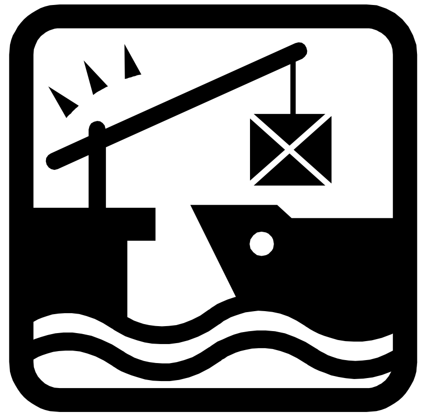
CHAPTER 10: MARINE INSURANCE



Let's Begin…

Inland Marine

Marine coverages are a unique and specialized type of insurance. Inland marine insurance evolved out of ocean marine insurance, which is one of the oldest types of insurance. For centuries, ocean passenger and cargo ships were the leading form of long-distance transportation, and marine coverages were initially designed to protect ships and cargo. With the rise of other transportation systems (such as railroads, motor vehicles, and air carriers), there came a growing need for insurance specifically designed to cover inland risks. Inland marine coverages were developed in response to these changing conditions.

The word "marine" can be misleading, because inland marine coverage may have no relationship to risks at sea, on water, or even near water. The term actually says more about the origin and history of the field than the actual nature of the commercial inland marine field today.
Marine insurance has often been called "**transportation**" insurance, because its core consists of risks involving property which is being moved from one point to another—all types of imports and exports, shipments and cargo.

Regulation and Non-Regulation

This chapter will not deal with the broad inland marine field, much of which is treated as an unregulated form of insurance for which there are no standard policy forms.

The **commercial inland marine coverage part** of a commercial package policy consists only of regulated coverages for which ISO policy forms have been filed with state Insurance Departments. Generally, coverages which are the subject of this chapter involve insurance for special types of equipment and merchandise, customers' property, and information items in which business enterprises have an interest.

Since marine coverages are largely unregulated, many commercial inland marine forms and rates are not filed and are not subject to state filing requirements. In those areas, individual companies are free to develop their own forms and rates as long as they are consistent with general statutory guidelines. The Insurance Services Office does file forms, rules and rates for **13 classes of commercial inland marine risks**. Individual companies may or may not use the ISO forms.

Coverage for filed classes of commercial inland marine risks may be issued on ISO forms (with some company variations permitted) as a monoline policy or as part of a commercial package policy. In either case, the common policy declarations and common policy conditions must be attached to a policy that includes a commercial inland marine coverage part.

Inland Marine Policy

The commercial inland marine coverage part which is used to construct a policy consists of:

- commercial inland marine **declarations** page(s),
- commercial inland marine **conditions**,
- one or more commercial **inland marine coverage forms**, and
- any **endorsements** that may apply.

Inland Marine policies are generally written on an open-peril basis

Declarations

With this kind of insurance, multiple declarations pages may be issued because a company may use declarations to show information about the entire inland marine coverage part. It may also use separate declarations pages for each coverage form attached.

An advisory commercial inland marine declarations page includes space for the name and address of the named insured, the identity of the insurer and producer, the policy number and effective date, policy period, information about the forms included in the coverage part, and the premium for the entire coverage part. This is common information which is typically found on a declarations page.

An advisory declarations page has also been issued for each coverage part in the program. Each of these declarations pages has a place for the policy number, effective date, premium for the particular coverage form, and the applicable limits of insurance. Following this general information, the appearance and content of the forms are different. Most forms have a minimum deductible of $250. Each form describes different types of covered property. Different limits or sublimits may be shown for property away from the premises, or in transit, or while inside and outside of buildings. Each separate declarations page is designed to support the structure of the applicable coverage.

Conditions

The commercial inland marine conditions apply in addition to the common policy conditions and any applicable conditions included in the individual inland marine coverage forms. There are two groups of conditions—**loss conditions and general conditions.**

Loss Conditions

Among the loss conditions, the first states that there can be no abandonment of insured property to the insurer.

Duties in the Event of Loss
Your duties in the event of loss are similar to what is found on other property forms. You must:

- notify the police if a law has been broken;
- give the insurer prompt notice of the loss, and describe the property involved;
- as soon as possible, give the insurer a description of how, when and where the loss occurred;
- take all reasonable steps to protect the property from further damage, set damaged property aside if feasible, and keep a record of expenses related to the loss;
- make no statement that assumes any obligation or admits any liability without consent of the insurer;
- permit the insurer to inspect the property and records proving loss;
- if requested, submit under oath to questioning by the insurer on matters relating to the claim, with all answers signed by you;
- within 60 days after receipt of a request from the insurer, send a signed, sworn statement of loss containing the information requested (forms will be supplied by the insurer);
- promptly send the insurer any legal papers or notices received concerning the loss;
- cooperate with the investigation or settlement of the claim.

Two or More Coverages
The next condition concerns insurance under two or more coverages. If two or more of the policy's coverages apply to the same loss, the insurer will not pay more than the actual amount of loss.

Losses Paid Within 30 Days
Loss payment will be paid, or the insurance company will "make good" on the claim, within 30 days after reaching agreement with you, or the date of entry of a final judgment, or the date an appraisal award is filed. The insurance company is not liable for any part of a loss that has been paid or made good by others.

Other Insurance
If you have other insurance covering the same loss as insurance under this coverage part, the insurer will pay only the "excess" over what you should have received from the other insurance whether collectible or not.

Pairs or Sets
If a loss involves only part of any pair, set or parts, the insurer may repair or replace any part to restore the pair or set to its value before the loss, or pay the difference between the value of the pair or set before and after the loss. In case of loss to any part of property consisting of several parts when complete, the insurer will only pay for the value of the lost or damaged part.

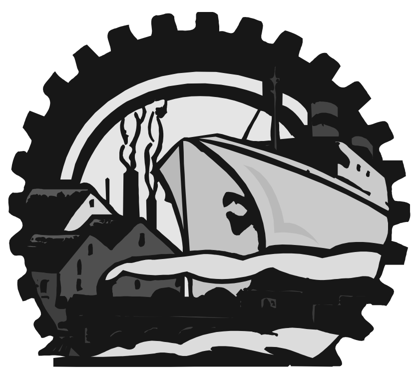
Care, Custody or Control
In the event of loss involving property of others in your care, custody or control, the insurance company has the privilege to adjust with the owner. The insurer may settle with the owners of the property, and will provide a defense at its own cost for any legal proceedings brought against you.

Salvage
Any recovery or salvage on a loss will accrue entirely to the benefit of the insurer, until the sum it has paid has been made up.

Reinstatement of Limit
Another condition calls for the reinstatement of limit after a loss. The limit of insurance will not be reduced by payment of any claim, except for a total loss of a scheduled item, in which event the insurer will refund the unearned premium on that item.

Subrogation
If any person or organization for whom the insurer makes payment under the insurance has rights to recover damages from another party, those rights of recovery are transferred to the insurer. The person or organization for whom payments are made must do everything necessary to secure these rights of recovery, and must do nothing after loss to impair these rights.

Release Bill of Lading
A release Bill of Lading limits the carrier’s liability on the shipment for the common carrier.



General Conditions

The general conditions are brief and are all common conditions in the property insurance field.

Fraud

The commercial inland marine coverage part will be void in any case of fraud by the named insured relating to the insurance. It is also void if the named insured intentionally committed concealment or misrepresentation of a material fact concerning this coverage part, the covered property, or the named insured's interest in covered property.

Legal Action

No one may take legal action against the insurer under the inland marine coverage part unless there has been full compliance with all the terms of the coverage part, and the action is brought within two years after you first have knowledge of the loss.

No Benefit to Bailee

The coverage will provide no benefit to a bailee. No person or organization, other than the named insured, having custody of covered property will benefit from the insurance.

Loss During Policy Period

The policy period is that shown in the declarations, and the coverage only applies to "loss" commencing during the policy period.

Valuation

A valuation clause says that, in the event of loss, the value of property will be determined as of the time of loss, and the value will be the least of the following amounts:

- the actual cash value of that property,
- the cost of reasonably restoring that property to its condition immediately before loss, and
- the cost of replacing that property with substantially identical property.

Coverage Forms

Although transportation insurance might provide a more accurate impression of the nature of risks insured by inland marine policies, the actual definition of inland marine insurance is even broader. It covers moveable property whether or not it is ever moved. In addition to property being transported or which has the potential of being moved, the field includes insurance for **instruments of communication and transportation** which may have a permanent fixed location. Inland Marine coverages are used to insure such things as bridges, tunnels, piers, pipelines, power transmission lines and towers, and radio and television communications equipment.

The commercial inland marine coverage part may include one or more of the following coverage forms. Each form covers **risks of direct physical loss except for perils which are excluded**, and **each form lists its own exclusions**.

- electronic data processing
- accounts receivable,
- camera and musical instrument dealers,
- commercial articles,
- commercial fine arts,
- equipment dealers,
- film coverage,
- floor plan merchandise,
- jewelers block,
- mail coverage,
- physicians and surgeon's equipment,
- signs (signs, lamps and mechanical parts),
- theatrical property, and
- valuable papers and records.
- Motor Truck Cargo

An annual transit policy is usually provided on a named peril basis.

The common exclusions found in marine policies:
- government action,
- nuclear hazard,
- war and warlike action
- intentional loss
- wear & tear, deterioration, inherent vice
- damage by insects and vermin
- dishonest acts by the insured

Electronic Data Processing

Underwriting
Many companies write this coverage. Most risks with reasonable protection are generally acceptable. Most companies have their own EDP forms. Your underwriter will be looking for fire, theft and temperature control safeguards. A completed application and physical inspection are usually required. Note: Minicomputers present no underwriting problems; it is the very large units and systems which require review by the underwriter.

Important Points to Remember

1. Consider carefully the limits for extra expense and business income coverages. A comparatively small physical damage loss might cause a considerable time element loss and you'll want to be sure you have provided enough coverage.

2. Although the two separate inland marine forms covering accounts receivables and valuable papers are not specific endorsements to the EDP form, it may be necessary to protect both source material and receivables with them in the event of a covered loss.

Brief Description of Coverage

Because of the variety of coverages available in the marketplace, this review combines information on the AAIS-published program and other programs developed by various companies. One primary difference between the AAIS policies and others is that AAIS forms do not include loss of use (business income) coverage in the basic form; it must be endorsed.

The Policy Covers

Electronic data processing equipment, other machines related to the data processing operation and media on a special coverage basis. Coverage is usually written for four major categories; however, programs will vary by company.

1. Computer Equipment—(Hardware) Equipment and component parts in connection with the processing unit are covered. Often, in addition to specific hardware, many policies also include coverage here for the protection and control systems used in computer operations. These include air conditioning and fire protection systems and electrical equipment.
2. Media and Data—(Software) Coverage is provided for physical loss or damage to processing, recording or storage media. This media includes tapes, cards, discs, drums, cartridges or cells. Coverage is also provided for the actual information that is contained—in a useable form for EDP operations—in the media.
3. Extra Expense—This coverage applies to losses arising out of damage to computer equipment, media, data or premises. For extra expense coverage to apply, expenses must be essential to the continuation or resumption of the insured's business. Some companies include this as basic coverage; others offer it as an additional coverage.
4. Business Income—Provides coverage for income lost as a result of interruption of the insured's computer operations. Some companies offer this coverage as an endorsement; most include it in the policy itself.
5. Additional Coverages—Additional coverages are also provided by the policy. Included as additional coverages in most policies are
    a. Newly acquired equipment;
    b. New, backup or temporary locations;
    c. Debris removal;
    d. Emergency removal of property;
    e. Pollutant cleanup or removal;
    f. Recharge of fire suppression equipment;
    g. Storage;
    h. Transit; and
    i. Power or electrical disturbance or mechanical breakdown.

For disturbance coverage to be effective, the disturbance must occur within a specific distance from the location. Certain limits, restrictions or deductibles also apply to other of these additional coverages.

The Policy Does Not Cover

Policy coverage varies from company to company and each form should be read carefully for differences. Some common exclusions that appear in most policies are:

1. Dishonest acts;
2. War, government seizure, nuclear hazard and acts of civil authority;
3. Pollution damage;
4. Changes in temperature or humidity;
5. Loss of documents;
6. Strikes;
7. Suspension of leases, contracts or orders;
8. Money and securities;
9. Programming errors except for malicious software;
10. Stock in trade;
11. Wear and tear;
12. Mysterious disappearance;
13. Errors and omissions;
14. Electrical or power supply disturbances that occur over certain distances from the premises.
15. Property loaned, leased or rented to others; and
16. Contraband.

Important Provisions

Deductibles: Deductibles are available for the coverages above. They usually range from $500 to $5,000, with appropriate credits.

Endorsements and Extensions

Endorsements available vary by company, depending upon coverage offered. Some of the more common endorsements include:

1. Flood and Earth Movement—These two perils may be excluded by endorsement.
2. Disturbance Coverage—Distance limits applying to electrical or power supply disturbance may be removed by endorsement.
3. Upgrade Value—After a total loss, this endorsement allows for the replacement of hardware with equipment of greater cost and data processing ability. Both the replacement hardware and the hardware being replaced must be scheduled under this endorsement.
4. Loss of Income—Business income protection is available by endorsement if the policy excludes this coverage.

Rates and Rating

Each risk will be rated individually. Rating guidelines usually consider risks with a combined exposure of up to $250,000 at all locations. But each location should be rated separately.
It is preferable to write the policy for one year only because of changes in equipment, procedures, values, changing technology, etc.

Accounts Receivable Coverage Form

Coverage

Accounts receivable coverage is an important protection for many businesses. It covers sums due to you from customers which are uncollectible due to loss, damage, or destruction of accounts receivable records. The coverage also applies to expenses to reestablish the records, if possible, and collection expenses which are in excess of normal. In addition, interest charges on any loan required to offset uncollectible amounts pending payment of the insurance proceeds will be covered.

The form contains an additional coverage for loss of records involving collapse of a building or structure. It applies only to collapse caused by fire or lightning, extended coverage perils, breakage of glass, falling objects, weight of snow, ice or sleet, water damage, hidden decay or insect or vermin damage, weight of people or personal property, weight of rain that collects on a roof, or use of defective building materials or methods if collapse occurs during construction or remodeling. (Note: this additional coverage is found on all the coverage forms except the Mail Coverage Form, and on each form it covers against loss by the same perils.)

The form contains an extension of coverage for loss of records when removed from the premises to protect them from imminent danger of loss. The removal coverage applies only if you give written notice of the removal within 10 days.

Exclusions

The covered causes of loss are "risks of direct physical loss" to accounts receivable records except those risks which are excluded. Any loss that requires an audit of records or inventory computation to prove its factual existence is not covered. The form also **excludes coverage** for loss caused directly or indirectly or resulting from any of the following:

- government action,
- nuclear hazard,
- war and warlike action,
- delay, loss of use, loss of market or other consequential loss,
- dishonest acts by you, your employees or representatives, or anyone entrusted with property (this does not apply to a carrier for hire),
- alteration, falsification, concealment or destruction of records to conceal wrongful acts,
- bookkeeping, accounting or billing errors,
- electrical or magnetic injury, disturbance or erasure of electronic recordings (except that direct loss caused by lightning is covered),
- voluntary parting with any property if induced to do so by any fraudulent scheme, trick, device or false pretense, and
- unauthorized instructions to transfer property to any person or any place.
- any of the following causes (but if loss by a covered cause of loss results, that additional loss will be covered):
  1) weather conditions;
  2) acts or decisions, or the failure to act or decide, of any person, group, organization or government body;
  3) faulty, inadequate or defective planning, zoning, development, design, workmanship, repair, construction, building materials, or maintenance; and
  4) collapse, other than as provided in the additional coverage.

Limits of Insurance

A **special valuation condition** replaces the standard clause in the commercial inland marine conditions form because of the unique nature of the property (accounts receivable) being insured. If you cannot accurately establish the amount of accounts receivable outstanding at the time of loss, the average monthly amounts receivable for the preceding 12-month period will be used, and that amount will be adjusted for normal fluctuations in the amount receivable or demonstrated variance from the average for the month in which the loss occurred. However, the amount receivable is determined, the following amounts will be subtracted from the total:

- the amount of accounts for which there is no "loss,"
- the amount of accounts which you are able to reestablish and collect,
- an amount to allow for probable "bad debts" which you are normally unable to collect, and
- all unearned interest and service charges.

The accounts receivable form includes a **coinsurance clause** which requires insurance for at least 80 percent of the amount of accounts receivable at the time of loss, or else there will be a penalty. If the insurance carried is less than 80 percent of the value of the accounts at the time of loss, the insurance will only pay the proportion of the loss that the limit of insurance bears to 80 percent of the total value of the accounts. The coinsurance clause does not apply to property in transit, which may be covered if a limit of insurance for it is shown in the declarations.

To the extent that any loss is paid by the insurer, any later recovery of amounts receivable must be returned to the insurer.

Camera and Musical Instrument Dealers Coverage

Coverage

This form is used by camera and musical instrument dealers to cover stock and to protect customers' property while in the insured's care and custody for repair, adjustment or cleaning. Covered property includes:

- the insured's stock in trade, consisting principally of cameras or musical instruments and related equipment and accessories, and
- similar property of others in the insured's care, custody and control.

Property not covered includes property that has been sold and delivered to customers, accounts, bills, currency, deeds, evidences of debt, money, notes or securities, furniture, fixtures, office supplies, improvements and betterments, machinery and tools, patterns, dies, molds, models, property in the mail (unless by registered mail or government insured mail), and contraband, or property in the course of illegal transportation or trade.

An additional coverage is provided for loss involving collapse of a building or structure. It applies to loss caused by the perils specifically identified on the form.

An extension of coverage is provided for theft damage to buildings. The insurance will pay for damage caused directly by theft or attempted theft to that part of any building containing covered property, or equipment within the building which is used to maintain or service the building, but only if you own the building or are legally liable for the damage to it. This extension does not cover damage caused by fire, or damage to glass or to lettering or artwork on glass.

Exclusions
Covered causes of loss are risks of direct physical loss to covered property except what is excluded. The form excludes loss caused by or resulting from any of the following:

- earthquake,
- government action,
- nuclear hazard,
- war and military action,
- water, flood, surface water, waves, tides, overflow of a body of water, or spray whether wind driven or not,
- theft from an unattended vehicle (unless locked and there are visible signs of forced entry),
- marring, scratching, exposure to light, breakage of tubes, bulbs, lamps or articles made largely of glass (except lenses),
- delay, loss of use, loss of market or other consequential loss,
- unexplained disappearance,
- shortage found upon taking inventory,
- dishonest acts by you, or your employees or representatives, or anyone entrusted with the property (except this does not apply to a carrier for hire),
- processing or work upon the property,
- artificially generated electrical current creating a short circuit or other electrical disturbance within an article covered by the insurance (but direct loss caused by any resulting fire or explosion is covered),
- voluntary parting with any property if induced to do so by any fraudulent scheme, trick, device or false pretense, and
- unauthorized instructions to transfer property to any person or any place.
- The form also excludes any of the following causes (but if loss by a covered cause of loss results, that additional loss will be covered):
    1) weather conditions;
    2) acts or decisions, or the failure to act or decide, of any person, group, organization or government body;
    3) faulty, inadequate or defective planning, zoning, development, design, workmanship, repair, construction, building materials, or maintenance;
    4) collapse, other than as provided in the additional coverage; and
    5) wear and tear, any quality in the property that causes it to damage or destroy itself, hidden or latent defect, gradual deterioration, depreciation, mechanical breakdown, insects, vermin, rodents, corrosion, rust, dampness, cold, or heat.

Limits of Insurance
The limits of insurance and the deductible applicable to this coverage will be shown in the declarations.

Additional Conditions
A number of additional conditions are found on the camera and musical instrument dealers form. A valuation condition replaces the standard commercial inland marine valuation clause. The value of "unsold property" will be the least of (1) the ACV of that property, (2) the cost to reasonably restore it to its condition immediately before the loss, or (3) the cost of replacing it with substantially identical property.

The value of “sold property” which is not yet delivered to customers will be the net selling price after discounts and allowances. The value of “property of others” in your care, custody or control will be the lesser of (1) the amount for which you are liable, plus the value of labor and materials you have added, or (2) the ACV of the property, including labor and materials added by you. The value of “negatives, positives or prints” will be the cost of unexposed film or developing paper, including labor or materials added by you during the developing.

A standard coinsurance clause applies and requires insurance equal to at least 80 percent of the value of insured property at the time of loss. If a lower amount of insurance is carried, the penalty is the standard proportional reduction in recovery.

You are required to keep accurate records and inventory figures and to retain these records for at least three years after the policy period ends. The records must consist of an itemized inventory of the stock in trade, records of all purchases and sales, records of property of others in your care, custody or control, and records of property you send to others for any purpose. A physical inventory of stock is required at least once every 12 months.

A final condition refers to protective safeguards which may be required and which you may have stated were in effect at one or more locations when the coverage began. If you fail to keep such protective safeguards in working condition at a location, or in operation when the business is closed, coverage for which the safeguards apply will be automatically suspended at that location, until the equipment or services are back in operation.

Example: If you say that a burglar alarm will be used at an insured location, the insurance company may deny claims for losses that occur when the alarm is not in service.

Commercial Articles Coverage

Coverage

In contrast to the dealers’ coverage just reviewed, a commercial articles coverage form may be used to insure the interests of the owner of commercial cameras, musical instruments and related equipment. Covered property includes cameras, projection machines, films and related equipment and accessories, musical instruments and related equipment and accessories, and similar property of others that is in your care, custody or control.

Common buyers of commercial articles coverage might include musical groups or wedding photographers—both of which frequently transport valuable equipment.

Within this class of “covered property,” the only property not covered is contraband, and property in the course of illegal transportation or trade.

An additional coverage is provided for loss involving collapse of a building or structure, when caused by the perils specified. This form does not include any extensions of coverage.

Exclusions

Covered causes of loss are all risks of direct physical loss to covered property except what is excluded. The form excludes loss caused by or resulting from the same actions and hazards that apply to the accounts receivable coverage.

Limits of Insurance

The limits of insurance and the deductible applicable to this coverage will be shown in the declarations.

This form includes a coinsurance clause, but it is different than the one found on most of the other forms. It states that all items that are covered but not individually listed and described must be insured for their total value at the time of loss, in order to avoid a penalty. If not insured for total value at the time of loss, the penalty is that the insurer will only pay the proportion of the loss that the limit of insurance in the declarations bears to the total value of these items at the time of loss.

A condition addresses additional acquired property, which will be automatically covered for up to 30 days, if it is a type of property already covered by the form. In the event of loss, the insurance company will pay the lesser of 25 percent of the limit of insurance shown in the declarations for that type of property, or $10,000. You are required to report any additional acquired property within 30 days and to pay the additional premium for it. If not reported, coverage automatically ends after 30 days.

Commercial Fine Arts Coverage

Coverage

The commercial fine arts coverage form may be used to cover fine arts owned by you or in your care, custody, and control. Property while on exhibition at fairgrounds or expositions is excluded, as is contraband or illegally transported property. Extensions are provided for newly-acquired property for up to 30 days, for the lesser of 25 percent of the total limit of insurance or $10,000, provided the acquisition is reported within 30 days and you pay any additional premiums due.

Exclusions

In addition to the exclusions that apply to the other coverages discussed in this section, the fine arts coverage also excludes breakage of art glass, windows, statuary, glassware, etc. unless caused by a covered cause of loss like fire, lightning, explosion, etc.

Limits of Insurance

It’s difficult to assign value to fine art objects. Valuation of covered property is determined according to its description in the declarations or, if not described in the declarations, the least of:

- the actual cash value of the property,
- the cost of reasonably restoring the property to its condition before the loss,
- the cost of replacing the property with substantially identical property, and
- property value is determined as of the time of loss.

This form takes other special measures to compensate for the valuation difficulties posed by fine art. It includes a coinsurance clause, and a condition that covered property will be packed and unpacked by competent parties.

Additional Conditions

Finally, there are loss conditions regarding pairs, sets, or parts. If a total loss of any items that are part of a pair or set that is individually listed and described in the declarations occurs, the full limit for the pair or set will be paid, and you will surrender the remaining items of the pair or set to the insurance company. If a loss occurs to a part of a pair or set not shown in the declarations occurs, the insurer may repair or replace the item to restore the pair or set to its full value, or may pay the difference between the value of the pair or set before and after the loss.

Equipment Dealers Coverage

Coverage

An equipment dealers coverage form may be used to cover the interest of a dealer of mobile equipment and construction equipment. Covered property means the dealer's stock in trade consisting principally of mobile agricultural and construction equipment, and similar property of others in your care, custody or control.

Property not covered includes automobiles, motor trucks, motorcycles, aircraft, watercraft; accounts, bills, currency, deeds, money, notes, securities, evidences of debt; property while in the course of manufacture; property leased, rented or sold; furniture, fixtures, office supplies, improvements and betterments, machinery, tools, fittings, patterns, dies, molds and models; property of others described in the declarations; and contraband, or property in the course of illegal transportation or trade.

Coverage for most of these items should be purchased by means of other kinds of insurance. An additional coverage is provided for loss involving collapse of a building or structure. It applies to loss caused by the perils specifically identified on the form.

This form includes **three extensions of coverage**. The first is for **debris removal**, and it is similar to the coverage provided by commercial property forms. The insurer will pay expenses to remove the debris of covered property which is damaged by a covered cause of loss, subject to a limit of 25 percent of the amount paid for direct physical loss plus the amount of the deductible. However, if the sum of the debris removal expense and the direct loss exceeds the limit of insurance, or if the total debris removal expense exceeds the 25 percent limitation, the insurer will pay up to an additional $5,000 per occurrence for debris removal costs.

The second extension applies to **pollution cleanup** and removal expenses. The insurer will pay expenses to extract pollutants from land or water if the release or discharge of the pollutants results from a covered cause of loss during the policy period. But the most the insurer will pay under this extension is $10,000 for all such expenses arising during each separate 12-month period of coverage under the policy
.
The third extension applies to **theft damage to buildings**. The insurer will pay for damage caused directly by theft or attempted theft to that part of any building containing covered property, or equipment within the building which is used to maintain or service the building, but only if you own the building or are legally liable for the damage to it. This extension does not cover damage caused by fire, or damage to glass or to lettering or artwork on glass.

Exclusions

Covered causes of loss are risks of direct physical loss to covered property except what is excluded. The exclusions are consistent with the ones found in the other coverage forms.

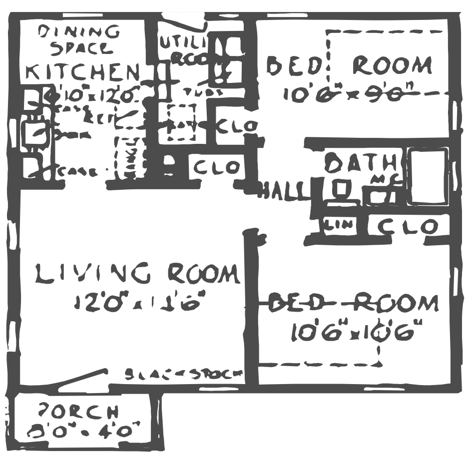
Additional Conditions
A number of particular conditions are found on the equipment dealers form.
A valuation condition replaces the standard commercial inland marine valuation clause. The value of “unsold property” will be the least of (1) the ACV of that property, or (2) the cost to reasonably restore it to its condition immediately before the loss, or (3) the cost of replacing it with substantially identical property. The value of “sold property” which is not yet delivered to customers will be the net selling price after discounts and allowances.

The value of “property of others” in your care, custody or control will be the lesser of (1) the amount for which you are liable, plus the value of labor and materials you have added, or (2) the ACV of the property, including labor and materials added by you.

A standard coinsurance clause applies and requires insurance equal to at least 80 percent of the value of insured property at the time of loss. If a lower amount of insurance is carried, the penalty is the standard proportional reduction in recovery.

You are required to keep accurate records and inventory figures and to retain these records for at least three years after the policy period ends. The records must consist of an itemized inventory of the stock in trade, records of all purchases and sales, records of property of others in your care, custody or control, and records of property you send to others for any purpose. A physical inventory of stock is required at least once every 12 months.

This form also has a condition regarding protective safeguards which may be required and which you may have stated were in effect at one or more locations when the coverage began. If you fail to keep such protective safeguards in working condition at a location, or in operation when the business is closed, coverage for which the safeguards apply will be automatically suspended at that location, until the equipment or services are back in operation.



Floor Plan Coverage

Coverage
This form is used to insure merchandise for sale which is financed up to the time it is sold. It may be used to insure the single interest of the dealer who holds the merchandise for sale, or the single interest of the lender, or their dual interest. Coverage may also be provided for property in transit.

Covered property is property of the dealer which is at risk and specified in the declarations, and property at risk which is specifically encumbered to a secured lender named in the declarations. Property not covered is any property after the named insured's interest in it ceases, property after it is sold and delivered or otherwise disposed of, and contraband or property in the course of illegal transportation or trade.

The floor plan coverage form provides the standard additional coverage for collapse, when caused by the perils specified. It does not include any extensions of coverage.

Exclusions

As with the other inland marine coverage forms, covered causes of loss are all risks of direct physical loss to covered property except what is excluded. The form uses exclusions consistently with the other inland marine coverage forms.

Limits of Insurance

The limits of insurance and the deductible applicable to this coverage will be shown in the declarations. This form does not include a coinsurance condition but the reporting requirement imposes a form of coinsurance penalty.

Additional Conditions

This form contains a number of additional conditions. One applies to transit coverage in the event of cancellation. If the policy is canceled, property already in transit will be covered until it reaches its destination.

A valuation clause states that in the event of loss, the value of "unsold property" will be the least of (1) the cost of reasonably restoring the property to its condition immediately before the loss, or (2) the cost of replacing the property with substantially identical property, or (3) the purchase price to the dealer, including transportation charges. The value of "sold property" will be the net selling price after allowances and discounts. A loss limitation applies to property insured on a "single interest" basis—the insurer will only pay the proportion of the loss that your interest bears to the total value of the property.

When coverage is written on a dual interest basis, the protection given a secured lender will not be impaired by failure of another party to comply with policy provisions, if the lender has diligently tried to comply with all provisions.

You are required to take a physical inventory at least once every 12 months, and must keep detailed business records of inventory, payments, purchases, sales and property of others held, and retain these records for at least three years after the policy ends.

This is a **reporting form**, and you must file reports of values within 30 days after the end of each month. Premiums will be computed according to monthly rates. The insurance company is not liable for loss in excess of the amount of insurance written, even if reported values exceed the limit of insurance. If you have not filed any report at the time of a loss, the insurance is only liable for 90 percent of the limit of insurance written. If you fail to make a report when required, the insurance is only liable for the amount last reported. The penalty for underreporting values is a proportional reduction in recovery for any loss.

Jewelers Block Coverage

Coverage

The jewelers block coverage form is similar to coverage for other dealers (camera and musical instruments, or equipment dealers), because it covers the insured's merchandise held for sale and customers' property. But it has some additional features as well, such as multiple types of transit coverage and coverage for property in showcases. Covered property includes:

- the insured's stock in trade, consisting of jewelry, precious and semi-precious stones, precious metals and alloys, and other stock used in the business,
- such property which is sold but not yet delivered,
- similar property of others not in the jewelry trade, when such property is in the insured's care, custody and control, and
- similar property of others in the jewelry trade, when such property is in the insured's care, custody and control (but only to the extent of money actually advanced by the insured, or the insured's legal liability for the property).

Property not covered includes all of the following types of property:

- property sold under a deferred sales payment agreement after it leaves the insured's premises,
- property while at any exhibition promoted or financially assisted by a public authority or trade association,
- property while exhibited in showcases away from the insured's premises,
- property while worn by any officer, director, employee, agent, member or messenger of the business or any organization engaged in the jewelry trade, or by any of their family members, relatives, or friends (but watches worn solely for purposes of adjustment are covered),
- property in transit by mail (unless sent by U.S. Postal Service Registered Mail),
- property in transit by express carriers,
- property in transit by railroads, waterborne or air carriers (but property accompanied by a traveling person and transported by passenger parcel or baggage services may be covered),
- property in transit by motor carriers (but shipments by a carrier operating exclusively as a merchant's parcel delivery service, or by an armored car service, or by parcel transportation or baggage services of passenger bus lines may be covered), and
- contraband, or property in the course of illegal transportation or trade.

Note that various types of property in transit "may" be covered. The declarations of the jewelers block form includes places for entering a limit of insurance for each of the following: "registered mail," "armored car," "merchants parcel delivery service," and "railroads, passenger bus lines, waterborne or air carriers." Each coverage will apply only if a limit of insurance is shown in the declarations.

The jewelers block coverage form provides the standard additional coverage for collapse, when caused by the perils specified.

An extension of coverage is provided for theft damage to buildings. The insurance will pay for damage caused directly by theft or attempted theft to that part of any building containing covered property, or equipment within the building which is used to maintain or service the building, but only if the insured owns the building or is legally liable for the damage to it. This extension does not cover damage caused by fire, or any damage to glass or to lettering or artwork on glass.

The jewelers block form also provides **two coverage options**. The first option is for show windows—if a limit of insurance is shown in the declarations, it will cover loss of covered property from show windows at the premises from theft or attempted theft involving the smashing or cutting of the show windows. The other option is for money coverage—if a limit is shown in the declarations, it will cover the loss of money by theft from locked safes or vaults at the premises, when the safes or vaults have been broken open.

Limits of Insurance

The jewelers block has a special valuation condition which replaces the standard commercial inland marine valuation clause. The value of property does not include any antique or historical value, and it will be the least of the following amounts:

- the actual cash value of the property,
- the cost to reasonably restore it to its condition immediately before the loss,
- the cost of replacing it with substantially identical property, or
- the lowest figure put on the property in the insured's inventories, stock books, stock papers or lists existing as of the time of loss.

A standard clause about protective safeguards says that the insurance will be suspended if safeguards stated to be in effect when the coverage began are not kept in working condition or operation. A typical records and inventory clause requires a physical inventory at least once every 12 months, and detailed records of inventory, purchases, sales, property of others, and property away from the premises to be kept and retained for at least three years after expiration of the policy.

One additional condition on the jewelers block coverage form does not appear on any of the other inland marine forms—it is titled changes in premises. It states that, unless the insurer agrees in writing, it does not cover property where the risk of loss has been materially increased by changes in the premises, or property located in expansions to the premises shown in the declarations.

Mail Coverage

Coverage
Banks, trust companies, insurance companies, security brokers, fiduciaries, and various transfer agents have a need for mail coverage. When sent by first class, certified, express or registered mail, covered property includes bonds, stock certificates, certificates of deposit and other securities, coupons if attached to bonds, postage and revenue stamps, money orders, checks, drafts, notes, bills of lading, warehouse receipts and other commercial papers, and other documents and papers of value except unsold travelers checks and money. Covered property also includes, only when sent by registered mail, bullion, platinum and other precious metals, currency, unsold travelers checks, jewelry, watches, precious and semi-precious stones and other similar property.

A special provision describing when coverage applies states that property is covered only when in the care, custody and control of a government postal service, and while in transit by a common carrier or messenger to and from a government post office. Property continues to be covered until it is delivered to the addressee at the address shown on the package, or delivered to the proper address in the event of an error in the address shown or removal of the addressee, or returned to the premises of the sender in the event of non-delivery.

Because the form is so specific about the types of property covered and when coverage applies, the statement about property not covered is brief: covered property does not include contraband or property in the course of illegal transportation or trade.

The mail coverage form includes one extension of coverage for errors and oversight. If the value of any mailing was not recorded properly, because of error or oversight, the insurer will pay the actual value of the property in the event of loss if promptly notified after discovery of the error or oversight. However, payment will not be for more than the limit of insurance shown in the declarations. If the value of property in any one shipping exceeds the limit of insurance, the insurer will only pay the proportion of a loss that the limit of insurance bears to the actual value.

Exclusions
Covered causes of loss are risks of direct physical loss except for causes which are excluded. Because the types of property covered and application of coverage have already been well-defined and limited, this form provides broad "all risk" coverage while property is in the custody of the postal service. There are only three exclusions—the insurer will not pay for loss caused directly or indirectly by:

- government action,
- weapons, including atomic weapons, mines and torpedoes, or
- war and military action

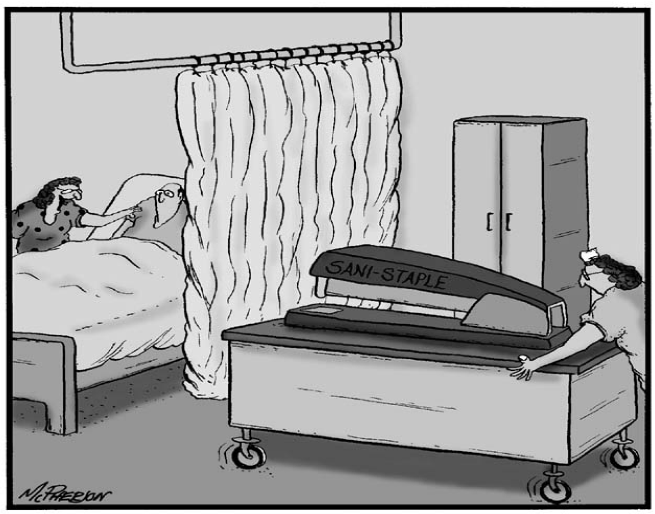
Limits of Insurance
The most the insurer will pay for loss in any one occurrence is the applicable limit of insurance shown in the declarations. Separate limits may be entered for each type of mail service, and for any single addressee on one day. In the event of loss, the value of covered property will be its actual value, but not less than its market value, on the date of mailing. Coverage is always written on a reporting basis, and reports must be made within 30 days after the end of each reporting period shown in the declarations.

Physicians and Surgeons Equipment Coverage

Individuals in the medical or dental profession (not hospitals, schools or institutions) may cover valuable medical and dental equipment, materials, supplies and even office equipment and furniture by purchasing a physicians and surgeons equipment coverage form. Covered property includes your medical and dental equipment, materials, supplies and books usual to the medical or dental profession (at your option, similar property of others may also be insured), office equipment, including furniture and fixtures, and your interest in improvements and betterments. Within the classification of covered property, the only property not covered is radium and contraband or property in the course of illegal transportation or trade.

This physicians and surgeons equipment form includes an additional coverage for loss by collapse, and an extension of coverage for theft damage to buildings. Covered causes of loss are all risks of direct physical loss to covered property except what is excluded.

The appropriate limits of insurance and the deductible applicable to this coverage will be shown in the declarations. This form includes an 80 percent coinsurance requirement at the time of loss to avoid a penalty on recovery.



"Now, Gene, Dr. Radnor assured you that you wouldn't need stitches, and I'm sure he wouldn't lie."

Signs Coverage

A special form exists for insuring the value of signs, including neon, fluorescent, automatic or mechanical signs. On the sign coverage form, covered property means the named insured's signs and similar property of others in the care, custody or control of the named insured. The only signs not covered are contraband and property in the course of illegal transportation or trade. The sign coverage form provides the standard additional coverage for collapse, when caused by the perils specified. It does not include any extensions of coverage.

Covered causes of loss are risks of direct physical loss to covered property except what is excluded. The form excludes the causes of loss prohibited by the accounts receivable coverage form—and most of the forms in this section.

The appropriate limits of insurance and the deductible applicable to this coverage will be shown in the declarations. This form includes a 100 percent coinsurance requirement for all covered property, except property in transit.

Theatrical Property Coverage

This form is used to cover theatrical property which is used or intended to be used in specific theatrical productions. Covered property includes the named insured's scenery, costumes and theatrical properties, and similar property of others which is in the care, custody or control of the named insured, or on which the named insured has made partial payments. All covered property is property to be used or intended for use in a production which is identified in the declarations—productions must be identified.

Property not covered includes buildings and their improvements and betterments; vehicles (unless actually used on the stage in the covered production); jewelry comprised of precious stones, metals or alloys; accounts, bills, currency, deeds, money, documents, transportation or admission tickets, notes, securities and evidences of debt; animals; contraband, or property in the course of illegal transportation or trade.

The theatrical property coverage form provides an additional coverage for collapse of a building. It does not provide any extensions of coverage.

The limits of insurance and the deductible applicable to this coverage will be shown in the declarations. This form includes an 80 percent coinsurance requirement at the time of loss to avoid a penalty in recovery.

Valuable Papers and Records Coverage

Nearly every business relies on records or documents that would have to be reconstructed after loss or destruction, or which might be irreplaceable. Valuable papers and records coverage protects against the loss of such documents. Generally, the insurance would pay to replace or reconstruct the lost records. Covered property means valuable papers and records that are the named insured's property or the property of others in the care, custody or control of the named insured. "Valuable papers and records" means inscribed, printed or written documents, manuscripts or records, including abstracts, books, deeds, drawings, films, maps or mortgages. It does not include money or securities, converted data, programs or instructions used in data processing operations, or the material on which such data is recorded.

"Property not covered" means property not specifically declared and described in the declarations—if such property cannot be replaced with other property of like kind and quality. It also includes property held as samples or for delivery after sale, property in storage away from the premises shown in the declarations, and contraband and property used in illegal transportation or trade.

The valuable papers and records form provides the standard additional coverage for collapse, when caused by the perils specified. It also includes an extension of coverage for removal of property to protect it from imminent danger of loss. You must give the insurance company written notice of the removal within 10 days.

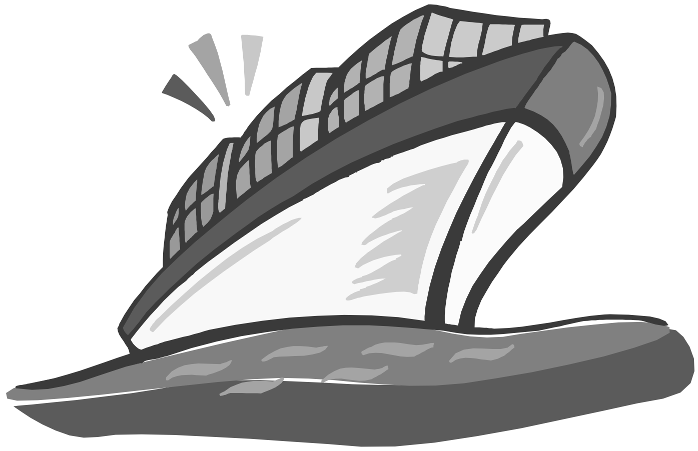
In addition to the familiar causes of loss and exclusions, this coverage does not cover losses caused by the following factors:

- errors or omissions in processing or copying (but direct loss caused by any resulting fire or explosion is covered),
- electrical or magnetic injury, disturbance or erasure of electronic recordings, and
- voluntary parting with any property if induced to do so by any fraudulent scheme, trick, device or false pretense.

The appropriate limits of insurance and the deductible applicable to this coverage will be shown in the declarations. This form does not include a coinsurance condition.
A special condition requires you to keep all valuable papers and records in receptacles that are described in the declarations at all times when the records are not being used and while the business is closed.

Inland Marine Policy Endorsements

Various endorsements may be attached to the inland marine coverage part or to one or more of the coverage forms to alter the coverage. Most of those in use tend to be of two types—state amendatory endorsements, and those which modify a specific coverage form.
Among the endorsements attached because of state requirements, the most common policy provisions altered are "cancellation" requirements, the treatment of "other insurance," when "legal action" can be taken against the insurer, and when "loss payments" will be made.
A number of standard endorsements have been designed to modify the individual coverage forms. Usually these endorsements specifically identify a particular coverage form. These endorsements are used to describe additionally covered property, to schedule or list property, to alter deductibles or create special deductibles for specific coverages, and to change reporting forms into non-reporting or vice versa.
Some endorsements limit or broaden a particular type of coverage (for example, the "Exclusion of Named Customers" endorsement which may be attached to the accounts receivable form, and the "Negotiable Securities Under Air Bill" endorsement which may be attached to the mail coverage form).



Ocean Marine Coverage

Ocean Marine insurance is the oldest commercial line. In fact, the modern commercial insurance marketplace began with Lloyds of London setting up a system for insuring the cargo inside ocean-going ships against loss and damage in the early 19th Century. Many of the unique terms and conditions that define insurance coverages to this day come from the ocean marine insurance marketplace. For that reason alone, every insurance professional should have a passing knowledge of these coverages.

Analyzing the Standard Ocean Marine Policy

The underwriter will be interested in the following as respects cargo:

1. Are the shipments exports or imports?
2. Is the cargo to be carried by vessel or by aircraft?
3. What are the places of origin and destination?
4. What types of commodities are being shipped?
5. What methods of packing the merchandise are used?
6. Will cargo be carried below decks or on deck?

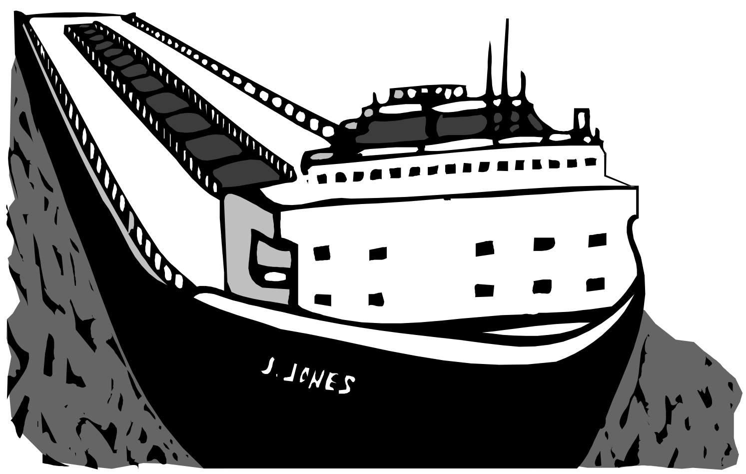
Any other information you have will be valued by the underwriter.

Important Points to Remember

1. Be sure to obtain information on values shipped annually.
2. Obtain information on how merchandise will be shipped (via containers, crates, pallets, etc.).

Open Cargo Policy
A marine open cargo policy is a contract between the insured and the insurance company which provides automatic protection on all shipments coming within the scope (coverage) of the contract, whether or not prior notice is declared to the company. The policy is continuous until cancelled and normally is subject to a 30-day cancellation notice. Each shipment must (eventually) be declared to the company on forms supplied by the company.

Hull Insurance
The American hull insurance market for large ocean going hulls gradually developed from 1898, which saw the American Institute of Marine Underwriters develop as an industry trade organization. In 1920 the Merchant Marine Act was passed, which encouraged the American marine companies to underwrite the new American merchant marine fleet being built in this country. Today, the American Hull Syndicate, comprised of over 70 companies, has a capacity of $50,000,000 per vessel and is one of the leaders in the world of marine insurance.



Protection and Indemnity Insurance
Complete information should be submitted regarding the exposure and any expected changes in the exposure for the full year. If the risk changes during the currency of the policy, notify the underwriters immediately.

Broadening of legal interpretations, together with tremendously increasing awards and settlements under this insurance, makes it a very difficult class to place and rarely will underwriters accept this class of business without the hull insurance.

Freight Coverage
Freight coverage insures the charge made for shipping cargo; covered as an indirect loss. Freight insurance covers the loss of shipping costs. If cargo is damaged, replacement cargo must be shipped, causing a second payment of shipping costs. Freight insurance covers this cost. Freight insurance is often combined with Cargo coverage.

Jones Act (1920)

Masters and members of the crew of ocean vessels are protected by a section of the Merchant Marine Act, which is known as the Jones Act (1920). The law permits an injured seaman to elect to sue the employer for damages and to have a jury trial. If an employer does not want an injured seaman to have to sue for damages after being injured on the job, the employer can purchase the **Voluntary Compensation Maritime Coverage Endorsement**, which voluntarily provides the statutory benefits of the worker's home state. As is the case with voluntary compensation coverage for other workers, this approach is a matter of goodwill and may prevent lawsuits

Defense Base Act

Legislation that extends the Longshore and Harbor Workers Compensation Act (LHWCA) to apply to certain categories of employees working overseas. The three general divisions of covered employees are (a) those working on military bases acquired from a foreign government after 1940, (b) employees of contractors and subcontractors engaged in public work projects for the U.S. government outside the continental United States, and (c) individuals employed outside the continental United States by a U.S. employer whose purpose it is to provide welfare or other such services to the Armed Forces as approved by the Secretary of Defense.

United States Longshoreman and Harbor Workers Act (USL&H)

A federal law that provides no-fault workers compensation benefits to employees other than masters or crew members of a vessel injured in maritime employment—generally, in loading, unloading, repairing, or building a vessel. Employers can obtain coverage under a standard workers compensation policy by purchasing an USL&H coverage endorsement.

Implied Warranties

Ocean Marine has implied warranties. If it is proven that any of these *implied warranties* are not true, it entitles the policy to deny coverage:

1. Voyage MUST be for LEGAL purpose
2. Vessel MUST be SEA worthy
3. Cargo MUST be properly packed on the ship
4. There MUST be NO deviation in the planned route of the voyage

KEY TERMS

Jettison: Voluntarily throwing cargo overboard in an effort to reduce weight to prevent total loss of ship.

Barratry: Captain and crew, or just the crew, steal ship and cargo without the ship owner's permission/ knowledge.

Chapter 10 - "From the Insurance Code"

The following text is taken directly from the California Insurance Code (CIC) and relates to topics/areas covered in this chapter. As per Department of Insurance requirements this some of this material will be repeated in other sections of your course(s), especially in the "Code & Ethics" portion.

For you convenience we have cross-referenced the Chapter and page number of the "Code & Ethics" portion that the material also appears.

- (Cross-reference) – *Code – Page 25, 26*

Warranty: A warranty is a guaranteed truth. Warranties are either express or implied. A statement in a policy of a matter relating to the person or thing insured, or to the risk, as a fact, is an express warranty thereof. An implied warranty is a statement, not in writing, that insurable conditions exist. An implied warranty is included in the policy even though not specifically stated in it. A representation in an insurance contract qualifies as an implied warranty.

A particular form of words is not necessary to create a warranty. Every express warranty made at or before the execution of a policy shall be contained in the policy or in another instrument signed by the insured and made part of the policy. A warranty may relate to the past, the present, the future, or to any or all of these. A statement in a policy that imports that there is an intention to do or not to do a thing, which materially affects the risk, is a warranty that such act or omission will take place. (CIC 440-445)

If a loss insured against takes place and the performance of the warranty has become unlawful at the place of the contract or impossible, the omission to fulfill the warranty does not void the policy. If there is a violation of a material warranty, the wronged party may rescind the contract. The breach of an immaterial warranty will not void the policy unless the policy states that a violation of specified provisions will void it. A breach of warranty without fraud merely exonerates an insurer from the time that it occurs, or where the warranty is broken in its inception, prevents the policy from attaching to the risk. (CIC 447)