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## I. Commercial Package Policy

**A. Purpose:** The purpose of a package policy is to reduce coverage gaps that may result from multiple policies on the same business, eliminate overlaps so the insured is not paying twice for the same coverage policies with multiple carriers, and eliminate administrative issues by having one premium to pay, one company to work with. *Packaging reduces the chance of a delay in loss settlements due to disputes between different insurers.*

*For example, a loss involving loading of automobiles sometimes falls into a "gray area" between auto liability and general liability. If one insurer provides both coverages, payment of a claim will not be delayed as it might be if each coverage were written by a separate insurer and each insurer felt the claim was covered under the other's policy.*

**B. Definition:** As with a homeowner's policy or auto insurance policy, the Commercial Package Policy combines two or more coverages and both property and casualty coverage into one policy. The CPP is designed for large businesses. Relatively small businesses can purchase a Commercial Package Policy but are better served by a BOP-Business Owners Policy. The BOP is a prepackaged plan with both property and casualty coverage designed for smaller businesses.

**The policy** itself consists of the declarations page and the **coverage forms**. An insurance policy is assembled with a combination of various standard forms, including a declarations page, coverage form, and endorsements. A causes of loss form may also be required. Together these forms explain the coverage term, the insurance policy limits, the amount of coverage, exclusions and other limitations of coverage, and the duties and responsibilities of the insured in the event of a loss.

**Coverage Form** — one of the primary standardized insurance forms used to construct an insurance contract. The coverage form generally contains the insuring agreement, coverage conditions, exclusions, and policy definitions.

**Causes of Loss Forms** — Insurance Services Office, Inc. (ISO), commercial property insurance forms that establish and define the causes of loss (or perils) for which coverage is provided. A causes of loss form is combined with one or more coverage forms, the commercial property conditions form, the common policy conditions form, and the declarations to make up an ISO commercial property policy. There are three causes of loss forms: the basic, broad, and special causes of loss forms. The basic and broad causes of loss forms are named perils forms; they provide coverage for loss from only the particular causes that are listed in the policy as covered. The special causes of loss form is an all risks form; it provides coverage for loss from any cause except those that are specifically excluded.

**Countersignature:** When the property or casualty policy is issued, the licensed producer must **countersign** the policy. This will verify that a licensed producer sold the insurance and that he is licensed in the state in which the insurance was written.

**First Named Insured:** Some commercial policies use the term **first named insured**. In the commercial field, it is possible to have many named insureds on the same policy. By making the "first named insured" and the insurer the primary parties responsible for carrying out contractual duties, the process of meeting policy obligations has been simplified. *For example, the insurer may satisfy its obligation by sending a cancellation notice to the "first" named insured rather than all the named insureds.*

## C. Coverages

The CPP is made up of the following components:

- a. Common Declarations
- b. Common Conditions
- c. Interline Endorsements (if needed)
- d. Two or more Coverage Parts

Coverage Parts are commercial coverages which can be purchased and which make up the CPP. The Coverage Parts include:

- a. Commercial Property
- b. Farm (Property)
- c. Commercial Marine (Property)
- d. Equipment Breakdown (not covered in this course) (Property)
- e. Commercial Crime (Casualty)
- f. Commercial Auto (Casualty)
- g. Commercial General Liability – CGL (Casualty)

**D. Coverage extensions** - An extension is something already listed in the policy, but coverage will be extended or carried over to, *for example, new equipment, a newly acquired location, etc.* This does not always mean complete coverage for the amount of the loss sustained.

## II. Commercial Policy Components

**A. Declarations:** What is on a declarations page? The who, what, where, and when of the policy.

- o Policy number and policy period
- o Identity of the insurer and producer
- o Name and mailing address of the (first) named insured
- o Description of the covered business
- o List of the coverage parts purchased and the premiums for each part
- o Total of all combined premiums
- o List of forms applicable to each coverage part
- o **Countersignature and the date of the signature.** This is the signature of the producer verifying they are a licensed producer in the state.

**B. Conditions** section states the rights and responsibilities of each party to the contract.

**1. Cancellation...** The first named insured may cancel the policy by giving written notice or returning the policy to the insurance company.

- *If the insurance company cancels coverage*, notice must be sent to the First Named Insured, producer of record, and any mortgage company. **A minimum 10-day notice in writing is required for cancellation due to non-payment of premiums**, whereas a minimum **30-day written** notice is required to cancel for other reasons.
- **45 days in Washington.**
- If the notice of cancellation is mailed, the insurer is not required to prove that the insured actually received the notice. It is required to prove only that the notice was mailed to the First Named Insured at the mailing address on the policy.

**2. Changes** condition states that changes can be requested only by the (first) *named insured*, and made only by a written endorsement issued by the insurance company. The policy constitutes the *entire contract* between the parties and cannot be arbitrarily changed by either party.

**3. Premiums** are the responsibility of the (first) *named insured*.

**4. "We" may exam "your" books and records at any time** and for up to **three years** after the policy period. This provision is included because commercial coverage may be issued with estimated premiums. *The final premium is determined after the policy expires, based on reported values of the insured property, the amount of the insured's sales, payrolls, or some other variable.*

**5. Inspections and Surveys:** The insurer may inspect or survey the insured premises at any time, report its findings and make recommendations for changes. *This inspection will relate only to insurability, premiums, and to verify that any warranties are being met by the First Named Insured.* The insurer does not warrant that conditions are safe or that the insured is in compliance with any specific regulations.

**6. "Your" rights and duties** under this policy **may not** be transferred to another party, but remain the rights and duties of the First Named Insured. The clause also provides for automatic transfer of coverage upon the death of a (first) named insured to the named insured's legal representatives.

**7. Concealment, misrepresentation, or fraud** related to this policy will result the policy being void.

- 8. Liberalization:** We may change the policy for the better of the insured without an increase in premium at any time.
- 9. Insurance Under 2 or More Coverages:** We will not pay more than the total loss.
- 10. Other Insurance:** How do We pay if the loss is covered by another policy.
- 11. Transfer of Right of Recovery Against Others to Us;** if WE paid for a loss and someone else is liable, We have the right to subrogate and be reimbursed for the amount paid out.
- 12. Transfer of Your Rights and Duties Under This Policy** may not be transferred to others without Our written consent.

**C. Insuring Agreements** are better left to each form or coverage part. An insuring agreement states that when there is a loss caused by a covered peril to the insured's covered property the insurer will pay. Also known as the **heart of the contract** or a **broad grant of coverage**. Each section will have its own insuring agreement - building coverage A, liability, etc. This is the first place (after the declarations page) where you look to see if a loss is a covered loss. Is the property covered or not; was the loss caused by a covered peril or not?

It is that portion of the insurance policy in which the insurer promises to make payment to or on behalf of the insured. Often, insuring agreements outline a broad scope of coverage, which is then narrowed by exclusions and definitions.

**D. Interline Endorsements:** A CPP might contain *interline endorsements* or endorsements that may be used with more than one line of insurance or more than one Coverage Part. They are prepared to eliminate redundancy and to minimize the number of endorsements in the commercial package policy. They often cover general items such as cancellation, renewal, etc.

**E. Exclusions:** There are no named common exclusions, each coverage form has a list of property or perils excluded. However, there are things that are common to most part: *war, wear and tear, intentional or criminal acts of the insured are examples.*

### III. Commercial Property Forms

**A. Coverage Form for Building and Business Personal Property:** These may be issued as a monoline policy or as part of a commercial package policy. Every policy must have a commercial property coverage part which consists of the commercial property declarations and conditions page, causes of loss forms (basic, broad, special, and earthquake), and one or more coverage forms.

**Coverage** (Similar to a Dwelling Policy, the following coverages must be added and purchased separately and are not automatically included with the commercial property policy.)

**1. Building - Coverage "A"** Covers the buildings and structures **shown in the declarations**. (A carport would be covered if shown on the declarations page. It may not be covered if it is located at the address but not noted) This includes buildings as well as:

1. completed additions,
2. permanently installed fixtures,
3. permanently installed machinery and equipment,
4. personal property used to maintain the premises,
5. and additions, alterations, or repairs in progress including materials, equipment, supplies, and temporary structures within **100 feet of the described premises**.

- **A limit of \$1,000 for signs attached to the building is provided.**

**2. Business Personal Property - Coverage "B"** includes furniture, fixtures, machinery, equipment, stock, etc., the value of labor or parts that the insured has put into the property of others, and if the insured is a tenant, any improvements the insured has added to the premises. Coverage is for contents of the building and for property in the open or in a vehicle within **100 feet of the described premises**.

**3. Personal Property of Others - Coverage "C"** provides for payment to a third party for their personal property while in the insured's care in the building or **within 100 feet** of the described premises. This is much like bailees coverage.

#### Property NOT Covered:

- Money and related property (Crime Coverage)
- Animals, unless they are boarded or held for sale
- Autos for sale (Commercial Auto Coverage)
- Contraband or property being illegally transported
- Property below basement or ground level, land, water, growing crops, or lawns (Builder's risk covers the pipes until the foundations are set, crop insurance covers crops)
- **Personal property over 100 feet from the described premises**
- Pilings, piers, wharves, or docks (Ocean or Inland Marine Coverage)
- Vehicles licensed for road use or principally used away from the premises (Commercial Auto)
  - **However, vehicles used for maintenance of the premises are covered.**



- Trees, shrubs, plants, any crops stored outside a building, any fences, antenna, or signs not attached to the building (**special note**: a limit of \$1,000 for signs attached to the building is provided)
- Boilers and other heavy machinery (covered under Equipment Breakdown)
- Coverage may be extended to apply to **outdoor property** such as trees, shrubs, and plants. However, the insurer will pay not more than **\$250** for any one tree, shrub, or plant, not to exceed a total of **\$2,500** or whatever your outdoor property limit is.

### Additional Coverage (included in the policy):

**Debris Removal** applies to the cost of removing debris from the covered property which results from a covered cause of loss during the policy period.

**Preservation of Property** (a.k.a. removal) covers loss that occurs within **30 days to property removed from an endangering peril**. *It protects against any direct physical loss or damage and is not limited to the perils listed in the policy.*

**Fire Department Service Charge** - up to **\$1,000** (no deductible).

**Pollutant Clean-up and Removal** - pays up to a small, limited amount for expenses to extract pollutants from land or water at the described premises if the loss was due to a covered peril.

**Collapse Coverage** pays if a loss is caused by any of the insured perils or caused by covered perils of decay, hidden insects or vermin, or the weight of contents, including equipment, animals, or people.

- **Collapse** that results from hidden decay, hidden insect or vermin damage is **NOT covered** if the insured knew about the damage before the collapse.
- **Collapse** is covered only on **Broad and Special** forms only.

**Glass Breakage Coverage** will pay a small amount for the breakage of glass.

### **B. Builders Risk** covers commercial buildings that are under construction.

A Business and Personal Property Coverage form will not cover buildings under construction due to the different risks they face. A Builders Risk Form policy may cover one building or many buildings on a blanket basis. Coverage begins when the construction is above the lowest basement level or ground level. The policy period is a minimum of a year but if construction is finished there will be a pro-rata refund. (All unearned premium is returned, no service fee). Interestingly the foundations and items below the ground, which are excluded on the Business and Personal Property Form, are covered here. They may be exposed to hazards such as fire and wind whereas they won't be exposed later and do not have to be covered later.

Much like the building and property part a, this coverage includes debris removal, fire department service charge, preservation of property, and pollutant clean up and removal.

Temporary structures on the property may be covered, items like scaffolding and construction forms. These could also be covered under a contractor's equipment floater.

Generally, the coverage amount is based on the full or 100% **anticipated value** of the building when construction is completed. This includes all the permanent fixtures and decorations that will become part of the building. If the building is not insured for the proper amount any loss will be paid on a proportion value. Reimbursement is on an ACV basis because newly built property has no depreciation.

Under the **Builders Risk Reporting Form**, the insured purchases a smaller initial amount of coverage which increases as more of the building is completed. The insured must report the value (**100%**) of completion monthly. *If the building is not insured for its completed value, the insurer will pay a proportion of any loss.*

#### Deposit Premium/Reporting Forms/Audits:

- ❖ A Deposit Premium (a.k.a., the *Initial or Advance Premium*) is paid to the insurer by the named insured at **the inception of coverage**. The premium owed is taken from the deposit to pay the earned premium which is based on the results of the **reports**.
- ❖ Reports are made monthly, quarterly, semi-annually, or annually. If more premium is due, the insured will be billed and an **additional deposit** must be made.
- ❖ Audits are usually done at the expiration of the policy, verifying receipts, sales, payroll, etc.

**C. Business Income:** Unlike the dwelling forms, commercial property forms do not provide coverage for the indirect losses resulting from the damage to the insured property. Such protection must be obtained under a separate form for an additional premium.

- **The major consequential loss coverages are Business Income insurance coverage and Extra Expense insurance coverage.** Not all businesses need both Business Income and Extra Expenses.

There are 3 ISO Forms available:

- Business Income (And Extra Expense) Coverage Form
- Business Income (Without Extra Expense) Coverage Form
- Extra Expense Coverage Form (covered in the next section)

Additional options under the Business income are for landlords. They could choose:

- o Rental Income only
- o Business Income including Rental Income
- o Business income other than rental income

**Business Income Coverage** is a form added to the Commercial Property Coverage Part that covers **indirect losses** (a.k.a. *consequential loss*). For example, it would cover the loss of income due to a **suspension** of an insured's business operations following a direct covered loss to insured business property. Business income coverage is a **time element** coverage since time is a factor (element) in

determining the extent of the loss. This coverage only applies to the period of time required to repair or replace property with 'reasonable speed' so that the business is back in business. Reasonable speed will slow or halt delays by the insured as their coverage may stop and it encourages the carrier to adjust and pay promptly so the insured may do their part.

- o **Suspension** is defined as the slowdown or cessation of your business activities; or that a part of the described premises is rendered untenable if rental value applies.
- o **Business Income** means the insured's income that would have been earned (had the loss not occurred), and continuing operating expenses, including payroll. Business income is a "time element" coverage since time is a factor (element) in determining the extent of the loss or how long the loss will continue.

Coinurance... Business income coverage is written with a coinsurance requirement (which could cause a penalty following a loss if the proper limits are NOT carried). However, this requirement may be waived by using one of the options below:

**1. Maximum Period of Indemnity** waives the co-insurance requirement and limits indemnity to no more than the actual loss incurred during the first **120 days** following the direct loss or the **policy limit, whichever comes first**.

- **Example:** A business has annual net income and operating expenses of \$100,000. At a 50% co-insurance requirement, the business should carry \$50,000 of business income coverage. However, suppose the business carries only \$40,000 of coverage. Since this is only four-fifths of what the business should carry, the insurer will only pay four-fifths of any loss. If the business suffered a partial loss of \$5,000/month for four months, the insurer would pay \$4,000 per month (four-fifths of the loss), for a total of \$16,000. However, if the business chose the **Maximum Period of Indemnity**, the co-insurance would be waived. The insurer would pay \$5,000/ month (the entire amount of the loss) for **a maximum of four months**, for a total of \$20,000.

**2. Monthly Limit of Indemnity** waives the co-insurance requirement and pays the insured a selected fraction of the policy's limits each month following a direct loss. The fraction may be 1/6, 1/4, or 1/3.

- For example, if the fraction shown is 1/4 and the policy limit is \$100,000, the maximum amount that the insured would recover for any thirty consecutive days would be \$25,000 (or the amount of the loss, whichever is less).
- Alternatively. A business anticipates a loss of \$10,000 per month if forced to close due to a covered loss. If the owner feels 3 months is enough time to rebuild, they would purchase \$30,000 of coverage and choose the 1/3 option. If the owner feels 6 months to rebuild may be needed, they would purchase \$60,000 and choose the 1/6 option. Either way they would receive \$10,000 each month.

**3. Agreed Value waives the co-insurance provision** if the insured submits a business income report showing financial data for the previous 12 months and estimated data for the next 12 months and the insured insures for the full value established in the report.

**4. Extended Business Income (or extended period of indemnity)** is an additional coverage which is **included** in the Business Income Coverage Form. ***This indemnifies the insured for continuing losses in business income for up to 60 days after business is restored.*** This coverage is needed because after a loss when a business is shut down and then re-opens, it may take months before the business begins to recover financially and do the same amount of business they were doing before the loss occurred.

- For coverage beyond 60 days after restoration of the business, the extended period of indemnity is needed.
- The **Extended Period of Indemnity** option gives the insured **Extended Business Income** coverage for the number of days stated in the declarations. For additional premium, this option provides Business Income Coverage for ***longer than the 60 days already provided, up to 1 year.***
- *It is not available with the Maximum period of indemnity option.*

**D. Extra Expense** Is an **indirect loss** (consequential loss) coverage that may be added to the Commercial Property Coverage Part. ***It provides payment for expenses above normal costs to continue operations after damage to the premises by an insured peril when such expenses are incurred.***

**Coverage for lost business income is NOT needed because the business will NOT shut down.**

Certain businesses such as public utilities, insurance agencies, and newspapers, must continue to operate after a physical loss. They will still produce their normal revenue but will have extra expenses in order to ***continue their operation after a covered loss.***

**The Extra Expense Form restricts the coverage amount that can be recovered for a relatively short period of restoration. If the percentage of 40/80/100 (most common) is used in the contract, it means:**

- 40% maximum recovery for the first 30 days
- 80% maximum recovery for 31-60 days
- 100% coverage for over 60 days

For example, a dairy could incur expenses for the cost of renting temporary quarters and the cost of moving to and from that location. ***Payment for overtime work and the cost of bringing in temporary employees would be covered.***

- **The percent is a percentage of the face amount of the policy.** A \$100,000 policy would pay up to \$40,000 (40% of the limit) if the period of loss lasted 30 days or less; \$80,000 (80% of the limit) if the period of loss was 60 days or less; and \$100,000 if the period of loss was longer than 60 days.

**E. Legal Liability:** As a general rule, commercial policies cover the insured's property, but usually do not cover others property in the insured's possession. This could include leased equipment or machinery. This Legal Liability commercial property coverage form that provides coverage for sums the insured is obligated to pay as a result of accidental damage from a covered cause of loss to property of others in the insured's care, custody, or control including loss of use of that property. It includes 'duty to defend' and all supplemental payments. Covered property includes tangible property of others described on the declarations page or the legal liability coverage schedule. This will extend to newly acquired property that came into your care after the beginning of the policy period with limitations. *E.g., \$250,00 for new buildings, personal property must be at a location that you own or is in your care, custody or control and is limited to \$100,000.* Coverage ends the sooner of; after 30 days of acquiring, the policy period ends, or you report values to the carrier. The insurer will charge extra premium accordingly.

BASIC	BROAD	SPECIAL	EARTHQUAKE
<ul style="list-style-type: none"> <li>✓ Fire and Lightning</li> <li>✓ EC:</li> <li><b>R</b>iot</li> <li><b>E</b>xplosion</li> <li><b>V</b>ehicle &amp; <b>V</b>olcano</li> <li><b>C</b>ivil <b>C</b>ommotion</li> <li><b>S</b>moke</li> <li><b>H</b>ail</li> <li><b>A</b>ircraft</li> <li><b>W</b>ind</li> <li>✓ V &amp; MM</li> <li>✓ Sprinkler Leakage</li> <li>✓ Sinkhole Collapse</li> </ul>	<ul style="list-style-type: none"> <li>✓ Includes ALL of the Basic Form perils</li> <li>✓ Weight of ice, snow, or sleet</li> <li>✓ Falling objects</li> <li>✓ Water damage from freezing, cracking, tearing apart, burning, or bulging of a hot water heater, air conditioning systems, and appliances</li> </ul> <p>**NO Electrical - <i>It can be endorsed on</i></p> <p>**All water damage EXCEPT Flood</p>	<ul style="list-style-type: none"> <li>✓ "Risks of Direct Physical Loss" (Open Perils)</li> <li>✓ <b>Theft</b> – loss by theft has specific limits for certain kinds of property</li> </ul> <p><b>NOTE:</b> <u>Will not cover the dishonest acts of employees</u></p> <p><b>NOTE:</b> <u>Will not cover loss of money and securities</u></p> <p>**these can be added</p>	<ul style="list-style-type: none"> <li>✓ Must be used with one other Causes of Loss Form</li> </ul>

**F. Cause of Loss Forms:** These are very similar to a Dwelling Policy or a Homeowners Policy. The differences are sprinkler leakage and sinkhole collapse added to Basic Form, and electrical damage is removed from Broad Form.

- o *The dishonest acts of employees and loss of money and securities may be added under Crime Coverage.*
- o *Earthquake Form may be added to either Basic, Broad or Special Form policies.*
- o *All volcanic actions and earthquakes that occur within any 168-hour period are considered a single occurrence (only one deductible applies per occurrence).*

## IV. Commercial Crime

Crime Insurance pays an owner for the loss of property due to its wrongful taking by someone else through burglary, robbery, or theft. In addition, a commercial crime policy typically provides several different types of crime coverage, such as: employee dishonesty coverage; forgery or alteration coverage; computer fraud coverage; funds transfer fraud coverage; kidnap, ransom, or extortion coverage; money and securities coverage; and money orders and counterfeit money coverage.

Commercial crime is written similar to a CGL with either an occurrence form or a claims made form, but of course we need different terms for crime insurance. A policy that pays on a “loss sustained” basis is similar to the occurrence form. This policy will cover any loss that occurs while the policy is in effect, even if the loss is discovered after the policy period ends.

A “discovery policy” pays for losses that are discovered during the policy period; just like a claims made policy that pays for claims made during the policy period. There is often an extended reporting period of 60 days after the policy ends to report claims.

### A. Definitions

1. **Theft** is any loss of property by stealing, including both burglary and robbery. Less obvious events also are covered when the circumstances at least show the likelihood that property was stolen and not merely misplaced.
2. **Burglary** is the breaking and entering into the premises of another with felonious intent, leaving visible signs of forcible entry or exit. Burglary is usually committed when a business is closed.
3. **Robbery** is the taking by force or fear of force of the personal property of another. Robbery is usually committed while a business is open.
4. **Mysterious Disappearance**, meaning that insured’s property was lost but there is no likelihood that the property was stolen, is not covered.

*Example: the insured cannot find one of their rings. Mysterious Disappearance is NOT an insured peril.*

5. **Robbery and Safe Burglary** covers any combination of the following coverage:

- a) *Robbery of a custodian* covers loss of property of the insured, OTHER than money and securities, of the insured (owner) or an employee who has custody of the property within the premises. In crime insurance, a custodian is the insured (owner) or a regular employee or partner of the owner. A custodian is Not a watchperson or a janitor.

b) *Robbery of a messenger* covers loss of property of the insured, OTHER than money or securities, by robbery of the insured, an employee, or armored car outside the premises. A messenger can be the insured (owner) or a regular employee or partner of the insured. A messenger is Not a watchperson or a janitor.

c) *Safe Burglary* covers loss of property, other than money and securities, from within a locked safe by force or removal of the entire safe. Lock manipulation is not covered.

6. **§ Theft, Disappearance and Destruction** provides broad coverage for loss of money and securities which is excluded by the Robbery and Safe Burglary Forms. It covers both inside and outside the premises. It does NOT cover the dishonest acts of an employee. Destruction would occur when a building burns down completely and all property is destroyed. Disappearance would occur when a tornado strikes a building and throws property for miles in all directions and cannot be found.

## B. Insuring Agreements

All but 2 of the forms contain 7 insuring agreements detailing how the carrier will pay. They are

- Employee theft
- Forgery or alteration
- Inside the premises – Theft of money and securities
- Inside the premises – Robbery or Safe Burglary of other property
- Outside the premises
- Computer fraud
- Money orders and Counterfeit Money

1. **Coverage Forms** are as follows:

	Part of a Commercial Package Policy	Monoline form
<b>Loss Sustained Form</b>	Commercial Crime	Commercial Crime
	Employee theft and forgery	
<b>Discovery form</b>	Commercial Crime	Commercial Crime
	Government Crime Coverage	Government Crime Coverage
	Employee theft and forgery	

The main difference between the commercial and the government forms is that the government form has 2 insuring agreements, per loss and per employee. The commercial policy has a per loss.

**2. Employee Dishonesty** covers money, securities, and other property lost through the dishonest acts of employees. Blanket Coverage covers acts by any employee. Named Scheduled Coverage covers acts of a specific individual named in the declarations page. Position Coverage covers acts of individuals occupying the position described in the declarations, such as managers, bookkeepers, or cashiers.

While burglary and robbery losses are usually discovered immediately, certain losses, such as forgery and embezzlement, may not be discovered until weeks, months, or years after they occur. The discovery clause states that losses that occur during the policy period but are not discovered for up to one year after the policy has expired, can be covered under the expired policy.

*Employee Theft will not pay for inventory shortage or profit and loss computation.*

**Fidelity Bonds** can also be used to protect an employer against the dishonest acts of employees. A Fidelity Bond, which is NOT an insurance product yet is sold by insurance companies, is similar to Employee Dishonesty Insurance.

**Forgery or Alteration** coverage protects your business in the event of forgery or alteration of your company's business checks, promissory notes, drafts, or similar documents.

Forgery is the process of making, adapting, or imitating objects or documents, with the intent to deceive. The crime of fraud means deception in order to gain by another's loss. Forgery and identity theft are techniques of fraud.

## V. Commercial Property Endorsements

**A. Ordinance or Law** Coverage for loss caused by enforcement of ordinances or laws regulating construction and repair of damaged buildings. Older structures that are damaged may need upgraded electrical; heating, ventilating, and air-conditioning (HVAC); roofing materials; fences; and plumbing units based on city codes. Many of these losses are excluded by standard property policies.

Many communities have a building ordinance(s) requiring that a building that has been damaged to a specified extent (typically 50 percent) must be demolished and rebuilt in accordance with current building codes rather than simply repaired. Unendorsed, standard commercial property insurance forms do not cover the loss of the undamaged portion of the building, the cost of demolishing that undamaged portion of the building, or the increased cost of rebuilding the entire structure in accordance with current building codes.

However, coverage for these loss exposures is widely available by endorsement. Standard homeowners policies include a provision granting a limited amount (*e.g., 10 percent of the dwelling limit*) of building ordinance coverage; this amount can be increased by endorsement.

**B. Peak Season Limit of Insurance** This endorsement offers more coverage on the insured inventory during peak seasons. The dates this increased coverage applies are listed in the



endorsement. For example, a Ski Outlet will have coverage automatically increased during the ski season; then, coverage will be reduced during the off season.

**C. Spoilage**- Commercial Property policies do not automatically cover the spoilage of perishable stock. The Spoilage Coverage endorsement is attached to the commercial property policy that adds the peril of spoilage. Only “perishable stock” located at the premises described on the declarations is extended coverage in this endorsement; no other type of property is protected within its wording. “Perishable stock” is defined to mean business personal property “maintained under controlled conditions for its preservation, and susceptible to loss or damage if the controlled conditions change.”

**D. Value Reporting Form** Policies are issued when it is difficult to determine in advance the amount of coverage that needs to be purchased. Instead of a flat or fixed premium, a reporting form requires an advance premium or deposit premium, and then a report must be submitted to the insurer on which the correct premium will be calculated. This may result in a refund of premium or an additional premium being required. The insurer has the right to **audit** the reports given by the insured at any time to verify the figures.

**E. Earthquake coverage** may be endorsed on all property forms and covers damage caused by an earthquake (which is excluded on property forms). The deductible is usually 10% of the total Replacement Cost, not 10% of the damages. A building with a replacement cost of \$1,000,000 would have a deductible of \$100,000.

**F. The Utility Services – Direct Damage Endorsement** - The direct damage endorsement covers loss of or damage to covered property caused by an interruption in utility service to the premises. For the loss or damage to be covered, the interruption must result from direct physical loss or damage by a covered peril to the type of property (communications supply, power supply, etc.) that you have elected to cover.

It is important to note that the utility interruption endorsement does not cover loss or damage to electronic data. Damage to electronic data can be insured under a cyber risk or electronic data policy. The cause of the loss must be due to a covered peril. If spoilage resulted from the power going out due to artificially generated electrical current, there would be no coverage for the loss. If a burglar cut the power to cut the alarm off and caused the spoilage, that loss would be covered.

**G. The Utility Services – Time Element Endorsement** - This coverage can be endorsed to cover loss of income or a suspension of operations due to an interruption in utility services.

## H. Equipment Breakdown Coverages (Boiler and Machinery)

1. **The basic concept** of this coverage is to prevent potentially catastrophic losses as a result of explosion of steam boilers and other heavy equipment. The policy includes a loss control feature (known as **safety inspections**) which stresses **loss prevention**.

- A portion of each premium dollar is used for the inspections and control services.
- The Boiler Coverage have a unique provision that suspends coverage if the **object** is found to be defective.

2. **The Equipment Breakdown Insuring Agreement** agrees to pay for direct damage to covered property caused by a covered cause of loss, meaning **an accident to an object**.

- **Accident** means a sudden and accidental breakdown of an “object” that causes damage to the insured’s property (*e.g., boiler or machinery*), and property damage to others in the insured’s control. The policy also will pay for loss of income resulting from either of these losses.
- Bodily Injury and Damage to the Property of Others, not in the insured’s control, is not covered. However, this coverage may be endorsed on the insured’s Commercial General Liability policy.

3. **The definition of object** in an Equipment Breakdown Coverage Form is simply the **equipment** shown on the declarations. **Object examples include:**

- |                          |                                 |
|--------------------------|---------------------------------|
| 1) Turbine Objects       | 2) Pressure Objects             |
| 3) Refrigeration Objects | 4) Mechanical Objects           |
| 5) Electrical Objects    | 6) Pumps and Production Objects |

4. **Coverage Extensions...** The Equipment Breakdown Coverage Form contains three extensions of coverage. These apply to expediting expenses, 90-day automatic coverage for newly acquired locations, and defense and supplemental payments which are virtually identical to those provided by the commercial general liability policy.

**\$25,000 in Expediting Expenses...** The insurer promises to pay the reasonable extra cost of making temporary repairs, expediting permanent repairs, and expediting permanent replacement of damaged covered property.

5. **Common Exclusions:** war, ordinance or law, flood, earthquake, losses to objects while being tested, wear and tear, deterioration, and erosion.

**VI. Commercial Inland Marine** insurance was first developed as an extension of Ocean Marine coverage to provide coverage for cargo traveling over land instead of by sea. **The characteristic which makes property eligible for Inland Marine coverage is an element of portability.** Generally, Marine forms **do not** cover such stationary property as real estate, furniture, fixtures, or merchandise in the course of manufacture. It is to cover the items while on a train or truck from the factory to the salesfloor. It covers the bridges and tunnels used to transport, it covers legal liability for bailees.

**Nationwide Definition...** To help identify the kinds of risks which are eligible for either Marine Insurance. To limit the insuring powers of marine underwriters, the industry developed the *nationwide definition*. The definition lists six categories of eligible marine risks:

1. **Imports** (Ocean Marine)
2. **Exports** (Ocean Marine)
3. **Domestic Shipments** (Inland Marine)
4. **Instrumentalities of Transportation or Communication...** This category includes property such as bridges, tunnels, oil pipelines, loading docks, and radio/TV towers. While this property is not portable, it does have a direct connection with transportation and is subject to many of the same perils as property in transit. (Inland/Ocean Marine)
5. **Personal Property Risks** (Personal Articles Floater)
6. **Commercial Property Risks** (Inland Marine)

**Examples** of Inland Marine coverage include:

1. **Accounts Receivable Coverage Form** *Covers sums due to the insured from customers that are uncollectible due to loss or destruction of accounts receivable records. It also covers the expense of reconstructing the accounts receivable records and interest on short-term loans that may be required until the unpaid accounts are collected.*
2. **Bailees Customers' Coverage** *is a Commercial Property Floater that provides coverage for bailees (the temporary holder of customers' property) such as shoe repair shops, dry cleaners, and other businesses with a large amount of customers' goods in their possession. Coverage is provided even if the insured is not negligent for the loss. This helps to retain the good will of a service type of business.*
3. **Furrier Customers' Coverage** *is a Bailee's Coverage that will cover clients' furs that are within the furrier's care, custody, and control. A **furrier** is a business which stores furs on its premises.*

4. **Equipment Dealer's Coverage Form** *Covers the interest of a dealer of mobile equipment, including equipment used primarily for agriculture and construction. Also protects similar property of others that is in the care, control, or custody of the insured. Autos, trucks, motorcycles, and boats are not covered.*
5. **Jeweler's Block Coverage Form** *Covers a jewelry dealer's merchandise held for sale and customers' property in the care, custody, or control of the insured. It also covers property in transit and property in showcases, including precious stones and metals. Property on exhibit away from the premises is generally not covered, nor is property transported by someone other than the insured.*
6. **Valuable Papers and Records Form** *Covers the cost of replacing or reconstructing lost documents, including books, deeds, drawings, maps, and mortgages. It does not include money, securities, or computer software programs.*
7. **Electronic Data Processing Floater** *Provides both Property and Liability Insurance in a single package. It provides coverage for both hardware and software. Coverage is also provided for extra expense and business interruption due to an operational shutdown due to a covered loss. Liability insurance is included, which covers the insured's liability arising from handling and storing data for other firms.*
8. **Installation Floater** *Purchased by contractors to cover property that must be installed in a building or structure. These floaters are used to insure things such as heating and air conditioning equipment and building materials during transportation to the site, during unloading and installation, and until control is passed to the purchaser or owner of the building.*
9. **Sign Coverage Form** *Covers neon, fluorescent, automatic, and mechanical signs. Not covered is artificially generated electrical current that creates a short circuit or electrical disturbance within the sign.*

**VII. Ocean Marine** covers the transportation of goods and or merchandise traveling across bodies of water including any inland or aviation associated with the shipment. It can also include the vessel, the hull, lost revenue, and liabilities.

## VIII. Farm Coverage

- A. **Farm Property Coverage Form** Basic, Broad or Special causes of loss forms are available for property and are similar to that of Section "1" of the Homeowners Policy. *Please review the conditions, endorsements and exclusions in a dwelling policy, homeowners, or commercial package policy as they are identical.* A farm/ranch policy combines Homeowner's policy coverages for the home, business coverage for the business property and adds liability for the business as well.

## Personal Coverage

- B. Coverage A – Dwellings- Residential Building** occupied by the farmer, the farmhouse or ranch house, includes the dwelling, structures attached to the dwelling, and any material to be used to repair or build such structures when the material is located next to the dwelling.
- D. Coverage B - Other Private Structures-** or **appurtenant structures** covers other structures not attached to the main dwelling. Structures **not used for commercial purposes**, garden shed, garage, cabana, etc. Covers buildings separated from the dwelling by a clear space. **This is an additional 10% coverage of the policy limit of Coverage "A" replacement cost.**
- E. Coverage "C" - Household Personal Property (Contents)**, covers 50% of "A" in additional coverage. Personal property owned or used by the insured is covered 100% **anywhere in the world**. **An endorsement may be added to increase the percentage amount.**
- F. Coverage "D" - Loss of Use**, pays for increased living expenses if the insured cannot occupy the residence following a loss by a covered peril. The insured may be reimbursed for the *fair rental value* of the residence or a portion of the residence. For example, the insured rents out a level of the home to another. If there is a loss due to a covered peril and the home cannot be lived in while repairs are underway, the insured will be reimbursed to live at another location as well as rental income from the insurance company to replace that from the tenant. (The tenant would need renters insurance to cover their personal property and loss of use expenses.)

## Business Coverage

- G. Coverage E – Scheduled (listed) Farm Personal Property** covers grains, farm produce, poultry, livestock, machinery, vehicles, and equipment on and off the premises on a scheduled basis meaning a limit is shown in the Declarations page for the specific type of property. Items that are high in value should be added here.

**H. Coverage F – Unscheduled (unlisted) Farm Personal Property** covers grains, farm produce, poultry, livestock, machinery, vehicles, and equipment on and off the premises, on a blanket basis. Limits are involved as in the homeowner’s policies. For example, \$1000 per horse, mule, or head of cattle under 1 year of age, \$2000 per for those over 1 year of age.

**I. Coverage G - Other Farm Structures** Coverage G - Other Structures covers farm buildings and structures other than dwelling: barns, silos, sheds, portable buildings, fences forming corrals, outdoor radio and TV equipment, antennas, masts, towers, building materials kept on or adjacent to the building etc.

**Liability Coverage** pays for bodily injury or damage to property of others arising out of farming and ranching operations and personal activities; personal and advertising injury; and medical payments without regard to fault.

**J. Coverage H - Bodily Injury and Property Damage Liability** is for the third party for damages caused by an insured or arising from the business. **In order for the policy to pay the insured must be deemed legally liable for damages.**

Coverage can be a Combined Single Limit which pays claims as they come in until the policy limits are reached.

\$400,000 combined single limit

or, Coverage can be written on a split limit with three figures, 100/300/100

\$100,000 maximum Bodily Injury to any one person

\$300,000 maximum Bodily Injury total maximum for all persons injured combined

\$100,000 Property Damage

**K. Coverage I - Personal and Advertising Injury Liability**

**Personal injury includes false arrest, malicious prosecution, libel (in writing), slander (verbal), defamation of character, invasion of privacy and wrongful eviction or entry.**

**Advertising Injury is personal injury caused by advertising, which includes slander, libel, and invasion of privacy, and also such things as copyright infringement or stealing someone's advertising idea.**

**L. Coverage J - Medical Payment** covers medical expenses *without regard to fault* when an accident arises out of the insured's operations or on the insured's premises to a third party.

- ✓ The coverage applies to ***reasonable expenses for first aid administered*** at the time of the accident; necessary medical, surgical, x-ray and dental services resulting from the accidental injuries; necessary ambulance, hospital, and professional nursing services; and funeral services if death results from the injuries.
- ✓ The accident must occur during the policy period and expenses must be reported within **one year** from the date of the accident.
- ✓ ***Injuries to an insured or a tenant of the insured or employee of the insured are NOT covered.***
- ✓ Although this is no fault coverage and does NOT imply liability, it is still under section II covering liability so only third-party coverage is provided. The insured, employees and tenants are first party.
  - The coverage applies to reasonable expenses for first aid administered at the time of the accident; necessary medical, surgical, x-ray and dental services resulting from the accidental injuries; necessary ambulance, hospital and professional nursing services; and funeral services if death results from the injuries.
  - The accident must occur during the policy period and expenses must be reported within one year from the date of the accident.

## Crops

There are 2 types of coverage for crops. There is crop and hail coverage which is purchased through private insurers, and there is a multiple perils coverage which is also purchased through insurers but is reinsured through the federal government.

**M. Crop-Hail Insurance** is a single peril named policy but often includes fire, lightning, wind, vandalism, and malicious mischief. Replanting costs may be covered. This is sold by private insurers and is for losses below the threshold for federal coverage to apply. A farmer may purchase this at any time. Losses are covered on a per acre basis.

**N. Federal Crop Insurance Program (FCIP)** This is a multiple perils crop insurance backed or reinsured by the federal government. Not all crops are covered. The decision is made per county based on the demand and the risk. If a crop is not currently covered a person may ask the Risk Management Agency to expand and include it.

A farmer may only purchase this coverage before they plant. Losses are paid on yield or revenue.