABILITY

- A.** The limit of liability shown in the Declarations for each person for Uninsured Motorists Coverage is our maximum limit of liability for all damages, including damages for care, loss of services or death, arising out of "bodily injury" sustained by any one person in any one accident. Subject to this limit for each person, the limit of liability shown in the Declarations for each accident for Uninsured Motorists Coverage is our maximum limit of liability for all damages for "bodily injury" resulting from any one accident.

This is the most we will pay regardless of the number of:

1. "Insureds";
 2. Claims made;
 3. Vehicles or premiums shown in the Declarations; or
 4. Vehicles involved in the accident.
- B.** No one will be entitled to receive duplicate payments for the same elements of loss under this coverage and:
1. Part **A** or Part **B** of this policy; or
 2. Any Underinsured Motorists Coverage provided by this policy.
- C.** We will not make a duplicate payment under this coverage for any element of loss for which payment has been made by or on behalf of persons or organizations who may be legally responsible.
- D.** We will not pay for any element of loss if a person is entitled to receive payment for the same element of loss under any of the following or similar law:
1. Workers' compensation law; or
 2. Disability benefits law.

OTHER INSURANCE

If there is other applicable insurance available under one or more policies or provisions of coverage that is similar to the insurance provided under this Part of the policy:

1. Any recovery for damages under all such policies or provisions of coverage may equal but not exceed the highest applicable limit for any one vehicle under any insurance providing coverage on either a primary or excess basis.
2. Any insurance we provide with respect to a vehicle you do not own, including any vehicle while used as a temporary substitute for "your covered auto", shall be excess over any collectible insurance providing such coverage on a primary basis.

3. If the coverage under this policy is provided:

- a. On a primary basis, we will pay only our share of the loss that must be paid under insurance providing coverage on a primary basis. Our share is the proportion that our limit of liability bears to the total of all applicable limits of liability for coverage provided on a primary basis.
- b. On an excess basis, we will pay only our share of the loss that must be paid under insurance providing coverage on an excess basis. Our share is the proportion that our limit of liability bears to the total of all applicable limits of liability for coverage provided on an excess basis.

ARBITRATION

- A.** If we and an "insured" do not agree:

1. Whether that "insured" is legally entitled to recover damages; or
2. As to the amount of damages which are recoverable by that "insured";

from the owner or operator of an "uninsured motor vehicle", then the matter may be arbitrated. However, disputes concerning coverage under this Part may not be arbitrated.

Both parties must agree to arbitration. If so agreed, each party will select an arbitrator. The two arbitrators will select a third. If they cannot agree within 30 days, either may request that selection be made by a judge of a court having jurisdiction.

- B.** Each party will:

1. Pay the expenses it incurs; and
2. Bear the expenses of the third arbitrator equally.

- C.** Unless both parties agree otherwise, arbitration will take place in the county in which the "insured" lives. Local rules of law as to procedure and evidence will apply. A decision agreed to by at least two of the arbitrators will be binding as to:

1. Whether the "insured" is legally entitled to recover damages; and
2. The amount of damages. This applies only if the amount does not exceed the minimum limit for bodily injury liability specified by the financial responsibility law of the state in which "your covered auto" is principally garaged. If the amount exceeds that limit, either party may demand the right to a trial. This demand must be made within 60 days of the arbitrators' decision. If this demand is not made, the amount of damages agreed to by the arbitrators will be binding.

PART D – COVERAGE FOR DAMAGE TO YOUR AUTO

INSURING AGREEMENT

A. We will pay for direct and accidental loss to "your covered auto" or any "non-owned auto", including their equipment, minus any applicable deductible shown in the Declarations. If loss to more than one "your covered auto" or "non-owned auto" results from the same "collision", only the highest applicable deductible will apply. We will pay for loss to "your covered auto" caused by:

1. Other than "collision" only if the Declarations indicate that Other Than Collision Coverage is provided for that auto.
2. "Collision" only if the Declarations indicate that Collision Coverage is provided for that auto.

If there is a loss to a "non-owned auto", we will provide the broadest coverage applicable to any "your covered auto" shown in the Declarations.

B. "Collision" means the upset of "your covered auto" or a "non-owned auto" or their impact with another vehicle or object.

Loss caused by the following is considered other than "collision":

1. Missiles or falling objects;
2. Fire;
3. Theft or larceny;
4. Explosion or earthquake;
5. Windstorm;
6. Hail, water or flood;
7. Malicious mischief or vandalism;
8. Riot or civil commotion;
9. Contact with bird or animal; or
10. Breakage of glass.

If breakage of glass is caused by a "collision", you may elect to have it considered a loss caused by "collision".

C. "Non-owned auto" means:

1. Any private passenger auto, pickup, van or "trailer" not owned by or furnished or available for the regular use of you or any "family member" while in the custody of or being operated by you or any "family member"; or
2. Any auto or "trailer" you do not own while used as a temporary substitute for "your covered auto" which is out of normal use because of its:
 - a. Breakdown;
 - b. Repair;
 - c. Servicing;

d. Loss; or

e. Destruction.

TRANSPORTATION EXPENSES

A. In addition, we will pay, without application of a deductible, up to a maximum of \$600 for:

1. Temporary transportation expenses not exceeding \$20 per day incurred by you in the event of a loss to "your covered auto". We will pay for such expenses if the loss is caused by:
 - a. Other than "collision" only if the Declarations indicate that Other Than Collision Coverage is provided for that auto.
 - b. "Collision" only if the Declarations indicate that Collision Coverage is provided for that auto.
2. Expenses for which you become legally responsible in the event of loss to a "non-owned auto". We will pay for such expenses if the loss is caused by:
 - a. Other than "collision" only if the Declarations indicate that Other Than Collision Coverage is provided for any "your covered auto".
 - b. "Collision" only if the Declarations indicate that Collision Coverage is provided for any "your covered auto".

However, the most we will pay for any expenses for loss of use is \$20 per day.

B. Subject to the provisions of Paragraph **A.**, if the loss is caused by:

1. A total theft of "your covered auto" or a "non-owned auto", we will pay only expenses incurred during the period:
 - a. Beginning 48 hours after the theft; and
 - b. Ending when "your covered auto" or the "non-owned auto" is returned to use or we pay for its loss.
2. Other than theft of a "your covered auto" or a "non-owned auto", we will pay only expenses beginning when the auto is withdrawn from use for more than 24 hours.

Our payment will be limited to that period of time reasonably required to repair or replace the "your covered auto" or the "non-owned auto".

EXCLUSIONS

We will not pay for:

1. Loss to "your covered auto" or any "non-owned auto" which occurs while it is being used as a public or livery conveyance. This Exclusion (1.) does not apply to a share-the-expense car pool.
2. Damage due and confined to:
 - a. Wear and tear;
 - b. Freezing;
 - c. Mechanical or electrical breakdown or failure; or
 - d. Road damage to tires.

This Exclusion (2.) does not apply if the damage results from the total theft of "your covered auto" or any "non-owned auto".

3. Loss due to or as a consequence of:
 - a. Radioactive contamination;
 - b. Discharge of any nuclear weapon (even if accidental);
 - c. War (declared or undeclared);
 - d. Civil war;
 - e. Insurrection; or
 - f. Rebellion or revolution.
4. Loss to any electronic equipment that reproduces, receives or transmits audio, visual or data signals. This includes but is not limited to:
 - a. Radios and stereos;
 - b. Tape decks;
 - c. Compact disk systems;
 - d. Navigation systems;
 - e. Internet access systems;
 - f. Personal computers;
 - g. Video entertainment systems;
 - h. Telephones;
 - i. Televisions;
 - j. Two-way mobile radios;
 - k. Scanners; or
 - l. Citizens band radios.

This Exclusion (4.) does not apply to electronic equipment that is permanently installed in "your covered auto" or any "non-owned auto".

5. Loss to tapes, records, disks or other media used with equipment described in Exclusion 4.

6. A total loss to "your covered auto" or any "non-owned auto" due to destruction or confiscation by governmental or civil authorities.

This Exclusion (6.) does not apply to the interests of Loss Payees in "your covered auto".

7. Loss to:
 - a. A "trailer", camper body, or motor home, which is not shown in the Declarations; or
 - b. Facilities or equipment used with such "trailer", camper body or motor home. Facilities or equipment include but are not limited to:
 - (1) Cooking, dining, plumbing or refrigeration facilities;
 - (2) Awnings or cabanas; or
 - (3) Any other facilities or equipment used with a "trailer", camper body, or motor home.

This Exclusion (7.) does not apply to a:

- a. "Trailer", and its facilities or equipment, which you do not own; or
- b. "Trailer", camper body, or the facilities or equipment in or attached to the "trailer" or camper body, which you:
 - (1) Acquire during the policy period; and
 - (2) Ask us to insure within 14 days after you become the owner.
8. Loss to any "non-owned auto" when used by you or any "family member" without a reasonable belief that you or that "family member" are entitled to do so.
9. Loss to equipment designed or used for the detection or location of radar or laser.
10. Loss to any custom furnishings or equipment in or upon any pickup or van. Custom furnishings or equipment include but are not limited to:
 - a. Special carpeting or insulation;
 - b. Furniture or bars;
 - c. Height-extending roofs; or
 - d. Custom murals, paintings or other decals or graphics.

This Exclusion (10.) does not apply to a cap, cover or bedliner in or upon any "your covered auto" which is a pickup.

11. Loss to any "non-owned auto" being maintained or used by any person while employed or otherwise engaged in the "business" of:
 - a. Selling;
 - b. Repairing;

- c. Servicing;
- d. Storing; or
- e. Parking;

vehicles designed for use on public highways. This includes road testing and delivery.

- 12. Loss to "your covered auto" or any "non-owned auto", located inside a facility designed for racing, for the purpose of:
 - a. Competing in; or
 - b. Practicing or preparing for;
 any prearranged or organized racing or speed contest.
- 13. Loss to, or loss of use of, a "non-owned auto" rented by:
 - a. You; or
 - b. Any "family member";
 if a rental vehicle company is precluded from recovering such loss or loss of use, from you or that "family member", pursuant to the provisions of any applicable rental agreement or state law.

LIMIT OF LIABILITY

- A. Our limit of liability for loss will be the lesser of the:
 - 1. Actual cash value of the stolen or damaged property; or
 - 2. Amount necessary to repair or replace the property with other property of like kind and quality.
 However, the most we will pay for loss to:
 - 1. Any "non-owned auto" which is a trailer is \$1500.
 - 2. Electronic equipment that reproduces, receives or transmits audio, visual or data signals, which is permanently installed in the auto in locations not used by the auto manufacturer for installation of such equipment, is \$1,000.
- B. An adjustment for depreciation and physical condition will be made in determining actual cash value in the event of a total loss.
- C. If a repair or replacement results in better than like kind or quality, we will not pay for the amount of the betterment.

PAYMENT OF LOSS

We may pay for loss in money or repair or replace the damaged or stolen property. We may, at our expense, return any stolen property to:

- 1. You; or
- 2. The address shown in this policy.

If we return stolen property we will pay for any damage resulting from the theft. We may keep all or part of the property at an agreed or appraised value.

If we pay for loss in money, our payment will include the applicable sales tax for the damaged or stolen property.

NO BENEFIT TO BAILEE

This insurance shall not directly or indirectly benefit any carrier or other bailee for hire.

OTHER SOURCES OF RECOVERY

If other sources of recovery also cover the loss, we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide with respect to a "non-owned auto" shall be excess over any other collectible source of recovery including, but not limited to:

- 1. Any coverage provided by the owner of the "non-owned auto";
- 2. Any other applicable physical damage insurance;
- 3. Any other source of recovery applicable to the loss.

APPRAISAL

- A. If we and you do not agree on the amount of loss, either may demand an appraisal of the loss. In this event, each party will select a competent and impartial appraiser. The two appraisers will select an umpire. The appraisers will state separately the actual cash value and 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:
 - 1. Pay its chosen appraiser; and
 - 2. Bear the expenses of the appraisal and umpire equally.
- B. We do not waive any of our rights under this policy by agreeing to an appraisal.

PART E – DUTIES AFTER AN ACCIDENT OR LOSS

We have no duty to provide coverage under this policy if the failure to comply with the following duties is prejudicial to us:

- A.** We must be notified promptly of how, when and where the accident or loss happened. Notice should also include the names and addresses of any injured persons and of any witnesses.
- B.** A person seeking any coverage must:
 - 1. Cooperate with us in the investigation, settlement or defense of any claim or suit.
 - 2. Promptly send us copies of any notices or legal papers received in connection with the accident or loss.
 - 3. Submit, as often as we reasonably require:
 - a. To physical exams by physicians we select. We will pay for these exams.
 - b. To examination under oath and subscribe the same.
 - 4. Authorize us to obtain:
 - a. Medical reports; and

- b. Other pertinent records.

- 5. Submit a proof of loss when required by us.

- C.** A person seeking Uninsured Motorists Coverage must also:

- 1. Promptly notify the police if a hit-and-run driver is involved.
 - 2. Promptly send us copies of the legal papers if a suit is brought.

- D.** A person seeking Coverage For Damage To Your Auto must also:

- 1. Take reasonable steps after loss to protect "your covered auto" or any "non-owned auto" and their equipment from further loss. We will pay reasonable expenses incurred to do this.
 - 2. Promptly notify the police if "your covered auto" or any "non-owned auto" is stolen.
 - 3. Permit us to inspect and appraise the damaged property before its repair or disposal.

PART F – GENERAL PROVISIONS

BANKRUPTCY

Bankruptcy or insolvency of the "insured" shall not relieve us of any obligations under this policy.

CHANGES

- A.** This policy contains all the agreements between you and us. Its terms may not be changed or waived except by endorsement issued by us.
- B.** If there is a change to the information used to develop the policy premium, we may adjust your premium. Changes during the policy term that may result in a premium increase or decrease include, but are not limited to, changes in:
 - 1. The number, type or use classification of insured vehicles;
 - 2. Operators using insured vehicles;
 - 3. The place of principal garaging of insured vehicles;
 - 4. Coverage, deductible or limits.

If a change resulting from **A.** or **B.** requires a premium adjustment, we will make the premium adjustment in accordance with our manual rules.

- C.** If we make a change which broadens coverage under this edition of your policy without additional premium charge, that change will automatically apply to your policy as of the date we implement the change in your state. This Paragraph (**C.**) does not apply to changes implemented with a general program revision that includes both broadenings and restrictions in coverage, whether that general program revision is implemented through introduction of:

- 1. A subsequent edition of your policy; or
 - 2. An Amendatory Endorsement.

FRAUD

We do not provide coverage for any "insured" who has made fraudulent statements or engaged in fraudulent conduct in connection with any accident or loss for which coverage is sought under this policy.

LEGAL ACTION AGAINST US

- A.** No legal action may be brought against us until there has been full compliance with all the terms of this policy. In addition, under Part **A**, no legal action may be brought against us until:
 - 1. We agree in writing that the "insured" has an obligation to pay; or
 - 2. The amount of that obligation has been finally determined by judgment after trial.

- B. No person or organization has any right under this policy to bring us into any action to determine the liability of an "insured".

OUR RIGHT TO RECOVER PAYMENT

- A. If we make a payment under this policy and the person to or for whom payment was made has a right to recover damages from another we shall be subrogated to that right. That person shall do:

1. Whatever is necessary to enable us to exercise our rights; and
2. Nothing after loss to prejudice them.

However, our rights in this Paragraph (A.) do not apply under Part D, against any person using "your covered auto" with a reasonable belief that that person is entitled to do so.

- B. If we make a payment under this policy and the person to or for whom payment is made recovers damages from another, that person shall:

1. Hold in trust for us the proceeds of the recovery; and
2. Reimburse us to the extent of our payment.

POLICY PERIOD AND TERRITORY

- A. This policy applies only to accidents and losses which occur:

1. During the policy period as shown in the Declarations; and
2. Within the policy territory.

- B. The policy territory is:

1. The United States of America, its territories or possessions;
2. Puerto Rico; or
3. Canada.

This policy also applies to loss to, or accidents involving, "your covered auto" while being transported between their ports.

TERMINATION

A. Cancellation

This policy may be cancelled during the policy period as follows:

1. The named insured shown in the Declarations may cancel by:
 - a. Returning this policy to us; or
 - b. Giving us advance written notice of the date cancellation is to take effect.
2. We may cancel by mailing to the named insured shown in the Declarations at the address shown in this policy:
 - a. At least 10 days notice:
 - (1) If cancellation is for nonpayment of premium; or

- (2) If notice is mailed during the first 60 days this policy is in effect and this is not a renewal or continuation policy; or

- b. At least 20 days notice in all other cases.

3. After this policy is in effect for 60 days, or if this is a renewal or continuation policy, we will cancel only:

- a. For nonpayment of premium; or

- b. If your driver's license or that of:

- (1) Any driver who lives with you; or

- (2) Any driver who customarily uses "your covered auto";

has been suspended or revoked. This must have occurred:

- (1) During the policy period; or

- (2) Since the last anniversary of the original effective date if the policy period is other than 1 year; or

- c. If the policy was obtained through material misrepresentation.

B. Nonrenewal

If we decide not to renew or continue this policy, we will mail notice to the named insured shown in the Declarations at the address shown in this policy. Notice will be mailed at least 20 days before the end of the policy period. Subject to this notice requirement, if the policy period is:

1. Less than 6 months, we will have the right not to renew or continue this policy every 6 months, beginning 6 months after its original effective date.
2. 6 months or longer, but less than one year, we will have the right not to renew or continue this policy at the end of the policy period.
3. 1 year or longer, we will have the right not to renew or continue this policy at each anniversary of its original effective date.

C. Automatic Termination

If we offer to renew or continue and you or your representative do not accept, this policy will automatically terminate at the end of the current policy period. Failure to pay the required renewal or continuation premium when due shall mean that you have not accepted our offer.

If you obtain other insurance on "your covered auto", any similar insurance provided by this policy will terminate as to that auto on the effective date of the other insurance.

D. Other Termination Provisions

1. We may deliver any notice instead of mailing it. Proof of mailing of any notice shall be sufficient proof of notice.
2. If this policy is cancelled, you may be entitled to a premium refund. If so, we will send you the refund. The premium refund, if any, will be computed according to our manuals. However, making or offering to make the refund is not a condition of cancellation.
3. The effective date of cancellation stated in the notice shall become the end of the policy period.

TRANSFER OF YOUR INTEREST IN THIS POLICY

- A.** Your rights and duties under this policy may not be assigned without our written consent. However, if a named insured shown in the Declarations dies, coverage will be provided for:
1. The surviving spouse if resident in the same household at the time of death. Coverage applies to the spouse as if a named insured shown in the Declarations; and

2. The legal representative of the deceased person as if a named insured shown in the Declarations. This applies only with respect to the representative's legal responsibility to maintain or use "your covered auto".

- B.** Coverage will only be provided until the end of the policy period.

TWO OR MORE AUTO POLICIES

If this policy and any other auto insurance policy issued to you by us apply to the same accident, the maximum limit of our liability under all the policies shall not exceed the highest applicable limit of liability under any one policy.

BUSINESSOWNERS 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 Coverage Form, 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.

In Section II – Liability, the word "insured" means any person or organization qualifying as such under Paragraph C. Who Is An Insured.

Other words and phrases that appear in quotation marks have special meaning. Refer to Paragraph H. Property Definitions in Section I – Property and Paragraph F. Liability And Medical Expenses Definitions in Section II – Liability.

SECTION I – PROPERTY

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 includes Buildings as described under Paragraph a. below, Business Personal Property as described under Paragraph b. below, or both, depending on whether a Limit Of Insurance is shown in the Declarations for that type of property. Regardless of whether coverage is shown in the Declarations for Buildings, Business Personal Property, or both, there is no coverage for property described under Paragraph 2. Property Not Covered.

a. Buildings, meaning the buildings and structures at the premises described in the Declarations, including:

- (1)** Completed additions;
- (2)** Fixtures, including outdoor fixtures;
- (3)** Permanently installed:
 - (a)** Machinery; and
 - (b)** Equipment;
- (4)** Your personal property in apartments, rooms or common areas furnished by you as landlord;

(5) Personal property owned by you that is used to maintain or service the buildings or structures or the premises, including:

- (a)** Fire extinguishing equipment;
- (b)** Outdoor furniture;
- (c)** Floor coverings; and
- (d)** Appliances used for refrigerating, ventilating, cooking, dishwashing or laundering;

(6) If not covered by other insurance:

- (a)** Additions under construction, alterations and repairs to the buildings or structures;
- (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 buildings or structures.

b. Business Personal Property located in or on the buildings or structures at the described premises or in the open (or in a vehicle) within 100 feet of the buildings or structures or within 100 feet of the premises described in the Declarations, whichever distance is greater, including:

- (1)** Property you own that is used in your business;
- (2)** Property of others that is in your care, custody or control, except as otherwise provided in Loss Payment Property Loss Condition Paragraph E.5.d.(3)(b);
- (3)** Tenant's 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;
- (4)** Leased personal property which you have a contractual responsibility to insure, unless otherwise provided for under Paragraph 1.b.(2); and

- (5) Exterior building glass, if you are a tenant and no Limit Of Insurance is shown in the Declarations for Building property. The glass must be owned by you or in your care, custody or control.

2. Property Not Covered

Covered Property does not include:

- a. Aircraft, automobiles, motortrucks and other vehicles subject to motor vehicle registration;
- b. "Money" or "securities" except as provided in the:
 - (1) Money And Securities Optional Coverage; or
 - (2) Employee Dishonesty Optional Coverage;
- c. Contraband, or property in the course of illegal transportation or trade;
- d. Land (including land on which the property is located), water, growing crops or lawns (other than lawns which are part of a vegetated roof);
- e. Outdoor fences, radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers, signs (other than signs attached to buildings), trees, shrubs or plants (other than trees, shrubs or plants which are part of a vegetated roof), all except as provided in the:
 - (1) Outdoor Property Coverage Extension; or
 - (2) Outdoor Signs Optional Coverage;
- f. Watercraft (including motors, equipment and accessories) while afloat;
- g. Accounts, bills, food stamps, other evidences of debt, accounts receivable or "valuable papers and records"; except as otherwise provided in this policy;
- h. "Computer(s)" which are permanently installed or designed to be permanently installed in any aircraft, watercraft, motortruck or other vehicle subject to motor vehicle registration. This paragraph does not apply to "computer(s)" while held as "stock";

- i. "Electronic data", except as provided under Additional Coverages – Electronic Data. This Paragraph i. 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; or
- j. Animals, unless owned by others and boarded by you, or if owned by you, only as "stock" while inside of buildings.

3. Covered Causes Of Loss

Direct physical loss unless the loss is excluded or limited under Section I – Property.

4. Limitations

- a. We will not pay for loss of or damage to:
 - (1) 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.
 - (2) 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.
 - (3) 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. This limitation does not apply to the Optional Coverage for Money and Securities.
 - (4) Property that has been transferred to a person or to a place outside the described premises on the basis of unauthorized instructions.
 - (5) 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:
 - (a) 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

- (b) The loss or damage is caused by or results from thawing of snow, sleet or ice on the building or structure.
- (6) Lawns, trees, shrubs or plants which are part of a vegetated roof, caused by or resulting from:
 - (a) Dampness or dryness of atmosphere or of soil supporting the vegetation;
 - (b) Changes in or extremes of temperature;
 - (c) Disease;
 - (d) Frost or hail; or
 - (e) Rain, snow, ice or sleet.
- b. 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:
 - (1) Animals, and then only if they are killed or their destruction is made necessary.
 - (2) Fragile articles such as glassware, statuary, marble, chinaware and porcelain, if broken. This restriction does not apply to:
 - (a) Glass that is part of the exterior or interior of a building or structure;
 - (b) Containers of property held for sale; or
 - (c) Photographic or scientific instrument lenses.
- c. For loss or damage by theft, the following types of property are covered only up to the limits shown (unless a higher Limit Of Insurance is shown in the Declarations):
 - (1) \$2,500 for furs, fur garments and garments trimmed with fur.
 - (2) \$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.
 - (3) \$2,500 for patterns, dies, molds and forms.

5. 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 policy;
 - (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 that 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 Paragraph (3)(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 Paragraphs (4)(a) and/or (4)(b) apply, 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

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 of 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 \$2,500 for service at each premises described in the Declarations, unless a different 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.

d. Collapse

The coverage provided under this Additional Coverage – Collapse applies only to an abrupt collapse as described and limited in Paragraphs **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 policy or that contains Covered Property insured under this policy, 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:
 - (i) A cause of loss listed in Paragraph **(2)(a)** or **(2)(b)**;
 - (ii) One or more of the "specified causes of loss";
 - (iii) Breakage of building glass;
 - (iv) Weight of people or personal property; or
 - (v) 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) Awnings;
- (b) Gutters and downspouts;
- (c) Yard fixtures;
- (d) Outdoor swimming pools;
- (e) Piers, wharves and docks;
- (f) Beach or diving platforms or appurtenances;
- (g) Retaining walls; and
- (h) Walks, roadways and other paved surfaces;

if an abrupt collapse is caused by a cause of loss listed in Paragraphs **(2)(a)** through **(2)(d)**, we will pay for loss or damage to that property only if such loss or damage is a direct result of the abrupt collapse of a building insured under this policy and the property is Covered Property under this policy.

- (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 Paragraphs **(2)(a)** through **(2)(d)** of this Additional Coverage;
- (b)** The personal property which collapses is inside a building; and
- (c)** The property which collapses is not of a kind listed in Paragraph **(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 policy.
- (8)** The term Covered Cause of Loss includes the Additional Coverage – Collapse as described and limited in Paragraphs **d.(1)** through **d.(7)**.

e. 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 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.

We will not pay the cost to repair any defect that caused the loss or damage, but we will pay the cost to repair or replace damaged parts of fire extinguishing equipment if the damage:

- (1)** Results in discharge of any substance from an automatic fire protection system; or
- (2)** Is directly caused by freezing.

f. Business Income

(1) Business Income

- (a)** We will pay for the actual loss of Business Income you sustain due to the necessary suspension of your "operations" during the "period of restoration". The suspension must be caused by direct physical loss of or damage to property at the described premises. 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 mean:

- (i)** The portion of the building which you rent, lease or occupy;
- (ii)** 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
- (iii)** 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.

- (b) We will only pay for loss of Business Income that you sustain during the "period of restoration" and that occurs within 12 consecutive months after the date of direct physical loss or damage. We will only pay for ordinary payroll expenses for 60 days following the date of direct physical loss or damage, unless a greater number of days is shown in the Declarations.
- (c) Business Income means the:
 - (i) Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred 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; and
 - (ii) Continuing normal operating expenses incurred, including payroll.
- (d) Ordinary payroll expenses:
 - (i) Means payroll expenses for all your employees except:
 - i. Officers;
 - ii. Executives;
 - iii. Department Managers;
 - iv. Employees under contract; and
 - v. Additional Exemptions shown in the Declarations as:
 - Job Classifications; or
 - Employees.
 - (ii) Include:
 - i. Payroll;
 - ii. Employee benefits, if directly related to payroll;
 - iii. FICA payments you pay;
 - iv. Union dues you pay; and
 - v. Workers' compensation premiums.

(2) Extended Business Income

- (a) 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:
 - (i) Begins on the date property except finished stock is actually repaired, rebuilt or replaced and "operations" are resumed; and
 - (ii) 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 Paragraph (a)(i) above, unless a greater number of consecutive days is shown in the Declarations.

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.
- (b) 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.
- (3) With respect to the coverage provided in this Additional Coverage, suspension means:
 - (a) The partial slowdown or complete cessation of your business activities; or
 - (b) That a part or all of the described premises is rendered untenable, if coverage for Business Income applies.
- (4) This Additional Coverage is not subject to the Limits of Insurance of Section I – Property.

g. Extra Expense

- (1) We will pay necessary Extra Expense 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 at the described premises. 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 mean:

- (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 means expense incurred:
- (a) To avoid or minimize the suspension of business and to continue "operations":
 - (i) At the described premises; or
 - (ii) At replacement premises or at temporary locations, including relocation expenses, and costs to equip and operate the replacement or temporary locations.
 - (b) To minimize the suspension of business if you cannot continue "operations".

(c) To:

- (i) Repair or replace any property; or
 - (ii) Research, replace or restore the lost information on damaged "valuable papers and records";
to the extent it reduces the amount of loss that otherwise would have been payable under this Additional Coverage or Additional Coverage f. Business Income.
- (3) With respect to the coverage provided in this Additional Coverage, suspension means:
- (a) The partial slowdown or complete cessation of your business activities; or
 - (b) That a part or all of the described premises is rendered untenable, if coverage for Business Income applies.
- (4) We will only pay for Extra Expense that occurs within 12 consecutive months after the date of direct physical loss or damage. This Additional Coverage is not subject to the Limits of Insurance of Section I – Property.

h. 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 for each location under this Additional Coverage is \$10,000 for the sum of all such expenses arising out of Covered Causes of Loss occurring during each separate 12-month period of this policy.

i. Civil Authority

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 necessary 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.

The definitions of Business Income and Extra Expense contained in the Business Income and Extra Expense Additional Coverages also apply to this Civil Authority Additional Coverage. The Civil Authority Additional Coverage is not subject to the Limits of Insurance of Section I – Property.

j. Money Orders And "Counterfeit Money"

We will pay for loss resulting directly from your having accepted in good faith, in exchange for merchandise, "money" or services:

- (1) Money orders issued by any post office, express company or bank that are not paid upon presentation; or
- (2) "Counterfeit money" that is acquired during the regular course of business.

The most we will pay for any loss under this Additional Coverage is \$1,000.

k. Forgery Or Alteration

- (1) We will pay for loss resulting directly from forgery or alteration of any check, draft, promissory note, bill of exchange or similar written promise of payment in "money" that you or your agent has issued, or that was issued by someone who impersonates you or your agent.
- (2) If you are sued for refusing to pay the check, draft, promissory note, bill of exchange or similar written promise of payment in "money", on the basis that it has been forged or altered, and you have our written consent to defend against the suit, we will pay for any reasonable legal expenses that you incur in that defense.
- (3) For the purpose of this coverage, check includes a substitute check as defined in the Check Clearing for the 21st Century Act and will be treated the same as the original it replaced.
- (4) The most we will pay for any loss, including legal expenses, under this Additional Coverage is \$2,500, unless a higher Limit Of Insurance is shown in the Declarations.

l. Increased Cost Of Construction

- (1) This Additional Coverage applies only to buildings insured on a replacement cost basis.
- (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 Paragraphs (3) through (9) of this Additional Coverage.

- (3) The ordinance or law referred to in Paragraph (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 "fungi", wet rot or dry rot; 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", "fungi", wet rot or dry rot.
- (6) The most we will pay under this Additional Coverage, for each described building insured under Section I – Property, is \$10,000. If a damaged building(s) 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 each damaged building, is \$10,000.

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 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 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 Property Loss Condition in Section I – Property 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 Paragraph (6) of this Additional Coverage, is not subject to such limitation.

m. Business Income From Dependent Properties

- (1) We will pay for the actual loss of Business Income you sustain due to physical loss or damage at the premises of a dependent property or secondary dependent property caused by or resulting from any Covered Cause of Loss.

However, this Additional Coverage does not apply when the only loss at the premises of a dependent property or secondary dependent property is loss or damage to "electronic data", including destruction or corruption of "electronic data". If the dependent property or secondary dependent property sustains loss or damage to "electronic data" and other property, coverage under this Additional Coverage will not continue once the other property is repaired, rebuilt or replaced.

The most we will pay under this Additional Coverage is \$5,000 unless a higher Limit Of Insurance is indicated in the Declarations.

- (2) We will reduce the amount of your Business Income loss, other than Extra Expense, to the extent you can resume "operations", in whole or in part, by using any other available:
 - (a) Source of materials; or
 - (b) Outlet for your products.
- (3) 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) Dependent property means property owned by others whom you depend on to:
 - (a) Deliver materials or services to you, or to others for your account. But services does not mean water supply services, wastewater removal services, communication supply services or power supply services;
 - (b) Accept your products or services;
 - (c) Manufacture your products for delivery to your customers under contract for sale; or
 - (d) Attract customers to your business.

The dependent property must be located in the coverage territory of this policy.
- (5) Secondary dependent property means an entity which is not owned or operated by a dependent property and which:
 - (a) Delivers materials or services to a dependent property, which in turn are used by the dependent property in providing materials or services to you; or

- (b) Accepts materials or services from a dependent property, which in turn accepts your materials or services.

A road, bridge, tunnel, waterway, airfield, pipeline or any other similar area or structure is not a secondary dependent property.

Any property which delivers any of the following services is not a secondary dependent property with respect to such services:

- (i) Water supply services;
- (ii) Wastewater removal services;
- (iii) Communication supply services; or
- (iv) Power supply services.

The secondary dependent property must be located in the coverage territory of this policy.

- (6) The coverage period for Business Income under this Additional Coverage:
 - (a) Begins 72 hours after the time of direct physical loss or damage caused by or resulting from any Covered Cause of Loss at the premises of the dependent property or secondary dependent property; and
 - (b) Ends on the date when the property at the premises of the dependent property or secondary dependent property should be repaired, rebuilt or replaced with reasonable speed and similar quality.
- (7) The Business Income coverage period, as stated in Paragraph (6), does not include any increased period required due to the enforcement of or compliance with any ordinance or law that:
 - (a) Regulates the construction, use or repair, or requires the tearing down of any property; or
 - (b) 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 reduce the Business Income coverage period.

- (8) The definition of Business Income contained in the Business Income Additional Coverage also applies to this Business Income From Dependent Properties Additional Coverage.

n. Glass Expenses

- (1) We will pay for expenses incurred to put up temporary plates or board up openings if repair or replacement of damaged glass is delayed.
- (2) 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.

o. Fire Extinguisher Systems Recharge Expense

- (1) We will pay:
- (a) The cost of recharging or replacing, whichever is less, your fire extinguishers and fire extinguishing systems (including hydrostatic testing if needed) if they are discharged on or within 100 feet of the described premises; and
- (b) For loss or damage to Covered Property if such loss or damage is the result of an accidental discharge of chemicals from a fire extinguisher or a fire extinguishing system.
- (2) No coverage will apply if the fire extinguishing system is discharged during installation or testing.
- (3) The most we will pay under this Additional Coverage is \$5,000 in any one occurrence.

p. Electronic Data

- (1) 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.

- (2) The Covered Causes of Loss applicable to Business Personal Property include a computer 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.

- (3) The most we will pay under this Additional Coverage – Electronic Data 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, is \$10,000, unless a higher Limit Of Insurance is shown in the Declarations. 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.

- (4) This Additional Coverage does not apply to your "stock" of prepackaged software, or to "electronic data" which is integrated in and operates or controls a building's elevator, lighting, heating, ventilation, air conditioning or security system.

q. Interruption Of Computer Operations

- (1) 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.

- (2) With respect to the coverage provided under this Additional Coverage, the Covered Causes of Loss are subject to the following:
- (a) Coverage under this Additional Coverage – Interruption Of Computer Operations is limited to the "specified causes of loss" and Collapse.
 - (b) If the Businessowners Coverage 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.
 - (c) The Covered Causes of Loss include a computer 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, modify, maintain, repair or replace that system.
- (3) The most we will pay under this Additional Coverage – Interruption Of Computer Operations 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, is \$10,000 unless a higher Limit Of Insurance is shown in the Declarations. 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.
- (4) 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 (3) above has not been exhausted.
- (5) 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 Paragraphs (1) through (4) of this Additional Coverage.

(6) 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 Paragraphs (1) through (4) of this Additional Coverage.

(7) This Additional Coverage 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.

r. Limited Coverage For "Fungi", Wet Rot Or Dry Rot

(1) The coverage described in Paragraphs r.(2) and r.(6) only applies when the "fungi", wet rot or dry rot is the result of a "specified cause of loss" other than fire or lightning that occurs during the policy period and only if all reasonable means were used to save and preserve the property from further damage at the time of and after that occurrence.

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 "fungi", wet rot or dry rot. As used in this Limited Coverage, the term loss or damage means:

(a) Direct physical loss or damage to Covered Property caused by "fungi", wet rot or dry rot, including the cost of removal of the "fungi", wet rot or dry rot;

(b) The cost to tear out and replace any part of the building or other property as needed to gain access to the "fungi", wet rot or dry rot; 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 "fungi", wet rot or dry rot is present.

(3) The coverage described under 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) 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 "fungi", wet rot or dry rot, we will not pay more than the total of \$15,000 even if the "fungi", wet rot or dry rot continues to be present or active, or recurs, in a later policy period.

(4) The coverage provided under this Limited Coverage does not increase the applicable Limit of Insurance on any Covered Property. If a particular occurrence results in loss or damage by "fungi", wet rot or dry rot, 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 "fungi", wet rot or dry rot, loss payment will not be limited by the terms of this Limited Coverage, except to the extent that "fungi", wet rot or dry rot causes an increase in the loss. Any such increase in the loss will be subject to the terms of this Limited Coverage.

(5) The terms of this Limited Coverage do not increase or reduce the coverage provided under the Water Damage, Other Liquids, Powder Or Molten Material Damage or Collapse Additional Coverages.

- (6) The following applies only if Business Income and/or Extra Expense Coverage applies to the described premises and only if the suspension of "operations" satisfies all the terms and conditions of the applicable Business Income and/or Extra Expense Additional Coverage:

- (a) If the loss which resulted in "fungi", wet rot or dry rot does not in itself necessitate a suspension of "operations", but such suspension is necessary due to loss or damage to property caused by "fungi", wet rot or dry rot, then our payment under the Business Income and/or Extra Expense Additional Coverages 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 "fungi", wet rot or dry rot, but remediation of "fungi", wet rot or dry rot 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.

6. Coverage Extensions

In addition to the Limits of Insurance of Section I – Property, you may extend the insurance provided by this policy as provided below.

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:

a. Newly Acquired Or Constructed Property

(1) Buildings

If this policy covers Buildings, 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 premises other than the one described, 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) Business Personal Property

If this policy covers Business Personal Property, you may extend that insurance to apply to:

- (a) Business Personal Property, including such property that you newly acquire, at any location you acquire; or
- (b) 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.

This Extension does not apply to personal property that you temporarily acquire in the course of installing or performing work on such property or your wholesale activities.

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

(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 Property Off-premises

You may extend the insurance provided by this policy to apply to your Covered Property, other than "money" and "securities", "valuable papers and records" or accounts receivable, while it is in the course of transit or at a premises you do not own, lease or operate. The most we will pay for loss or damage under this Extension is \$10,000.

c. Outdoor Property

You may extend the insurance provided by this policy to apply to your outdoor fences, radio and television antennas (including satellite dishes), signs (other than signs attached to buildings), trees, shrubs and plants (other than trees, shrubs or plants which are part of a vegetated roof), including debris removal expense. Loss or damage must be caused by or result from any of the following 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 \$2,500, unless a higher Limit Of Insurance for Outdoor Property is shown in the Declarations, but not more than \$1,000 for any one tree, shrub or plant.

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.

d. Personal Effects

You may extend the insurance that applies to Business Personal Property to apply to personal effects owned by you, your officers, your partners or "members", your "managers" or your employees, including temporary or leased employees. This extension does not apply to:

- (1) Tools or equipment used in your business; or
- (2) Loss or damage by theft.

The most we will pay for loss or damage under this Extension is \$2,500 at each described premises.

e. Valuable Papers And Records

(1) You may extend the insurance that applies to Business Personal Property to apply to direct physical loss or damage to "valuable papers and records" that you own, or that are in your care, custody or control, caused by or resulting from a Covered Cause of Loss. This Coverage Extension includes the cost to research, replace or restore the lost information on "valuable papers and records" for which duplicates do not exist.

(2) This Coverage Extension does not apply to:

(a) Property held as samples or for delivery after sale; and

(b) Property in storage away from the premises shown in the Declarations.

(3) The most we will pay under this Coverage Extension for loss or damage to "valuable papers and records" in any one occurrence at the described premises is \$10,000, unless a higher Limit Of Insurance for "valuable papers and records" is shown in the Declarations.

For "valuable papers and records" not at the described premises, the most we will pay is \$5,000.

(4) Loss or damage to "valuable papers and records" will be valued at the cost of restoration or replacement of the lost or damaged information. To the extent that the contents of the "valuable papers and records" are not restored, the "valuable papers and records" will be valued at the cost of replacement with blank materials of substantially identical type.

(5) Paragraph **B.** Exclusions in Section **I** – Property does not apply to this Coverage Extension except for:

(a) Paragraph **B.1.c.**, Governmental Action;

(b) Paragraph **B.1.d.**, Nuclear Hazard;

(c) Paragraph **B.1.f.**, War And Military Action;

- (d) Paragraph **B.2.f.**, Dishonesty;
- (e) Paragraph **B.2.g.**, False Pretense;
- (f) Paragraph **B.2.m.(2)**, Errors Or Omissions; and
- (g) Paragraph **B.3.**

f. Accounts Receivable

- (1) You may extend the insurance that applies to Business Personal Property to apply to accounts receivable. We will pay:
 - (a) All amounts due from your customers that you are unable to collect;
 - (b) Interest charges on any loan required to offset amounts you are unable to collect pending our payment of these amounts;
 - (c) Collection expenses in excess of your normal collection expenses that are made necessary by loss or damage; and
 - (d) Other reasonable expenses that you incur to reestablish your records of accounts receivable;

that result from direct physical loss or damage by any Covered Cause of Loss to your records of accounts receivable.

- (2) The most we will pay under this Coverage Extension for loss or damage in any one occurrence at the described premises is \$10,000, unless a higher Limit of Insurance for accounts receivable is shown in the Declarations.

For accounts receivable not at the described premises, the most we will pay is \$5,000.

- (3) Paragraph **B.** Exclusions in Section **I** – Property does not apply to this Coverage Extension except for:
 - (a) Paragraph **B.1.c.**, Governmental Action;
 - (b) Paragraph **B.1.d.**, Nuclear Hazard;
 - (c) Paragraph **B.1.f.**, War And Military Action;
 - (d) Paragraph **B.2.f.**, Dishonesty;
 - (e) Paragraph **B.2.g.**, False Pretense;
 - (f) Paragraph **B.3.**; and
 - (g) Paragraph **B.6.**, Accounts Receivable Exclusion.

g. Business Personal Property Temporarily In Portable Storage Units

- (1) You may extend the insurance that applies to 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 buildings or structures described in the Declarations or within 100 feet of the described premises, whichever distance is greater.
- (2) The limitation under Paragraph **A.4.a.(5)** 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.
- (5) This Extension does not apply to loss or damage otherwise covered under this Coverage Form or any endorsement to this Coverage Form, and does not apply to loss or damage to the storage unit itself.

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. These exclusions apply whether or not the loss event results in widespread damage or affects a substantial area.

a. Ordinance Or Law

- (1) The enforcement of or compliance with any ordinance or law:
 - (a) Regulating the construction, use or repair of any property; or

- (b) Requiring the tearing down of any property, including the cost of removing its debris.
- (2) 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 Paragraphs (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 of or damage to Covered 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 policy.

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.

This exclusion does not apply to loss or damage to "computer(s)" and "electronic data".

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.

h. Certain Computer-related Losses

- (1) The failure, malfunction or inadequacy of:
 - (a) Any of the following, whether belonging to any insured or to others:
 - (i) "Computer" hardware, including microprocessors or other electronic data processing equipment as may be described elsewhere in this policy;
 - (ii) "Computer" application software or other "electronic data" as may be described elsewhere in this policy;
 - (iii) "Computer" operating systems and related software;
 - (iv) "Computer" networks;
 - (v) Microprocessors ("computer" chips) not part of any "computer" system; or
 - (vi) Any other computerized or electronic equipment or components; or
 - (b) Any other products, and any services, data or functions that directly or indirectly use or rely upon, in any manner, any of the items listed in Paragraph (a) above;

due to the inability to correctly recognize, distinguish, interpret or accept one or more dates or times. An example is the inability of computer software to recognize the year 2000.

- (2) Any advice, consultation, design, evaluation, inspection, installation, maintenance, repair, replacement or supervision provided or done by you or for you to determine, rectify or test for, any potential or actual problems described in Paragraph (1) above.

However, if excluded loss or damage, as described in Paragraph (1) above, results in a "specified cause of loss" under Section I – Property, we will pay only for the loss or damage caused by such "specified cause of loss".

We will not pay for repair, replacement or modification of any items in Paragraph (1)(a) or (1)(b) to correct any deficiencies or change any features.

i. "Fungi", Wet Rot Or Dry Rot

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

But if "fungi", wet rot or dry rot results 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 "fungi", wet rot or dry rot results from fire or lightning; or
- (2) To the extent that coverage is provided in the Limited Coverage For "Fungi", Wet Rot Or Dry Rot Additional Coverage, with respect to loss or damage by a cause of loss other than fire or lightning.

j. Virus Or Bacteria

- (1) Any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease.
- (2) However, the exclusion in Paragraph (1) does not apply to loss or damage caused by or resulting from "fungi", wet rot or dry rot. Such loss or damage is addressed in Exclusion i.
- (3) With respect to any loss or damage subject to the exclusion in Paragraph (1), such exclusion supersedes any exclusion relating to "pollutants".

2. We will not pay for loss or damage caused by or resulting from any of the following:

a. Electrical Apparatus

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:

- (1) Electrical current, including arcing;
- (2) Electrical charge produced or conducted by a magnetic or electromagnetic field;
- (3) Pulse of electromagnetic energy; or
- (4) Electromagnetic waves or microwaves.

But if fire results, we will pay for the loss or damage caused by fire.

We will pay for loss or damage to "computer(s)" due to artificially generated electrical, magnetic or electromagnetic energy if such loss or damage is caused by or results from:

- (1) An occurrence that took place within 100 feet of the described premises; or
- (2) Interruption of electric power supply, power surge, blackout or brownout if the cause of such occurrence took place within 100 feet of the described premises.

b. Consequential Losses

Delay, loss of use or loss of market.

c. Smoke, Vapor, Gas

Smoke, vapor or gas from agricultural smudging or industrial operations.

d. Steam Apparatus

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.

e. Frozen Plumbing

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.

f. Dishonesty

Dishonest or criminal acts (including theft) by you, anyone else with an interest in the property, or any of your or their partners, "members", officers, "managers", employees (including temporary or leased employees), 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 or leased employees) or authorized representatives; but theft by your employees (including temporary or leased employees) or authorized representatives is not covered.

With respect to accounts receivable and "valuable papers and records", this exclusion does not apply to carriers for hire.

This exclusion does not apply to coverage that is provided under the Employee Dishonesty Optional Coverage.

g. False Pretense

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.

h. Exposed Property

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

i. Collapse

- (1) Collapse, including any of the following conditions of property or any part of the property:

- (a) An abrupt falling down or caving in;
- (b) Loss of structural integrity, including separation of parts of the property or property in danger of falling down or caving in; or
- (c) Any cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion as such condition relates to Paragraph i.(1)(a) or i.(1)(b).

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.

- (2) This Exclusion i. 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.

j. Pollution

We will not pay for loss or damage caused by or resulting from the 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".

k. Neglect

Neglect of an insured to use all reasonable means to save and preserve property from further damage at and after the time of loss.

l. Other Types Of Loss

- (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.

This exclusion does not apply with respect to the breakdown of "computer(s)";
- (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 Paragraphs (1) through (7) above 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.

m. Errors Or Omissions

Errors or omissions in:

- (1) Programming, processing or storing data, as described under "electronic data" or in any "computer" operations; or
- (2) Processing or copying "valuable papers and records".

However, we will pay for direct physical loss or damage caused by resulting fire or explosion if these causes of loss would be covered by this Coverage Form.

n. Installation, Testing, Repair

Errors or deficiency in design, installation, testing, maintenance, modification or repair of your "computer" system including "electronic data".

However, we will pay for direct physical loss or damage caused by resulting fire or explosion if these causes of loss would be covered by this Coverage Form.

o. Electrical Disturbance

Electrical or magnetic injury, disturbance or erasure of "electronic data", except as provided for under the Additional Coverages of Section I – Property.

However, we will pay for direct loss or damage caused by lightning.

p. Continuous Or Repeated Seepage Or Leakage Of Water

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.

3. We will not pay for loss or damage caused by or resulting from any of the following Paragraphs **a.** through **c.** But if an excluded cause of loss that is listed in Paragraphs **a.** through **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

Weather conditions. But this exclusion only applies if weather conditions contribute in any way with a cause or event excluded in Paragraph **B.1.** above to produce the loss or damage.

b. Acts Or Decisions

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

c. Negligent Work

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. Additional Exclusion

The following applies only to the property specified in this Additional Exclusion:

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.

5. Business Income And Extra Expense Exclusions

a. We will not pay for:

(1) Any Extra Expense, or increase of Business Income 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.

(2) Any other consequential loss.

b. With respect to this exclusion, suspension means:

(1) The partial slowdown or complete cessation of your business activities; and

(2) That a part or all of the described premises is rendered untenable, if coverage for Business Income applies.

6. Accounts Receivable Exclusion

The following additional exclusion applies to the Accounts Receivable Coverage Extension:

We will not pay for:

a. Loss or damage caused by or resulting from alteration, falsification, concealment or destruction of records of accounts receivable done to conceal the wrongful giving, taking or withholding of "money", "securities" or other property.

This exclusion applies only to the extent of the wrongful giving, taking or withholding.

b. Loss or damage caused by or resulting from bookkeeping, accounting or billing errors or omissions.

c. Any loss or damage that requires any audit of records or any inventory computation to prove its factual existence.

C. Limits Of Insurance

1. The most we will pay for loss or damage in any one occurrence is the applicable Limits Of Insurance of Section I – Property shown in the Declarations.

2. The most we will pay for loss of or damage to outdoor signs attached to buildings is \$1,000 per sign in any one occurrence.

3. The amounts of insurance applicable to the Coverage Extensions and the following Additional Coverages apply in accordance with the terms of such coverages and are in addition to the Limits of Insurance of Section I – Property:

a. Fire Department Service Charge;

b. Pollutant Clean-up And Removal;

c. Increased Cost Of Construction;

d. Business Income From Dependent Properties;

e. Electronic Data; and

f. Interruption Of Computer Operations.

4. Building Limit – Automatic Increase

a. In accordance with Paragraph C.4.b., the Limit of Insurance for Buildings will automatically increase by 8%, unless a different percentage of annual increase is shown in the Declarations.

b. The amount of increase is calculated as follows:

- (1) Multiply the Building limit that applied on the most recent of the policy inception date, the policy anniversary date or any other policy change amending the Building limit by:
 - (a) The percentage of annual increase shown in the Declarations, expressed as a decimal (example: 7% is .07); or
 - (b) .08, if no percentage of annual increase is shown in the Declarations; and
- (2) Multiply the number calculated in accordance with b.(1) by the number of days since the beginning of the current policy year, or the effective date of the most recent policy change amending the Building limit, divided by 365.

Example

If:

The applicable Building limit 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

$$\$100,000 \times .08 \times 146 \div 365 = \$3,200.$$

5. Business Personal Property Limit – Seasonal Increase

- a. Subject to Paragraph 5.b., the Limit of Insurance for Business Personal Property is automatically increased by:
 - (1) The Business Personal Property – Seasonal Increase percentage shown in the Declarations; or
 - (2) 25% if no Business Personal Property – Seasonal Increase percentage is shown in the Declarations;to provide for seasonal variances.
- b. The increase described in Paragraph 5.a. will apply only if the Limit Of Insurance shown for Business Personal Property in the Declarations is at least 100% of your average monthly values during the lesser of:
 - (1) The 12 months immediately preceding the date the loss or damage occurs; or
 - (2) The period of time you have been in business as of the date the loss or damage occurs.

D. Deductibles

1. We will not pay for loss or damage in any one occurrence until the amount of loss or damage exceeds the Deductible shown in the Declarations. We will then pay the amount of loss or damage in excess of the Deductible up to the applicable Limit of Insurance of Section I – Property.
2. Regardless of the amount of the Deductible, the most we will deduct from any loss or damage under all of the following Optional Coverages in any one occurrence is the Optional Coverage Deductible shown in the Declarations:
 - a. Money and Securities;
 - b. Employee Dishonesty;
 - c. Outdoor Signs; and
 - d. Forgery or Alteration.

But this Optional Coverage Deductible will not increase the Deductible shown in the Declarations. This Deductible will be used to satisfy the requirements of the Deductible in the Declarations.

3. No deductible applies to the following Additional Coverages:
 - a. Fire Department Service Charge;
 - b. Business Income;
 - c. Extra Expense;
 - d. Civil Authority; and
 - e. Fire Extinguisher Systems Recharge Expense.

E. Property Loss Conditions

1. Abandonment

There can be no abandonment of any property to us.

2. Appraisal

If we and you disagree on 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 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 Limits of Insurance of Section I – Property. 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.
- (9) 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.

4. Legal Action Against Us

No one may bring a legal action against us under this insurance unless:

- a. There has been full compliance with all of the terms of this insurance; and
- b. The action is brought within two years after the date on which the direct physical loss or damage occurred.

5. Loss Payment

In the event of loss or damage covered by this policy:

- a. 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;
 - (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 Paragraph d.(1)(e) below.
- b. We will give notice of our intentions within 30 days after we receive the sworn proof of loss.
- c. We will not pay you more than your financial interest in the Covered Property.
- d. Except as provided in Paragraphs (2) through (7) below, we will determine the value of Covered Property as follows:
 - (1) At replacement cost without deduction for depreciation, subject to the following:
 - a) If, at the time of loss, the Limit of Insurance on the lost or damaged property is 80% or more of the full replacement cost of the property immediately before the loss, we will pay the cost to repair or replace, after application of the deductible and without deduction for depreciation, but not more than the least of the following amounts:
 - (i) The Limit of Insurance under Section I – Property that applies to the lost or damaged property;

(ii) The cost to replace, on the same premises, the lost or damaged property with other property:

- i. Of comparable material and quality; and
- ii. Used for the same purpose; or

(iii) The amount that you actually spend that is necessary to repair or replace the lost or damaged property.

If a building is rebuilt at a new premises, the cost is limited to the cost which would have been incurred had the building been built at the original premises.

(b) If, at the time of loss, the Limit of Insurance applicable to the lost or damaged property is less than 80% of the full replacement cost of the property immediately before the loss, we will pay the greater of the following amounts, but not more than the Limit of Insurance that applies to the property:

- (i) The actual cash value of the lost or damaged property; or
- (ii) A proportion of the cost to repair or replace the lost or damaged property, after application of the deductible and without deduction for depreciation. This proportion will equal the ratio of the applicable Limit of Insurance to 80% of the full replacement cost of the property.

Example

The full replacement cost of property which suffers a total loss is \$100,000. The property is insured for \$70,000. 80% of the full replacement cost of the property immediately before the loss is \$80,000 ($\$100,000 \times .80 = \$80,000$). A partial loss of \$25,000 is sustained. The amount of recovery is determined as follows:

Amount of recovery

$$\$70,000 \div \$80,000 = .875$$

$$.875 \times \$25,000 = \$21,875$$

(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 on a replacement cost basis 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:

- (i) Until the lost or damaged property is actually repaired or replaced; and
- (ii) Unless the repair or replacement is made as soon as reasonably possible after the loss or damage.

However, if the cost to repair or replace the damaged building property is \$2,500 or less, we will settle the loss according to the provisions of Paragraphs **d.(1)(a)** and **d.(1)(b)** above whether or not the actual repair or replacement is complete.

(e) 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.

(2) If the Actual Cash Value – Buildings option applies, as shown in the Declarations, Paragraph **(1)** above does not apply to Buildings. Instead, we will determine the value of Buildings at actual cash value.

(3) The following property at actual cash value:

- (a) Used or secondhand merchandise held in storage or for sale;
- (b) Property of others. However, 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;

- (c) Household contents, except personal property in apartments or rooms furnished by you as landlord;
 - (d) Manuscripts; and
 - (e) Works of art, antiques or rare articles, including etchings, pictures, statuary, marble, bronzes, porcelain and bric-a-brac.
- (4) Glass at the cost of replacement with safety glazing material if required by law.
- (5) Tenants' improvements and betterments at:
- (a) Replacement cost if you make repairs promptly.
 - (b) A proportion of your original cost if you do not make repairs promptly. We will determine the proportionate value as follows:
 - (i) Multiply the original cost by the number of days from the loss or damage to the expiration of the lease; and
 - (ii) Divide the amount determined in (i) 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.
 - (c) Nothing if others pay for repairs or replacement.
- (6) Applicable only to the Optional Coverages:
- (a) "Money" at its face value; and
 - (b) "Securities" at their value at the close of business on the day the loss is discovered.
- (7) Applicable only to accounts receivable:
- (a) If you cannot accurately establish the amount of accounts receivable outstanding as of the time of loss or damage:
 - (i) We will determine the total of the average monthly amounts of accounts receivable for the 12 months immediately preceding the month in which the loss or damage occurs; and
 - (ii) We will adjust that total for any normal fluctuations in the amount of accounts receivable for the month in which the loss or damage occurred or for any demonstrated variance from the average for that month.
 - (b) The following will be deducted from the total amount of accounts receivable, however that amount is established:
 - (i) The amount of the accounts for which there is no loss or damage;
 - (ii) The amount of the accounts that you are able to reestablish or collect;
 - (iii) An amount to allow for probable bad debts that you are normally unable to collect; and
 - (iv) All unearned interest and service charges.
- e. Our payment for loss of or damage to personal property of others will only be for the account of the owners of the property. 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, provided you have complied with all of the terms of this policy, 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 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.

6. Recovered Property

If either you or we recover any property after loss settlement, that party must give the other prompt notice. At your option, you may retain the property. But then you must 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 Limits of Insurance of Section I – Property.

7. Resumption Of Operations

We will reduce the amount of your:

- a. 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.
- b. Extra Expense loss to the extent you can return "operations" to normal and discontinue such Extra Expense.

8. 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 Paragraphs (a) and (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 Paragraphs (1)(a) through (1)(f) above, we will reduce the amount we would otherwise pay for the loss or damage by 15%.

F. Property General Conditions

1. 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 Form 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.

2. Mortgageholders

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

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

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

- (1) The mortgageholder's rights under the mortgage will be transferred to us to the extent of the amount we pay; and
- (2) The mortgageholder's right to recover the full amount of the mortgageholder's claim will not be impaired.

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

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

3. No Benefit To Bailee

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

4. Policy Period, Coverage Territory

Under Section I – Property:

- a. We cover loss or damage commencing:
 - (1) During the policy period shown in the Declarations; and
 - (2) Within the coverage territory or, with respect to property in transit, while it is between points in the coverage territory.
- b. The coverage territory is:
 - (1) The United States of America (including its territories and possessions);
 - (2) Puerto Rico; and
 - (3) Canada.

G. Optional Coverages

If shown as applicable in the Declarations, the following Optional Coverages also apply. These coverages are subject to the terms and conditions applicable to property coverage in this policy, except as provided below:

1. Outdoor Signs

- a. We will pay for direct physical loss of or damage to all outdoor signs at the described premises:
 - (1) Owned by you; or
 - (2) Owned by others but in your care, custody or control.
- b. Paragraph **A.3.**, Covered Causes Of Loss and Paragraph **B.**, Exclusions in Section **I** – Property do not apply to this Optional Coverage, except for:
 - (1) Paragraph **B.1.c.**, Governmental Action;
 - (2) Paragraph **B.1.d.**, Nuclear Hazard; and
 - (3) Paragraph **B.1.f.**, War And Military Action.
- c. We will not pay for loss or damage caused by or resulting from:
 - (1) Wear and tear;
 - (2) Hidden or latent defect;
 - (3) Rust;
 - (4) Corrosion; or
 - (5) Mechanical breakdown.
- d. The most we will pay for loss or damage in any one occurrence is the Limit Of Insurance for Outdoor Signs shown in the Declarations.
- e. The provisions of this Optional Coverage supersede all other references to outdoor signs in this policy.

2. Money And Securities

- a. We will pay for loss of "money" and "securities" used in your business while at a bank or savings institution, within your living quarters or the living quarters of your partners or any employee (including a temporary or leased employee) having use and custody of the property, at the described premises, or in transit between any of these places, resulting directly from:
 - (1) Theft, meaning any act of stealing;
 - (2) Disappearance; or
 - (3) Destruction.

- b. In addition to the Limitations and Exclusions applicable to Section **I** – Property, we will not pay for loss:

- (1) Resulting from accounting or arithmetical errors or omissions;
- (2) Due to the giving or surrendering of property in any exchange or purchase; or
- (3) Of property contained in any "money"-operated device unless the amount of "money" deposited in it is recorded by a continuous recording instrument in the device.

- c. The most we will pay for loss in any one occurrence is:

- (1) The limit shown in the Declarations for Inside the Premises for "money" and "securities" while:
 - (a) In or on the described premises; or
 - (b) Within a bank or savings institution; and
- (2) The limit shown in the Declarations for Outside the Premises for "money" and "securities" while anywhere else.

- d. All loss:

- (1) Caused by one or more persons; or
 - (2) Involving a single act or series of related acts;
- is considered one occurrence.

- e. You must keep records of all "money" and "securities" so we can verify the amount of any loss or damage.

3. Employee Dishonesty

- a. We will pay for direct loss of or damage to Business Personal Property and "money" and "securities" resulting from dishonest acts committed by any of your employees acting alone or in collusion with other persons (except you or your partner) with the manifest intent to:
 - (1) Cause you to sustain loss or damage; and also
 - (2) Obtain financial benefit (other than salaries, commissions, fees, bonuses, promotions, awards, profit sharing, pensions or other employee benefits earned in the normal course of employment) for:
 - (a) Any employee; or
 - (b) Any other person or organization.

b. We will not pay for loss or damage:

- (1)** Resulting from any dishonest or criminal act that you or any of your partners or "members" commit whether acting alone or in collusion with other persons.
- (2)** Resulting from any dishonest act committed by any of your employees (except as provided in Paragraph **a.**), "managers" or directors:
 - (a)** Whether acting alone or in collusion with other persons; or
 - (b)** While performing services for you or otherwise.
- (3)** The only proof of which as to its existence or amount is:
 - (a)** An inventory computation; or
 - (b)** A profit and loss computation.
- (4)** Caused by an employee if the employee had also committed theft or any other dishonest act prior to the effective date of this policy and you or any of your partners, "members", "managers", officers, directors or trustees, not in collusion with the employee, learned of that theft or dishonest act prior to the policy period shown in the Declarations.

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

d. All loss or damage:

- (1)** Caused by one or more persons; or
- (2)** Involving a single act or series of acts; is considered one occurrence.

e. If any loss is covered:

- (1)** Partly by this insurance; and
- (2)** Partly by any prior cancelled or terminated insurance that we or any affiliate had issued to you or any predecessor in interest;

the most we will pay is the larger of the amount recoverable under this insurance or the prior insurance.

We will pay only for loss or damage you sustain through acts committed or events occurring during the policy period. Regardless of the number of years this policy remains in force or the number of premiums paid, no Limit of Insurance cumulates from year to year or period to period.

f. This Optional Coverage is cancelled as to any employee immediately upon discovery by:

- (1)** You; or
- (2)** Any of your partners, "members", "managers", officers or directors not in collusion with the employee;

of any dishonest act committed by that employee before or after being hired by you.

g. We will pay only for covered loss or damage sustained during the policy period and discovered no later than one year from the end of the policy period.

h. If you (or any predecessor in interest) sustained loss or damage during the policy period of any prior insurance that you could have recovered under that insurance except that the time within which to discover loss or damage had expired, we will pay for it under this Optional Coverage, provided:

- (1)** This Optional Coverage became effective at the time of cancellation or termination of the prior insurance; and
- (2)** The loss or damage would have been covered by this Optional Coverage had it been in effect when the acts or events causing the loss or damage were committed or occurred.

i. The insurance under Paragraph **h. above is part of, not in addition to, the Limit of Insurance applying to this Optional Coverage and is limited to the lesser of the amount recoverable under:**

- (1)** This Optional Coverage as of its effective date; or
- (2)** The prior insurance had it remained in effect.

j. With respect to the Employee Dishonesty Optional Coverage in Paragraph **G.3., employee means:**

- (1)** Any natural person:
 - (a)** While in your service or for 30 days after termination of service;
 - (b)** Who you compensate directly by salary, wages or commissions; and
 - (c)** Who you have the right to direct and control while performing services for you;

- (2) Any natural person who is furnished temporarily to you:
 - (a) To substitute for a permanent employee, as defined in Paragraph (1) above, who is on leave; or
 - (b) To meet seasonal or short-term workload conditions;
- (3) Any natural person who is leased to you under a written agreement between you and a labor leasing firm, to perform duties related to the conduct of your business, but does not mean a temporary employee as defined in Paragraph (2) above;
- (4) Any natural person who is a former employee, director, partner, member, manager, representative or trustee retained as a consultant while performing services for you; or
- (5) Any natural person who is a guest student or intern pursuing studies or duties, excluding, however, any such person while having care and custody of property outside any building you occupy in conducting your business.

But employee does not mean:

- (1) Any agent, broker, factor, commission merchant, consignee, independent contractor or representative of the same general character; or
- (2) Any "manager", director or trustee except while performing acts coming within the usual duties of an employee.

4. Equipment Breakdown Protection Coverage

- a. We will pay for direct loss of or damage to Covered Property caused by or resulting from a mechanical breakdown or electrical failure to pressure, mechanical or electrical machinery and equipment.

Mechanical breakdown or electrical failure to pressure, mechanical or electrical machinery and equipment does not mean any:

- (1) Malfunction including but not limited to adjustment, alignment, calibration, cleaning or modification;
- (2) Leakage at any valve, fitting, shaft seal, gland packing, joint or connection;
- (3) Damage to any vacuum tube, gas tube, or brush; or
- (4) The functioning of any safety or protective device.

- b. Paragraphs **A.4.a.(1)** and **A.4.a.(2)**, Limitations, do not apply to this Optional Coverage.

- c. With respect to the coverage provided by this Optional Coverage, the following exclusions in Paragraph **B. Exclusions** do not apply:

- (1) Paragraph **B.2.a.**, Electrical Apparatus;
- (2) Paragraph **B.2.d.**, Steam Apparatus; and
- (3) Paragraph **B.2.l.(6)**, Mechanical Breakdown.

- d. With respect to the coverage provided by this Optional Coverage, Paragraph **G.1.c.(5)** of the **Outdoor Signs Optional Coverage** does not apply.

- e. If a dollar deductible is shown in the Declarations for this Optional Coverage, we will first subtract the applicable deductible amount from any loss we would otherwise pay. We will then pay the amount of loss in excess of the applicable deductible up to the applicable limit for this coverage.

If no optional deductible is chosen for this Optional Coverage, the Property Deductible shown in the Declarations applies.

- f. With respect to Additional Coverages **5.f. Business Income** and **5.g. Extra Expense**, if the 72-hour time period in the definition of "period of restoration" (hereinafter referred to as time deductible) is amended for this Optional Coverage as shown in the Declarations, we will not pay for any Business Income loss that occurs during the consecutive number of hours shown as the time deductible in the Declarations immediately following a mechanical breakdown or electrical failure. If a time deductible is shown in days, each day shall mean 24 consecutive hours.

With respect to the coverage provided by this Optional Coverage, any time deductible shown in the Declarations for Equipment Breakdown Protection Coverage supersedes any time deductible otherwise applicable to the Business Income coverage provided by this policy.

- g. With respect to the coverage provided by this Optional Coverage, Paragraph **H. Property Definitions** is amended as follows:

- 1. "Computer" means:
 - a. Programmable electronic equipment that is used to store, retrieve and process data; and

- b. Associated peripheral equipment that provides communication, including input and output functions such as printing and auxiliary functions such as data transmission.

"Computer" includes those used to operate production-type machinery or equipment.

- h. Whenever any covered pressure, mechanical or electrical machinery and equipment is found to be in, or exposed to, a dangerous condition, any of our representatives may suspend coverage provided by this Optional Coverage for loss from a mechanical breakdown or electrical failure to that pressure, mechanical or electrical machinery and equipment.

However, coverage provided by this Optional Coverage may be reinstated for loss from a mechanical breakdown or electrical failure to that pressure, mechanical or electrical machinery and equipment if the reasons for the suspension are found by any of our representatives to no longer exist.

We may suspend or reinstate this Optional coverage by mailing or delivering a written notification regarding the suspension or reinstatement to:

- (1) Your last known address; or
- (2) The address where the pressure, mechanical or electrical machinery and equipment is located.

This notification will indicate the effective date of the suspension or reinstatement.

If the coverage provided by this Optional Coverage is not reinstated, you will get a pro rata refund of premium. But the suspension will be effective even if we have not yet made or offered a refund.

H. Property Definitions

1. "Computer" means:

- a. Programmable electronic equipment that is used to store, retrieve and process data; and
- b. Associated peripheral equipment that provides communication, including input and output functions such as printing and auxiliary functions such as data transmission.

"Computer" does not include those used to operate production-type machinery or equipment.

- 2. "Counterfeit money" means an imitation of "money" that is intended to deceive and to be taken as genuine.
- 3. "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.
- 4. "Fungi" means any type or form of fungus, including mold or mildew, and any mycotoxins, spores, scents or by-products produced or released by fungi.
- 5. "Manager" means a person serving in a directorial capacity for a limited liability company.
- 6. "Member" means an owner of a limited liability company represented by its membership interest, who also may serve as a "manager".
- 7. "Money" means:
 - a. Currency, coins and bank notes in current use and having a face value; and
 - b. Traveler's checks, register checks and money orders held for sale to the public.
- 8. "Operations" means your business activities occurring at the described premises.
- 9. "Period of restoration":
 - a. Means the period of time that:
 - (1) Begins:
 - (a) 72 hours after the time of direct physical loss or damage for Business Income Coverage; or
 - (b) 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

(2) Ends on the earlier of:

(a) The date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality; or

(b) The date when business is resumed at a new permanent location.

b. 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".

10. "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.

11. "Securities" means negotiable and nonnegotiable instruments or contracts representing either "money" or other property and includes:

a. Tokens, tickets, revenue and other stamps (whether represented by actual stamps or unused value in a meter) in current use; and

b. Evidences of debt issued in connection with credit or charge cards, which cards are not issued by you;

but does not include "money".

12. "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 of 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 any part of a system or appliance (other than a sump system including its related equipment and parts) containing 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 that is located off the described premises and is part of a municipal potable water supply system or municipal sanitary sewer system, if the breakage or cracking is caused by wear and tear.

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 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 ground surface.

13. "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.

14. "Valuable papers and records" means inscribed, printed or written:

- a.** Documents;
- b.** Manuscripts; and
- c.** Records;

including abstracts, books, deeds, drawings, films, maps or mortgages.

But "valuable papers and records" does not mean "money" or "securities".

SECTION II – LIABILITY

A. Coverages

1. Business Liability

- a.** We will pay those sums that the insured becomes legally obligated to pay as damages because of "bodily injury", "property damage" or "personal and advertising injury" to which this insurance applies. We will have the right and duty to defend the insured against any "suit" seeking those damages. However, we will have no duty to defend the insured against any "suit" seeking damages for "bodily injury", "property damage" or "personal and advertising injury" to which this insurance does not apply. We may, at our discretion, investigate any "occurrence" or any offense and settle any claim or "suit" that may result. But:

- (1)** The amount we will pay for damages is limited as described in Paragraph **D. Liability And Medical Expenses Limits Of Insurance** in Section II – Liability; and
- (2)** Our right and duty to defend end when we have used up the applicable Limit of Insurance in the payment of judgments or settlements or medical expenses.

No other obligation or liability to pay sums or perform acts or services is covered unless explicitly provided for under Paragraph **f. Coverage Extension – Supplementary Payments**.

- b.** This insurance applies:

- (1)** To "bodily injury" and "property damage" only if:
 - (a)** The "bodily injury" or "property damage" is caused by an "occurrence" that takes place in the "coverage territory";
 - (b)** The "bodily injury" or "property damage" occurs during the policy period; and

- (c)** Prior to the policy period, no insured listed under Paragraph **C.1. Who Is An Insured** and no "employee" authorized by you to give or receive notice of an "occurrence" or claim, knew that the "bodily injury" or "property damage" had occurred, in whole or in part. If such a listed insured or authorized "employee" knew, prior to the policy period, that the "bodily injury" or "property damage" occurred, then any continuation, change or resumption of such "bodily injury" or "property damage" during or after the policy period will be deemed to have been known before the policy period.

- (2)** To "personal and advertising injury" caused by an offense arising out of your business, but only if the offense was committed in the "coverage territory" during the policy period.

- c.** "Bodily injury" or "property damage" which occurs during the policy period and was not, prior to the policy period, known to have occurred by any insured listed under Paragraph **C.1. Who Is An Insured** or any "employee" authorized by you to give or receive notice of an "occurrence" or claim, includes any continuation, change or resumption of "bodily injury" or "property damage" after the end of the policy period.

- d.** "Bodily injury" or "property damage" will be deemed to have been known to have occurred at the earliest time when any insured listed under Paragraph **C.1. Who Is An Insured** or any "employee" authorized by you to give or receive notice of an "occurrence" or claim:

- (1)** Reports all, or any part, of the "bodily injury" or "property damage" to us or any other insurer;
- (2)** Receives a written or verbal demand or claim for damages because of the "bodily injury" or "property damage"; or
- (3)** Becomes aware by any other means that "bodily injury" or "property damage" has occurred or has begun to occur.

- e.** Damages because of "bodily injury" include damages claimed by any person or organization for care, loss of services or death resulting at any time from the "bodily injury".

f. Coverage Extension – Supplementary Payments

- (1) We will pay, with respect to any claim we investigate or settle, or any "suit" against an insured we defend:
- (a) All expenses we incur.
 - (b) Up to \$250 for cost of bail bonds required because of accidents or traffic law violations arising out of the use of any vehicle to which Business Liability Coverage for "bodily injury" applies. We do not have to furnish these bonds.
 - (c) 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.
 - (d) All reasonable expenses incurred by the insured at our request to assist us in the investigation or defense of the claim or "suit", including actual loss of earnings up to \$250 a day because of time off from work.
 - (e) All court costs taxed against the insured in the "suit". However, these payments do not include attorneys' fees or attorneys' expenses taxed against the insured.
 - (f) Prejudgment interest awarded against the insured 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.
 - (g) 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 limit of liability.

- (2) If we defend an insured against a "suit" and an indemnitee of the insured is also named as a party to the "suit", we will defend that indemnitee if all of the following conditions are met:
- (a) The "suit" against the indemnitee seeks damages for which the insured has assumed the liability of the indemnitee in a contract or agreement that is an "insured contract";
 - (b) This insurance applies to such liability assumed by the insured;
 - (c) The obligation to defend, or the cost of the defense of, that indemnitee, has also been assumed by the insured in the same "insured contract";
 - (d) The allegations in the "suit" and the information we know about the "occurrence" are such that no conflict appears to exist between the interests of the insured and the interests of the indemnitee;
 - (e) The indemnitee and the insured ask us to conduct and control the defense of that indemnitee against such "suit" and agree that we can assign the same counsel to defend the insured and the indemnitee; and
 - (f) The indemnitee:
 - (i) Agrees in writing to:
 - i. Cooperate with us in the investigation, settlement or defense of the "suit";
 - ii. Immediately send us copies of any demands, notices, summonses or legal papers received in connection with the "suit";
 - iii. Notify any other insurer whose coverage is available to the indemnitee; and

- iv. Cooperate with us with respect to coordinating other applicable insurance available to the indemnitee; and
- (ii) Provides us with written authorization to:
 - i. Obtain records and other information related to the "suit"; and
 - ii. Conduct and control the defense of the indemnitee in such "suit".
- (3) So long as the conditions in Paragraph (2) are met, attorneys' fees incurred by us in the defense of that indemnitee, necessary litigation expenses incurred by us and necessary litigation expenses incurred by the indemnitee at our request will be paid as Supplementary Payments. Notwithstanding the provisions of Paragraph B.1.b.(2) Exclusions in Section II – Liability, such payments will not be deemed to be damages for "bodily injury" and "property damage" and will not reduce the Limits of Insurance.

Our obligation to defend an insured's indemnitee and to pay for attorneys' fees and necessary litigation expenses as Supplementary Payments ends when:

- (a) We have used up the applicable Limit of Insurance in the payment of judgments or settlements; or
- (b) The conditions set forth above, or the terms of the agreement described in Paragraph (2)(f) above, are no longer met.

2. Medical Expenses

- a. We will pay medical expenses as described below for "bodily injury" caused by an accident:
 - (1) On premises you own or rent;
 - (2) On ways next to premises you own or rent; or
 - (3) Because of your operations;
 provided that:
 - (a) The accident takes place in the "coverage territory" and during the policy period;
 - (b) The expenses are incurred and reported to us within one year of the date of the accident; and

- (c) The injured person submits to examination, at our expense, by physicians of our choice as often as we reasonably require.
- b. We will make these payments regardless of fault. These payments will not exceed the Limits of Insurance of Section II – Liability. We will pay reasonable expenses for:
 - (1) First aid administered at the time of an accident;
 - (2) Necessary medical, surgical, X-ray and dental services, including prosthetic devices; and
 - (3) Necessary ambulance, hospital, professional nursing and funeral services.

B. Exclusions

1. Applicable To Business Liability Coverage

This insurance does not apply to:

a. Expected Or Intended Injury

"Bodily injury" or "property damage" expected or intended from the standpoint of the insured. This exclusion does not apply to "bodily injury" resulting from the use of reasonable force to protect persons or property.

b. Contractual Liability

"Bodily injury" or "property damage" for which the insured is obligated to pay damages by reason of the assumption of liability in a contract or agreement. This exclusion does not apply to liability for damages:

- (1) That the insured would have in the absence of the contract or agreement; or
- (2) Assumed in a contract or agreement that is an "insured contract", provided the "bodily injury" or "property damage" occurs subsequent to the execution of the contract or agreement. Solely for the purposes of liability assumed in an "insured contract", reasonable attorneys' fees and necessary litigation expenses incurred by or for a party other than an insured are deemed to be damages because of "bodily injury" or "property damage", provided:
 - (a) Liability to such party for, or for the cost of, that party's defense has also been assumed in the same "insured contract"; and

- (b) Such attorney fees and litigation expenses are for defense of that party against a civil or alternative dispute resolution proceeding in which damages to which this insurance applies are alleged.

c. Liquor Liability

"Bodily injury" or "property damage" for which any insured may be held liable by reason of:

- (1) Causing or contributing to the intoxication of any person;
- (2) The furnishing of alcoholic beverages to a person under the legal drinking age or under the influence of alcohol; or
- (3) Any statute, ordinance or regulation relating to the sale, gift, distribution or use of alcoholic beverages.

This exclusion applies even if the claims allege negligence or other wrongdoing in:

- (a) The supervision, hiring, employment, training or monitoring of others by an insured; or
- (b) Providing or failing to provide transportation with respect to any person that may be under the influence of alcohol;

if the "occurrence" which caused the "bodily injury" or "property damage", involved that which is described in Paragraph (1), (2) or (3) above.

However, this exclusion applies only if you are in the business of manufacturing, distributing, selling, serving or furnishing alcoholic beverages. For the purposes of this exclusion, permitting a person to bring alcoholic beverages on your premises, for consumption on your premises, whether or not a fee is charged or a license is required for such activity, is not by itself considered the business of selling, serving or furnishing alcoholic beverages.

d. Workers' Compensation And Similar Laws

Any obligation of the insured under a workers' compensation, disability benefits or unemployment compensation law or any similar law.

e. Employer's Liability

"Bodily injury" to:

- (1) An "employee" of the insured arising out of and in the course of:
 - (a) Employment by the insured; or

- (b) Performing duties related to the conduct of the insured's business; or

- (2) The spouse, child, parent, brother or sister of that "employee" as a consequence of Paragraph (1) above.

This exclusion applies whether the insured may be liable as an employer or in any other capacity and to any obligation to share damages with or repay someone else who must pay damages because of the injury.

This exclusion does not apply to liability assumed by the insured under an "insured contract".

f. Pollution

- (1) "Bodily injury" or "property damage" arising out of the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of "pollutants":

- (a) At or from any premises, site or location which is or was at any time owned or occupied by, or rented or loaned to, any insured. However, this subparagraph does not apply to:

- (i) "Bodily injury" if sustained within a building and caused by smoke, fumes, vapor or soot produced by or originating from equipment that is used to heat, cool or dehumidify the building, or equipment that is used to heat water for personal use, by the building's occupants or their guests;

- (ii) "Bodily injury" or "property damage" for which you may be held liable, if you are a contractor and the owner or lessee of such premises, site or location has been added to your policy as an additional insured with respect to your ongoing operations performed for that additional insured at that premises, site or location and such premises, site or location is not and never was owned or occupied by, or rented or loaned to, any insured, other than that additional insured; or

- (iii) "Bodily injury" or "property damage" arising out of heat, smoke or fumes from a "hostile fire";

- (b) At or from any premises, site or location which is or was at any time used by or for any insured or others for the handling, storage, disposal, processing or treatment of waste;
 - (c) Which are or were at any time transported, handled, stored, treated, disposed of, or processed as waste by or for:
 - (i) Any insured; or
 - (ii) Any person or organization for whom you may be legally responsible;
 - (d) At or from any premises, site or location on which any insured or any contractors or subcontractors working directly or indirectly on any insured's behalf are performing operations if the "pollutants" are brought on or to the premises, site or location in connection with such operations by such insured, contractor or subcontractor. However, this subparagraph does not apply to:
 - (i) "Bodily injury" or "property damage" arising out of the escape of fuels, lubricants or other operating fluids which are needed to perform the normal electrical, hydraulic or mechanical functions necessary for the operation of "mobile equipment" or its parts, if such fuels, lubricants or other operating fluids escape from a vehicle part designed to hold, store or receive them. This exception does not apply if the "bodily injury" or "property damage" arises out of the intentional discharge, dispersal or release of the fuels, lubricants or other operating fluids, or if such fuels, lubricants or other operating fluids are brought on or to the premises, site or location with the intent that they be discharged, dispersed or released as part of the operations being performed by such insured, contractor or subcontractor;
 - (ii) "Bodily injury" or "property damage" sustained within a building and caused by the release of gases, fumes or vapors from materials brought into that building in connection with operations being performed by you or on your behalf by a contractor or subcontractor; or
 - (iii) "Bodily injury" or "property damage" arising out of heat, smoke or fumes from a "hostile fire"; or
 - (e) At or from any premises, site or location on which any insured or any contractors or subcontractors working directly or indirectly on any insured's behalf are performing operations if the operations are to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of, "pollutants".
- (2) Any loss, cost or expense arising out of any:
- (a) Request, demand, order or statutory or regulatory requirement that any insured or others test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of, "pollutants"; or
 - (b) Claim or "suit" by or on behalf of a governmental authority for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, or in any way responding to, or assessing the effects of, "pollutants".
- However, this paragraph does not apply to liability for damages because of "property damage" that the insured would have in the absence of such request, demand, order or statutory or regulatory requirement or such claim or "suit" by or on behalf of a governmental authority.

g. Aircraft, Auto Or Watercraft

"Bodily injury" or "property damage" arising out of the ownership, maintenance, use or entrustment to others of any aircraft, "auto" or watercraft owned or operated by or rented or loaned to any insured. Use includes operation and "loading or unloading".

This exclusion applies even if the claims allege negligence or other wrongdoing in the supervision, hiring, employment, training or monitoring of others by an insured, if the "occurrence" which caused the "bodily injury" or "property damage" involved the ownership, maintenance, use or entrustment to others of any aircraft, "auto" or watercraft that is owned or operated by or rented or loaned to any insured.

This exclusion does not apply to:

- (1) A watercraft while ashore on premises you own or rent;
- (2) A watercraft you do not own that is:
 - (a) Less than 51 feet long; and
 - (b) Not being used to carry persons or property for a charge;
- (3) Parking an "auto" on, or on the ways next to, premises you own or rent, provided the "auto" is not owned by or rented or loaned to you or the insured;
- (4) Liability assumed under any "insured contract" for the ownership, maintenance or use of aircraft or watercraft; or
- (5) "Bodily injury" or "property damage" arising out of:
 - (a) The operation of machinery or equipment that is attached to, or part of, a land vehicle that would qualify under the definition of "mobile equipment" if it were not subject to a compulsory or financial responsibility law or other motor vehicle insurance or motor vehicle registration law where it is licensed or principally garaged; or
 - (b) The operation of any of the following machinery or equipment:
 - (i) Cherry pickers and similar devices mounted on automobile or truck chassis and used to raise or lower workers; and
 - (ii) Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting and well servicing equipment.

h. Mobile Equipment

"Bodily injury" or "property damage" arising out of:

- (1) The transportation of "mobile equipment" by an "auto" owned or operated by or rented or loaned to any insured; or
- (2) The use of "mobile equipment" in, or while in practice for, or while being prepared for, any prearranged racing, speed, demolition or stunting activity.

i. War

"Bodily injury", "property damage" or "personal and advertising injury", however caused, arising, directly or indirectly, out of:

- (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 government authority in hindering or defending against any of these.

j. Professional Services

"Bodily injury", "property damage" or "personal and advertising injury" caused by the rendering or failure to render any professional service. This includes but is not limited to:

- (1) Legal, accounting or advertising services;
- (2) Preparing, approving, or failing to prepare or approve maps, drawings, opinions, reports, surveys, change orders, designs or specifications;
- (3) Supervisory, inspection or engineering services;
- (4) Medical, surgical, dental, X-ray or nursing services treatment, advice or instruction;
- (5) Any health or therapeutic service treatment, advice or instruction;
- (6) Any service, treatment, advice or instruction for the purpose of appearance or skin enhancement, hair removal or replacement or personal grooming;

- (7) Optometry or optical or hearing aid services including the prescribing, preparation, fitting, demonstration or distribution of ophthalmic lenses and similar products or hearing aid devices;
- (8) Body piercing services; and
- (9) Services in the practice of pharmacy.

This exclusion applies even if the claims allege negligence or other wrongdoing in the supervision, hiring, employment, training or monitoring of others by an insured, if the "occurrence" which caused the "bodily injury" or "property damage", or the offense which caused the "personal and advertising injury", involved the rendering or failure to render of any professional service.

k. Damage To Property

"Property damage" to:

- (1) Property you own, rent or occupy, including any costs or expenses incurred by you, or any other person, organization or entity, for repair, replacement, enhancement, restoration or maintenance of such property for any reason, including prevention of injury to a person or damage to another's property;
- (2) Premises you sell, give away or abandon, if the "property damage" arises out of any part of those premises;
- (3) Property loaned to you;
- (4) Personal property in the care, custody or control of the insured;
- (5) That particular part of real property on which you or any contractor or subcontractor working directly or indirectly on your behalf is performing operations, if the "property damage" arises out of those operations; or
- (6) That particular part of any property that must be restored, repaired or replaced because "your work" was incorrectly performed on it.

Paragraphs (1), (3) and (4) of this exclusion do not apply to "property damage" (other than damage by fire) to premises, including the contents of such premises, rented to you for a period of seven or fewer consecutive days. A separate Limit of Insurance applies to Damage To Premises Rented To You as described in Paragraph D. Liability And Medical Expenses Limits Of Insurance in Section II – Liability.

Paragraph (2) of this exclusion does not apply if the premises are "your work" and were never occupied, rented or held for rental by you.

Paragraphs (3), (4), (5) and (6) of this exclusion do not apply to liability assumed under a sidetrack agreement.

Paragraph (6) of this exclusion does not apply to "property damage" included in the "products-completed operations hazard".

l. Damage To Your Product

"Property damage" to "your product" arising out of it or any part of it.

m. Damage To Your Work

"Property damage" to "your work" arising out of it or any part of it and included in the "products-completed operations hazard".

This exclusion does not apply if the damaged work or the work out of which the damage arises was performed on your behalf by a subcontractor.

n. Damage To Impaired Property Or Property Not Physically Injured

"Property damage" to "impaired property" or property that has not been physically injured, arising out of:

- (1) A defect, deficiency, inadequacy or dangerous condition in "your product" or "your work"; or
- (2) A delay or failure by you or anyone acting on your behalf to perform a contract or agreement in accordance with its terms.

This exclusion does not apply to the loss of use of other property arising out of sudden and accidental physical injury to "your product" or "your work" after it has been put to its intended use.

o. Recall Of Products, Work Or Impaired Property

Damages claimed for any loss, cost or expense incurred by you or others for the loss of use, withdrawal, recall, inspection, repair, replacement, adjustment, removal or disposal of:

- (1) "Your product";
- (2) "Your work"; or
- (3) "Impaired property";

if such product, work or property is withdrawn or recalled from the market or from use by any person or organization because of a known or suspected defect, deficiency, inadequacy or dangerous condition in it.

p. Personal And Advertising Injury

"Personal and advertising injury":

- (1) Caused by or at the direction of the insured with the knowledge that the act would violate the rights of another and would inflict "personal and advertising injury";
- (2) Arising out of oral or written publication, in any manner, of material, if done by or at the direction of the insured with knowledge of its falsity;
- (3) Arising out of oral or written publication, in any manner, of material whose first publication took place before the beginning of the policy period;
- (4) For which the insured has assumed liability in a contract or agreement. This exclusion does not apply to liability for damages that the insured would have in the absence of the contract or agreement;
- (5) Arising out of a breach of contract, except an implied contract to use another's advertising idea in your "advertisement";
- (6) Arising out of the failure of goods, products or services to conform with any statement of quality or performance made in your "advertisement";
- (7) Arising out of the wrong description of the price of goods, products or services stated in your "advertisement";
- (8) Committed by an insured whose business is:
 - (a) Advertising, broadcasting, publishing or telecasting;
 - (b) Designing or determining content of web sites for others; or
 - (c) An Internet search, access, content or service provider.

However, this exclusion does not apply to Paragraphs **14.a.**, **b.** and **c.** of "personal and advertising injury" under Paragraph **F. Liability And Medical Expenses Definitions**.

For the purposes of this exclusion, the placing of frames, borders or links, or advertising, for you or others anywhere on the Internet, by itself, is not considered the business of advertising, broadcasting, publishing or telecasting;

- (9) Arising out of the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of "pollutants" at any time;
- (10) With respect to any loss, cost or expense arising out of any:
 - (a) Request, demand or order that any insured or others test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of, "pollutants"; or
 - (b) Claim or "suit" by or on behalf of a governmental authority for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, or in any way responding to, or assessing the effects of, "pollutants";
- (11) Arising out of an electronic chatroom or bulletin board the insured hosts, owns or over which the insured exercises control;
- (12) Arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights. Under this exclusion, such other intellectual property rights do not include the use of another's advertising idea in your "advertisement".

However, this exclusion does not apply to infringement, in your "advertisement", of copyright, trade dress or slogan;
- (13) Arising out of the unauthorized use of another's name or product in your e-mail address, domain name or metatags, or any other similar tactics to mislead another's potential customers.

q. Electronic Data

Damages arising out of the loss of, loss of use of, damage to, corruption of, inability to access, or inability to manipulate electronic data.

However, this exclusion does not apply to liability for damages because of "bodily injury".

As used in this exclusion, 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.

r. Criminal Acts

"Personal and advertising injury" arising out of a criminal act committed by or at the direction of the insured.

s. Recording And Distribution Of Material Or Information In Violation Of Law

"Bodily injury", "property damage" or "personal and advertising injury" arising directly or indirectly out of any action or omission that violates or is alleged to violate:

- (1) The Telephone Consumer Protection Act (TCPA), including any amendment of or addition to such law;
- (2) The CAN-SPAM Act of 2003, including any amendment of or addition to such law;
- (3) The Fair Credit Reporting Act (FCRA), and any amendment of or addition to such law, including the Fair and Accurate Credit Transaction Act (FACTA); or
- (4) Any federal, state or local statute, ordinance or regulation, other than the TCPA, CAN-SPAM Act of 2003 or FCRA and their amendments and additions, that addresses, prohibits, or limits the printing, dissemination, disposal, collecting, recording, sending, transmitting, communicating or distribution of material or information.

Exclusions **c., d., e., f., g., h., i., k., l., m., n.** and **o.** in Section II – Liability do not apply to damage by fire to premises while rented to you, or temporarily occupied by you with permission of the owner. A separate Damage To Premises Rented To You Limit of Insurance applies to this coverage as described in Paragraph **D. Liability And Medical Expenses Limits of Insurance** in Section II – Liability.

2. Applicable To Medical Expenses Coverage

We will not pay expenses for "bodily injury":

- a. To any insured, except "volunteer workers".
- b. To a person hired to do work for or on behalf of any insured or a tenant of any insured.
- c. To a person injured on that part of premises you own or rent that the person normally occupies.
- d. To a person, whether or not an "employee" of any insured, if benefits for the "bodily injury" are payable or must be provided under a workers' compensation or disability benefits law or a similar law.
- e. To a person injured while practicing, instructing or participating in any physical exercises or games, sports or athletic contests.
- f. Included within the "products-completed operations hazard".
- g. Excluded under Business Liability Coverage.

3. Applicable To Both Business Liability Coverage And Medical Expenses Coverage – Nuclear Energy Liability Exclusion

This insurance does not apply:

- a. Under Business Liability Coverage, to "bodily injury" or "property damage":
 - (1) With respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by the Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or

- (2) Resulting from the "hazardous properties" of "nuclear material" and with respect to which:
- (a) Any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof; or
 - (b) The insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.
- b. Under Medical Expenses Coverage, to expenses incurred with respect to "bodily injury" resulting from the "hazardous properties" of "nuclear material" and arising out of the operation of a "nuclear facility" by any person or organization.
- c. Under Business Liability Coverage, to "bodily injury" or "property damage" resulting from the "hazardous properties" of the "nuclear material"; if:
- (1) The "nuclear material":
 - (a) Is at any "nuclear facility" owned by, or operated by or on behalf of, an insured; or
 - (b) Has been discharged or dispersed therefrom;
 - (2) The "nuclear material" is contained in "spent fuel" or "waste" at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or
 - (3) The "bodily injury" or "property damage" arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any "nuclear facility"; but if such facility is located within the United States of America, its territories or possessions or Canada, this Exclusion (3) applies only to "property damage" to such "nuclear facility" and any property thereat.
- d. As used in this exclusion:
- (1) "By-product material" has the meaning given it in the Atomic Energy Act of 1954 or in any law amendatory thereof;
- (2) "Hazardous properties" include radioactive, toxic or explosive properties;
- (3) "Nuclear facility" means:
- (a) Any "nuclear reactor";
 - (b) Any equipment or device designed or used for:
 - (i) Separating the isotopes of uranium or plutonium;
 - (ii) Processing or utilizing "spent fuel"; or
 - (iii) Handling, processing or packaging "waste";
 - (c) Any equipment or device used for the processing, fabricating or alloying of "special nuclear material" if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235;
 - (d) Any structure, basin, excavation, premises or place prepared or used for the storage or disposal of "waste";
- and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations;
- (4) "Nuclear material" means "source material", "special nuclear material" or "by-product material";
 - (5) "Nuclear reactor" means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;
 - (6) "Property damage" includes all forms of radioactive contamination of property;
 - (7) "Source material" has the meaning given it in the Atomic Energy Act of 1954 or in any law amendatory thereof;
 - (8) "Special nuclear material" has the meaning given it in the Atomic Energy Act of 1954 or in any law amendatory thereof;
 - (9) "Spent fuel" means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a "nuclear reactor";

(10) "Waste" means any waste material:

- (a)** Containing "by-product material" other than the tailings or wastes produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its "source material" content; and
- (b)** Resulting from the operation by any person or organization of any "nuclear facility" included under Paragraphs **(a)** and **(b)** of the definition of "nuclear facility".

C. Who Is An Insured

1. If you are designated in the Declarations as:

- a.** An individual, you and your spouse are insureds, but only with respect to the conduct of a business of which you are the sole owner.
- b.** A partnership or joint venture, you are an insured. Your members, your partners and their spouses are also insureds, but only with respect to the conduct of your business.
- c.** A limited liability company, you are an insured. Your members are also insureds, but only with respect to the conduct of your business. Your managers are insureds, but only with respect to their duties as your managers.
- d.** An organization other than a partnership, joint venture or limited liability company, you are an insured. Your "executive officers" and directors are insureds, but only with respect to their duties as your officers or directors. Your stockholders are also insureds, but only with respect to their liability as stockholders.
- e.** A trust, you are an insured. Your trustees are also insureds, but only with respect to their duties as trustees.

2. Each of the following is also an insured:

- a.** Your "volunteer workers" only while performing duties related to the conduct of your business, or your "employees", other than either your "executive officers" (if you are an organization other than a partnership, joint venture or limited liability company) or your managers (if you are a limited liability company), but only for acts within the scope of their employment by you or while performing duties related to the conduct of your business. However, none of these "employees" or "volunteer workers" are insureds for:

(1) "Bodily injury" or "personal and advertising injury":

- (a)** To you, to your partners or members (if you are a partnership or joint venture), to your members (if you are a limited liability company), or to a co-"employee" while in the course of his or her employment or performing duties related to the conduct of your business, or to your other "volunteer workers" while performing duties related to the conduct of your business;
- (b)** To the spouse, child, parent, brother or sister of that co-"employee" as a consequence of Paragraph **(a)** above;
- (c)** For which there is any obligation to share damages with or repay someone else who must pay damages because of the injury described in Paragraph **(a)** or **(b)**; or
- (d)** Arising out of his or her providing or failing to provide professional health care services.

(2) "Property damage" to property:

- (a)** Owned, occupied or used by;

- (b) Rented to, in the care, custody or control of, or over which physical control is being exercised for any purpose by;

you, any of your "employees", "volunteer workers", any partner or member (if you are a partnership or joint venture), or any member (if you are a limited liability company).

- b. Any person (other than your "employee" or "volunteer worker"), or any organization while acting as your real estate manager.
- c. Any person or organization having proper temporary custody of your property if you die, but only:
 - (1) With respect to liability arising out of the maintenance or use of that property; and
 - (2) Until your legal representative has been appointed.
- d. Your legal representative if you die, but only with respect to duties as such. That representative will have all your rights and duties under this policy.

No person or organization is an insured with respect to the conduct of any current or past partnership, joint venture or limited liability company that is not shown as a Named Insured in the Declarations.

D. Liability And Medical Expenses Limits Of Insurance

- 1. The Limits of Insurance of Section II – Liability shown in the Declarations and the rules below fix the most we will pay regardless of the number of:
 - a. Insureds;
 - b. Claims made or "suits" brought; or
 - c. Persons or organizations making claims or bringing "suits".
- 2. The most we will pay for the sum of all damages because of all:
 - a. "Bodily injury", "property damage" and medical expenses arising out of any one "occurrence"; and
 - b. "Personal and advertising injury" sustained by any one person or organization;

is the Liability and Medical Expenses limit shown in the Declarations. But the most we will pay for all medical expenses because of "bodily injury" sustained by any one person is the Medical Expenses limit shown in the Declarations.

- 3. The most we will pay under Business Liability Coverage for damages because of "property damage" to a premises while rented to you or in the case of fire while rented to you or temporarily occupied by you with permission of the owner is the applicable Damage To Premises Rented To You limit shown for that premises in the Declarations. For a premises temporarily occupied by you, the applicable limit will be the highest Damage To Premises Rented To You limit shown in the Declarations.

4. Aggregate Limits

The most we will pay for:

- a. All "bodily injury" and "property damage" that is included in the "products-completed operations hazard" is twice the Liability and Medical Expenses limit.
- b. All:
 - (1) "Bodily injury" and "property damage" except damages because of "bodily injury" or "property damage" included in the "products-completed operations hazard";
 - (2) Plus medical expenses;
 - (3) Plus all "personal and advertising injury" caused by offenses committed;is twice the Liability and Medical Expenses limit.

Subject to Paragraph a. or b. above, whichever applies, the Damage To Premises Rented To You limit is the most we will pay for damages because of "property damage" to any one premises, while rented to you, or in the case of fire, while rented to you or temporarily occupied by you with permission of the owner.

The Limits of Insurance of Section II – Liability apply separately to each consecutive annual period and to any remaining period of less than 12 months, starting with the beginning of the policy period shown in the Declarations, unless the policy period is extended after issuance for an additional period of less than 12 months. In that case, the additional period will be deemed part of the last preceding period for purposes of determining the Limits of Insurance.

E. Liability And Medical Expenses General Conditions

1. Bankruptcy

Bankruptcy or insolvency of the insured or of the insured's estate will not relieve us of our obligations under this policy.

2. Duties In The Event Of Occurrence, Offense, Claim Or Suit

- a. You must see to it that we are notified as soon as practicable of an "occurrence" or an offense which may result in a claim. To the extent possible, notice should include:
 - (1) How, when and where the "occurrence" or offense took place;
 - (2) The names and addresses of any injured persons and witnesses; and
 - (3) The nature and location of any injury or damage arising out of the "occurrence" or offense.
- b. If a claim is made or "suit" is brought against any insured, you must:
 - (1) Immediately record the specifics of the claim or "suit" and the date received; and
 - (2) Notify us as soon as practicable.

You must see to it that we receive written notice of the claim or "suit" as soon as practicable.
- c. You and any other involved insured 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 or settlement of the claim or defense against the "suit"; and
 - (4) Assist us, upon our request, in the enforcement of any right against any person or organization that may be liable to the insured because of injury or damage to which this insurance may also apply.
- d. No insured will, except at that insured's own cost, voluntarily make a payment, assume any obligation, or incur any expense, other than for first aid, without our consent.

3. Legal Action Against Us

No person or organization has a right under this policy:

- a. To join us as a party or otherwise bring us into a "suit" asking for damages from an insured; or
- b. To sue us on this policy 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 an insured; but we will not be liable for damages that are not payable under the terms of this policy or that are in excess of the applicable Limit of Insurance. An agreed settlement means a settlement and release of liability signed by us, the insured and the claimant or the claimant's legal representative.

4. Separation Of Insureds

Except with respect to the Limits of Insurance of Section II – Liability, and any rights or duties specifically assigned in this policy to the first Named Insured, this insurance applies:

- a. As if each Named Insured were the only Named Insured; and
- b. Separately to each insured against whom claim is made or "suit" is brought.

F. Liability And Medical Expenses Definitions

- 1. "Advertisement" means a notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters. For the purposes of this definition:
 - a. Notices that are published include material placed on the Internet or on similar electronic means of communication; and
 - b. Regarding web sites, only that part of a web site that is about your goods, products or services for the purposes of attracting customers or supporters is considered an advertisement.
- 2. "Auto" means:
 - a. A land motor vehicle, trailer or semitrailer designed for travel on public roads, including any attached machinery or equipment; or
 - b. Any other land vehicle that is subject to a compulsory or financial responsibility law or other motor vehicle insurance or motor vehicle registration law where it is licensed or principally garaged.

However, "auto" does not include "mobile equipment".

- 3. "Bodily injury" means bodily injury, sickness or disease sustained by a person, including death resulting from any of these at any time.
- 4. "Coverage territory" means:
 - a. The United States of America (including its territories and possessions), Puerto Rico and Canada;

- b. International waters or airspace, but only if the injury or damage occurs in the course of travel or transportation between any places included in Paragraph **a.** above; or
- c. All other parts of the world if the injury or damage arises out of:
 - (1) Goods or products made or sold by you in the territory described in Paragraph **a.** above;
 - (2) The activities of a person whose home is in the territory described in Paragraph **a.** above, but is away for a short time on your business; or
 - (3) "Personal and advertising injury" offenses that take place through the Internet or similar electronic means of communication;

provided the insured's responsibility to pay damages is determined in a "suit" on the merits in the territory described in Paragraph **a.** above or in a settlement we agree to.

- 5. "Employee" includes a "leased worker". "Employee" does not include a "temporary worker".
- 6. "Executive officer" means a person holding any of the officer positions created by your charter, constitution, bylaws or any other similar governing document.
- 7. "Hostile fire" means one which becomes uncontrollable or breaks out from where it was intended to be.
- 8. "Impaired property" means tangible property, other than "your product" or "your work", that cannot be used or is less useful because:
 - a. It incorporates "your product" or "your work" that is known or thought to be defective, deficient, inadequate or dangerous; or
 - b. You have failed to fulfill the terms of a contract or agreement;

if such property can be restored to use by:

- (1) The repair, replacement, adjustment or removal of "your product" or "your work"; or
- (2) Your fulfilling the terms of the contract or agreement.

- 9. "Insured contract" means:

- a. A contract for a lease of premises. However, that portion of the contract for a lease of premises that indemnifies any person or organization for damage by fire to premises while rented to you or temporarily occupied by you with permission of the owner is not an "insured contract";

- b. A sidetrack agreement;
- c. Any easement or license agreement, except in connection with construction or demolition operations on or within 50 feet of a railroad;
- d. An obligation, as required by ordinance, to indemnify a municipality, except in connection with work for a municipality;
- e. An elevator maintenance agreement;
- f. That part of any other contract or agreement pertaining to your business (including an indemnification of a municipality in connection with work performed for a municipality) under which you assume the tort liability of another party to pay for "bodily injury" or "property damage" to a third person or organization. Tort liability means a liability that would be imposed by law in the absence of any contract or agreement.

Paragraph **f.** does not include that part of any contract or agreement:

- (1) That indemnifies a railroad for "bodily injury" or "property damage" arising out of construction or demolition operations, within 50 feet of any railroad property and affecting any railroad bridge or trestle, tracks, roadbeds, tunnel, underpass or crossing;
 - (2) That indemnifies an architect, engineer or surveyor for injury or damage arising out of:
 - (a) Preparing, approving or failing to prepare or approve maps, drawings, opinions, reports, surveys, change orders, designs or specifications; or
 - (b) Giving directions or instructions, or failing to give them, if that is the primary cause of the injury or damage; or
 - (3) Under which the insured, if an architect, engineer or surveyor, assumes liability for an injury or damage arising out of the insured's rendering or failure to render professional services, including those listed in Paragraph **(2)** above and supervisory, inspection or engineering services.
- 10. "Leased worker" means a person leased to you by a labor leasing firm under an agreement between you and the labor leasing firm, to perform duties related to the conduct of your business. "Leased worker" does not include a "temporary worker".

11. "Loading or unloading" means the handling of property:

- a.** After it is moved from the place where it is accepted for movement into or onto an aircraft, watercraft or "auto";
- b.** While it is in or on an aircraft, watercraft or "auto"; or
- c.** While it is being moved from an aircraft, watercraft or "auto" to the place where it is finally delivered;

but "loading or unloading" does not include the movement of property by means of a mechanical device, other than a hand truck, that is not attached to the aircraft, watercraft or "auto".

12. "Mobile equipment" means any of the following types of land vehicles, including any attached machinery or equipment:

- a.** Bulldozers, farm machinery, forklifts and other vehicles designed for use principally off public roads;
- b.** Vehicles maintained for use solely on or next to premises you own or rent;
- c.** Vehicles that travel on crawler treads;
- d.** Vehicles, whether self-propelled or not, on which are permanently mounted:
 - (1)** Power cranes, shovels, loaders, diggers or drills; or
 - (2)** Road construction or resurfacing equipment such as graders, scrapers or rollers;
- e.** Vehicles not described in Paragraph **a.**, **b.**, **c.** or **d.** above that are not self-propelled and are maintained primarily to provide mobility to permanently attached equipment of the following types:
 - (1)** Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting and well servicing equipment; or
 - (2)** Cherry pickers and similar devices used to raise or lower workers;
- f.** Vehicles not described in Paragraph **a.**, **b.**, **c.** or **d.** above maintained primarily for purposes other than the transportation of persons or cargo.

However, self-propelled vehicles with the following types of permanently attached equipment are not "mobile equipment" but will be considered "autos":

(1) Equipment designed primarily for:

- (a)** Snow removal;
- (b)** Road maintenance, but not construction or resurfacing; or
- (c)** Street cleaning;

(2) Cherry pickers and similar devices mounted on automobile or truck chassis and used to raise or lower workers; and

(3) Air compressors, pumps and generators, including spraying, welding, building cleaning, geophysical exploration, lighting and well servicing equipment.

However, "mobile equipment" does not include land vehicles that are subject to a compulsory or financial responsibility law or other motor vehicle insurance or motor vehicle registration law where they are licensed or principally garaged. Land vehicles subject to a compulsory or financial responsibility law or other motor vehicle insurance law or motor vehicle registration law are considered "autos".

13. "Occurrence" means an accident, including continuous or repeated exposure to substantially the same general harmful conditions.

14. "Personal and advertising injury" means injury, including consequential "bodily injury", arising out of one or more of the following offenses:

- a.** False arrest, detention or imprisonment;
- b.** Malicious prosecution;
- c.** The wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling or premises that a person occupies, committed by or on behalf of its owner, landlord or lessor;
- d.** Oral or written publication, in any manner, of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;
- e.** Oral or written publication, in any manner, of material that violates a person's right of privacy;

- f. The use of another's advertising idea in your "advertisement"; or
- g. Infringing upon another's copyright, trade dress or slogan in your "advertisement".

15. "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.

16. "Products-completed operations hazard":

- a. Includes all "bodily injury" and "property damage" occurring away from premises you own or rent and arising out of "your product" or "your work" except:

- (1) Products that are still in your physical possession; or

- (2) Work that has not yet been completed or abandoned. However, "your work" will be deemed completed at the earliest of the following times:

- (a) When all of the work called for in your contract has been completed.

- (b) When all of the work to be done at the job site has been completed if your contract calls for work at more than one job site.

- (c) When that part of the work done at the job site has been put to its intended use by any other person or organization other than another contractor or subcontractor working on the same project.

Work that may need service, maintenance, correction, repair or replacement, but which is otherwise complete, will be treated as completed.

The "bodily injury" or "property damage" must occur away from premises you own or rent, unless your business includes the selling, handling or distribution of "your product" for consumption on premises you own or rent.

- b. Does not include "bodily injury" or "property damage" arising out of:

- (1) The transportation of property, unless the injury or damage arises out of a condition in or on a vehicle not owned or operated by you, and that condition was created by the "loading or unloading" of that vehicle by any insured; or

- (2) The existence of tools, uninstalled equipment or abandoned or unused materials.

17. "Property damage" means:

- a. Physical injury to tangible property, including all resulting loss of use of that property. All such loss of use shall be deemed to occur at the time of the physical injury that caused it; or

- b. Loss of use of tangible property that is not physically injured. All such loss of use shall be deemed to occur at the time of the "occurrence" that caused it.

For the purposes of this insurance, electronic data is not tangible property.

As used in this definition, electronic data means information, facts or programs stored as, created or used on, or transmitted to or from computer software, including systems and applications software, hard or floppy disks, CD-ROMs, tapes, drives, cells, data processing devices or any other media which are used with electronically controlled equipment.

18. "Suit" means a civil proceeding in which damages because of "bodily injury", "property damage", or "personal and advertising injury" to which this insurance applies are alleged. "Suit" includes:

- a. An arbitration proceeding in which such damages are claimed and to which the insured must submit or does submit with our consent; or

- b. Any other alternative dispute resolution proceeding in which such damages are claimed and to which the insured submits with our consent.

19. "Temporary worker" means a person who is furnished to you to substitute for a permanent "employee" on leave or to meet seasonal or short-term workload conditions.

20. "Volunteer worker" means a person who is not your "employee", and who donates his or her work and acts at the direction of and within the scope of duties determined by you, and is not paid a fee, salary or other compensation by you or anyone else for their work performed for you.

21. "Your product":

- a. Means:

- (1) Any goods or products, other than real property, manufactured, sold, handled, distributed or disposed of by:

- (a) You;

- (b) Others trading under your name; or

(c) A person or organization whose business or assets you have acquired; and

(2) Containers (other than vehicles), materials, parts or equipment furnished in connection with such goods or products.

b. Includes:

(1) Warranties or representations made at any time with respect to the fitness, quality, durability, performance or use of "your product"; and

(2) The providing of or failure to provide warnings or instructions.

c. Does not include vending machines or other property rented to or located for the use of others but not sold.

22. "Your work":

a. Means:

(1) Work or operations performed by you or on your behalf; and

(2) Materials, parts or equipment furnished in connection with such work or operations.

b. Includes:

(1) Warranties or representations made at any time with respect to the fitness, quality, durability, performance or use of "your work"; and

(2) The providing of or failure to provide warnings or instructions.

SECTION III – COMMON POLICY CONDITIONS (APPLICABLE TO SECTION I – PROPERTY AND SECTION II – LIABILITY)

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. Five days before the effective date of cancellation if any one of the following conditions exists at any building that is Covered Property in this policy:

(1) The building has been vacant or unoccupied 60 or more consecutive days. This does not apply to:

(a) Seasonal unoccupancy; or

(b) Buildings in the course of construction, renovation or addition.

Buildings with 65% or more of the rental units or floor area vacant or unoccupied are considered unoccupied under this provision.

(2) After damage by a Covered Cause of Loss, permanent repairs to the building:

(a) Have not started; and

(b) Have not been contracted for; within 30 days of initial payment of loss.

(3) The building has:

(a) An outstanding order to vacate;

(b) An outstanding demolition order; or

(c) Been declared unsafe by governmental authority.

(4) Fixed and salvageable items have been or are being removed from the building and are not being replaced. This does not apply to such removal that is necessary or incidental to any renovation or remodeling.

(5) Failure to:

(a) Furnish necessary heat, water, sewer service or electricity for 30 consecutive days or more, except during a period of seasonal unoccupancy; or

(b) Pay property taxes that are owing and have been outstanding for more than one year following the date due, except that this provision will not apply where you are in a bona fide dispute with the taxing authority regarding payment of such taxes.

b. 10 days before the effective date of cancellation if we cancel for nonpayment of premium.

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

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

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

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

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

B. Changes

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

C. Concealment, Misrepresentation Or Fraud

This policy is void in any case of fraud by you as it relates to this policy at any time. It is also void if you or any other insured, at any time, intentionally conceals or misrepresents a material fact concerning:

1. This policy;
2. The Covered Property;
3. Your interest in the Covered Property; or
4. A claim under this policy.

D. 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.

E. 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 and 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.

F. 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.

G. Liberalization

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

H. Other Insurance

1. If there is other insurance covering the same loss or damage, 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 of Section I – Property.
2. Business Liability Coverage is excess over:
 - a. Any other insurance that insures for direct physical loss or damage; or
 - b. Any other primary insurance available to you covering liability for damages arising out of the premises or operations for which you have been added as an additional insured.
3. When this insurance is excess, we will have no duty under Business Liability Coverage to defend any claim or "suit" that any other insurer has a duty to defend. If no other insurer defends, we will undertake to do so, but we will be entitled to the insured's rights against all those other insurers.

I. Premiums

1. The first Named Insured shown in the Declarations:
 - a. Is responsible for the payment of all premiums; and
 - b. Will be the payee for any return premiums we pay.
2. The premium shown in the Declarations was computed based on rates in effect at the time the policy was issued. On each renewal, continuation or anniversary of the effective date of this policy, we will compute the premium in accordance with our rates and rules then in effect.

3. With our consent, you may continue this policy in force by paying a continuation premium for each successive one-year period. The premium must be:

- a. Paid to us prior to the anniversary date; and
- b. Determined in accordance with Paragraph 2. above.

Our forms then in effect will apply. If you do not pay the continuation premium, this policy will expire on the first anniversary date that we have not received the premium.

4. Undeclared exposures or change in your business operation, acquisition or use of locations may occur during the policy period that are not shown in the Declarations. If so, we may require an additional premium. That premium will be determined in accordance with our rates and rules then in effect.

J. Premium Audit

1. This policy is subject to audit if a premium designated as an advance premium is shown in the Declarations. We will compute the final premium due when we determine your actual exposures.
2. Premium shown in this policy as advance premium is a deposit premium only. At the close of each audit period, we will compute the earned premium for that period and send notice to the first Named Insured. The due date for audit premiums is the date shown as the due date on the bill. If the sum of the advance and audit premiums paid for the policy period is greater than the earned premium, we will return the excess to the first Named Insured.
3. The first Named Insured must keep records of the information we need for premium computation and send us copies at such times as we may request.

K. Transfer Of Rights Of Recovery Against Others To Us

1. Applicable to Businessowners Property Coverage:

If any person or organization to or for whom we make payment under this policy 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:

- a. Prior to a loss to your Covered Property.

- b. After a loss to your Covered Property only if, at time of loss, that party is one of the following:

- (1) Someone insured by this insurance;
- (2) A business firm:
 - (a) Owned or controlled by you; or
 - (b) That owns or controls you; or
- (3) Your tenant.

You may also accept the usual bills of lading or shipping receipts limiting the liability of carriers.

This will not restrict your insurance.

2. Applicable to Businessowners Liability Coverage:

If the insured has rights to recover all or part of any payment we have made under this policy, those rights are transferred to us. The insured must do nothing after loss to impair them. At our request, the insured will bring "suit" or transfer those rights to us and help us enforce them. This condition does not apply to Medical Expenses Coverage.

L. 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.



IABforME.com

**IA&B is the premier resource and champion
for independent insurance agents in
Pennsylvania, Maryland, and Delaware.**



/IABforME



/company/IA_and_B



/IA.and.B

