Chapter 13
Commercial Property Insurance Coverages

Overview

Business enterprises make a large investment in property—plant, equipment, vehicles, inventory, furniture, and other property. This property may remain at a fixed location or may be moved between several locations. The business also may take possession of a customer’s property temporarily. Obviously, the business suffers a loss if its property is damaged or destroyed. In addition to direct physical damage to property, businesses can also incur indirect (consequential) losses if physical damage renders property unusable. This loss is a combination of continuing expenses and lost profits. This chapter discusses a wide range of commercial property insurance coverages. Coverages examined include: the commercial package policy (CPP), business income insurance, inland and ocean marine insurance, the businessowners policy (BOP), and a variety of other property coverage forms. Commercial property insurance is an important part of a business entity’s risk management program.

Learning Objectives

After studying this chapter, you should be able to:

• Explain the basic provisions of the building and personal property coverage form, including: covered property, additional coverages, optional coverages, and extensions of coverage.
• Identify the causes of loss that are covered under the following forms: causes-of-loss basic form, causes-of-loss broad form, and causes-of-loss special form.
• Explain how a business income loss is determined under the business income (and extra expense) coverage form.
• Explain what is covered by each of the following ocean marine policies: hull insurance, cargo insurance, protection and indemnity (P&I) insurance, and freight insurance.
• Identify the types of property that can be covered by an inland marine insurance policy.
• Describe the major provisions in a businessowners policy (BOP) including: coverages provided, additional coverages, and optional coverages.
• Define the following:
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<td>Annual transit policy</td>
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<td>Businessowners policy (BOP)</td>
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Equipment breakdown protection coverage form  National marine definition
Extra expense coverage form  Ocean marine insurance
Freight insurance  Package policy
General average  Particular average
Hull insurance  Perils of the sea
Implied warranties  Protection and indemnity (P&I) insurance
Inland marine insurance  Reporting form
Instrumentalities of transportation and communication  Trip transit policy

■ Outline

I. Commercial Package Policy
   A. Common Policy Declarations
   B. Common Policy Conditions
   C. Coverage Forms

II. Building and Personal Property Coverage Form
   A. Covered Property
   B. Other Provisions

III. Causes-of-Loss Forms
   A. Causes-of-Loss Basic Form
   B. Causes-of-Loss Broad Form
   C. Causes-of-Loss Special Form

IV. Reporting Forms

V. Business Income Insurance
   A. Business Income (and Extra Expense) Coverage Form
   B. Extra Expense Coverage Form
   C. Business Income from Dependent Properties

VI. Other Commercial Property Coverages
   A. Builders Risk Insurance
   B. Condominium Insurance (Association Coverage Form and Commercial Unit-Owners Coverage Form)
   C. Equipment Breakdown Insurance
   D. Difference in Conditions (DIC) Insurance
VII. Transportation Insurance
   A. Ocean Marine Insurance
   B. Basic Concepts in Ocean Marine Insurance
   C. Inland Marine Insurance
   D. Nationwide Marine Definition
   E. Major Classes of Inland Marine Insurance
   F. ISO Inland Marine Forms
   G. Other Inland Marine Forms

VIII. Businessowners Policy (BOP)
   A. Eligible Business Firms
   B. BOP Coverages

Short Answer Questions

1. What common conditions apply to the commercial package policy?

2. What are the components of a complete commercial package policy (CPP)?
3. What additional coverages are provided under the building and personal property coverage form of the CPP?

4. Explain the deductible, coinsurance, and optional coverages provisions of the commercial package policy.

5. How do the three causes-of-loss forms used in the commercial package policy differ?
6. In what situations are reporting forms used?

7. Does business income insurance cover direct losses or indirect losses? What types of losses (e.g., property damage, expenses, liability, lost earnings, medical expenses, etc.) is this insurance designed to cover?

8. What is builders risk insurance?

9. What protection is provided through a difference in conditions (DIC) insurance policy?
10. What protection can be provided through the purchase of ocean marine and inland marine insurance?

11. What are the major classes of ocean marine and inland marine insurance?

12. For whom was the businessowners policy (BOP) designed? What coverages are provided by the businessowners policy (BOP)?
Multiple Choice Questions

Circle the letter that corresponds to the BEST answer.

1. One customer is responsible for over 90 percent of a company’s sales. The risk manager of the company is concerned that if this customer goes out of business temporarily, the company will lose income. To protect against this risk, what endorsement should be added to the company’s business income policy?
   (a) leasehold interest insurance
   (b) business income from dependent properties
   (c) extra expense insurance
   (d) differences in conditions (DIC) insurance

2. One class of ocean marine insurance provides ship owners comprehensive liability insurance for property damage and liability to third parties. This type of coverage is called:
   (a) hull insurance
   (b) cargo insurance
   (c) protection and indemnity insurance
   (d) freight insurance

3. Which statement(s) is(are) true with respect to the commercial package policy (CPP)?
   I. The CPP is rigid and not easily adapted to various coverage situations.
   II. The packaged coverages cost less than purchasing the same coverages separately.
   (a) I only
   (b) II only
   (c) both I and II
   (d) neither I nor II

4. Decorations by Dora specializes in holiday decorations. The business is seasonal. Dora builds-up inventory in preparation for holiday demand, and after holidays, the inventory level is low. Because inventory fluctuates, Dora is required to periodically inform the insurer of the inventory value. What form does Dora’s insurer require?
   (a) a reporting form
   (b) an agreed amount endorsement
   (c) a replacement cost endorsement
   (d) a waiver of inventory clause

5. A physician, dentist, or business firm may own individual office space in a building legally organized as a condominium. To insure the business personal property of the owner and personal property of others, the owner would purchase:
   (a) condominium commercial unit-owners coverage.
   (b) Homeowners 6 insurance.
   (c) condominium association coverage.
   (d) businessowners policy (BPO).
6. Professional Dry Cleaners (PDC) desires insurance to cover damage to customers’ property while the property is in PDC’s possession, if PDC is at fault. PDC should purchase:
   (a) leasehold interest coverage
   (b) difference in conditions (DIC) coverage
   (c) extra expense insurance
   (d) bailee’s customer insurance

7. All of the following property can be covered under the building and personal property coverage form EXCEPT:
   (a) business personal property of the insured at the insured location
   (b) personal property of others in the care, custody, or control of the insured
   (c) business personal property of the insured off the premises at an exhibition
   (d) the insured’s building

8. Which statement(s) is(are) true with respect to the businessowners policy (BOP)?
   I. The BOP covers the building, business personal property, loss of business income, extra expenses, and business liability.
   II. The BOP is designed primarily for large corporations.
   (a) I only
   (b) II only
   (c) both I and II
   (d) neither I nor II

9. Inter-Ocean Transit purchased cargo insurance, hull insurance, and protection and indemnity insurance on one of its ships, the *Southern Cross*. While navigating through fog just off Long Island, the *Southern Cross* negligently hit another cargo ship, severely damaging the other ship and its cargo. Inter-Ocean Transit would be covered for this property damage liability under:
   (a) cargo insurance
   (b) hull coverage of hull insurance
   (c) running down clause of hull insurance
   (d) protection and indemnity insurance

10. Taylor Enterprises purchased an “all-risk” policy that covers other perils not insured by basic property insurance contracts. Taylor Enterprises purchased:
    (a) difference in conditions (DIC) insurance
    (b) commercial umbrella policy
    (c) a commercial package policy
    (d) a business floater policy
### True/False

Circle the T if the statement is true, the F if the statement is false. Explain to yourself why a statement is false.

1. T F   If the insured underreports the property value under a reporting form, recovery is limited to the proportion the last value reported bears to the actual value that should have been reported.

2. T F   Continuing expenses are not covered under business income insurance.

3. T F   Insurers marketing equipment breakdown insurance offer loss prevention services to their policyowners.

4. T F   The causes-of-loss broad form provides broader coverage than the causes-of-loss special form.

5. T F   Business income (and extra expense) coverage provides limited coverage if business is interrupted as a result of a computer hacker breaking into a company’s computer system.

6. T F   Business income insurance is written with a coinsurance requirement.

7. T F   If the insured cancels the commercial package policy, the premium refund may be less than pro rata.

8. T F   The extra expense coverage form is a separate form that covers the extra expenses incurred to continue operations during a period of restoration.

9. T F   The condominium association coverage form is purchased to provide coverage on the personal property of the unit owners.

10. T F   In ocean marine insurance, a general average loss falls entirely upon one insurable interest.

11. T F   The nationwide marine definition defines the property that marine insurers can insure.

### Case Applications

#### Case 1

Power Pack Battery Company manufactures a variety of batteries for consumer, industrial, and defense industry use. The company purchased an ISO commercial package policy (CPP) to cover property exposures. In addition to common declarations and conditions, Power Pack selected the commercial property coverage, crime coverage, and equipment breakdown insurance. The company elected the causes-of-loss broad form. A number of losses have occurred. Are these losses covered?

a. An explosion in the assembly building caused extensive damage to the building.
b. In the explosion described above, a caustic acid was released. The acid contaminated a thirty square-yard area.

c. A sprinkler accidentally discharged in the finished goods building. The finished stock of batteries was ruined because of the resulting corrosion.

d. One of Power Pack’s customers left a machine with the company so that Power Pack engineers could custom-design a battery for the machine. While the machine was in Power Pack’s possession, a fire destroyed the machine.

Case 2
Kerry Ann is owner of Fast Foto Finishing (FFF), a retail camera, film, and photo developing business. She purchased an ISO businessowners policy (BOP) with a standard property coverage form. A number of losses have occurred. Are these losses covered under Kerry Ann’s BOP?

a. Vandals broke into the store while it was closed and damaged business personal property.

b. Kerry Ann lost business income and incurred continuing expenses after a fire damaged the store.
c. A large outdoor sign, shaped like a camera, was destroyed in a windstorm.

d. A part-time sales clerk absconded with the daily receipts.

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**Solutions to Chapter 13**

**Short Answer Questions**

1. The common conditions include: cancellation rights for each party, a provision stating that the only permissible changes are endorsements, the insurer has the right to audit the insured’s books at any time during the policy period and up to three years after coverage expires, the insurer has the right to make inspections and surveys that relate to insurability and premiums charged, the first named insured in the declarations is responsible for premium payments, and the insured’s rights and duties under the policy can’t be transferred (assigned) to another party without the consent of the insurer.

2. The necessary components of a complete commercial package policy (CPP) include: common policy declarations, common policy conditions, and two or more coverage parts. The two or more coverage parts are selected from these coverages: commercial property coverage, commercial general liability coverage, commercial crime coverage, equipment breakdown coverage, inland marine coverage, commercial auto coverage, and farm coverage.

3. Debris removal is an additional coverage. If property is moved to another location for safekeeping after a covered loss, the property is covered on an all-risk basis for up to 30 days after the property was first moved. A maximum of $1000 is available for fire department service charges. The policy will provide up to $10,000 for the clean-up and removal of pollutants if the release or discharge is caused by a covered peril. The policy covers increased cost of construction because of ordinance or law. Finally, the policy covers the cost to replace or restore data lost because of an insured peril.

4. A standard deductible of $250 applies to each occurrence. If a coinsurance percentage is stated in the declarations, the insured must satisfy the coinsurance requirement at the time of the loss. Three optional coverage provisions are available. An agreed value option suspends the coinsurance clause and covers losses in the same proportion that the limit of insurance bears to the agreed value shown in the declarations. Inflation guard coverage automatically increases the amount of insurance by an annual percentage stated in the declarations. Finally, replacement cost coverage can be substituted in place of actual cash value coverage.
5. The basic form provides coverage for specified perils, including: fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action.

The broad form expands the basic form perils to include coverage for falling objects, weight of snow, ice, or sleet, and water damage. The broad form also covers certain collapses.

The special form provides coverage against “risks of direct physical loss,” meaning that all physical damage losses are covered unless specifically excluded or limited in the form.

6. Reporting forms are used in situations where there are fluctuations in inventory. The reporting form requires the insured to periodically report the value of the insured property. As long as the report is accurate, the amount of insurance on the inventory is automatically adjusted based on the inventory reported.

7. Business income insurance covers indirect (consequential) losses that occur as a result of direct physical damage to covered property. Business income insurance is designed to cover the loss of business income, expenses that continue during the shutdown period, and extra expenses incurred because of direct physical loss to insured property.

8. Builders risk insurance is coverage for a building under construction. The form can be used to cover the insurable interest of a general contractor, a subcontractor, or the building owner.

9. Difference in conditions (DIC) insurance is an all-risk property insurance policy that covers perils not insured through basic property insurance contracts. The coverage excludes perils insured by other property contracts, however most other property perils are covered. DIC coverage fills coverage gaps and can be used to insure unusual and catastrophic exposures. Firms with international operations often use the DIC policy to insure overseas properties.

10. Ocean marine insurance provides protection for goods transported over water. All types of ocean-going vessels and their cargos can be insured by ocean marine contracts. The legal liability of ship owners and cargo owners can also be insured.

Inland marine insurance provides protection for goods shipped on land. This coverage includes insurance on imports, exports, domestic shipments, and means of transportation such as bridges and tunnels. Inland marine insurance can also be used to insure fine art, jewelry, furs, and other property.

11. The major classes of ocean marine insurance include: hull insurance, cargo insurance, protection and indemnity (P&I) insurance, and freight insurance.

The major classes of inland marine insurance include: domestic goods in transit, property held by bailees, mobile equipment and property, property of certain dealers, and means of transportation and communication coverage.

12. The businessowners policy (BOP) is a package policy specifically designed for small- to medium-size retail stores, office buildings, apartment buildings, and similar businesses.

The businessowners policy covers the building, business personal property, loss of business income, extra expenses, and business liability exposures. Optional coverages are available for outdoor signs, money and securities, employee dishonesty, and mechanical breakdown.
Multiple Choice Questions

1. (b) The appropriate coverage for this situation is business income from dependent properties coverage. This type of coverage provides protection if a key supplier or a key customer incurs property damage that interrupts operations.

2. (c) Protection and indemnity (P&I) insurance provides this liability coverage to ship owners.

3. (b) Only the second statement is true. The CPP is flexible and can be tailored to cover most commercial property and liability exposures in a single policy. The purchaser receives a discount by combining coverages purchased in a single policy.

4. (a) Dora’s coverage is subject to a reporting form. Because her inventory fluctuates, Dora is required to periodically report the value of the inventory to her insurer.

5. (a) Condominium commercial unit-owners coverage will provide the necessary insurance.

6. (d) Professional Dry Cleaners enters into an arrangement called a bailment when PDC accepts laundry from customers. Bailee’s customers insurance will provide the desired coverage.

7. (c) Personal property of the insured off the premises at a fair or exhibition is not covered.

8. (a) Only the first statement is true. The BOP provides all of the coverages listed in the first statement. The BOP is primarily designed for small- to medium-sized business entities, not for large corporations.

9. (c) The property damage liability would be covered under the running down clause of the hull insurance.

10. (a) Difference in conditions (DIC) insurance covers other perils not insured by basic property insurance contracts.

True/False

1. T

2. F Business income insurance covers continuing expenses, as well as lost business income and extra expenses.

3. T

4. F The special form is broader, providing coverage for “risks of direct physical loss,” covering all losses except those excluded. The broad form provides named-perils coverage.

5. T

6. T

7. T
8.  

9.  **F** This coverage is for the buildings and equipment to maintain or service the buildings. The form may also cover fixtures, improvements, alterations, and appliances. However, personal property of the unit owners is specifically excluded. This property can be insured by the unit owner through the Homeowners 6 policy.

10.  **F** A general average loss is incurred for the common good and is shared by all parties to the venture. A particular average loss falls upon a single interest.

11.  

**Case Applications**

**Case 1**

a.  As explosion is a covered peril under the broad form, this loss is covered.

b.  One of the “additional coverages” under the CPP is pollutant clean-up and removal. As the discharge of the acid was caused by a covered cause of loss, up to $10,000 is available for the clean-up of the caustic battery acid.

c.  Sprinkler leakage is a covered peril under the broad form. The damage to the completed stock as a result of sprinkler leakage would be covered.

d.  Personal property of others in the care, custody, or control of the insured is covered under the “Personal Property of Others” coverage.

**Case 2**

a.  Vandalism is not excluded under the businessowners policy. Therefore, this claim would be covered.

b.  Business income coverage is provided as an additional coverage. The lost income and continuing expenses incurred as a result of this covered peril, fire, are covered.

c.  Coverage for the outdoor sign is an “optional coverage” under the BOP. If Kerry Ann chose to include this coverage, then the loss would be covered.

d.  Employee dishonesty is also an optional coverage under the BOP. If Kerry Ann chose to purchase this coverage, the loss is covered. If she did not choose to purchase this coverage, the loss is not covered.