Commercial Insurance Basics
Property Script

Slides 1 - 4: No script

Slide 5:

The Building and Business Personal Property form is designed to provide coverage for the generic policy holder. That is, it is designed to address big buckets of exposures for the large majority of business owners. There are some organizations that will have complex exposures and they will need to endorse their policies with appropriate coverages.

Before we go any further, I need to point out that carriers (insurance companies) do not write most of the forms used. Insurance Services Office (ISO) is an organization that develops most forms used by standard carriers. The form we're reviewing is an ISO form. Its purpose is to lay out the rules of engagement in general terms, and it is one of many property forms. It is, however, the only one to fulfill this particular function. Specifics regarding what kinds of losses would be covered are the subject of a different module. Now, back to the topic at hand.

At issue is the process of selecting what's needed to help you sleep at night, and the best way to do that is to educate yourself on the product. Wouldn't due diligence be a priority if purchasing a new building or adding a vehicle to your fleet? This is no different. You'll make better decisions, and be able to speak with your agent more effectively if you understand what's being offered.

This session will walk you through sections of the policy that reflect what's normally covered, what usually isn't, gaps in coverage that might need to be filled, and what your obligations are in the event of a loss. While you move through the lessons, think about your particular business, and how all its parts fit into the coverage part.

Take a look at the store in the picture. It appears to be a retail operation in a mall or strip shopping center. Its contents will be mostly electronics, the build outs (that's shelving and tables) needed to display stock and any machinery or equipment needed for record keeping. This particular risk might not have any contents that are ever taken off premises.

Your business may be entirely different. Begin considering any buildings you own or lease, machinery within (whether or not it's bolted to the floor), the tools you use to do whatever it is you do, and all the electronic and electrical apparatus that enable you to operate. Further consider whether you have fences on your property, signs (either attached to the building or not), documents used (either for future projects--blueprints, for ongoing operations--think cash or accounts receivable, or for historical purposes--think wills or doctor's notes), and whether you have any leased property. These are the items we'll be referencing, and it might help you to take a minute before you begin to sketch out a list of assets. That way you can take notes as you go along, and you certainly want to record any questions that arise.

Speaking of questions, while this module provides a broad-brush description of the building and business personal property coverages, it does not provide every answer to every question you might have. For that reason, at the conclusion of the training you will be provided with an e-mail address where you can send questions on anything not covered, or to clarify material within the module.

Keep in mind that this unit is one of several that cover a wide variety of topics. The reason I mention this is that some of what you learn today will reinforce the need to know more about other lines of business. For example, in some cases, a gap in coverage might be filled not by a property endorsement, but rather by securing coverage through another line of business entirely. It will be helpful to learn about those coverages as well.

With that said, let's get started. You're going to need the coverage form sent to you at registration. It's a 16 page document that's labeled Building and Business Personal Property Coverage Form, and has this number at the top right: CP 00 10 10 12. This means the form number is CP 00 10 and the edition date is October, 2012. It's a relatively new form. Keep it handy, because we'll be referring to it for the duration of the session.

Slide 6:

Video will be of instructor as she/he delivers this section. Written script for reading will also be available on any of the slides that have audio.

Script: We're starting on page 1 of CP 00 10. Take a look at Item 1. a. This is where the policy provides its definition of what's included as building. Read through items (1) through (5), and see if there's anything that jumps out at you as odd. (Allow 1 minute for reading.)

I'm sure it makes sense that permanently installed machinery and equipment can be considered as part of the building. The fixtures - especially when they're outside - might not have been expected. What would they include? Could be outdoor lighting, maybe gas lamps. So, what about the fire extinguishing equipment, the outdoor furniture and the appliances? Were you expecting to see those? Some people like to determine the difference between building and business personal property (BPP) by the flip-the-building test. That is, whatever falls out is BPP. You can see that this is not the way to figure that out. There's just more to it than that.

Let's take the machinery and equipment - if it's weighty or otherwise difficult to remove from the premises, it might be considered Building. Consider, for example, a printer that is so large a man can climb into the drum. There might also be industrial machines that aren't bolted to the floor, but are not subject to theft due to size.

Think about the list you created that lists your building and BPP assets. Do you have any items that might be considered part of the building? If so, put a check next to that item or highlight it. Then, think about the value of each item. Those items could potentially be included under the building limit, instead of the BPP limit. Why do you care? I'll tell you. The premiums charge are always less for the building than for the BPP. If you and your agent agree that value of targeted items can be added to the building limit, you can save money. It is key to make sure that the values are assigned appropriately, and that the carrier agrees the items are suitable to be considered as part of the building. Not all machinery or all equipment can be dropped into this bucket.

Another couple of items that can be covered as building, but not as often needed are additions under construction, as well as the materials an equipment required for that construction. These are normally--and more adequately--covered under another line of business, Inland Marine, which is covered in a different module.

Now let's look at Your Business Personal Property (BPP) that is item b. Take a minute to read items (1) through (6). (Allow 1 minute.)

You will have noticed that there is some duplication between the Building list and the BPP list. Some items can fall into either category. You might want to highlight those duplications for future reference. Items (1) and (2) might be covered under BPP simply because the insured is a tenant and doesn't have building coverage to increase in this way.

A few other items we need to look at are:

"Stock" - notice that this word is in quotes. Any word or phrase you see in quotes is a defined term. The definitions are found, usually, at the end of the form, as they are in the CP 00 10. Do not rely on Webster's, as some definitions are very specific to the form in which they're being referenced. In the case of "stock" there's a reason why it's defined. In the case of a loss, "stock" is valued at Actual Cash Value (ACV) unless it is a) already sold or b) the policy is endorsed to provide replacement cost.

Tenants improvements and betterments are build-outs that will ultimately belong to the building owner. Losses to these can be covered on a replacement cost basis, but there are two provisos. If the tenant chooses not to replace, only a percentage will be paid of the value. This will be calculated according to the percentage of time left on the lease. Also, if the building owner replaces the improvements, the tenant will not be paid for the damage, since they did not pay for the damage.

Last item on this section is Leased personal property. Do you have any on your list? Think about the possibilities - phone systems, a generator, a forklift, copiers, and office furniture. Virtually anything can be leased, and claims will be paid on an ACV basis unless the contract requires the lessee to cover the item for replacement cost.

Let's see what you've learned.

Slides 7-8: No script

Slide 9:

Take a look at the section titled Property Not Covered that begins on page 2. The list is fairly extensive, but every item falls into one of four perfectly logical reasons why it shouldn't automatically be covered under this form. The photos on the slide are representative of our discussion. Follow along as I review items **a.** through **q.** As each item is mentioned, think about these four categories: Better covered elsewhere, subject to different perils, meant to discourage criminal activity or uninsurable. I'll explain each of these in detail as we review each item.

a. Accounts, bills, currency, food stamps or other evidences of debt ... There is no paper trail for these items, and they are uninsurable for the causes of loss (fire, for example) that would be covered under the property form. Lottery tickets would be covered only for the value that the store paid for them - not for the amount that might be won.

b. Animals, unless owned by others and boarded by you ... - Animals are often better covered elsewhere - an animal mortality policy. However, if they're stock (think pet store) or are boarded animals, then they can be covered. A proviso is that the value may be less than the owner thinks Fluffy is worth, in the boarding case. The policy will pay the amount at which another cat, for example, of that breed is being sold. There is no throw-in for sentimental value. They're considered property, not family.

c. Automobiles held for sale - Coverage applies within 100' of the scheduled location, and motorized vehicles are prone to moving, so it wouldn't work out. These are better covered elsewhere.

d. Bridges, roadways, walks, patios ... - These items are subject to different kinds of perils than the building and BPP. For instance, they don't usually burn. Perils that might impact them - earthquake and flood - aren't covered under the property policy unless it's been endorsed - had this coverage added on.

e. Contraband ... - This comes under the, “Let’s don’t encourage our policy holders to commit crimes.” They shouldn’t profit from breaking the law.

f. The cost of excavations, grading ... - This is another situation where coverage just doesn’t apply - different set of perils. In any case, most of the time there’s a loss, the property doesn’t have to be re-excavated or re-graded.

g. Foundations of buildings, structures, machinery ... - Once again, this is a different set of perils.

h. Land ... water, growing crops or lawns - One more time - different set of perils. Land is subject to earthquake, flood and pollution and none of these are covered on the unendorsed property policy. Also, there are too many weather-related occurrences that could give rise to loss (excessive rain or sun) and this would increase the premiums to a level that no one could afford the coverage.

i. Personal property while airborne or waterborne - This grouping is better insured elsewhere. The premium for most property is determined, in part, by the protection class--how good, how close is the fire department? This is irrelevant for anything airborne or waterborne, but these items do have other exposures that could create loss.

j. Bulkheads, pilings, piers, wharves or docks - These items are subject to a different set of perils, as most are in the water.

k. Property that is covered under another coverage form ... - If it’s covered under another coverage form, obviously it’s better covered elsewhere. In any case, we wouldn’t want to cover any claim twice. It just isn’t in the best interests of the insurance-buying public or the solvency of the carriers to put people in a better position after the claim than before the claim.

l. Retaining walls ... Once again - different set of perils.

m. Underground pipes, flues or drains - And yet again - these items are underground, and would not burn or be blown away. These two perils likely correspond for the overwhelming majority of property claims.

n. Electronic data - Better covered elsewhere due to the nature of this property - it's intangible.

o. The cost to replace ...information on valuable papers or records - These are also better covered elsewhere, as there are forms designed specifically for these particular assets.

p. Vehicles or self-propelled machines ... - These are better covered elsewhere, but please note that there are exceptions to this provision that provide coverage when these items are "stock," small watercraft in drydock, and, in certain circumstances, non-owned trailers.

q. The following property while outside of buildings ... - Crops and other outdoor property are exposed to the elements, and are better covered elsewhere. Crop insurance can be purchased for that commodity, and the other items can be added back to the property form *or* put on Inland Marine.

Simple, right? Now let's see if you caught what I taught.

Slide 10: No script

Slide 11:

Many policy holders are unfamiliar with the connection between the limit they use for their building coverage and the loss payment that will be made in the event a claim occurs. This section will help you understand that process. There are a few things to keep in mind as we think about the value of your building. The first is that replacement cost has nothing to do with the market value. If you are thinking of selling your building, your realtor may calculate a number that could be higher or lower than the amount it would take to put the building back as it stands, more or less. Let's say that you purchased the building from an owner who was under water with his mortgage. You therefore paid a lot less than you would have if the economy had been robust, and the owner was not forced to sell. Let's fast forward a few years - you've made improvements and the economy is much better. Neither the amount you paid, nor the amount you might be able to sell the building for on the open market is related to the amount you will have to pay a contractor to build it back. There are two different kinds of appraisals.

One is for market value (what you can sell it for, best guess) and what you need to put it back, reduced by amounts that insurance won't pay. That would include excavations, foundations, underground pipes - remember what we talked about before?

So, in order for the carrier to assess the risk and apply an adequate rate, a certain percentage of the value is the amount you choose as a limit. To keep the math simple, let's say the building would require $1,000,000 to rebuild, as is. You can choose 80%, 90% or 100% of the replacement cost amount. If you choose 80%, you'd need to carry no less than $800,000 on the building. If 90%, then $900,000. It's pretty straightforward.

You'll also select a deductible, and that will likely be $500 (that's on the low side - usually reserved for personal lines policies), $1000 or $2500 - perhaps higher.

Let's take a look at page 13 of the CP 00 10. Discussion of this condition begins on that page - note that the calculation examples begin on page 12. However, I've made up my own. Those in the form will serve to give you additional review material. Let's see how coinsurance can affect a loss payment.

Slide 12:

Audio with written script as an option- The formula you need to remember is did/should x loss amount - deductible. Let's look at how this would work. The $1,000,000 building we were talking about before - let's say you choose 80% coinsurance, but for some reason think you need to apply that against the amount you paid for the building - 700,000. This would be 560,000. The amount insured SHOULD have been 800,000 (80% X 1,000,000 - the replacement amount).   Let's further consider what would happen with a $200,000 loss and a $1000 deductible.

560,000 is the DID and 800,000 is the SHOULD. 560,000 divided by 800,000 is 70%.

.7 x 200,000 (the amount of loss) is 140,000. The deductible is 1000, so the net loss payment is $139,000.

Let's do another example with this building, but a slightly different loss amount and coinsurance.

Slide 13:

In this case, let's assume a coinsurance % of 90, and a selected building limit of 800,000.

800,000 is the DID and 900,000 (90% X 1,000,000) is the SHOULD. 800,000 divided by 900,000 is 89%.

Let's say the amount of the loss is 300,000 and the deductible is $2500.

.89 x 300,000 (the amount of loss) is 267,000. The deductible is 2500, so the net loss payment is $264,500.

In either case, you will be penalized for being underinsured. That is, your obligation was to carry a certain percentage against the value. If you don't meet it, and you have a loss, there's a consequence.

That said, though, if you don't carry 100% of the replacement cost, and you have a total loss, you'll still be a bit short on dollars to rebuild. Consider this. Your building is valued at 1,000,000 and you carry 900,000 at 90% coinsurance. You're doing what you said you'd do. However, there's still $100,000 not covered (1,000,000 - 900,000). If the building is blown away entirely, or burns to the ground, there won't be a penalty, but you still won't have enough. In fairness, only 2% or so of losses are total losses, but you need to be aware of how this works. Got it? Let's do a Knowledge Check, and then we'll know.

Slides 14-15: No script

Slide 16:

Let's try another one.

Slide 17: No script

Slide 18:

Let’s try another one.

Slides 19-20: No script

Slide 21:

Audio - we’ll be talking more about extensions in just a few minutes, but this one requires special attention. It’s much more likely to affect a loss amount than many of the others.

Take a look at page 8 of CP 00 10 and find item **e.**, Outdoor Property. What you see may confuse you, since we learned earlier in this session that some of this property is listed under Property not Covered. This is how ISO works. It wipes out coverage completely, and then gives back what it chooses. The policy extensions are where you can see the amount you’ll be able to collect. In this case, the first thing to check out is the coverage. No matter whether you bought the broadest coverage or not, the coverage on fences, trees, shrubs and antennas will be limited. The best way to remember this is to think FLARE. That’s fire, lightning, aircraft, riot and explosion. That’s it.

There’s also a $ limitation for trees and shrubs. The most the policy will pay is $1,000, and even then it’s limited to no more than $250 for any one tree or shrub. Let’s look at a few claims scenarios to give you an opportunity to flex your Outdoor Property muscle.

Slides 22-26: No script

Slides 27:

It is very likely that you already know what you need to do in the event of a loss, but did you know that there are specific duties laid out in the policy? Take a look at page 10 in the CP 00 10 and let’s take a quick review.

Notify the police - but this is only if a law has been broken. If you have a fire, for example, and do not suspect arson, there’s no reason to contact the police.

Notify the carrier - of course, you would notify your agent, which translates to notifying your carrier. Your agency will walk you through the process after that.

Provide details of the loss - once again, you'll be passing this along to your agent, who will then forward the information.

Protect your property from additional damage - if you need to move it to another, temporary location, do that. If you merely need to reorganize your property, separating the damaged property from the undamaged, that will expedite the claims process.

Provide inventories of the damaged and undamaged property - this may not be requested, but it's good to be prepared.

Permit the carrier to inspect the property - it could be that one visit will do it, but depending on the complexity of the claim, multiple visits might be required.

Provide a sworn proof of loss - this is to document the file as to assets damaged/stolen/destroyed. It is due no later than 60 days after the carrier's request.

In some cases, the carrier may request (and be entitled to) interview the insured under oath. This isn't frequently asked, but once again, it's good to be prepared.

Most of these items are pretty obvious, and you likely can provide a quick list off the top of your head. Let's give it a shot!

Slide 28-29: No script

Slide 30:

Video will part of ppt presentation and will reflect various buildings with various levels of vacancy and condition.

Script: We're going to briefly touch on the vacancy issues as they relate to commercial property. You and other business owners may not realize that the degree of occupancy in a building can impact both the coverage and the ultimate loss payment, even if coverage is not excluded. It is important to understand this particular provision.

Go to page 12 in CP 00 12 if you'd like to follow along. Here are the high points:

For the building owner who leases space to others, the building must be occupied, based on square footage, no less than 31%. So, if the building has 50,000 square feet, at least 15,500 feet must be leased out.

Check out **(a) (2)**, though. Buildings under construction are not considered vacant. The expectation is that contractors will be in and out of the building on an almost daily basis. This reduces the possibility of vandalism or arson.

If your property does not have an adequate percentage of occupancy, and if that state of vacancy has existed for 60 days prior to a loss, there will be consequences. Here's the scoop.

Coverage is reduced. That is there are perils for which there will be no coverage. These are:

Vandalism
Sprinkler leakage, unless you've taken precautions to avoid frozen pipes
Building glass breakage
Water damage (even if it's the result of a firefighting effort)
Theft, or attempted theft.

Further, even if there IS coverage for a loss, the loss payment will be reduced by 15%. That's a chunk.

Then there are a few details you'll want to know - If you are the tenant, the building/space shown as your address must contain enough BPP to carry on normal operations.

Also, a big flag - while ISO uses 31% as criteria for vacancy, many carriers require 70%, so there's a difference in what triggers coverage and payment consequences, as opposed to eligibility requirements laid out by the carrier.

Words to the wise - keep your agent apprised of changes in your business, whether it's a loss of leased space, locations sold or locations purchased.

Let's review to make sure you have the concept firmly in hand.

Slides 31-34: No script

Slide 35:

Video will be of instructor as this section is delivered.

Script: We're switching gears, and taking a look at the balance of the Coverage Extensions. Remember that we already talked about Outdoor Property, as we wanted to emphasize that one. It comes up more often than the others, but now we'll play catch up on the balance of the extensions. If you'd like to follow along, go to page 7 in the CP 00 10. I'll summarize each item, just giving you the skinny.

Before we get into the different descriptions, you need to understand that these extensions are provided only if at least an 80% coinsurance percentage is selected. There's another way they apply, but that has to do with Value Reporting. Since that is infrequently seen, it isn't being discussed in this session, so don't worry about that one. Back to the items at issue.

Newly acquired property provides automatic coverage for those occasions when the insured (a business owner who might be someone just like you) acquires a new location, but forgets to call the insurance agent to mention this change. This provision provides up to $250,000 for a newly acquired building and $100,000 for BPP (remember, that's Business Personal Property) at a new location. The provisos are that for the building coverage to apply, you already have to have building coverage on your policy, and for the BPP, you have to already have BPP coverage. Also, this freebie is good only until the end of the policy period, OR 30 days have elapsed OR you've added the location to the policy - whichever comes earliest.

Personal effects and property of others. The picture that was on the slide when you chose to run this video showed an office with three people at desks. Their personal effects were all around them - I saw coats, a purse and a family photo. All these are employees' possessions and are subject to different limitations than property of others. The latter might be customers' coats held at a coat check in an upscale restaurant. In either case, the limit would be $2500 (unless you ask for the property of others limit to be increased), and there is no theft coverage for personal effects.

Valuable Papers - this might be blueprints or medical records or deeds. The policy provides $2500, and only if duplicates are not already in existence. It's better to cover these items on an Inland Marine form.

Property off premises - normally there's coverage only up to 100' off premises, but this provision grants a small amount for property while it's at a location you neither own nor operate out of, or at warehouse space for which you signed the lease after the policy period began, or at a trade show. There is no coverage while your property is in a vehicle, and the maximum amount that might be paid is $10,000.

We talked about outdoor property - remember that some items have coverage only for FLARE (fire, lightning, aircraft, riot and explosion), and some only for limited amounts - $1000 total and $250 per tree or shrub.

Non-owned detached trailers - this coverage can really come in handy for certain operations that have other people's stuff. Think about a grocery store during the holiday season. It is likely that hundreds of turkeys and hams have been ordered, and the grocery's walk-in freezer and cooler will not handle one more of anything. The distributor, perhaps SYSCO, leaves a refrigerated trailer on the grocery's parking lot, and it's full of hams and turkeys that can be transferred to the cooler or freezer as space permits. SYSCO is going to require that the grocery store provide coverage for this trailer. It isn't worried about the food - the grocery has already paid for it. In any case, that can be included in the grocery's BPP amount.
A small amount, $5000, is thrown in for cases like this. Practically speaking, this amount may not cover a semi-trailer's value, but it's better than nothing, and will cover smaller trailers that need to be covered for similar reasons.

The best way to cover a larger trailer is using an Inland Marine form. Remember, this is for non-owned trailers for which you are contractually responsible, and they are not attached to a vehicle.

Last one is Business Personal Property Temporarily in Portable Storage Units - think PODS - within 100' of the described building on the policy. This is limited to $10,000 and only for 90 days.

One proviso - note that these are Extensions, not necessarily Additions. This means that you may be e x t e n d i n g your coverage, not increasing your limit. Think of this as the difference in stretching out a rubber band, as opposed to someone handing you an **additional** rubber band. Any time you are reviewing these, look for an indication within the provision as to whether additional limits are being added. Do not assume.

Let's see what you've learned.

Slides 36-42: No script