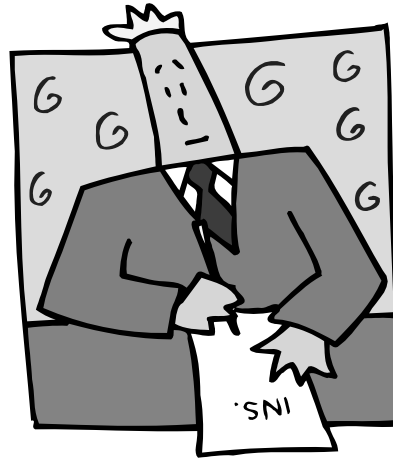


# CHAPTER 5: COMMERCIAL PACKAGE POLICIES



## Let's Begin...

### Introduction

In the late 1980s, the Insurance Services Office introduced a modular approach for constructing commercial insurance policies called **package policies**. ISO developed a series of specialized forms, with each form fulfilling a specific policy function. The right combination of forms would create a complete, custom-made policy. Any of the available coverage forms could also be issued as part of a **monoline** policy (only one major kind of coverage), or could be joined with other coverages to form a package policy (consisting of two or more coverage parts).



There are advantages of having a package policy, as opposed to several monoline policies. Some of those advantages include:

- Package discounts are available
- Fewer gaps in coverage
- No duplication of coverage
- Convenience of having all the coverage in one policy



Under the Commercial Package Policy (commonly called CPP) program, there are required contents. We will be discussing the most important parts of the package in detail throughout this chapter.

1. Common Declarations
2. Common Conditions
3. Two or More Coverage Parts
4. Interline Endorsements

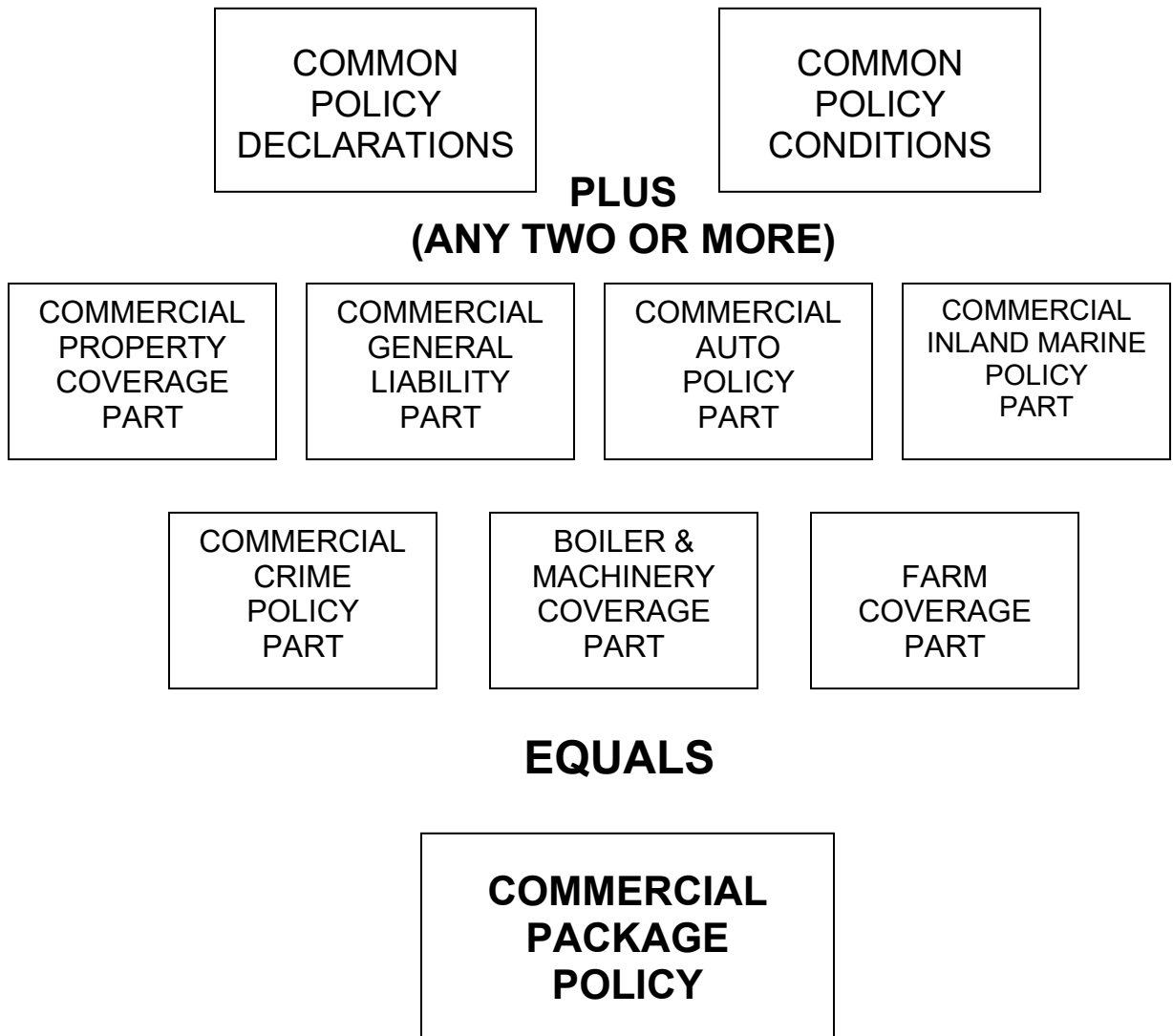


# Coverage Parts

In order for a CPP to exist, the package needs to have two or more coverage parts. The following are the different coverage parts, along with a chart to illustrate this in detail.

1. Commercial Property Coverage Part
2. Commercial General Liability Part
3. Commercial Auto Policy Part
4. Commercial Inland Marine Policy Part
5. Commercial Crime Policy Part
6. Boiler and Machinery Coverage Part
7. Farm Coverage Part

(NOTE: Ocean Marine, B.O.P, and Worker’s Compensation Coverage are NOT available, as they are considered “self-contained packages”)



## Common Conditions Needed

As a part of the Commercial Package Policy, these are the important common conditions.



**Notice of Cancellation:** This condition states the "First-Named Insured" is entitled to cancel the policy. If the insurer is cancelling the policy, they are only required to give advance notice to the "First-Named Insured".



**Changes:** This condition states the "First-Named Insured" is authorized to request change to the commercial package policy; however, it is subject to the insurer's consent.



**Examination of Records:** This condition gives the insurer the right to audit the insured's books and records anytime during the policy period, and for three years following the expiration of the policy. This condition is frequently related to claims and /or premium determination.



**Premium Basis:** This condition states the "First-Named Insured" is responsible for paying the premium and entitled to receive any applicable refunds



**Transfer of Rights and Duties:** This condition states if the insured wishes to transfer the policy to another party, they must have written consent of the insurer.



**Inspections and Surveys:** This condition states the insurer has the right to inspect the risk and make loss control recommendations. These inspections are used to help determine the rate to be charged. It is important to note these are NOT considered safety inspections; they will not warrant the insured is compliant with the safety laws and regulations.



## Common Policy Declarations

### Policy Preamble

The policy begins with a Declarations Page, which identifies the named insured covered by the policy and the distinguishing elements of the coverage. As part of its simplified approach, the policy uses a conversational tone. Throughout the policy, “you” refers to the named insured, and “we” means the insurance company. No “party of the first part” found here.

The coverage form begins with a few simple statements. First it cautions you to read the “entire policy,” meaning all parts of the policy in addition to this coverage form.

It then explains that various pronouns (such as “you” and “we”) are used to refer to the named insured and the insurance company.

The last statement points out that the coverage form has a specific “definitions” section, and that the meaning of any words that appear in quotation marks can be found in that section.

## Commercial Property Policies

### Coverage Forms



**Thirteen different commercial property coverage forms** are included in the CPP program. Each one can be issued alone or be combined with other property forms on a monoline policy, or can be issued with other coverages as part of a package policy. They are:

- **builders risk coverage form,**
- **business income coverage form** (with extra expense),
- **business income coverage form** (without extra expense),
- **extra expense coverage form,**
- leasehold interest coverage form,
- legal liability coverage form,
- glass coverage form,
- condominium association coverage form,
- condominium commercial unit owner’s coverage form,
- mortgage holders’ errors & omissions coverage form,
- tobacco sales warehouses coverage form, and
- the standard property form.
- **building and personal property coverage form,**

In this section we’ll look at a couple forms briefly, with an emphasis on the last “Building and Personal Property Coverage Form.



## **Builder's Risk Coverage Form**

The Builders Risk Coverage form (CP 00 20) provides commercial property coverage for buildings or building alterations during the course of their construction. It also includes coverage for foundations and, if situated within 100 feet of the premises, fixtures and machinery used to service the building and materials and supplies used in the construction. It will also cover, providing there is no other insurance applicable, coverage for temporary structures built or assembled on the site, including scaffolding, cribbing and construction forms.

In addition to providing coverage needed to meet the requirements of a building during construction, it also uses a rating method that recognizes the accumulation of value, which begins at zero and progresses to the completed value of the building. The coinsurance requirement on a Builder's Risk form is 100% of the completed value.

Several endorsements which are used to modify the coverage under this form, are discussed in the Endorsements and Extensions part of this section.



## **Business Income Form**

If it is necessary to suspend operations because of direct physical loss caused by a covered cause of loss, the insurance company will pay for loss of business income during a period of restoration. It will only pay for loss of business income that occurs within 12 consecutive months after the date of loss. This additional coverage is not subject to the limits of insurance shown on the policy.



## **Extra Expense Form**

The insurance company will also pay extra expenses incurred during a period of restoration for the purpose of avoiding or minimizing a suspension of operations. This coverage also applies only during the 12 consecutive months following a direct loss, and is not subject to the limits of insurance.

## **Building and Personal Property Coverage Form**

This form describes the types of property coverages that apply, and establishes the conditions for coverage. A separate set of **Commercial Property Conditions** (which apply to this form and other property forms) must be attached, along with one or more **Causes of Loss forms** (which describe the perils insured against). Together, these items complete what is known as a Commercial Property Coverage Part.

The Common Policy Conditions (which apply to all commercial coverages in the program) and Common Policy Declarations (which summarize all the coverages included in a policy) must be attached. These items are used whether or not other coverages are actually included in the policy.

The standard commercial property policy is what's known as a **direct damage** form. It covers actual damage, directly resulting from a covered peril, to covered property.

Example: If a landlord's building burns down, the destruction of his building is a direct loss and can be covered by this kind of insurance. But the fact that, because his building burned down, the landlord lost his rental income is a different matter. Loss of rents is an indirect loss and not covered by the standard form. (The landlord could insure rental income by adding another property coverage form to his policy—a business income coverage form.)

Purchasing coverage under the Building and Personal Property Coverage Form is not the only way of insuring personal property of others. Another ISO form, the **Legal Liability Coverage Form**, pays for damages to property of others while at your premises but only if you are found to be legally liable.

The valuation method used for these property coverages is actual cash value (ACV), unless the insured has activated the optional coverage for replacement and paid an additional premium. The coverage is activated by an entry on the declaration page indicating which coverage (A and/or B) the insured would like changed to the loss settlement known as replacement cost. Actual cash value may be the only valuation method available for the property of others (Coverage C) depending on the insurer.

## Major Coverages Offered

This form covers direct physical loss or damage to covered property. Each major coverage applies only if a limit of insurance is shown for that coverage in the declarations.



### ***Building Coverage- Coverage A***

The first major coverage is for building(s). More than one building or structure may be described in the commercial property declarations. Notice that coverage applies to more than just the building itself—building additions, permanently installed fixtures and equipment, and property used to service the building or premises (such as fire extinguishing and laundering equipment and ventilating systems) are covered as part of building coverage. **Note:** Dwellings are not eligible.

Additions under construction and building materials and supplies within 100 feet of the premises are also insured as part of the building coverage, but only if not covered by other insurance. All of these items are covered because they either become part of, or are directly related to the operation and maintenance of, the building.

### ***Synopsis***

#### **A. COVERAGE**

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

##### 1. Covered Property

Covered Property, as used in this Coverage Part, means the following types of property for which a Limit of Insurance is shown in the Declarations:

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

- (1) Completed additions;
- (2) Permanently installed;

- (a) Fixtures;
- (b) Machinery; and
- (c) Equipment;

(3) Outdoor fixtures;

(4) Personal property owned by you that is used to maintain or service the building or structure or its premises, including:

- (a) Fire extinguishing equipment;
- (b) Outdoor furniture;
- (c) Floor coverings; and
- (d) Appliances used for refrigerating, ventilating, cooking, dishwashing or laundering;

(5) If not covered by other insurance:

- (a) Additions under construction, alterations and repairs to the building or structure;
- (b) Materials, equipment, supplies and temporary structures, on or within 100 feet of the described premises, used for making additions, alterations or repairs to the building or structure.



### ***Business Personal Property Coverage- Coverage B***

Business personal property includes most types of commercial property owned or used by businesses which are not considered part of the building. This coverage applies to furniture, machinery, equipment, stock or merchandise held for sale, office supplies, and other such items. If you are a tenant, this coverage also applies to your interest in improvements and betterments made at your expense.

Leased personal property may also be covered under this section, but only if you have a contractual obligation to insure it and it is not otherwise insured under the coverage for personal property of others.

#### ***Synopsis***

Your Business Personal 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, consisting of the following unless otherwise specified in the Declarations or on the Your Business Personal Property—Separation of Coverage form:

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



### ***Coverage for Personal Property of Others- Coverage C***

This coverage applies to personal property of others in your care, custody or control. Any payment for loss will be made only for the account of the owner, which means the coverage is designed to reimburse the owner for the loss. Payment will not be made to the named insured under any circumstances, and payment would not be made if the owner had other insurance and was able to recover under that policy.

#### ***Synopsis***

Personal Property of Others that is:

- (1) In your care, custody or control; and
- (2) 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. However our payment for loss of or damage to personal property of others will only be for the account of the owner of the property.



## Property Not Covered

The building and personal property coverage form does not cover all types of property, and this section contains exclusions of kinds of property which are not covered.



Exclusions appear in insurance policies for a variety of reasons. Some types of property are simply not insurable—it would be against public policy to insure contraband. Other types of losses are not verifiable—for example, petty cash or currency left on premises.

Yet other types of property are excluded because they are more appropriately insured by other policies or coverage forms—vehicles licensed for road use, for example, should be insured by automobile insurance.

A few exclusions are designed to remove coverage for exposures that reflect a unique hazard that is not included in basic premium rates, but for which separate coverage is available at an additional charge. In some cases, a limited amount of coverage for excluded items is provided elsewhere in the policy. Notice that the cost to research and restore valuable papers and records, and the loss of outside radio or television antennas and signs, are excluded. Limited amounts of coverage for these same exposures are restored by the coverage extensions, and additional amounts of coverage may be added by endorsement or under a separate policy form.

## Synopsis

Covered Property does not include:

- a. Accounts, bills, currency, deeds, food stamps or other evidences of debt, money, notes or securities. Lottery tickets held for sale are not securities;
- b. Animals, unless owned by others and boarded by you, or if owned by you, only as "stock" while inside of buildings;
- c. Automobiles held for sale;
- d. Bridges, roadways, walks, patios or other paved surfaces;
- e. Contraband, or property in the course of illegal transportation or trade;
- f. The cost of excavations, grading, backfilling or filling;
- g. Foundations of buildings, structures, machinery or boiler if their foundations are below:
  - (1) The lowest basement floor; or
  - (2) The surface of the ground, if there is no basement;
- h. Land (including land on which the property is located), water, growing crops or lawns;
- i. Personal property while airborne or waterborne;
- j. Piling, piers, wharves or docks;
- k. Property that is covered under another coverage form of this or any other policy in which it is more specifically described, except for the excess of the amount due (whether you can collect on it or not) from that other insurance;
- l. Retaining walls that are not part of the building described in the Declarations;
- m. Underground pipes, flues or drains;
- n. The cost to research, replace or restore the information on valuable papers and records, including those which exist on electronic or magnetic media, except as provided in the Coverage Extensions;
- o. Vehicles or self-propelled machines (including aircraft or watercraft) that:
  - (1) Are licensed for use on public roads; or
  - (2) Are operated principally away from the described premises. This paragraph does not apply to:
    - (a) Vehicles or self-propelled machines or autos you manufacture, process or warehouse;
    - (b) Vehicles or self-propelled machines, other than autos, you hold for sale; or
    - (c) Rowboats or canoes out of water at the described premises;
- p. The following property while outside of buildings;
  - (1) Grain, hay, straw or other crops;
  - (2) Fences, radio or television antennas, including their lead-in wiring, masts or towers, signs (other than signs attached to buildings), trees, shrubs or plants (other than "stock" of trees, shrubs or plants) all except as provided in the Coverage Extensions.



## Causes of Loss

Just as a policy describes the property which is and is not covered, it must describe the perils, or causes of loss (such as fire, windstorm and explosion) which are and are not covered. Under the current commercial lines program, the covered and excluded causes of loss are contained in separate forms. One or more causes of loss forms must be attached to commercial property coverages. The applicable form(s) for each coverage must be indicated in the declarations.



## Additional Coverages

Additional coverages are limited amounts of coverage for specific types of losses or expenses which are provided in addition to the major property coverages.

Coverage is provided for the expenses of removing the debris of covered property which is damaged by a covered cause of loss during the policy period. Debris removal expenses must be reported in writing within 180 days of the date of loss.

Removing the consequential debris from a major loss (such as what's left when a building is damaged by fire) can be costly. Provided it's reported within 180 days of the loss, the insurance company will pay up to 25 percent of the total of the following for debris removal: (1) the amount paid for the direct loss plus (2) the deductible.

### *Synopsis*

#### Additional Coverages

##### a. Debris Removal

(1) We will pay your expense to remove debris of Covered Property caused by or resulting 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) the most we will pay under this Additional Coverage is 25 percent of:

(a) The amount we pay for the direct physical loss of or damage to Covered Property; plus  
(b) The deductible in this policy applicable to that loss or damage. But this limitation does not apply to any additional debris removal limit provided in the Limits of Insurance section.

(3) This Additional Coverage does not apply to costs to:

(a) Extract "pollutants" from land or water; or  
(b) Remove, restore or replace polluted land or water.



## ***Preservation of Property***

Coverage for preservation of property has traditionally been known as “removal” coverage. When covered property is removed from a premises to protect it from a covered cause of loss, coverage is provided for any direct loss up to 10 days while it is at another location. This coverage is very broad because the loss at the temporary location need not be a covered cause of loss.

This coverage offers “all risk” insurance to covered property that is moved from the insured premises in order to protect it from an insured peril there.

### ***Synopsis***

Preservation of Property  
If it is necessary to move Covered Property from the described premises to preserve it from loss or damage by a Covered Cause of Loss, we will pay for any direct physical loss or damage to that property:  
(1) While it is being moved or while temporarily stored at another location; and  
(2) Only if the loss or damage occurs within 10 days after the property is first moved.



## ***Fire Department Service Charge***

If the fire department is called to protect covered property from a covered loss, the insurance company will pay up to \$1,000 of your liability for fire department service charges if those charges are required by local ordinance or are assumed by contract or agreement prior to the loss—no deductible applies to this coverage.

This coverage is provided as an additional amount of insurance.

### ***Synopsis***

Fire Department Service Charge  
When the fire department is called to save or protect Covered Property from a Covered Cause of Loss, we will pay up to \$1,000 for your liability for fire department service charges:  
(1) Assumed by contract or agreement prior to loss; or  
(2) Required by local ordinance. No Deductible applies to this Additional Coverage.



## ***Pollution***

The cost of extracting pollutants from land or water is another additional coverage if the discharge, dispersal, seepage, migration or escape of the pollutants is caused by a covered cause of loss. These expenses will be paid only if reported to the insurance company in writing within 180 days of the date of loss. The maximum payable under this additional coverage is \$10,000 for each described premises in any 12-month policy period.

Example: If a fire at your warehouse caused barrels of chemicals to rupture, coverage would be provided for clean-up. But no coverage would be provided if an employee knocked over a barrel of chemicals and caused a spill.

A long book could be written about this pollution liability exclusion. Most disputes involve complex issues of chemical, nuclear and other exposures. But it's easier than you might think to get into trouble with pollution risks.

### *Synopsis*

#### Pollutant Clean Up and Removal

We will pay your expense to extract "pollutants" from land or water at the described premises if the discharge, dispersal, seepage, migration, release or escape of the "pollutants" is caused by or results from a Covered Cause of Loss that occurs during the policy period. The expenses will be paid only if they are reported to us in writing within 180 days of the date on which the Covered Cause of Loss occurs. This Additional Coverage does not apply to costs to test for, monitor or assess the existence, concentration or effects of "pollutants." But we will pay for testing which is performed in the course of extracting the "pollutants" from the land or water. The most we will pay under this Additional Coverage for each described premises is \$10,000 for the sum of all covered expenses arising out of Covered Causes of Loss occurring during each separate 12 month period of this policy.



## Extensions of Coverage

Five extensions of coverage are available under the building and personal property coverage form, but **only if a coinsurance percentage of 80 percent or more** or a value reporting symbol is shown in the declarations (however, coinsurance does not apply to these extensions).

The five extensions are:

- newly acquired or constructed property,
- personal effects and property of others,
- valuable papers and records,
- property off-premises, and
- outdoor property.

Each of the extensions is additional insurance, which means the amount of insurance provided is "in addition" to the limits shown in the declarations. In most cases, the amounts of insurance extended are small and are provided without charge to cover incidental exposures. There is one exception—coverage for newly acquired or constructed property can be significant, and an additional premium will usually be charged for this coverage.

## *Synopsis*

### Coverage Extensions

Except as otherwise provided, the following Extensions apply to property located in or on the building described in the Declarations or in the open (or in a vehicle) within 100 feet of the described premises. If a Coinsurance percentage of 80 percent or more or, a Value Reporting period symbol, is shown in the Declarations, you may extend the insurance provided by this Covered Part as follows:



### *Newly Acquired or Constructed Property*

For new construction on the same premises or acquired buildings at a different location, the extension is 25 percent of the amount of existing coverage for buildings, subject to a maximum of \$250,000 per building.

For business personal property at newly acquired locations (other than fairs or exhibitions), you may extend up to 10 percent of the amount of existing coverage for personal property, subject to a maximum of \$100,000 at each new building.

But this automatic extension for newly acquired locations or newly constructed property is temporary—it applies for a maximum of 30 days (but not beyond the policy's expiration or the date you notify the carrier of the new locations).

This extension is not free insurance. It simply allows a policyholder 30 days to update his or her coverage. Additional premium for the new exposure will be calculated from the date of acquisition or beginning of construction.

The additional values must be reported and an additional premium will be charged for this coverage.

## *Synopsis*

### Newly Acquired or Constructed Property

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

The most we will pay for loss or damage under this Extension is 25 percent of the Limit of Insurance for Building shown in the Declarations, but not more than \$250,000 at each building.

- (2) You may extend the insurance that applies to Your Business Personal Property to apply to that property at any location you acquire other than at fairs or exhibitions. The most we will pay for loss or damage under this Extension is 10 percent of the Limit of Insurance for Your Business Personal Property shown in the Declarations, but not more than \$100,000 at each building.

- (3) Insurance under this Extension for each newly acquired or constructed property will end when any of the following first occurs:

- (a) This policy expires;
- (b) 30 days expire after you acquire or begin to construct the property; or
- (c) You report values to us.

We will charge you additional premium for values reported from the date construction begins or you acquire the property.



## **Personal Effects**

If personal property coverage is written, you may extend the insurance to cover personal effects of the named insured, officers, partners or employees (but such coverage shall not apply to loss by theft), and to personal property of others in your care, custody or control. The most the insurance company will pay for loss or damage under this extension is \$2,500 at each described premises.

The coverage for "personal property of others" is virtually identical to the major coverage having that same name. The extension provides a small amount of coverage without charge for those who may only have an incidental exposure. A business with a more significant exposure should purchase a specific amount of the major coverage.

### **Synopsis**

#### **Personal Effects and Property of Others**

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

(1) Personal effects owned by you, your officers, your partners or your employees. This extension does not apply to loss or damage by theft.

(2) Personal property of others in your care, custody or control.

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



## **Valuable Papers**

You may also extend personal property coverage to apply to the costs of researching, replacing or restoring the lost information on valuable papers and records which have suffered loss or damage, for which duplicates do not exist. The most the insurance company will pay under this extension is \$1,000 at each described premises.

(Note: This restores a limited amount of coverage for this type of loss, which was listed earlier under "property not covered.")

### **Synopsis**

#### **Valuable Papers and Records—Cost of Research**

You may extend the insurance that applies to Your Business Personal Property to apply to your costs to research, replace or restore the lost information on lost or damaged valuable papers and records, including those which exist on electronic or magnetic media, for which duplicates do not exist. The most we will pay under this Extension is \$1,000 at each described premises.



### ***Property Off Premises***

Up to \$5,000 of coverage may be extended to apply to covered property (other than "stock") while temporarily off-premises at another location, but not while the property is in or on a motor vehicle, or in the care, custody or control of your salespeople, or at any fair or exhibition.

#### ***Synopsis***

##### **Property Off-Premises**

You may extend the insurance provided by this Coverage Form to apply to your Covered Property, other than "stock," that is temporarily at a location you do not own, lease or operate. This Extension does not apply to Covered Property:

- (1) In or on a vehicle;
- (2) In the care, custody or control of your salespersons; or
- (3) At any fair or exhibition.

The most we will pay for loss or damage under this Extension is \$5,000.



### ***Outdoor Property***

Coverage may be extended to apply to outdoor property, such as outdoor fences, radio and television antennas, signs which are not attached to buildings, and trees, shrubs and plants (other than "stock" held for sale). This extension applies only to losses resulting from the specific perils of fire, lightning, explosion, riot or civil commotion, or aircraft. The most the insurance company will pay for loss under this extension is \$1,000, and not more than \$250 for any one tree, shrub or plant.

Note: This extension also restores a limited amount of coverage for these items, which were all listed earlier under "property not covered."

#### ***Synopsis***

##### **Outdoor Property**

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

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

The most we will pay for loss or damage under this Extension is \$1,000, but not more than \$250 for any one tree, shrub or plant.



## Exclusions

Earlier we reviewed the “property not covered” section and mentioned that the items listed were “exclusions” of a sort. Indeed, anything not covered (whether a type of property or a cause of loss) is in fact an exclusion.

Exclusionary language may actually be found in an insuring agreement, or a definition, or any policy provision where an exception or reference is made to something that is not covered. But in property insurance forms the formal term “exclusions” has traditionally been used to mean the causes of loss, or perils, which are not covered.



Under the current commercial lines program, these exclusions are found in the causes of loss forms that apply to the coverages. We will be discussing the causes of loss forms later in this section.

## Coverage Limits

Property insurance limits apply per occurrence. The applicable limit(s) of insurance shown in the declarations is the most the insurance company will pay for all loss or damage resulting from any one occurrence.

For the major coverages of the building and personal property form, the most the insurance company will pay for loss or damage in any one occurrence is the applicable limit of insurance shown in the declarations. One or more limits may be shown, depending upon how the coverage is written.

The building and personal property form may be written on a specific, schedule, or blanket basis.



Specific coverage provides a specific amount of insurance for specific types of property at a specific location—an example would be a form providing insurance amounts of \$200,000 for a building and \$50,000 for personal property at one location.



Schedule coverage may be used to provide insurance for different types of property at different locations. Various buildings and contents may be itemized on a schedule, and a specific amount of insurance will apply to each. A few items may be scheduled on the declarations page. When longer schedules are involved, the schedule of locations and insurance amounts are usually attached by endorsement.



Blanket coverage provides a single amount of insurance that applies to all types of property at a single location, or to all types of property at multiple locations. Blanket coverage may be written simply by showing the proper entries on the declarations page. For example, showing a limit of “\$1 million” for Coverages “A, B and C” would mean that the single limit applied per occurrence to combined losses under the three major coverages. Another example would be a single limit that applied to all coverages at multiple locations—this allows a retail or manufacturing operation with more than one location to move merchandise or stock between locations without having to adjust insurance limits at each location.

If blanket coverage is written for a large number of different locations, the schedule of locations may have to be attached. Another variation affecting insurance limits is use of reporting forms which allow the amount of insurance to fluctuate during the policy period. Businesses that have large changes in inventory values during the year often use reporting forms to avoid costly over insurance or problems with underinsurance.

*Synopsis*

**LIMITS OF INSURANCE**  
The most we will pay for loss or damage in any one occurrence is the applicable Limit of Insurance shown in the Declarations.

**Sublimits**

A separate limit, known as a sublimit, of \$1,000 applies to outdoor signs attached to buildings. (This differs from the coverage extension for outdoor property, which covers signs not attached to buildings. That coverage has a single \$1,000 per occurrence limit, and only covers losses by a few specified perils.)

For signs attached to buildings, the limit applies per sign, and all perils shown in the applicable causes of loss form are covered.

The limits applicable to the Covered Extensions and the Fire Department Service Charge and Pollutant Clean Up and Removal Additional Coverages are in addition to the Limits of Insurance.

*Synopsis*

The most we will pay for loss or damage to outdoor signs attached to buildings is \$1,000 per sign in any one occurrence.

**Preservation of Property Limits**

Coverage for property removed to preserve it from loss and for debris removal expenses does not normally increase the applicable limit of insurance. However, if debris removal expense exceeds the 25 percent of loss limitation, or the sum of a loss and the debris removal expense exceeds the limit of insurance, the insurance company will pay up to an additional \$5,000 at each location under the debris removal coverage. (By endorsement, you can purchase higher amounts of debris removal coverage.)

*Synopsis*

Payments under the following Additional Coverages will not increase the applicable Limit of Insurance:

1. Preservation of Property; or
2. Debris Removal; but if:
  - a. The sum of direct physical loss or damage and debris removal expense exceeds the Limit of Insurance; or
  - b. The debris removal expense exceeds the amount payable under the 25 percent limitation in the Debris Removal Additional Coverage

we will pay up to an additional \$5,000 for each location in any one occurrence under the Debris Removal Additional Coverage.

## Deductibles

The insurance company has no obligation to pay for a loss until the amount of loss exceeds the deductible shown in the declarations, and then it agrees to pay only the amount in excess of the deductible (subject to the limits of insurance, and any adjustments required because of coinsurance or the agreed value option). The standard deductible is \$250 per occurrence. You have the option of selecting higher deductible amounts, which will reduce the premium charged.

Example: If the limit of insurance is \$100,000 and the deductible amount is \$500 when a \$450 loss occurs, the insurance company will not pay anything.

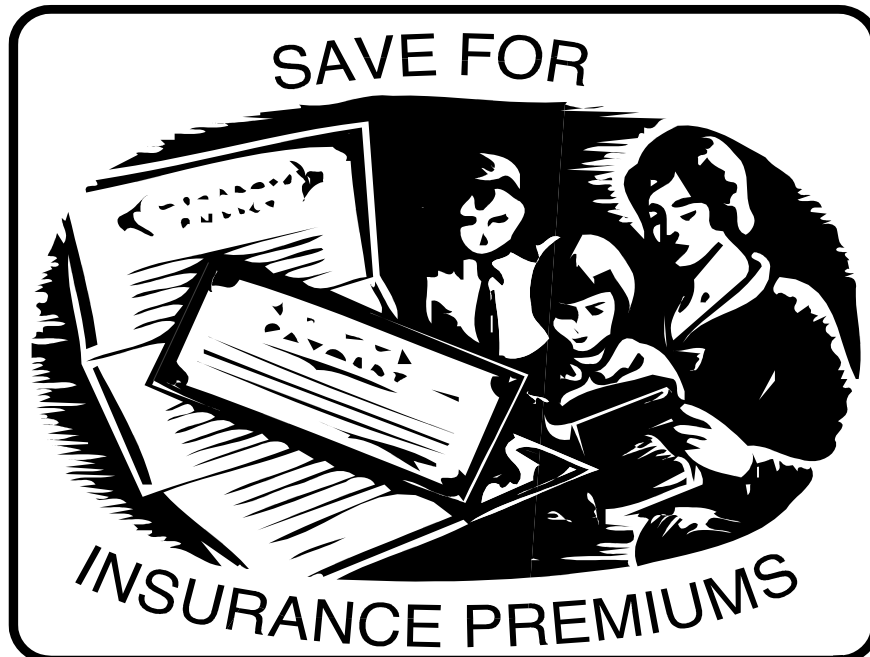
Example: If the limit of insurance is \$100,000 and the deductible amount is \$500 when a \$10,000 loss occurs, the insurance company would pay \$9,500.

Example: If the limit of insurance is \$100,000 and the deductible amount is \$500 when a \$115,000 loss occurs, the insurance company would pay \$100,000.

### *Synopsis*

#### **DEDUCTIBLE**

We will not pay for loss or damage in any 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, after any deduction required by the Coinsurance condition or the Agreed Value Optional Coverage.



## Loss Conditions

A separate form attaches property insurance conditions to the property coverage forms included in the policy (these apply in addition to the common policy conditions). Individual coverage forms also include conditions applicable to specific coverages or losses. Conditions spell out rights and obligations of the parties to the contract, and describe some of the provisions that affect the scope of coverage.

Loss conditions apply in addition to all other conditions that affect the coverage form and the entire policy, and address issues that relate only to commercial property losses.

### *Synopsis*

#### **LOSS CONDITIONS**

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

### *Abandonment*

The abandonment condition states that you may not abandon property to the insurance company. This means that if property is only partially damaged, you have no right to turn it over to the insurance company and demand payment for a total loss. Other conditions give the insurance company the right to "repair, rebuild or replace" any portion of damaged property.

### *Synopsis*

#### Abandonment

There can be no abandonment of any property to us.

### *Appraisal*

An appraisal condition establishes procedures for having an appraisal when the parties cannot agree on the value of property or the amount of a loss. Either party may demand an appraisal, and each will share the costs of appraisal.

### *Synopsis*

#### Appraisal

If we and you disagree on the value of the property or the amount of loss, either may make written demand for an appraisal of the loss. In this event, each party will select a competent and impartial appraiser. The two appraisers will select an umpire. If they cannot agree, either may request that selection be made by a judge of a court having jurisdiction. The appraisers will state separately the value of the property and amount of loss. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two will be binding. Each party will:

- a. Pay its chosen appraiser; and
- b. Bear the other expenses of the appraisal and umpire equally.

If there is an appraisal, we will still retain our right to deny the claim.

### ***Duties in the Event of Loss***

The next condition specifies your duties in the event of loss. These include giving prompt notice of loss, providing a description of how and when the loss occurred, protecting property from further damage, permitting the insurance company to inspect property, and submitting a signed proof of loss within 60 days after a request.

#### ***Synopsis***

##### 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 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 responsible steps to protect the Covered Property from further damage by a Covered Cause of Loss. If feasible, set the damaged property aside and in the best possible order for examination. Also keep a record of your expenses for emergency and temporary repairs, for consideration in the settlement of the claim. This will not increase the Limit of Insurance.

### ***Insurance Company Rights***

The insurance company has the right to examine you under oath and to examine your financial books and records. This right is preserved because financially troubled companies are sometimes suspected of filing fraudulent claims. Conversely, a questionable insurance claim is often a sign of bigger financial problems.

#### ***Synopsis***

- (5) At our request, give us complete inventories of the damaged and undamaged property. Include quantities, costs, values and amount of loss claimed.
  - (6) As often as may be reasonably required, permit us to inspect the property proving the loss or damage and examine your books and records. Also permit us to take samples of damaged and undamaged property for inspection, testing and analysis, and permit us to make copies from your books and records.
  - (7) Send us a signed, sworn proof of loss containing the information we request to investigate the claim. You must do this within 60 days after our request. We will supply you with the necessary forms.
  - (8) Cooperate with us in the investigation or settlement of the claim.
- b. We may examine any insured under oath, while not in the presence of any other insured and at such times as may be reasonably required, about any matter relating to this insurance or the claim, including an insured's books and records. In the event of an examination, an insured's answers must be signed.

## ***Loss Payment***

The loss payment condition specifies the rights and obligations of the insurance company after a covered loss occurs. The insurance company has the option of paying the value of lost or damaged property, paying the cost of repairing or replacing lost or damaged property, or of repairing, rebuilding or replacing property with property of like kind and quality. It may also take possession of any part of the property at an agreed or appraised value. The insurance company must give notice of its intent within 30 days after receiving a sworn statement of loss.

The insurance company may adjust losses with the owners of property, if not you, and may elect at its own expense to defend you against any suits brought by the owners of lost or damaged property.

Within 30 days after receiving a sworn statement of loss, the insurance company will pay for the loss or damage—if you have complied with all coverage conditions and the parties agree on the amount of loss or an appraisal has been made. However, under no circumstances will the insurance company pay more than your financial interest in covered property.

Example: You enter a joint venture with another company that gives you a 20 percent interest in the new entity. The facilities used by this new venture are destroyed by fire. Your insurable interest is only 20 percent of the value of the materials destroyed—and your recovery can't be more than that.

## ***Synopsis***

### Loss Payment

a. In the event of loss or damage covered by this Coverage Form, at our option, we will either:

- (1) Pay the value of lost or damaged property;
- (2) Pay the cost of repairing or replacing the lost or damaged property;
- (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.

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. 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 you for the owners' property. We will not pay the owners more than their financial interest in the Covered Property.

e. We may elect to defend you against suits arising from claims of owners of property. We will do this at our expense.

f. We will pay for covered loss or damage within 30 days after we receive the sworn proof of loss, if:

- (1) You have complied with all of the terms of this Coverage Part; and
- (2)(a) We have reached agreement with you on the amount of loss; or
- (b) An appraisal award has been made.

### ***Recovered Property***

The recovered property condition states that either party who recovers property after a loss settlement must notify the other. At your option, an exchange of value may then be made.

Example: If theft coverage applies and the insurance company pays for a theft of personal property which is later recovered, you may keep the loss settlement amount or request return of the item. If the item is returned, you must repay the amount of the settlement, but if the item is damaged the insurance company will pay for repairs.

### ***Synopsis***

#### **Recovered Property**

If either you or we recover any property after loss settlement, that party must give the other prompt notice. At your option, the property will be returned to you. You must then return to us the amount we paid to you for the property. We will pay recovery expenses and the expenses to repair the recovered property, subject to the Limit of Insurance.

### ***Vacancy***

A vacancy condition applies to loss or damage at buildings which have been vacant for more than 60 days at the time of loss. A building is considered to be vacant when it does not contain enough business personal property for conducting customary business operations. Buildings under construction are not considered to be vacant. Personal Property is considered vacant when there is insufficient business personal property present to conduct customary operations and/or 70% of the total square footage is not rented or used to conduct customary operations.

If loss occurs when the building has been vacant for more than 60 consecutive days, losses are not covered if caused by vandalism, theft or attempted theft, water damage, building glass breakage, or sprinkler leakage (unless the system has been protected from freezing). Payment for all other covered causes of loss occurring after 60 days of vacancy will be reduced by 15 percent.

Insurance companies exclude vacant properties because they're more prone to risks like vandalism, squatting and arson.

### ***Synopsis***

#### **Vacancy**

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

a. Not pay for any loss or damage caused by any of the following even if they are Covered Causes of Loss:

- (1) Vandalism;
- (2) Sprinkler Leakage, unless you have protected the system against freezing;
- (3) Building glass breakage;
- (4) Water damage;
- (5) Theft; or
- (6) Attempted theft.

b. Reduce the amount we would otherwise pay for the loss or damage by 15 percent.

### ***Evaluating Losses and Claims***

Most commercial property losses under the building and personal property coverage form are valued and settled on the basis of actual cash value (ACV), which means replacement cost at the time of loss, less depreciation.

Example: If an item of personal property which had depreciated 30 percent due to age was destroyed, and the replacement cost for a new item was \$10,000, a policy providing ACV coverage would pay only \$7,000 less the deductible.

### ***Synopsis***

#### Valuation

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

- a. At actual cash value as of the time of loss or damage, except as provided in b., c., d., e. and f. below.





### ***Smaller Building Losses***

If building coverage satisfies any coinsurance requirement, the insurance company will pay the full repair or replacement costs for building losses of \$2,500 or less (with the exception of certain items such as awnings or floor coverings).

"Stock" sold but not delivered will be valued at the selling price less discounts and expenses you otherwise would have had.

Glass will be valued at the cost of replacement with safety glazing material if such replacement is required by law.



Tenant's improvements and betterments will be valued according to the nature of the repair or replacement efforts following a loss. If you make prompt repairs, ACV will be allowed. If you do not make prompt repairs, the insurance company will only pay for a proportion of the original installation cost. If others pay for repair or replacement for your benefit, the insurance company will pay nothing.

### ***Synopsis***

b. If the Limit of Insurance for Building satisfies the Additional Condition, Coinsurance, and the cost to repair or replace the damaged building property is \$2,500 or less, we will pay the cost of building repairs or replacement.

This provision does not apply to the following even when attached to the building:

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

c. "Stock" you have sold but not delivered at the selling price less discounts and expenses you otherwise would have had.

d. Glass at the cost of replacement with safety glazing material if required by law.

e. Tenant's Improvements and Betterments at:

- (1) Actual cash value of the lost or damaged property if you make repairs promptly.
- (2) A proportion of your original cost if you do not make repairs promptly. We will determine the proportionate value as follows:
  - (a) Multiply the original cost by the number of days from the loss or damage to the expiration of the lease; and
  - (b) Divide the amount determined in (a) above by the number of days from the installation of improvements to the expiration of the lease. If your lease contains a renewal option, the expiration of the renewal option period will replace the expiration of the lease in this procedure.
- (3) Nothing if others pay for repairs or replacement.

### ***Valuable Papers and Records***

Losses of valuable papers and records, including computer tapes and disks, will be valued at the cost of blank materials for reproducing the records. The cost of labor to transcribe or copy lost records will be covered only when duplicate records exist.



#### ***Synopsis***

Valuable Papers and Records, including those which exist on electronic or magnetic media (other than prepackaged software programs), at the cost of:

- (1) Blank materials for reproducing the records; and
- (2) Labor to transcribe or copy the records when there is a duplicate.

### **Additional Conditions**

The additional conditions also apply in addition to all other conditions that affect the coverage form and the entire policy.

#### ***Synopsis***

#### **ADDITIONAL CONDITIONS**

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

##### **1. Coinsurance**

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

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

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

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

We will pay the amount determined in step (4) or the limit of insurance, whichever is less.

For the remainder, you will either have to rely on other insurance or absorb the loss yourself.

## Coinsurance



The first additional condition addresses the issue of coinsurance, which is an important concept with respect to property insurance coverages. The purpose of coinsurance is to induce you to maintain an adequate level of insurance in relation to the actual value of covered property. Property insurance rates are based on the expectation that insureds will purchase adequate amounts of insurance to cover expected losses. But most property insurance losses are partial losses. Without a coinsurance requirement, many companies might underinsure. They might underinsure to save on premiums.

If the insurance companies paid partial losses in full when a risk was underinsured, they would lack the premium volume to cover their losses, and basic insurance rates would have to be much higher. Coinsurance helps to broaden the premium base and keep rates down by creating incentives to purchase adequate amounts of coverage, and reducing the obligations of the insurance company when a risk is underinsured.

A customary coinsurance ratio is **80 percent**.



A **coinsurance penalty** (only partial recovery for losses) applies when a risk is **underinsured**. The first step in determining how this affects losses is to multiply the true value of covered property at the time of loss by the applicable coinsurance percentage (for example, if the true value of a building is \$500,000 and an 80 percent coinsurance percentage applies, you need to maintain at least \$400,000 of coverage to avoid a coinsurance penalty).

The formula for the application of coinsurance is explained and illustrated in the coverage form. In simple terms, the actual amount of insurance is divided by the required amount, and the result is multiplied by the amount of loss, and then the deductible is subtracted to determine the amount of recovery.



Example: If you had \$300,000 of coverage and \$400,000 was required when a \$100,000 loss occurred, the insurance company would only be obligated to pay \$75,000 minus any deductible (three-quarters of the loss).

Review the examples used in the coverage form to see how a penalty applies in cases of underinsurance, and how no penalty applies when the amount of insurance is adequate.

**Example No. 1 (Underinsurance):**

When:

The value of the property is \$250,000

The Coinsurance percentage for it is 80 percent

The Limit of Insurance for it is \$100,000

The Deductible is \$250

The amount of loss is \$ 40,000

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

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

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

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

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

**Example No. 2 (Adequate Insurance):**

When:

The value of the property is \$250,000

The Coinsurance percentage for it is 80 percent

The Limit of Insurance for it is \$200,000

The Deductible is \$250

The amount of loss is \$40,000

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

Step (2):  $\$200,000 / \$200,000 = 1.00$

Step (3):  $\$40,000 \times 1.00 = \$40,000$

Step (4);  $\$40,000 - \$250 = \$39,750$

We will cover the \$39,750 loss in excess of the Deductible. No penalty applies.

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

**Example No. 3:**

When:

The value of the property is:

Bldg. at Location No. 1 \$ 75,000

Bldg. at Location No. 2 \$100,000

Personal Property at Location No. 2 \$ 75,000  
\$250,000

The Coinsurance percentage for it is 90 percent

The Limit of Insurance for Buildings and Personal Property at Location Nos. 1 and 2 is \$180,000

The Deductible is \$ 1,000

The amount of loss is Bldg. at Location No. 2 \$ 30,000

Personal Property at Location No. 2 \$ 20,000  
\$ 50,000

Step (1):  $\$250,000 \times 90 \text{ percent} = \$225,000$  (the minimum amount of insurance to meet your Coinsurance requirements and to avoid the penalty shown below)

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

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

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

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

## Mortgage Holders

The second condition specifies the rights and duties of a mortgage holder—the mortgagee who holds the mortgage on insured property. When loss occurs, a mortgage holder is entitled to recovery to the extent of its interest in the property. In cases when a policyholder has failed to comply with the terms of the coverage, a mortgage holder may still be entitled to recovery if it meets certain conditions.

This section also specifies the insurance company's obligation to notify any mortgage holders in the event of cancellation or nonrenewal of the coverage. Most lenders require insurance coverage as a condition of financing—and may recall a loan if coverage lapses.

### *Synopsis*

#### Mortgage Holders

a. The term "mortgage holder" includes trustee.

b. We will pay for covered loss of or damage to buildings or structures to each mortgage holder shown in the Declarations in their order of precedence, as interests may appear.

c. The mortgage holder has the right to receive loss payment even if the mortgage holder has started foreclosure or similar action on the building or structure.



d. If we deny your claim because of your acts or because you have failed to comply with the terms of this Coverage Part, the mortgage holder will still have the right to receive loss payment if the mortgage holder:

(1) Pays any premium due under this Coverage Part at our request if you have failed to do so;

(2) Submits a signed, sworn statement 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 mortgage holder.

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

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

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

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

At our option, we may pay to the mortgage holder 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 mortgage holder 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 mortgage holder at least 10 days before the expiration date of this policy.

# Optional Coverages

## *Agreed Value*

A few common optional coverages, which used to be available only by endorsement, are built into the current coverage forms and may be activated by entries on the declarations page.

The commercial property declarations include a space for indicating that certain property has an agreed value. This option may be used for property that has an unusual value, or for which outside forces affect the value for a particular period of time.

Example: A piece of art in your offices may have an investment above what you paid for it. That value may be difficult to determine after a loss has occurred. Therefore, you would want to provide your insurance company with a prearranged value.

Traditionally, the amount of loss used in the above calculations has been the actual cash value of the loss. Today policies are frequently written on a replacement cost basis. Whether the ACV or replacement cost of a loss is used in the formula will depend upon how the coverage is written.

For certain types of property losses, other departures from ACV apply—the “Valuation Clause” of the form describes the special loss determination provisions.

The valuation clause is the condition that determines how the amount of various losses will be determined. Unless changed by optional coverage provisions, all losses will be valued at the ACV at the time of loss.

To discourage insurance companies from over insuring, states have enacted so-called “valued policy laws” (VPLs) to assure policyholders proportional settlements to the premiums paid.

If a VPL applies or if a valued amount (or prearranged value) has been written, the full limit of insurance for the property will be paid in the event of a total loss. Regardless of the actual cash value of property, a valued policy law or contract stands in place of any valuation clause when a total loss is involved.

When agreed value coverage applies, the full coverage amount written for the property would be paid in the event of a total loss. For a partial loss, the insurance company will pay only the prearranged percentage of the agreed value.

Coinsurance does not apply to any property which is insured on an agreed value basis.



The fair market value is used to determine the ACV of a commercial building for coinsurance purposes.

An expiration date applies to agreed value coverage. If the agreed value expiration date passes and is not extended, the option automatically expires and a coinsurance requirement (if any) is reinstated for the affected property.

## *Synopsis*

### **OPTIONAL COVERAGES**

If shown in the Declarations, the following Optional Coverages apply separately to each item.

#### 1. Agreed Value

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

b. If the expiration date for this Optional Coverage shown in the Declarations is not extended, the Additional Condition, Coinsurance, is reinstated and this Optional Coverage expires.

c. The terms of this Optional Coverage apply only to loss or damage that occurs:

(1) On or after the effective date of this Optional Coverage; and

(2) Before the Agreed Value expiration date shown in the Declarations or the policy expiration date, whichever occurs first.

## *Inflation Guard*

When elected, the inflation guard option automatically increases the limit of insurance for property to which it applies (it may be applied to either or both buildings and personal property). The increase amount is an annual percentage stated in the declarations (applied pro rata if a loss occurs at mid-term). When you elect the replacement cost option, the phrase "replacement cost without deduction for depreciation" replaces "actual cash value" in the valuation clause.

The inflation guard option may be used for building coverage, personal property coverage, or both. When applicable, it automatically increases the limit of insurance by an annual percentage stated in the declarations.

Normally, the limit is increased on each policy anniversary date. If a loss occurs at mid-term, a pro rata adjustment is made based on the number of days since the beginning of the policy (or any more recent change in the limit of insurance) divided by 365.

### **Example: If...**

The applicable Limit of Insurance is \$100,000

The annual percentage increase is 8%

The number of days since the beginning of the policy year (or last policy change) is 146

The amount of increase is  $\$100,000 \times .08 \times 146 / 365 = \$3,200$

## *Synopsis*

### **Inflation Guard**

a. The Limit of Insurance for property to which this Optional Coverage applied will automatically increase by the annual percentage shown in the Declarations.

b. The amount of increase will be:

(1) The Limit of Insurance that applied on the most recent of the policy inception date, the policy anniversary date, or any other policy change amending the Limit of Insurance, times

(2) The percentage of annual increase shown in the Declarations, expressed as a decimal (example: 8 percent is .08) times

(3) The number of days since the beginning of the current policy year or the effective date of the most recent policy change amending the Limit of Insurance, divided by 365.

## ***Replacement Cost Coverage***

Optional replacement cost coverage may be selected to apply to buildings, or personal property, or both. Coverage for personal property will exclude "stock" unless the "including stock" option is shown in the declarations. When replacement cost coverage is selected, it applies instead of "actual cash value" in the valuation condition with respect to the covered property.

The insurance company will not pay replacement cost until lost or damaged property is actually repaired or replaced, and such payment will be made only if the repairs or replacements are made as soon as reasonably possible after the loss. The maximum payment under replacement cost coverage may not exceed the smallest of the following amounts:

- the limit of insurance for the affected property, or
- the amount you actually spend to repair or replace the lost or damaged property, or
- the cost to replace (on the same premises) the lost or damaged property with other property, of comparable material and quality, used for the same purpose.

All things considered, valuation remains one of the most common disputes between policyholders and insurance companies. Some people try to inflate loss valuations in order to recover their deductibles. Also, issues like vandalism, vacancy and duties after loss can be serious problems for many businesses—especially smaller ones in less-than-corporate locations

### ***Synopsis***

Replacement Cost

a. Replacement Cost (without deduction for depreciation) replaces Actual Cash Value in the Loss Condition, Valuation, of this Coverage Form.

b. This Optional Coverage does not apply to:

- (1) Property of others;
- (2) Contents of a residence;
- (3) Manuscripts;
- (4) Works of art, antiques or rare articles including etchings, pictures, statuary, marbles, bronzes, porcelains and bric-a-brac; or
- (5) "Stock," unless the Including "Stock" option is shown in the Declarations.

c. You may make a claim for loss or damage covered by this insurance on an actual cash value basis instead of on a replacement cost basis. In the event you elect to have loss or damage settled on an actual cash value basis, you may still make a claim for the additional coverage this Optional Coverage provides if you notify us of your intent to do so within 180 days after the loss or damage.

d. We will not pay on a replacement cost basis for any loss or damage:

- (1) Until the lost or damaged property is actually repaired or replaced; and
- (2) Unless the repairs or replacement are made as soon as reasonably possible after the loss or damage.

e. We will not pay more for loss or damage on a replacement cost basis than the least of:

- (1) The Limit of Insurance applicable to the lost or damaged property;
- (2) The cost to replace, on the same premises, the lost or damaged property with other property:
  - (a) Of comparable material and quality; and
  - (b) Used for the same purpose; or
- (3) The amount you actually spend that is necessary to repair or replace the lost or damaged property.



# Definitions

## *Pollution*

The building and personal property coverage form only includes two definitions, which are rather self-explanatory. However, you should be aware that the additional coverage for pollutant cleanup and removal is only a limited form of property insurance provided for your benefit, and that this form does not provide any pollution liability coverage.

## *Synopsis*

### **DEFINITIONS**

1. "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.

## *Stock*

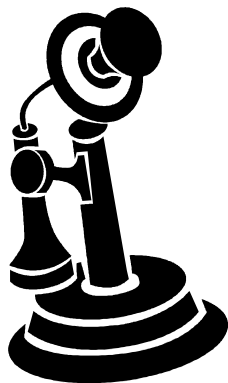
By making the proper declaration entries, replacement cost coverage can be written for buildings and personal property of you, including "stock." It may not be written to cover property of others, contents of a residence, manuscripts, works of art, antiques, etchings, statuary, pictures, marbles, bronzes, porcelains and bric-a-brac. Even when coverage is written on a replacement cost basis you may elect to make a claim on an ACV basis—in which case the additional amount can later be claimed, if you notify the insurance company of the intent to claim full replacement cost within 180 days after the loss.

Example: If you make the business decision not to replace property damaged in an insured loss, you might ask for an ACV settlement.

Items classified as "stock" depend upon the type of business insured. For a retail store, stock would include inventory and merchandise held for sale. For a factory, it would include raw materials, work-in-process, finished goods and packaging.

## *Synopsis*

2. "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.



## Optional Coverages—Endorsements

Various endorsements may be used to alter coverage to fit your specific needs. Endorsements may be used to change the nature of recovery, the property which is covered and not covered, and the exclusions found on the causes of loss forms.

### *Valuation Endorsements*

One way in which recovery may be affected is by attaching an endorsement that provides functional valuation coverage. When this applies to a loss, it covers the cost to replace property with similar property intended to perform the same function. It is used when replacement with identical property is impossible or unnecessary. Recovery may also be affected by an endorsement providing market value coverage. "Market value" means the selling value of property at the time of loss.



### *Vacancy Permit Endorsement*

A vacancy permit may be attached to a policy to modify the vacancy clause. Normally, losses caused by vandalism or sprinkler leakage would not be covered if they occur after a building has been vacant for more than 60 days. For an additional premium, you can buy back this coverage at specified locations for a specified period of time. The buildings must be scheduled and a permit period must be entered (showing dates "from" and "to"). This allows the underwriter to evaluate the additional risk being assumed—the longer the permitted period of vacancy, the greater the risk. Finally, for each building an "X" would be entered under the excepted causes of loss of vandalism, or sprinkler leakage, or building glass breakage, or all.



When attached, the endorsement states that the vacancy loss condition does not apply at the locations and during the permit period shown in the schedule. Many of the exclusions found on a coverage form are not cast in stone, and coverage is available providing that a charge is made for it.

### ***Additional Property Covered Endorsements***

Coverage may be expanded by attaching an additional covered property endorsement. It states that "the following is withdrawn from the Property Not Covered" section of the coverage form, and a schedule of items follows. The schedule is flexible and could be used to add coverage for a number of items.

### ***Specified Property Covered Endorsements***

Other endorsements exist for adding coverage for specific types of property which are not normally covered, or which may be covered on a very limited basis under an extension of coverage. Items such as outside signs and radio and television antennas may be covered by endorsements which remove the items from "Property Not Covered."

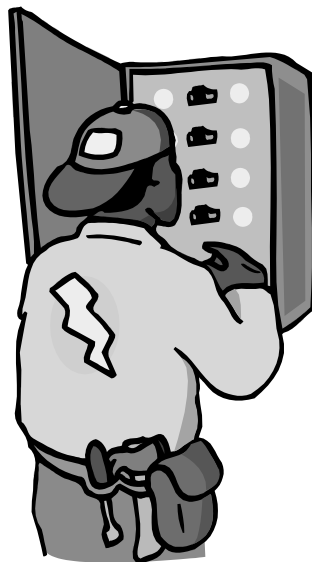
### ***Building Ordinance Coverage Endorsement***

An endorsement may be used to add building ordinance coverage, which is normally excluded by the causes of loss form. When attached, coverage is provided for loss or damage caused by enforcement of laws that regulate building repair or construction, or require the demolition of damaged property. Debris removal coverage is also included. This is an important coverage because local building codes can push costs well beyond normal replacement cost.

Example: When a building suffers \$100,000 of direct damage, building codes may prohibit the repair or replacement with like property and may require that all new construction incorporate expensive modernizations.

### ***Power Failure Endorsement***

Coverage for damage caused by off-premises power failure may be attached by endorsement. This type of loss is also excluded by causes of loss forms. When coverage is attached, loss or damage to insured property will be covered when utility service is interrupted by a covered cause of loss that does direct damage to water or power services away from your premises.





## ***Value Reporting Form Endorsement***

When a business has fluctuating inventory values during the year, a fixed amount of insurance for personal property would be inappropriate. In order to avoid costly levels of overinsurance, problems with underinsurance, and the inconvenience of continually endorsing policies to change insurance limits, reporting forms were created. The value reporting form allows the level of coverage to float with changing values. Premiums are adjusted at the end of the policy period, based on average values reported.

The value reporting form is an endorsement that may be attached to all commercial property coverage forms for which value reporting is appropriate, except builders risk forms.

The value reporting form covers personal property at locations described in the declarations, and extends "covered property" to include personal property at any of three types of additional locations for which a limit of insurance is shown in the declarations.

Coverage may therefore apply at four different types of locations. Described locations are those shown in the declarations. Reported locations are locations, other than those shown in the declarations, which are reported to the insurance company at the inception of the value reporting coverage period. Acquired locations are locations acquired after inception of the coverage and during the coverage period. Incidental locations are locations other than described, reported and acquired locations, at which the value of insured property is \$25,000 or less.

There is one exception to the property that may be covered by the reporting form—personal property at fairs and exhibitions may not be insured by this form.

Although values are reported during the coverage period, it is important that the "limit of insurance" written be based on the highest expected value during that period. The limit is a maximum limit, and in the event of loss or damage the insurance company will not pay more than the written limit even if reported values exceed that limit. During the coverage period, you will have full coverage up to the "limit of insurance" as long as timely and correct reports have been made.

At the beginning of the coverage period, you will be charged an advance premium (also known as "provisional premium"). The final premium will be determined after the end of the policy period, based on the average values actually reported. At that time, the insurance company will charge an additional premium (if the advance premium was inadequate), or will return the excess premium (if the advance premium was too high).

You have the option of selecting one of five periods of time for which the values must be reported. The type of period selected will be identified in the declarations by a two-letter code in brackets. The five periods and codes are:

- daily reports (DR)—monthly reports compiled on the last day of each month must show actual values at the end of each day during the month;
- weekly reports (WR)—monthly reports compiled on the last day of each month must show actual values at the end of each week during the month;
- monthly reports (MR)—monthly reports compiled on the last day of each month must show actual values at the end of each month;
- quarterly reports (QR)—quarterly reports compiled on the last day of March, June, September and December must show actual values as of the last day of each month during the reporting period; and
- policy year (PR)—annual reports compiled on the policy anniversary date must show actual values as of the last day of each month during the reporting period.

Although there are five different types of reports, there are only three ways of recording values (daily, weekly, monthly) because quarterly and annual reports must also show values at the end of each month. And there are only three times for submitting reports (monthly, quarterly, and annually) because daily and weekly reports are submitted monthly.

All reports must be filed with the insurance company within 30 days after the end of each reporting period and after expiration of the policy term. Each report must show values as of the required report dates, and must show values separately at each location. For incidental locations, reports must also show separately the total values in each state. Accuracy of reports is important—you cannot correct inaccurate reports after a loss has occurred.

In effect, value reporting coverage imposes a 100 percent coinsurance requirement. The endorsement replaces the coinsurance clause of the coverage part to which it is attached with a different provision that applies to the personal property it covers. It states that if values are underreported, the insurance company will not pay a greater proportion of a loss than the amount reported divided by the actual value on the report date.

Example: If the actual value is \$60,000 and you report an amount of \$40,000, only two-thirds of any loss would be covered by the insurance. You must report actual values even if they exceed the maximum limit of insurance. Although there is no coverage for values in excess of the limit of insurance, reporting the full value is the only way to avoid the coinsurance penalty for underreporting.

In most cases, the actual and reported values at each location are used for the determination of loss settlements. But in the case of locations acquired after the last report made, reported values at all locations would be divided by actual values at all locations as of the last report date.

If reports are made accurately and on time, you will have the benefit of full coverage for loss up to but not to exceed the limit of insurance written. However, penalties apply if reports are delinquent. If a loss occurs before the first report is due, coverage up to the full limit of insurance applies.



If, at the time of loss, you have failed to submit the first required report in a timely manner, the insurance company will not pay more than 75 percent of the amount it otherwise would have paid. Also, it will only pay for loss or damage at locations shown in the declarations—it will not pay for any loss at acquired, reported, or incidental locations.

If a loss occurs after the first report has been made but while any later report is delinquent, the insurance company will not pay more than it would pay at any location based on the last report made, and it will only pay for loss at locations included in the last report before the loss. For example, if the last reported value was \$100,000 and you failed to make a report on time after values had grown to \$150,000, there will only be \$100,000 of coverage until a higher value is actually reported.

A number of other endorsements may be attached to commercial property coverage forms to modify the coverage. This section will review some of the more common endorsements used.

### ***Cancellation Changes Endorsement***

A “cancellation changes” endorsement must be attached to every commercial property coverage part, unless it is in conflict with state law or is replaced by a special state endorsement that affects the cancellation clause of the common policy conditions. The cancellation clause in the common policy conditions of a commercial policy requires a minimum 10-day notice if the insurance company cancels for nonpayment of premium, and a minimum 30-day notice if the insurance company cancels for any other reason. Because of the special nature of property insurance, this general provision is not considered flexible enough to meet the needs of special situations.

The Insurance Services Office has developed a “cancellation changes” endorsement that affects property coverages only. This is a standard endorsement that must be attached unless superseded by a required state endorsement. The endorsement adds an additional cancellation provision allowing the insurance company to cancel with only five days’ notice under a number of special circumstances. This shorter notice will be permitted if:

- the building has been vacant or unoccupied for 60 or more consecutive days; or
- after damage by an insured cause of loss, repairs have not been started or contracted for within 30 days; or
- the building has been declared unsafe by a government authority; or
- the building has an outstanding order to be vacated or demolished; or
- fixed or salvageable items have been or are being removed from the building and are not being replaced; or
- heat, water, sewer service or electricity have not been furnished for 30 consecutive days or more (this does not apply during a period of seasonal unoccupancy); or
- property taxes have been outstanding for more than one year following the due date (this does not apply when the taxes are in dispute).

Many states have implemented special cancellation provisions, which alter the standard ISO conditions. In each state where an exception applies, a special state endorsement would be attached instead of the standard cancellation changes endorsement.

### ***Functional Valuation Endorsements***

Insured property is usually valued at its actual cash value or its replacement cost (if optional replacement cost coverage applies). In some cases, ACV coverage might not be practical and replacement cost coverage might not be economical. Coverage under the building and personal property coverage form and both of the condominium coverage forms may be endorsed to change the method of valuation to “functional” valuation.

Separate endorsements are available for functional building valuation and functional personal property valuation. When attached, these endorsements allow property to be replaced with less costly property that is functionally equivalent to the damaged or destroyed property—similar property that performs the same function when replacement with identical property is impossible or unnecessary. If a loss occurs, this coverage will pay the lesser of the limit of insurance or the cost to repair or replace the building or personal property (or the damaged portion thereof) with less costly property that is functionally equivalent.

### ***Peak Season Endorsement***

This form increases the limit of insurance for business personal property for specified periods of time to take care of seasonal fluctuations in value.

For example, many merchants have increased inventories during the Christmas season. They may need additional amounts of protection for only 30 to 60 days. Instead of purchasing more coverage than they need for the balance of the year, the peak season endorsement may be used to cover the temporary increases.



### ***Other Endorsements***



Property insurance coverage forms exclude losses resulting from the enforcement of ordinances or laws, yet these losses can turn into economic losses for a property owner. Ordinance or Law coverage can be added by endorsement. It covers the additional loss caused by the enforcement of laws that regulate building repair or construction. The coverage includes debris removal expenses.

Generally, commercial property forms exclude losses caused by the failure of power or other services when such loss occurs away from your premises. However, for an additional premium you can purchase an endorsement that will cover losses caused by an off-premises interruption of power or other services.

An endorsement is also available to provide coverage for spoilage of perishable stock due to power outage, mechanical breakdown, or contamination. This coverage applies to losses resulting from changes in temperature or humidity, or contamination, resulting from a power outage either on or off the premises, or resulting from mechanical breakdown.

# Causes of Loss Forms

The **Causes of Loss form** must be attached to commercial property coverage to indicate which causes of loss, also known as **perils**, are being insured against. The **applicable causes of loss are shown in the declarations** section of most policies.

Causes of loss forms identify the perils insured against. There are four variations of causes of loss forms under the program:

- basic form,
- broad form,
- special form, and
- earthquake form.



The first three forms represent a **progression of an increasing number of insured perils**—“basic” insures against the fewest perils, “broad” provides more coverage than basic, and “special” provides more coverage than “broad.” Note: **Windstorm is a covered peril under the Basic, Broad, and Special Cause of Loss Form(s).**

See the chart below for the coverages of each form.

<b>BASIC FORM</b>	<b>BROAD FORM</b>	<b>SPECIAL FORM</b>
<b>Covers...</b>	<b>Covers...</b>	<b>Covers...</b>
<b>Fire</b> <b>Lightening</b> <b>Extended Coverages</b> <b>Vandalism</b> <b>Sinkhole Collapse</b> <b>Sprinkler Leakage</b> <b>Volcanic Action</b> <b>Windstorm</b>	<b>All perils listed in the Basic Form, plus...</b> <b>Glass Breakage</b> <b>Weight of Ice, Snow, Sleet</b> <b>Water Damage</b> <b>Falling Objects</b> <b>Collapse Coverage</b>	<b>All perils listed in the Basic Form &amp; Broad Form, plus...</b> <b>Risk of Direct Physical Loss</b> <b>Theft</b>

The terms “basic,” “broad” and “special” coverage are used throughout the property insurance field, and you will find that the meaning of the terms is fairly consistent.



**At least one Causes of Loss Form must be attached to the property coverage part** (unless the only coverage written is glass coverage, mortgage holders errors and omissions or the standard property policy—these coverage forms include their own causes of loss). More than one causes of loss form can be attached to the coverage part, with different causes applying to different classes or locations of insured property.

Several endorsements are available to alter the coverage for specific needs. The “Cancellation Changes” endorsement alters the common policy conditions applicable to property coverages. Other endorsements alter the coverage forms or causes of loss forms.

You usually have to select basic, broad or special coverage for each type of property you insure. More than one causes of loss form may apply to the same policy—for example; you may have special coverage for buildings and basic or broad coverage for personal property.

The earthquake form is always used in conjunction with one of the other forms, because it simply adds coverage for two additional perils. If you want earthquake coverage for buildings, one of the other causes of loss forms plus the earthquake form would have to be attached to building coverage.



# Exclusions



Most of the exclusions are contained in the “causes of loss form” of the Commercial Property policy. The first set of exclusions is identical on the basic, broad and special forms. Many exclusions are intended to eliminate coverage for catastrophic losses that, if included in the policy, could bankrupt the insurance company.

These exclusions are separated into three groups. The first group applies to certain causes of loss regardless of whether any other cause or event contributes to the loss (although exceptions are made for some resulting losses).

## *Synopsis*

### **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.



## *Ordinance or Law*

There is no coverage for loss resulting from the enforcement of any ordinance or law regulating construction or repair of property, or requiring demolition of property.

Loss by ordinance or law is excluded because property coverage is not intended to cover additional costs that might result from building codes or regulations.

Example: If an older building is damaged, a newer law regulating construction may require replacement with additional features designed to reduce fire or earthquake losses. This additional cost would not be covered.

Ordinance or law coverage may be purchased and added by endorsement.

Insurers will fight any attempt on the part of a policyholder to rebuild to stricter code, since this leaves the policyholder in a better position than he or she was before the loss. A number of high-profile lawsuits on the issue were waged in the early 1990s. Insurance companies usually prevailed.

Building Ordinance or Law also applies to the enforcement of upgrades to a property due to building code changes by the city in which the property is located, including those required by the Americans with Disability Act (ADA). Insurers do not cover the expense of making property ADA compliant

## *Synopsis*

### Ordinance or Law

The enforcement of any ordinance or law:

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

## **Earth Movement**



Losses caused by earth movement (other than sinkhole collapse) or volcanic eruption (other than volcanic action) are not covered, but any resulting loss by fire or explosion is covered.

### **Synopsis**

#### **Earth Movement**

- (1) Any earth movement (other than sinkhole collapse), such as an earthquake, landslide, mine subsidence or earth sinking, rising or shifting. But if loss or damage by fire or explosion results, we will pay for that resulting loss or damage.
- (2) Volcanic eruption, explosion or effusion. But if loss or damage by fire or volcanic action results, we will pay for that resulting loss or damage.



## **Governmental Action**

Any loss resulting from the seizure or destruction of property by a government authority is not covered, except acts taken at the time of a fire to prevent its spread.

Example: If an entire neighborhood is burning and authorities order demolition of your building to stop the spread of the fire, the loss would be covered.

Otherwise, if a government seizes or destroys property, any claim should be made against the government and not against your insurance company.

### **Synopsis**

#### **Governmental Action**

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



## **Nuclear Hazard**

There is no coverage for loss caused by any nuclear hazard or contamination, but any resulting fire loss would be covered.

### **Synopsis**

#### **Nuclear Hazard**

Nuclear reaction or radiation, or radioactive contamination, however caused. But if loss or damage by fire results, we will pay for that resulting loss or damage.



## **Off Premises Power Failure**

Losses caused by off-premises power failure are excluded, but resulting losses by any covered cause of loss are covered.

Example: If a power failure causes meat in a freezer to spoil, there is no coverage for the loss. However, if the same power failure prevented a cooling system from operating and resulted in a fire, the resulting loss would be covered.

### ***Synopsis***

#### **Off-Premises Services**

The failure of power or other utility service supplied to the described premises, however caused, if the failure occurs away from the described premises.

But if loss or damage by a Covered Cause of Loss results, we will pay for that resulting loss or damage.



### ***Extended Period of Indemnity***

Adds coverage under a business interruption policy for loss of income suffered during a specified period of time (e.g., 30, 60, 90 days) after the damaged property has been repaired. In the absence of this endorsement or option, business interruption coverage typically ends on the date the damaged property is repaired or replaced.



### ***War and Military Action***

Losses caused by war or military action are excluded without exception. War risks include declared and undeclared war, civil war, military attack, insurrection, rebellion, revolution, terrorist attack or action taken by any governmental or sovereign authority in hindering or defending against any of these (including expected attack).

This cause of loss is so catastrophic that no coverage is granted for any resulting losses.

### ***Synopsis***

#### **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.

### ***Terrorism Endorsement***

A provision attached to an insurance policy that restricts, excludes, or otherwise explains coverage for loss due to terrorist acts. The passage of the Terrorism Risk Insurance Act of 2002 (TRIA) voided all terrorism exclusion endorsements then in force on commercial property and casualty policies, to the extent that such exclusions eliminated coverage for certified acts of terrorism as covered by the federal program. It also led to the creation of many standard terrorism endorsements that provide for a wide range of terrorism coverage options: from no terrorism coverage at all (permissible only when the insured rejects or fails to pay for TRIA terrorism coverage), to full coverage for both international and domestic terrorism, subject to the \$100 billion program-year cap established in the Act.



## Water

The water exclusion applies primarily to flood losses. This exclusion also eliminates coverage for damage caused by underground water that backs up through sewers or drains or seeps through foundations or basements. Coverage for flood, waves, overflow, and mudslide may be obtained under a separate flood policy.



"Do you have any paper towels?!"

### Synopsis

#### Water

- (1) Flood, surface water, waves, tides, tidal waves, overflow of any body of water, or their spray, all whether driven by wind or not;
- (2) Mudslide or mudflow;
- (3) Water that backs up from a sewer or drain; or
- (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.

But if loss or damage by fire, explosion or sprinkler leakage results, we will pay for that resulting loss or damage.

## Exclusions with Exceptions

The second group of exclusions eliminates coverage for things which are the primary or proximate cause of a loss. This set of exclusions is less restrictive than the first. The statement “regardless of whether any other cause contributes concurrently or in sequence to the loss” does not appear. Exceptions are often made to these exclusions—which means coverage is available—if the excluded cause of loss is triggered by a covered cause of loss.

Under the basic form, there is no coverage for damage caused by artificially generated current or the bursting of water pipes or discharge of water or steam from any system or appliance (other than an automatic sprinkler system).

The final exclusions in this section refer to losses caused by the explosion of steam boilers, steam pipes, steam engines and turbines, and mechanical breakdown including rupture or bursting by centrifugal force. All of these are boiler and machinery losses and can be covered by a separate coverage form.

### *Synopsis*

We will not pay for loss or damage caused by or resulting from:

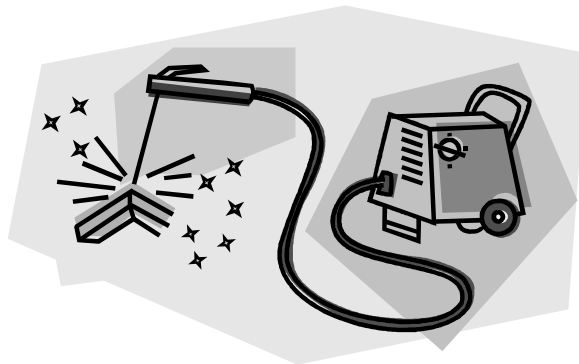
a. Artificially generated electrical current, including electric arcing, that disturbs electrical devices, appliances or wires.  
But if loss or damage by fire results, we will pay for that resulting loss or damage.

b. Rupture or bursting of water pipes (other than Automatic Sprinkler Systems) unless caused by a Covered Cause of Loss.

c. Leakage or discharge of water or steam resulting from the breaking or cracking of any part of a system or appliance containing water or steam (other than an Automatic Sprinkler System), unless the system or appliance is damaged by a Covered Cause of Loss.

d. Explosion of steam boilers, steam pipes, steam engines or steam turbines owned or leased by you, or operated under your control.  
But if loss or damage by fire or combustion explosion results, we will pay for that resulting loss or damage.

e. Mechanical breakdown, including rupture or busting caused by centrifugal force.  
But if loss or damage by a Covered Cause of Loss results, we will pay for that resulting loss or damage.



# Specific Coverage Form Exclusions

## *Synopsis*

### Special Exclusions

The following provisions apply only to the specified Coverage Forms.



Business Income (And Extra Expense) Coverage Form, Business Income (Without Extra Expense) Coverage Form, or Extra Expense Coverage Form.

We will not pay for:

- (1) Any loss caused by or resulting from:
  - (a) Damage or destruction of "finished stock", or
  - (b) The time required to reproduce "finished stock."

This exclusion does not apply to Extra Expense.

- (2) Any loss caused by or resulting from direct physical loss or damage to radio or television antennas, including their lead-in wiring, masts or towers.

- (3) Any increase of loss caused by or resulting from:

- (a) Delay in rebuilding, repairing or replacing the property or resuming "operation," due to interference at the location of the rebuilding, repair or replacement by strikers or another person; 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 "operation," we will cover such loss that affects your Business Income during the "period of restoration."

- (5) Any other consequential loss.



## *Leasehold Interest*

This exclusion applies only to the leasehold interest coverage form. The first part actually gives back some coverage by removing the "ordinance or law" exclusion.

Example: If you lease your building and government agents seize the building from its owner, any resulting loss—the costs of a move, an increase in the rent pay somewhere else, etc.—will be covered.

But there is no coverage for loss caused by you canceling a lease, or by the suspension, lapse or cancellation of any license, or for any other consequential loss beyond what is provided in the coverage form.

## *Synopsis*

### Leasehold Interest Coverage Form

(1) Paragraph B.1.a., Ordinance or Law; does not apply to insurance under this Coverage Form.

(2) We will not pay for any loss caused by:

- (a) Your canceling the lease;
- (b) The suspension, lapse or cancellation of any license; or
- (c) Any other consequential loss.

## ***Legal Liability Coverage***

A number of the exclusions contained in the basic causes of loss form are not applicable to legal liability coverage, so the first part of this exclusion simply removes some exclusions with respect to legal liability coverage only.

The next paragraph establishes contractual liability exclusion for legal liability coverage. This means that the insurance company will not pay for losses that you suffer because you intentionally assume someone else's liability. Example: If you offer a performance guarantee in order to get an account, losses you sustain by failing to perform are not covered.

### ***Synopsis***

#### Legal Liability Coverage Form

(1) The following Exclusions do not apply to insurance under this Coverage Form:

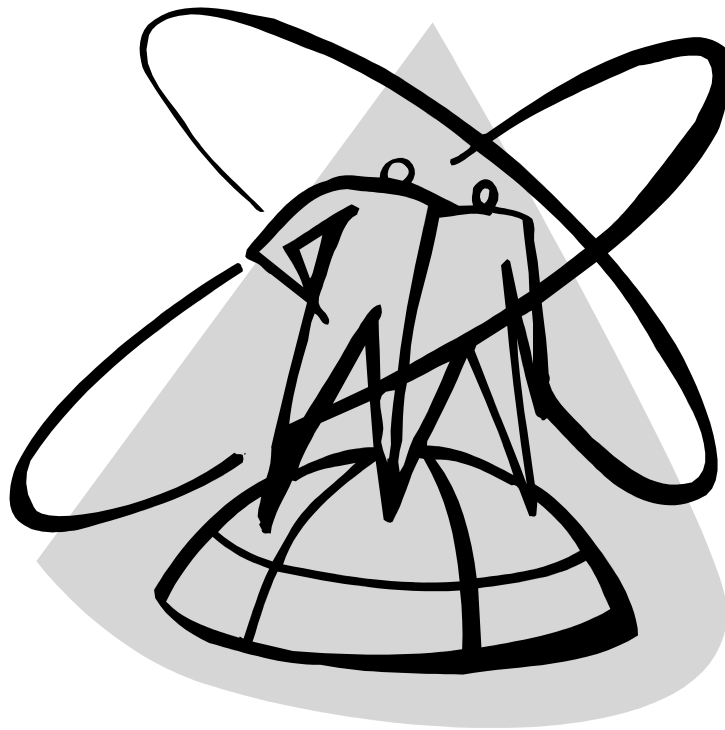
- (a) Paragraph B.1.a., Ordinance or Law;
- (b) Paragraph B.1.c., Governmental Action;
- (c) Paragraph B.1.d., Nuclear Hazard;
- (d) Paragraph B.1.e., Power Failure; and
- (e) Paragraph B.1.f., War and Military Action.

(2) Contractual Liability

We will not defend any claim or "suit," or pay any damages that you are legally liable to pay, solely by reason of your assumption of liability in a contract or agreement.

(3) Nuclear Hazard

We will not defend any claim or "suit," or pay any damages, loss, expense or obligation, resulting from nuclear reaction or radiation, or radioactive contamination, however caused.





# Earthquake Form

The Causes of Loss—Earthquake Form must be used in conjunction with one or more of the other causes of loss forms, because it does not provide a complete package of perils. It is a named peril form used to add optional coverage for two additional causes of loss—earthquake and volcanic eruption.

Since the scope of the coverage being provided is narrowly defined to begin with, this form has fewer exclusions than the other forms. It also includes special provisions for earthquake deductibles, which apply to earthquake losses instead of the standard or optional deductibles that apply to other types of losses. The earthquake form is divided into four major sections:

- (A) covered causes of loss,
- (B) exclusions,
- (C) limitation and
- (D) deductible.

This section, however, will only touch upon the “covered causes of loss”.

## Covered Causes of Loss

Coverage is provided for two causes of loss—earthquake and volcanic eruption. The other causes of loss forms cover “volcanic action,” which means damage by the airborne shock waves or ash, dust or lava flow from a volcano, but under the earth movement exclusion they specifically exclude coverage for damage caused by the land shock waves of a volcanic eruption or explosion. Such coverage is provided by this form.

An important aspect of this coverage is that all earthquake or volcanic shocks occurring within a 168-hour period are considered to be a single event, and this period is not reduced by policy expiration. The reason for this provision is that earth movements are frequently clustered, with strong aftershocks being related to an original shock. If each tremor were treated as a separate event, it might be difficult to determine how much damage was caused by each and to separate the losses for the purpose of applying deductibles.

### *Synopsis*

#### **A. COVERED CAUSES OF LOSS**

When Earthquake is shown in the Declarations, Covered Causes of Loss means the following:

1. Earthquake.
  2. Volcanic Eruption, meaning the eruption, explosion or effusion of a volcano.
- All Earthquake shocks or Volcanic Eruptions that occur within any 168-hour period will constitute a single Earthquake or Volcanic Eruption. The expiration of this policy will not reduce the 168-hour period.

## **Commercial Property Conditions**

**Concealment, Misrepresentation, or Fraud Coverage** – This condition says that if concealment, misrepresentation, or fraud occurs, the insurer can void the policy.

**Control of Property** – This condition conveys that control over what happens to the insured property is sometimes outside of the insured's power.

**Insurance Under Two or More Coverages** – When a loss is covered by two or more coverages as a part of a single package, the insurer will not pay more than the actual amount of the loss. This is to prevent double recovery by the insured.

**Other Insurance** (Pro Rata Liability and Other Insurance condition) – Pro Rata Liability states that if an insured has more than one policy, insuring the same property with the same terms then each company will pay its share of the loss. For Other Insurance conditions, if the terms are different on each policy, one will be considered primary and the other excess.

**Legal Action Against the Insurer** – There are two conditions required in order to have the insured bring legal action against the insurer if the insured feels coverage should not have been denied: 1) Must be within two years of the date of loss and 2) Policy condition and terms have all been followed.

**Liberalization** – If an insurer broadens coverage and no additional premium has been charged, the revision will automatically apply to the coverage if the revision is adopted by the insurer during the policy period or within 45 days prior to the effective date.

**No Benefit to Bailee** - No person or organization, other than you, having custody of Covered Property will benefit from this insurance.

**Policy Period, Coverage Territory** – This condition states that 1) the loss must occur during the policy period and 2) Within the coverage territory (United States including its territories and possessions, Puerto Rico, and Canada).

**Transfer of Rights of Recovery Against Others (Subrogation)** – If any person or organization to or for whom the insurer makes payments under this Coverage Part has rights to recover damages from another, those rights are transferred to the insurer to the extent of the insurer's payment. That person or organization must do everything necessary to secure the insurer's rights and must do nothing after loss to impair the insurer. The insured may waive their rights against another party in writing: