PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

CLASS NOTES

Chapter 13 Commercial Property Insurance

Topics

- **ISO Commercial Property Program**
- **Building and Personal Property Coverage Form**
- **Causes-of-Loss Form**
- **Reporting Forms**
- **Business Income Insurance**
- **Other Commercial Property Coverages**
- **Transportation Insurance**
- **Businessowners Policy**

- Business firms can purchase a commercial package policy (CPP)
  - The package policy is tailored to meet the specific needs of the business
  - The policy combines two or more coverages into a single policy
    - Advantages include: fewer gaps in coverage, lower premiums, and convenience
  - The policy contains:
    - Common policy declarations
    - Common policy conditions, e.g., cancellation terms
    - Coverage parts, e.g., commercial property, crime

Building and Personal Property Coverage Form

- The building and personal property coverage form is a commercial property coverage part that is widely used to cover a direct physical damage loss to commercial buildings and personal property
  - The form covers the buildings described in the declarations, including fixtures and permanently installed machinery and equipment
  - Business personal property, such as furniture and computers, is covered
    - Includes the insured's interest in improvements and betterments as a tenant
  - Personal property of others in the care, custody, or control of the named insured is also covered
  - Additional coverages include debris removal, the cost of preserving property, fire department charges, and the cost to replace data destroyed by a covered loss
  - Under certain conditions, the insurance can be extended to cover other property, such as the personal effects of employees, newly acquired property, and property off the premises
    - The declarations page must show a coinsurance requirement of 80% or greater or a value-reporting period symbol

  - A standard deductible of $250 applies to each occurrence
  - If applicable, the coinsurance requirement must be met to avoid a penalty
  - The policy can be endorsed to cover losses on an agreed value or replacement cost basis, or to add an inflation guard

Causes-of-Loss Forms

- A causes-of-loss form must be added to the policy to have a complete contract
  - The form specifies the covered perils for the business and personal property coverage
  - The causes-of-loss basic form provides coverage for 11 basic causes of loss:
  - The causes-of-loss broad form includes all causes of loss covered by the basic form plus:
    - Falling objects
    - Weight of snow, ice, or sleet
    - Water damage
    - Also, collapse is covered for certain causes, such as hidden decay
  - The causes-of-loss special form insures against "risks of direct physical loss" unless specifically excluded
    - Also, personal property in transit is covered for certain causes of loss
    - Coverage also includes glass damage

Business Income Insurance

- Business income insurance is designed to cover the loss of business income, expenses that continue during the shutdown period, and extra expenses because of loss from a covered peril
  - One form is the business income (and extra expense) coverage form
    - This form covers the loss of business income due to suspension of operations during a period of restoration
      - Suspension must result from a covered direct physical loss
    - Extra expenses, such as relocation costs, are also covered
    - An extended business income provision covers the reduction in earnings for a limited period after the business reopens
    - Business income is defined as the net profit or loss before income taxes that would have been earned, and continuing normal operating expenses, including payroll
- The extra expense coverage form is a separate form that can be used to cover the extra expenses incurred by the firm in continuing operations during a period of restoration
  - Can be used by firms that must continue to operate after a loss occurs, such as a newspaper
  - The form does not cover loss of business income
  - Expenses to continue operations are covered, subject to certain limits
- An endorsement can be added to a business income policy to cover the loss of business income from dependent properties

  - Used when a business depends on a single supplier for raw materials, or relies on a single customer to purchase its products
  - The loss of income must result from direct damage to property of the dependent property
  - Types of dependent properties include:
    - Contributing location
    - Recipient location
    - Manufacturing location
    - Leader location

Other Commercial Property Coverages

- Some firms have certain needs that require more specialized property coverage
- A <u>builders risk coverage form</u> can be used to insure buildings under construction
  - Covers the insurable interest of a general contractor, subcontractor, or building owner
  - A builders risk reporting form can be attached as an endorsement
    - Requires the builder to report monthly on the value of the building under construction
    - As the building progresses, the amount of insurance on the building is increased, and premiums are adjusted based on the values reported by the builder
- A <u>condominium association coverage form</u> is used to cover a condominium building
  - Coverage includes the association's personal property, such as exercise room equipment
  - Coverage also includes personal property in the association's care, such as leased lawn mowers
- Businesses that own units in a condominium building can purchase a <u>condominium commercial unit-owners coverage form</u>
  - Not used for residential condominium units
  - The form covers the business property of the unit owner, such as furniture, fixtures and improvements, machinery and equipment
  - The form also covers the personal property of others in the care, custody, or control of the unit owner
- The <u>equipment breakdown coverage form</u> can be used to cover losses due to the accidental breakdown of covered equipment, such as steam boilers, refrigeration equipment, and computer equipment
  - These losses are not covered under the causes-of-loss forms
- <u>Difference in Conditions (DIC) insurance</u> is an "all-risks" policy that covers other perils not insured by basic property insurance contracts
  - The coverage fills gaps in commercial property coverage
  - The coverage can be used to insure unusual and catastrophic exposures that are not covered by the underlying contracts
  - A substantial deductible must be satisfied for losses not covered by the underlying contracts

Transportation Insurance

- Ocean marine insurance provides protection for goods transported over water
  - It is one of the oldest forms of transportation insurance
- Ocean marine insurance comes in several different forms:
  - Hull insurance covers physical damage to the ship or vessel
    - A collision liability clause (running down clause) covers the owner's legal liability if the ship collides with another vessel or damages its cargo
  - Cargo insurance covers the shipper of the goods if the goods are damaged or lost
    - Regular shipments can be covered with an open-cargo policy
      - This coverage requires the shipper to report periodically the shipments that are made
  - Protection and indemnity (P&I) insurance is usually written as a separate contract that provides comprehensive liability insurance for property damage or bodily injury to third parties
    - Coverage includes liability for damages caused by the ship to piers and docks, and for illness or injury to passengers and crew
  - Freight insurance indemnifies the ship owner for the loss of earnings if the goods are damaged or lost and are not delivered
- Ocean marine insurance is based on certain fundamental concepts, or implied warranties:
  - The owner implicitly warrants that the vessel is seaworthy
  - The ship cannot deviate from its original course
    - The ship can only deviate to avoid an accident, or to save the life of an individual on board, or rescue persons from another vessel
  - The purpose of the voyage is legal
- The ocean marine policy provides broad coverage for perils of the sea, such as bad weather, high waves, collision, sinking, and stranding
  - Includes losses from fire, pirates, and jettison (to save the ship)
  - The policy can be written on an "all-risks" basis
    - Common exclusions are losses due to delay and war
- A particular average is a loss that falls entirely on a particular interest
  - Under the free-of-particular average (FPA) clause, partial losses are not covered unless the loss is caused by certain perils, such as stranding or sinking
    - The insurer pays the full amount of a loss only if it exceeds a certain percentage specified in the FPA
- A general average is a loss that falls on all parties to the voyage, incurred for the common good
  - Each party must pay its share of the loss based on the proportion that its interest bears to the total value in the venture
  - Conditions for a general average loss include imminent peril, voluntary sacrifice, preservation of at least part of the value
    - All parties claiming contributions must be free of fault
- Inland marine contracts are classified as either filed or nonfiled forms

- Filed forms are filed with the state insurance department, and are typically used in situations where there are a large number of potential insureds
    - Forms under the ISO simplified commercial inland marine program include, for example:
        - Accounts receivable coverage
        - Camera and musical instrument dealers coverage
        - Film coverage form
        - Mail coverage form
        - Signs coverage form
        - Theatrical property coverage form
- Nonfiled inland marine forms are used to meet specialized needs
    - An annual transit policy can be used to cover the shipment of goods on public trucks, railroads, and coastal vessels
        - Both incoming and outgoing shipments can be insured on a named perils or "all-risks" basis
    - A trip transit policy is used by firms to cover a single shipment
    - A business floater covers property that frequently moves from one location to another, such as contractors equipment and garments in the process of manufacturing

Businessowners Policy

- A businessowners policy (BOP) is a package policy specifically designed for small- to medium-sized retail stores, office buildings, apartment buildings, and similar firms
    - The ISO BOP provides both property and liability coverage in one policy
    - Businesses are ineligible if their loss exposures are outside those contemplated for the average small- to medium-sized firm
        - e.g., auto repair shops and bowling alleys
    - Property losses are covered on an "all-risks" basis
        - Coverage includes buildings described in the declarations, fixtures, permanently installed machinery and equipment
    - Business personal property, including property in the insured's care, is also covered
        - A peak season provision provides for a temporary increase of 25% of the amount of insurance when inventory values are at their peak
    - Some addition coverages include debris removal, collapse, and interruption of computer operations

End./.