HOW TO INSURE

Farm Operations

12-hours P&C CE

includes 3 hours Ethics

STUDY MANUAL

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This ebook covers everything insurance agents need to know about insuring Farm Operations, including different types of coverage, common risks, and best practices for helping clients choose the right policy. It would be a valuable resource for agents looking to expand their knowledge and better serve their clients in the Commercial Lines insurance market.

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PAY CLOSE ATTENTION TO THE SECTIONS HIGHLIGHTED IN YELLOW

is a "Court Case"

is an "Example"

Table of Contents

FARM INLAND MARINE FORMS

FP 00 30–ISO Farm Program Mobile Agricultural Machinery And Equipment Coverage Form

1. Water damage in the definition of specified causes of loss is modified but only for Special Cause of Loss. The revised definition includes such damage when a water or sewer pipe that is part of a municipal system is off premises and breaks due to wear and tear.

2. The following exclusion changes are made:

· Inventory shortage and disappearance exclusions are eliminated

· Dishonest acts of insured, partner, employees, etc., is rewritten to add clarity and also to explain it applies at any time.

· Disappearance of portable structures without evidence of theft

· Shortage disclosed in inventory

· Tremors and aftershocks are added to the list of events the term earthquake includes. An explanatory note is added. It states that earth movement is excluded, regardless of how it is caused. It may be from a natural cause or by any other force.

· The utility services exclusion adds communication and water. Instead of just applying when off premises failure occurs, it now applies when equipment at the insured's location fails if that equipment is the property of the utility. Loss caused by utility surges is also excluded.

ISO FARM INLAND MARINE DECLARATIONS PAGES

The ISO recommended Farm Inland Marine Declarations pages are FP DS 30, FP DS 31, and FP DS 32. Insurance companies usually modify the forms to meet their individual needs and purposes. The most important information generally remains constant because the policy coverage forms refer to specific information found only in the declarations. The information shown on this form must be accurate. Errors in the information shown on this page could have an adverse effect on a given claim settlement. These forms are used in the following manner:

· FP DS 30 is always used. It is the summary page and provides essential identifying information such as name, the address of the insuring company and of the insured. It also includes premium and endorsement information.

· FP DS 31 is the declarations for the Mobile Agricultural Machinery and Equipment Coverage Form.

· FP DS 32 is the declarations for the Livestock Coverage Form.

FP DS 31–ADVISORY MOBILE AGRICULTURAL MACHINERY AND EQUIPMENT COVERAGE FORM DECLARATIONS

This is an advisory declarations page, but the information contained in this declarations is mandatory. The coverage form makes many references to the declarations, so the information on it must be accurate. The declarations should be reviewed carefully, and the company notified concerning changes and corrections in writing. This declarations is

used with the FP 00 30–ISO Farm Program Mobile Agricultural Machinery and Equipment Coverage Form.

Deductible

The standard $250 deductible is shown, but there is a place to indicate exceptions and changes. This deductible applies on a per-occurrence basis.

Limit of Insurance

Blanket: A blanket limit may be shown that covers mobile agricultural equipment in an aggregate or single amount of insurance without listing each item of property with a specific value or limit for each item.

Schedule: Each item of property is listed or scheduled with a specific value or limit entered for each item.

Foreign Object in Machinery Coverage: This coverage applies to any item listed in this section.

All other property not specifically described: This is a "catchall" grouping of miscellaneous items with comparatively small values. It is used after listing specific items in the schedule. No individual item included in this blanket can have a value exceeding $2,000.

Extra Expense Coverage: A total limit for this coverage is shown.

Special Provisions

This area is reserved to describe any special agreements between the insured and the insurance company.

Policy Make-Up

The Farm Property Policy consists of the following forms:

· IL 00 17–Common Policy Conditions contain the conditions common to all Commercial Lines of insurance. This form is a mandatory part of all monoline or multi-line simplified policies.

EB 00 20–Equipment Breakdown Protection Coverage Form

INTRODUCTION

The Insurance Services Office (ISO) Boiler and Machinery Coverage Form was revised with the 07 01 edition and renamed Equipment Breakdown Protection Coverage Form. This name more accurately and completely responds to the coverage needs of the 21st century. This change resulted in the development of completely new forms, provisions and endorsements. The forms have been updated twice since the name change.

ISO Equipment Breakdown Protection Coverage Form (08 08 Edition)

INTRODUCTION

The Insurance Services Office (ISO) Boiler And Machinery Coverage Form was revised with the 07 01 edition and renamed Equipment Breakdown Protection Coverage Form.

This name more accurately and completely responds to the coverage needs of the 21st century.

The Equipment Breakdown Protection Coverage Form is more compact and easier to read. It includes provisions to include ten basic coverages, each of which is triggered by the appropriate entry on the declarations. This form was revised in 09 07 and again in 08 08.

Equipment Breakdown Protection Coverage is needed because standard commercial property forms typically exclude loss or damage caused by machinery or equipment breakdowns.

The coverage form opens by stating that certain provisions in the form restrict coverage and encourages the insured to carefully read the entire policy to determine its rights and duties and to determine what is covered and not covered. It also points out that the insurance company uses the terms you and your to refer to the named insured and the terms we, us and our refer to the insurance company providing the coverage. It also directs attention to Section F–Definitions because understanding the definitions is critical to understanding the coverage form, along with the Coverage and Exclusions sections.

A. COVERAGE

1. Covered Cause Of Loss

The only covered cause of loss is a breakdown to covered equipment. Breakdown is a defined term, as is covered equipment, and these definitions should be examined carefully.

2. Coverages Provided

Insurance applies only to the coverages having a limit or the word INCLUDED indicated next to them on the declarations. If an entry is not made, that coverage is not provided.

Note: The limit of insurance provided for each coverage, if any, is the primary limit. If INCLUDED appears next to a coverage, that coverage is included in the total limit per breakdown.

Note: Each coverage provided applies only to the part of any loss that result directly from the covered cause of loss.

Ten coverages are available.

a. Property Damage

This coverage pays for direct damage to covered property located at the premises indicated on the declarations.

b. Expediting Expenses

This coverage applies to additional costs the insured incurs to make temporary repairs and expedite or hasten permanent repairs or replacement of the damaged property.

Example: Perfection Products incurs a covered loss to one of its production boilers. The damage is such that it cannot be repaired and a new boiler must be ordered. Delivery and installation normally takes three months but one of Perfection's customers has an identical boiler on hand if it needed to replace one of its units. The customer makes it available to Perfection at its cost and with an allowance for its storage costs. Perfection jumps at the opportunity because it will be operating again in two weeks instead of three months. Coverage applies to the additional costs because this enabled Perfection to resume operations sooner than expected.

c. Business Income And Extra Expense Or Extra Expense Only

The insured can choose to purchase combined business income and extra expense coverage or extra expense coverage only. There is no option to purchase business income coverage only.

If the insured purchases combined business income and extra expense coverage, the insurance company pays the insured's actual loss of business income during the period of restoration, as well as the extra expenses necessarily incurred to operate the business during the period of restoration. If coverage for extra expense only is purchased, there is no coverage for business income.

The company determines its payment by analyzing the insured's operations before the loss and estimating the effect on continuing operations of the equipment breakdown.

The period of restoration ends five days after the covered equipment is back in service, unless a different number of days are indicated on the declarations.

If ordinance or law coverage is provided, the period of restoration also includes the additional time needed to demolish, remove, repair, remodel or rebuild.

If media is damaged or data is lost or corrupted, coverage applies to the actual loss of business income and/or extra expense during the period of time needed to research, replace or restore the media or data and to reprogram any instructions used with any computer equipment. Coverage does not apply to media or data not replaced or restored.

Example: Perfection Products sustains a covered loss that destroys half of its computer data. While restoring its records, Perfection decides that a business documents archive destroyed in the loss is no longer needed. The adjuster reduces the settlement to reflect that the obsolete records will not be replaced.

The insurance company pays the actual loss of business income and/or extra expense for a maximum of 30 days after the period of restoration, or $25,000, whichever is less.

d. Spoilage Damage

Coverage applies to loss or damage caused by spoilage to raw materials, property being processed and finished products. However, the insured must meet the following conditions:

- The property described above must either be in storage or in the process of being manufactured;
- The insured must either own the property or be legally liable under the terms of a written contract for it; and
- Spoilage must be caused by a lack of or excess of power, light, heat, steam or refrigeration.

Note: Any expenses the insured incurs to reduce the amount of loss are covered, subject to the spoilage damage limit.

Example: Perfection Products' bad luck continues. This time a brownout causes a refrigerated line to go down for almost two hours. As a result, the raw milk product being processed spoils and must be discarded. This coverage applies to the value of the spoiled milk.

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e. Utility Interruption

Note: This coverage is not available unless the insured purchases Business Income And Extra Expense, Extra Expense Only or Spoilage Damage coverage. That coverage then extends to include loss or damage resulting from utility services being interrupted at the insured's premises, subject to the insured meeting each of the following conditions:

- The interruption must be the direct result of a breakdown to covered equipment owned, operated or controlled by the local private or public utility or distributor that directly generates, transmits, distributes or provides utility services to the insured;
- The covered equipment must supply electric power, communication services, air conditioning, heating, gas, sewer, water or steam to the insured’s premises; and
- The interruption of utility service must last longer than the time indicated on the declarations. At that time, coverage is effective at the initial time of the interruption, subject to any applicable deductible.

Example: Continuing Perfection's bad luck story above, the production line cannot resume operations until it is cleaned thoroughly, inspected and approved by the Board of Health. This takes four days. Perfection's Spoilage Damage deductible is 24 hours. Perfection recovers three days of lost business income, after application of the deductible.

f. Newly Acquired Premises

This coverage extends insurance to automatically apply at premises the insured purchases or leases. It begins when the insured purchases or leases the property and lasts for the number of days indicated on the declarations for Newly Acquired Premises. The broadest coverage provided at any insured premises applies to the newly acquired property, subject to the terms, conditions and deductibles that apply. The insured must inform the insurance company of the acquisition in writing as soon as practicable and pay the appropriate additional premium.

g. Ordinance Or Law Coverage

The Ordinance Or Law exclusion eliminates coverage for any increase in loss due to enforcement of ordinances or laws regulating repair, replacement or reconstruction of a building or structure. This coverage pays such costs, within certain guidelines, if the increase in the amount of loss is necessary due to the enforcement of any laws or ordinances in force at the time of the breakdown that regulate demolition, construction, repair or use of the building or structure. It pays:

- Loss in value of the undamaged part of the building or structure due to enforcement of ordinances or laws requiring demolition of undamaged property;
- The insured's costs to demolish and clear the site of such undamaged parts due to enforcement of ordinances or laws concerning demolition of undamaged property; and
- Increased costs actually incurred to repair and reconstruct the building's damaged portions and reconstruct or remodel undamaged portions with similar property, either on the same premises or another.

It does not pay:

- Costs to demolish and clear the site until the building is demolished and cleared;
- Increases in loss until the damaged building or structure is actually rebuilt and approved by the appropriate government agency;
- Losses due to ordinances or laws required to be complied with before the loss that the insured did not comply with;
- Increases in loss that are more than the amount needed to meet the minimum requirements of any ordinance or law in effect at the time of the breakdown;

- Increases in loss due to a declaration concerning hazardous substances by any government agency;
- Loss sustained or expense incurred due to enforcement of any ordinance or law concerning demolition or reconstruction resulting from the presence or any activity of fungus, wet rot or dry rot; or
- Costs associated with enforcement of any ordinance requiring the insured to test for, monitor, and clean up or in any way respond to the effects of fungus, wet rot or dry rot.

The insurance company does not pay the full amount of loss under this coverage if the building is damaged by a breakdown insured under this coverage form and simultaneously sustains physical damage not insured by this coverage form. If the total building damage results in ordinances or laws are enforced, this coverage pays only the proportion of such loss that the covered breakdown portion of the loss bears to the total of all physical damage.

Example: A covered building is valued at $500,000. It sustains $300,000 in damage from equipment breakdown and a fire. A local ordinance requires installation of special upgrades any time building damage is 50% or more of its value. Enforcement of this ordinance results in an additional loss of $80,000. The breakdown portion of the loss is $75,000, or 25% of the total, and the fire portion of the loss is $225,000, or 75% of the total. Since the breakdown portion of the loss is 25%, only 25% of the additional loss due to enforcement of the ordinance, or $20,000, is covered.

If the insured purchased Ordinance Or Law Coverage under its Commercial Property Coverage Form, it would respond to the remaining $60,000 of the additional loss due to enforcement of the ordinance.

Note: If the building damage not insured by this coverage form was the reason the ordinance or law provision was triggered, the insurance provided by this coverage form does not apply. The commercial property coverage form insuring the damaged building is responsible for the entire amount due under ordinance or law coverage.

h. Errors And Omissions

This coverage pays for loss or damage not otherwise payable because of:

- The insured’s error or unintentional omission in describing the property or where it is located;
- The insured’s unintentional failure to include any owned or occupied locations as of the coverage inception date; or
- An error or unintentional omission by the insured that results in cancellation of coverage at one of the insured's locations.

Errors and unintentional omissions must be corrected and reported to the insurance company as soon as they are discovered and the premium adjusted accordingly.

Note: Coverage does not apply as a result of the insured's error or unintentional omission in reporting of values or the coverage it requested.

Example: Perfection Products has a second, much smaller, location that runs the same product line as its main location. Perfection accepts an offer from a competitor to buy it on the same date that its coverage renews and leaves that location off the renewal application. Unfortunately, the sale falls through. Even more unfortunately, Perfection completely forgets to notify the insurance company that coverage on that location should continue. Even worse, a significant loss occurs at the location after the policy renews that suddenly reminds Perfection of its oversight in this matter. However, the story has a happy ending because this coverage pays for Perfection's unintentional omission of this location from its renewal specifications.

i. Brands And Labels

If covered property, consisting of branded or labeled merchandise, is damaged by a breakdown, the insurance company has the option to take all or part of it at either an agreed or appraised value. In that case, the insured may:

- Stamp SALVAGE on the merchandise or its container. This is only if doing so does not physically damage the merchandise.
- Remove the brands or labels and re-label the merchandise or its containers to comply with applicable laws. As with stamping SALVAGE on the merchandise or its container, removing the brands or labels must not damage the merchandise.

The insurance company pays reasonable costs the insured incurs to perform either of these tasks but the costs incurred and values of the merchandise cannot be more than the applicable limit of insurance on such property.

Example: Perfection Products manufactures and sells a line of action figures under its own name. It packages these in sealed metal containers, with a code stamped on the bottom of the container that identifies the figure inside. A covered breakdown in the sealing and labeling machine causes the wrong labels to be affixed to the wrong containers and also causes the containers to be dented, although the contents themselves are not damaged. Perfection and its insurer agree to a salvage value on the damaged merchandise and Perfection stamps SALVAGE on each container. Fortunately for Perfection, the value of this additional work added to the value of the merchandise is less than the limit of insurance and is covered.

j. Contingent Business Income And Extra Expense Or Extra Expense Only Coverage

This coverage is subject to the same terms and conditions as Business Income And Extra Expense or Extra Expense Only coverage. It applies to any loss sustained by the insured that results from a breakdown of covered equipment at a premises the insured does not own or operate that negatively affects the insured's ability to deliver its products or services, or results in lower sales at any insured location indicated on the declarations. Coverage applies only to locations the insured does not own as indicated on the declarations.

The insured must do everything it can to influence the contributing or recipient business to do everything it can to resume operations and resume delivery of products or services to the insured or to accept the insured's products or services. The insured is encouraged to cooperate with contributing or recipient properties in every way possible, except for providing financial assistance not authorized by the insurance company.

Example: Teeter Totter Toys manufactures additional action figures for Perfection to meet seasonal and holiday demands that exceed Perfection's manufacturing capabilities. Unfortunately, Teeter's production line's primary power train breaks down under the strain of the additional demands on it and all production ceases. Perfection, sensing its huge sales and enormous profits slipping away, tries to influence Teeter to spend additional sums to expedite replacing the drive train and resuming production, but to no avail. Replacement parts are simply not available outside normal distribution channels and time frames. Perfection has to swallow hard and watch the holiday sales of its enormously popular line of toys dry up.

B. EXCLUSIONS

This coverage form has 21 exclusions. They apply whether the loss event results in widespread damage or affects a significant geographical area or not and are essentially absolute. Subject to specific exceptions, each is totally excluded, regardless of any other cause or event that contributes to a loss, either concurrently or in any other sequence. The insurance company does not pay for any direct or indirect loss or damage caused by or resulting from any of these events.

Note: Several of the exclusions are similar to exclusions found in commercial property coverage forms.

1. Ordinance Or Law

Coverage does not apply to any increase in loss due to enforcement of any ordinance or law regulating repair, use, operation, installation, clean up or disposal of covered property. This exclusion has one exception. It does not apply to a covered breakdown to electrical supply and emergency generating equipment situated on the premises of a hospital.

2. Earth Movement

Loss or damage due to earth movement is excluded. This includes earthquake, landslide, land or mine subsidence and volcanic action but is not limited to these.

Note: This exclusion is more restrictive than the same exclusion in the Commercial Property Coverage Form. Since it has no exceptions, all earth movement is excluded.

3. Water

a. The first part of this exclusion has four terms that are unchanged, three terms that are modified and one new term compared to the exclusion being replaced. The terms that are unchanged are "flood," "surface water," "tides," and "overflow of any body of water." The new term is ‘’tidal water." The modified terms are:

- "waves" is broadened to be "waves, including tidal wave and tsunami." "Tidal wave" was included in the version being replaced but as a stand-alone term, not as part of the term "waves."
- "or their spray" is broadened to "or spray from any of these."
- "all whether driven by wind or not" is broadened to "all whether or not driven by wind, including storm surge."

Note: "Tsunami" and "storm surge" are new terms. Since neither is defined, judicial interpretation will be based on common usage and definitions in the dictionary.

b. The second part of this exclusion is unchanged. Mudslide or mudflow are not covered and were not covered previously.

c. The third part of the exclusion is broadened in two ways. The first is the how and the second is the what. In the version being replaced, water had to back up or overflow. In this new version, the water can be discharged in other ways and those other ways are not described. In the version being replaced, the water came from a sewer, drain or sump. In this new version, it can also come from a sump pump or related equipment, and the related equipment is also not described.

d. The fourth part is unchanged and sprinkler system or domestic water piping discharge that causes water damage is not covered.

e. The fifth section is new and excludes water damage from underground water seeping into doors, windows, floors, surfaces, foundations and basements.

f. The sixth section is also new. This section introduces the term "waterborne material." Damage caused by this material carried by waters described in sections a., c, and e. above, or by any material moved or carried by mudslides or mudflow described in section b. above, is not covered.

Example: The river was moving fast and picked up trees, docks and more. Mavis was thrilled that the flood did not enter her warehouse but was upset that a tree pushed against her foundation and caused an opening that allowed water into her air conditioning units. Because of this exclusion the breakdown of the air conditioning unit is not covered.

There is no coverage if the water damage is due to an act of nature or is caused in any other manner. An example is given that if a seawall is breached and allows water in, this exclusion continues to apply.

4. Nuclear Hazard

The insurance company does not pay for loss or damage arising out of nuclear reaction, radiation or radioactive contamination, however caused.

5. War Or Military Action

This exclusion lists three specific types of warlike activity. War can be undeclared or a civil war. It is important to determine who can declare war. In any action that constitutes war, coverage does not apply. In addition, any action involving military forces and/or military agents is not covered. Finally, rebellions, revolution, usurped power, insurrection and any government response to any of them are not covered.

Note: Terrorism is not listed.

6. Explosion

There is no coverage for loss or damage caused by explosion. However, coverage does apply to explosions of covered equipment involving steam boilers, piping, turbines or engines, electric steam generators, gas turbines and moving or rotating machinery when an explosion is caused by centrifugal force or mechanical breakdown.

7. Fire Or Combustion Explosion

Loss or damage caused by a fire or combustion explosion that results in a breakdown or that occurs at the same time as or ensues from a breakdown is excluded.

Note: These events are insured under the insured's Commercial Property Coverage Form. This exclusion prevents the Equipment Breakdown Protection Coverage Form from responding to a fire loss, resulting in duplicate coverage.

8. Fungus, Wet Rot And Dry Rot

Coverage does not apply to loss or damage caused by the presence or any activity of fungus, wet rot or dry rot. However, loss or damage resulting from a covered breakdown is covered.

Note: This exclusion does not apply with respect to any other coverage provided for fungus, wet rot or dry rot by this coverage form. Even then, coverage only applies for the portion of loss or damage caused by the presence or activity of fungus, wet rot or dry rot resulting from a covered breakdown.

9. Virus, Bacterium Or Other Microorganism

There is no coverage for any loss arising out of or resulting from any virus, bacterium or other microorganism that causes physical distress, illness or disease. This exclusion does not apply to loss or damage resulting from a breakdown or loss or damage caused by or resulting from fungus, wet rot or dry rot.

Note: If this exclusion is applied to a particular loss, its provisions do not create coverage for any loss otherwise excluded by the coverage form.

10. Furnace Explosion

Loss or damage caused by or resulting from an explosion within the furnace of a chemical recovery boiler or its piping to the atmosphere is not covered.

Note: These explosions are covered under the Commercial Property Coverage Form.

11. Pressure Or Electrical Testing

Coverage does not apply to loss or damage to covered equipment being tested by pressure or electrical means.

12. Fire Extinguishing Agents

The insurance company does not pay for any loss or damage caused by or resulting from water or any other agents used to extinguish a fire.

Note: This exclusion applies even when such attempts are unsuccessful.

13. Depletion, Deterioration, Corrosion, Erosion, Wear Or Tear

Loss or damage caused by depletion, deterioration, corrosion, erosion, wear and tear is excluded.

Note: The loss or damage resulting from a covered breakdown is covered.

14. Other Insurance

Loss or damage resulting in a breakdown caused by aircraft, vehicles, freezing, lightning, sinkhole collapse, smoke, riot, civil commotion, vandalism, weight of ice, sleet or snow is not covered. This exclusion applies only if coverage against these causes of loss is provided by other insurance coverage.

Note: This applies whether the insured can collect on the other insurance or not.

15. Windstorm Or Hail

Loss or damage resulting from a breakdown caused by windstorm or hail is excluded.

Note: Breakdowns due to these causes of loss are excluded, regardless of whether other coverage is available.

16. Delay Or Interruption

There is no coverage for delays or interruptions of any business, manufacturing or processing activities except as provided by Business Income And Extra Expense, Extra Expense Only or Utility Interruption coverages available under this coverage form.

17. Business Income And Extra Expense, Extra Expense Only And Utility Interruption Coverages

The following additional exclusions apply to these coverages.

- There is no coverage if operations would have ended even if a breakdown had not occurred.
- Coverage does not apply if the insured does not do everything needed and reasonable to resume or continue operations at the covered premises where the loss occurred.
- Coverage does not extend to the period of time between when business operations could have resumed and when they actually did because of the suspension, lapse or cancellation of a contract that took place after a covered breakdown event.

18. Power, Light, Heat, Steam Or Refrigeration

Indirect loss after covered equipment breaks down due to too much or too little power, light, heat, steam or refrigeration is excluded except for the coverage provided by Business Income And Extra Expense, Extra Expense Only or Utility Interruption coverages available under this coverage form.

19. Utility Interruption Coverage

With respect to this coverage, any loss or damage caused by or resulting from acts of sabotage, collapse, deliberate acts of load shedding by the supplying utility, freezing caused by cold weather, impact of aircraft, missile or vehicle or objects falling from an aircraft or missile, lightning, riot, civil commotion, vandalism, sinkhole collapse, smoke, and weight of ice, sleet or snow is excluded. This exclusion applies whether coverage against these causes of loss is provided by other insurance coverage or not.

Note: Load shedding is the intentional reduction or cutting off of service to control overall power requirements.

20. Indirect Breakdown Damage

Indirect loss or damage caused by or resulting from a breakdown to covered equipment is excluded except for the coverage provided under Business Income And Extra Expense, Extra Expense Only, Spoilage Damage or Utility Interruption coverages available under this coverage form.

21. Neglect

There is no coverage for loss or damage that results from the insured failing to use every reasonable means to save and keep covered property from further damage during and after a loss.

C. LIMITS OF INSURANCE

1. The most the insurance company pays for any loss or damage from a single breakdown event is the applicable limit of insurance indicated on the declarations.

2. Payments are not increased if more than one insured appears on the declarations.

3. A limit of insurance or the word **INCLUDED** must be entered on the declarations for each coverage provided. If **INCLUDED** appears next to a particular coverage, the limit for that coverage is part of the limit per breakdown, not in addition to it. If a dollar limit appears next to a particular coverage, the insurance company pays up to, not more than, the limit of insurance for that particular coverage.

Example: These are the entries made on two different declarations:

Coverage	Declarations A	Declarations B
Limit Per Breakdown	$ 1,000,000	$ 1,205,000
Property Damage	$ 1,000,000	$ 1,000,000
Expediting Expense	$ INCLUDED	$ 25,000
Business Income/Extra Expense	$	$
Extra Expense Only	$ INCLUDED	$ 50,000
Extended Period Of Restoration (Number Of Days Of Coverage)	_____ Days	_____ Days
Data Or Media ($25,000 Limit of Insurance) or	$	$
Spoilage Damage	$ INCLUDED	$ 25,000
Utility Interruption	$ INCLUDED	$ 10.000
Coverage applies only if services are interrupted at least	24 Hours	24 Hours

Newly Acquired Premises	INCLUDED	INCLUDED
Number Of Days Of Coverage	_____ Days	_____ Days
Ordinance Or Law	$ INCLUDED	$ 25,000
Errors And Omissions	$ INCLUDED	$ 10,000
Brands And Labels	$ INCLUDED	$ 10,000
Contingent Business Income/Extra Expense	$ INCLUDED	$ 50,000
Covered Premises:	$	$
Sales, Services Or Materials:	$	$

4. If covered equipment is for the exclusive use of supplying utility services to the insured's premises, is owned by a private or public utility, is not in the insured's possession or for which it is legally liable, and insured under this coverage form, the Property Damage limit indicated on the declarations is deleted. It is replaced by the sum of one dollar. A slightly different provision applies if the insured is a public or private utility. If the insured is a public or private utility, this provision applies only when the covered equipment is owned by a public or private utility other than that insured.

Note: The nominal one-dollar limit exists as a technicality. Providing this limit permits the coverage form to provide indirect damage protection for consequential loss to an insured as a result of damage to this non-owned utility equipment.

5. This coverage form automatically includes five additional coverages. Each is subject to a $25,000 limit, unless a higher limit or INCLUDED is entered on the declarations. These limits are part of the Limit Of Insurance for Property Damage or the Limit Per Breakdown, not in addition to them.

a. Ammonia Contamination

This coverage applies to spoilage to covered property contaminated by ammonia. It also applies to any salvage expense.

b. Consequential Loss

This coverage applies to the reduction in value of undamaged stock parts of a product that is unmarketable.

Note: The reduction in value must be caused by physical loss or damage to another part of the product.

c. Data And Media

These are the costs incurred by the insured to research, replace or restore damaged data or media. They include the costs to reprogram instructions used in any computer equipment.

d. Hazardous Substance

Coverage applies to the additional expenses incurred by the insured to clean-up, repair, replace or dispose of covered property damaged, contaminated or polluted by a hazardous substance as defined in the coverage form. This coverage is an exception to the Ordinance Or Law exclusion.

Note: The covered expenses are additional costs incurred over and above the amount payable if no hazardous substance was involved with the loss.

e. Water Damage

Coverage applies to loss or damage to covered property damaged by water, except for damage resulting from leakage from a sprinkler system or domestic water piping.

If fungus, wet rot or dry rot results from such water damage, loss or damage from those substances is limited as described in 6. Limited Coverage For Fungus, Wet Rot And Dry Rot below and is part of the Water Damage limit, not in addition to it.

6. Limited Coverage For Fungus, Wet Rot And Dry Rot

This coverage and limit is added:

a. Property damage

The insurance company pays for loss or damage caused by fungus, wet rot and dry rot that is a direct result of a breakdown to covered equipment that occurs during the policy period. The limit is $15,000 for all occurrences that take place during any 12-month period and does not increase the limit of insurance for covered property. A higher limit for this coverage can be indicated on the declarations.

b. Business Income And Extra Expense Or Extra Expense Only

This coverage also applies to Business Income And Extra Expense or Extra Expense Only if these coverages are provided. The loss of business income or extra expense must be due solely to loss or damage to covered property caused by fungus, wet rot or dry rot. It is limited to the loss or expense sustained in a period not exceeding 30 days, unless a different number of days is indicated on the declarations.

D. DEDUCTIBLES

1. Application Of Deductibles

The insurance company pays for loss or damage resulting from a breakdown when the amount of loss or damage exceeds the deductible for the applicable coverage indicated on the declarations, up to its limit of insurance.

Note: Deductibles apply to each applicable coverage separately, with two exceptions:

- If a COMBINED deductible is shown for any coverage on the declarations. In that case, the insurance company subtracts the combined deductible amount from the aggregate amount of loss to which it applies.
- If more than one type of covered equipment is involved in a single breakdown, only the highest deductible is applied to the applicable coverages.

2. Determination Of Deductibles

This coverage form has five different deductibles:

a. Dollar Deductible

This is a flat deductible the insured must pay before the insurance company makes any payment.

b. Time Deductible

A time deductible can also be referred to as a waiting period. The insurance company does not pay until the number of hours or days indicated on the declarations after the occurrence of a covered loss have passed. Loss amounts between the time of the occurrence and the end of the designated time or waiting period are the insured's financial responsibility.

Note: A day equals 24 hours.

Example: Lizzie owns a laundry. She has a five-day waiting period on her Equipment Breakdown Protection Coverage Form Business Income And Extra Expense Coverage. A critical item of equipment breaks down at
3:20 p.m. on 04/01/08. The breakdown results in the laundry being shut down until the equipment is repaired. Repairs are finished on 04/06/08 at 1:45 p.m. While business does not resume until the fifth day after the accident, the repairs are made before five 24-hour periods pass. As a result, Lizzie receives no payment under the Business Income And Extra Expense coverage.

c. Multiple Of Daily Value Deductible

A time deductible can be quite disadvantageous to the insured. The initial period after a loss frequently involves the most loss or expense. Subsequent periods involve less loss or expense because some business activity can begin or contracts can be cancelled in some cases. The consequences of such a loss can be mitigated by use of the Multiple Of Daily Value Deductible. It is calculated as follows:

1. Determine the business income that would have been earned for the entire premises where the breakdown loss occurred during the period of restoration if there was no loss.

2. Divide the figure in 1 above by the number of days the business would have operated during the period of restoration. The result is the daily value.

3. Multiply the daily value in 2 above by the number of days indicated on the declarations. The insurance company subtracts this deductible amount from the amount

of loss for which it is liable. It then pays the amount of loss or damage that exceeds this deductible amount up to the applicable limit of insurance.

d. Percentage Of Loss Deductible

Percentage-of-loss deductibles are often used in place of dollar deductibles but the application in this coverage form is different than the way percentage deductibles are applied in other forms. In this form, the percentage is applied to the amount of the loss instead of to the value of the covered property.

Example: Major Manufacturing Company has a $1,000,000 Property Damage limit on its Equipment Breakdown Protection Coverage Form. Major sustains a $300,000 loss when its primary assembling equipment breaks down. Here is what Major recovers under three different deductible approaches:

$50,000 Flat Deductible	Regular 5% Deductible	5% Percentage of Loss Deductible
$300,000 loss	$300,000 loss	$300,000 loss
–$50,000 deductible	–$50,000 deductible	–$15,000 deductible
$250,000 payment	$250,000 payment	$285,000 payment

e. Minimum Or Maximum Deductibles

This deductible is used with the Multiple Of Daily Value Deductible or the Percentage Of Loss Deductible. It allows the insured to have a definite range of payment.

If the insured selects the Multiple Of Daily Value Deductible or the Percentage Of Loss Deductible, the deductible amount is calculated and then compared to the minimum and maximum deductible indicated on the declarations. If the calculated deductible falls between the minimum and the maximum, the insured pays the calculated deductible. If the calculated deductible is less than the minimum, the insured pays the minimum deductible. If the calculated deductible is more than the maximum, the insured pays the maximum deductible.

Example: Lizzie chooses a 10% Percentage Of Loss Deductible for Property Damage and a five-day Multiple Of Daily Value Deductible for Business Income And Extra Expense. Both coverages are subject to a $500 minimum and $5,000 maximum deductible. Lizzie's boiler breakdown causes $60,000 in covered property

damage and $15,000 loss of income for the 30 days her operation is shut down. Her daily value is $500.

The Property Damage deductible is $60,000 X .10 (10%) = $6,000. Since $6,000 is more than the $5,000 maximum, she is responsible for only $5,000.

The Business Income deductible is $500 X 5 (days) = $2,500. Since $2,500 falls between $500 and $5,000, Lizzie is responsible for $2,500.

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E. EQUIPMENT BREAKDOWN PROTECTION CONDITIONS

These conditions are in addition to the Common Policy Conditions.

Note: Many of these loss conditions are similar to those found in commercial property coverage forms.

1. Loss Conditions

a. Abandonment

The insured cannot surrender or turn over property to the insurance company without its permission.

Example: Montgomery Metals Manufacturing's secondary production line sustains a covered equipment breakdown loss. Since business is slow, Montgomery decides it can handle all its production on its main production line and informs its insurance company that it will accept a cash settlement if it takes the equipment off Montgomery's hands. The insurance company is not interested and refuses to accept the property. Montgomery has to rethink its decision and determine its next step.

b. Appraisal

If the insured and the insurance company cannot agree on the value of property or the amount of loss, either may request an appraisal of the loss. Each party selects its own competent and impartial appraiser and they, in turn, select an umpire or have one appointed for them. Differences in value or amount that cannot be resolved are submitted to the umpire. A decision by any two parties is binding on all parties. Each party pays its own appraiser and shares the cost of the umpire equally.

Note: Even if there is an appraisal, the insurance company retains its right to deny the claim.

Example: Jane's production boiler breaks down. Jane and Cheapskate Mutual, her insurance company, cannot agree on its value. They both agree to submit the dispute to appraisal. Jane selects an experienced appraiser who just happens to be her brother. Cheapskate selects a totally impartial party who has no appraisal credentials. Both "appraisers" are rejected because Jane’s selection is biased and Cheapskate's selection is not qualified.

c. Defense

At its option, the insurance company can choose to defend the insured against suits resulting from claims by the property owners. If it does, it does so at its own expense.

d. Duties In The Event Of Loss Or Damage

The named insured has a number of duties to perform if a claim or demand for coverage occurs. It must:

- Inform the insurance company of the loss or damage as soon as possible, including a description of the property involved. As a minimum, the notice should include information concerning how, when and where the loss or damage took place.
- Give the insurance company a reasonable amount of time and ample opportunity to examine the damaged property before repairs begin and the physical damage of the breakdown is removed. The insured must also do whatever is needed to protect covered property from further loss or damage.
- Allow the insurance company to inspect the property proving the loss or damage. This includes taking samples of both damaged and undamaged property for inspection, testing and . The company must also be permitted to examine the insured's books and records and make copies of any information needed.
- Send the insurance company a properly executed proof of loss on its forms within 60 days of its request to do so.
- Cooperate with the insurance company as it investigates and settles the claim.

The insurance company has the right to examine any insured under oath at reasonable times concerning the claim or the insurance coverage provided. This includes the insured's books and records. The insured must acknowledge any examination by its signature.

Note: The insurance company has the option of examining anyone alone and not in the presence of any other insured.

e. Insurance Under Two Or More Coverages

When more than one coverage applies to a single loss, payment is limited to the actual amount of loss or damage, subject to any applicable deductible. No duplicate payments are made.

f. Legal Action Against Us

No legal action can be brought against the insurance company until the insured complies with all the terms of the coverage form. In addition, the legal action must commence within two years after the date of the breakdown.

If an obligation to a third party is involved, the insurance company must agree that the obligation exists. This agreement may be the result of arbitration. However, a third party cannot include the insurance company in a legal action to establish the insured’s obligation to that third party.

g. Loss Payable Clause

The insurance company pays any loss to the insured and the loss payee as their interests may appear, subject to it not being caused by the insured's conversion, secretion or embezzlement. If a cancellation notice is mailed to the insured, a similar notice must also be mailed to the loss payee. When payment is made to the loss payee, all of its rights that apply to that loss pass to the insurance company.

Note: An important right that passes to the insurance company is the right to subrogate against third parties possibly responsible for the loss.

h. Other Insurance

If other coverage identical to that provided under this coverage form applies to the same loss, this coverage form pays on a proportional basis.

If other coverage on a different basis applies to the same loss, this coverage is excess over that that other coverage.

Note: In the event of other identical coverage, the insured's obligation is on a proportional basis, not on an equal shares basis.

i. Privilege To Adjust With Owner

If loss or damage occurs to property of others in the insured's care, custody or control, the insurance company has the right to settle the claim directly with the property owner. Documentation of the payment to that party satisfies the insured's claim against the company.

j. Reducing Your Loss

The insured must resume business, either partially or completely, within a reasonable period of time after a covered breakdown loss. It must also attempt to make up for lost business within a reasonable period of time that may not necessarily end when operations resume.

The insured must also use every reasonable means to reduce or avoid a business income loss. This includes:

- Working extra time or overtime to continue operations at the same or another owned or acquired premises;
- Working with and/or sharing property or services of other business;

Example: Sharing or leasing space and/or equipment.

- Using other owned equipment, property or merchandise on hand or readily available; or
- Using the salvage from damaged covered property.

k. Transfer Of Rights Of Recovery Against Others To Us

Any rights of the insured to recover damages from others are transferred to the insurance company to the extent of payments it makes. The insured must secure those rights and do nothing after a loss that negatively affects them. The insured can waive its rights against others in writing in two situations:

- Before a loss to covered property or income; or

- After a loss to covered property or income but only if the other party is another insured, a business the insured owns, a business that owns the insured or a tenant of the insured.

I. Valuation

The value of covered property is the cost to repair, rebuild or replace the damaged property with similar property. While the meaning of "similar" is subject to debate, it usually refers to property of same kind, capacity, size or quality. The value of damaged property may be determined to be the actual cost to repair, rebuild or replace it. The restoration of the covered property must be done at a location where the work can be performed for the lowest cost. For this reason, it could take place at the original location or a new one. The insurance company does not pay for damage to obsolete property or to property that is useless to the insured.

- Improved Equipment

The insurance company pays up to an additional 25% of the property damage loss amount to repair or replace the damaged equipment with equipment that improves the environment, increases efficiency or enhances safety. Two limitations apply. The 25% increase cannot exceed the limit of insurance indicated on the declarations and the function of the equipment must be the same after the repair as it was before the loss occurred.

Example: Maypole Metalmakers is insured under an Equipment Breakdown Protection Coverage Form with a $500,000 limit for property damage. Maypole's insurance adjuster tells Maypole's owner that its recent loss to a hydraulic press is covered. The adjuster goes on to say that he was initially going to offer to replace it with a used machine of the same model and amount of use for $42,000. However, he decides to handle the loss by buying a new model of the same press for $53,000 because it is a cleaner operating model and uses 35% less power than the old model.

- Extended Warranty

If an extended warranty or service contract is voided due to a covered loss, the insurance company reimburses the insured for the unused costs of non-refundable or non-transferable warranties or contracts.

- Time Limit on Replacement Cost

Repairs or replacement must take place within 24 months of the date of loss. If not, the insurance company pays the lesser of the cost required to repair or replace or the actual cash value of the property at the time of the breakdown.

- Selling Price

Property held by the insured for sale is valued at its selling price. For the purpose of this coverage, selling price means the sales price reduced by the insured's discounts and adjusted for expenses that would have been incurred. This provision only applies to property that was manufactured by the insured, could not be replaced before its anticipated sale and is valued at more than its replacement cost.

- Data and Media Damage or Loss

Loss involving mass-produced data and media is adjusted according to its replacement cost. Other data and media losses are paid based on the cost to research assemble and reproduce the data and media on blank material. However, the insurance company does not pay for any data or media, either mass-produced or custom made, that cannot be replaced with data or media of similar kind and quality or property having similar functional use.

- Spoilage

With respect to this coverage, the insurance company determines the value of covered property according to the type of property. Raw materials are valued at their replacement cost. Property in process is valued at the replacement cost of the raw materials, adjusted by the related labor overhead charges.

Note: This provision only refers to overhead. Profit is not mentioned.

Finished products are valued at their selling price, adjusted for any discounts offered and expenses the insured otherwise would have had.

· Salvage Value of Property

If property is used for temporary repairs or other valid uses after a breakdown, its value is considered in the adjustment of any loss. This property may be purchased as expediting expenses but the insured continues to have use of it after repairs are completed. The salvage value of this property is deducted from the insurance valuation at settlement since it is a new asset the insured did not have before the loss.

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m. Business Income And Extra Expense Coverage Conditions

These additional conditions apply only to Business Income And Extra Expense Coverage:

- Annual Reports

The insured must complete an Annual Report of Values Form approved by the insurance company once each year. The report must reach the company within three months of the annual report date indicated on the declarations and annually afterwards.

- Adjustment Of Premium

After receiving the reports of value, the insurance company calculates the earned premium for the past year. If it is more than the premium already charged, the insured pays the difference. If it is less, the insurance company refunds the difference to the insured. The return premium is never more than 75% of the premium originally charged.

- Coinsurance

If a covered business income and extra expense loss occurs and the insured did not submit the reports of value indicated above within three months of the due date, this coinsurance condition applies. The insurance company does not pay the full value of any loss if the actual business income annual value is more than the estimated business income annual value, the report is received more than three months after its due date, or the report is otherwise overdue. The amount paid is determined by the following formula:

1. Divide the estimated business income annual value by the actual business income annual value at the time of the breakdown. The result is a multiplier factor.

2. Multiply the total business income loss amount by the multiplier factor calculated in 1 above.

3. Subtract any applicable deductible from the amount determined in 2 above.

Note: The insurance company pays the lesser of the amount determined in the last step above or the business income and extra expense limit of insurance. Any remaining amount must be paid by other insurance or from the insured's own financial resources.

Note: The penalty applies separately to each location when coverage applies to more than one location.

2. General Conditions

Many of the Equipment Breakdown Protection Coverage Form general conditions are similar to those found in commercial property coverage forms.

a. Additional Insured

Persons or organizations designated as additional insureds are considered insureds under the Equipment Breakdown Protection Coverage Form to the extent of their interest.

b. Bankruptcy

The insurance company's obligations under this coverage form are not affected or changed by the bankruptcy or insolvency of the insured or the insured's estate.

c. Concealment, Misrepresentation Or Fraud

Coverage is void in the event of fraud or if any insured at any time intentionally conceals or misrepresents material facts with respect to this coverage form, covered property, its interest in covered property or a claim under this coverage form.

d. Liberalization

If the insurance company adopts coverage form revisions that broaden this coverage without making an additional premium charge any time up to 45 days before its inception date or during the policy term, the broadened coverage automatically applies to this coverage form.

e. Mortgage holder

- The insurance company pays the mortgage holder for direct damage to covered property caused by or resulting from a breakdown to covered equipment in their order of precedence and as their interests may appear.

Note: Trustees are also mortgage holders.

- Foreclosure or similar proceedings on covered property does not void the mortgage holder's rights under this condition.

- If the insurance company refuses to pay the insured's claim because of its acts or failure to comply with coverage terms, mortgage holders are still entitled to receive claim payments but must assume additional responsibilities. If the insured did not pay the premium, the mortgage holder must do so if requested. If the insured did not submit a proof of loss, the mortgage holder must do so within 60 days after the company requests. Mortgage holders must also notify the insurance company of any ownership change or change in material hazard at the risk they become aware of.

- If the insurance company refuses to pay the insured's claim because of its acts or failure to comply with coverage terms, it pays the mortgage holder. In that case, the mortgage holder's mortgage rights are transferred to the insurance company to the extent of the amount paid and the mortgage holder's right to recover the full amount of its claims is not impaired.

Note: The insurance company has the option to pay the mortgage holder the entire principal and accrued interest on the mortgage. In that case, the mortgage and note is transferred to the insurance company and the insured pays any remaining mortgage debt to the company.

- If the insurance company cancels or does not renew coverage, it must give notice to the mortgage holder at least 10 days notice before the expiration date for nonpayment of premium and 30 days for all other reasons. Notice of nonrenewal must be at least 10 days before the expiration date.

Note: Statutes in many states supersede these notice periods.

- If the insurance company suspends coverage, it is suspended for both the insured and the mortgage holder. The mortgage holder receives written notice of any such suspension.

f. No Benefit To Bailee

This insurance is for the benefit of the insured. Parties entrusted with an insured's covered property do not receive that benefit.

g. Policy Period, Coverage Territory

The coverage provided under the Equipment Breakdown Protection Coverage Form applies to loss or damage that occurs during the policy period and in the coverage territory, consisting of the United States of America, its territories and possessions, Puerto Rico and Canada.

h. Premium and Adjustments

The insured must report the full 100% insurable values at each location to the insurance company every year as of the anniversary date. The value for each coverage must be reported separately. The renewal premium is determined based on the rates in effect as of the renewal date for all values at risk.

The insured must maintain the records needed to complete these reports and have them available for examination by the insurance company or its representatives during normal business hours during the policy year and for 12 months after coverage expires or is cancelled.

i. Suspension

This feature is unique to the Equipment Breakdown Protection Coverage Form. If covered equipment is determined to be in or exposed to a dangerous condition, any insurance company representative may immediately suspend coverage with respect to that equipment by delivering or mailing written notice of suspension to the insured's last known address or to the location of the suspended equipment.

Example: Practically Perfect Property Insurance Company insures Kim's Kandee Kitchen. Practically's senior equipment inspector notices certain insured equipment operating at considerably higher temperatures than their rating allows. The inspector enters the shift manager's office and issues a written order to shut down the equipment within 30 minutes or have coverage on that equipment suspended. Kim ignores the order. Three days later, the equipment identified by the inspector breaks down and starts a fire. With a copy of the inspector's written order in hand, Practically notifies Kim that coverage was and still is suspended and that the equipment loss is not covered.

Suspended coverage can only be reinstated by issuance of an endorsement for that covered equipment.

Note: Oral statements authorizing resumption of operations are unacceptable and do not reinstate coverage.

If coverage is suspended, the insured receives a pro rata refund of premium paid to insure that equipment. However, the suspension is effective even if a refund has not been offered or made.

3. Joint Or Disputed Loss Agreement

This agreement is intended to facilitate payment of insurance proceeds when two different carriers for the property and the equipment breakdown coverage disagree about the amount of loss each pays. This condition keeps the insured from being a victim of insurance companies that disagree as to whether coverage exists or the amount of loss each is obligated to pay. Under this provision, the insured's loss is paid and the insurance companies then determine their portion of the loss payment.

Note that this condition applies only when the insurers cannot decide or determine whether coverage applies at all or the amount each owes. It does not apply if there is no dispute between the insurers or when both insurers deny any liability whatsoever.

The following conditions must be met in order for the terms of this provision to apply:

- The commercial property coverage form must have a Joint Or Disputed Loss Agreement similar to the one in this coverage form.
- The damage to covered property must be caused by a loss where both carriers admit to some liability for payment under their respective policies, one carrier contends that the other carrier is responsible for the entire loss, or both carriers decline coverage but contend that the other carrier's coverage applies to all or part of the loss.
- Both the insured and the insurance companies agree as to the total amount of the loss.

If these requirements are met, each company pays its entire undisputed amount and half of the disputed amount to the insured.

Note that this condition does not modify or waive any rights that any insurer has against another insurer or any rights an insured holds against the insurer.

The disputed amount of loss paid by the equipment breakdown carrier is not more than the same loss agreement in the commercial property coverage form or the amount it would have paid if property coverage had not been in force at the time of the loss. In any event, the carrier's liability does not exceed the applicable limit of insurance indicated on the declarations. Amounts paid and accepted by the insured do not alter, waive or surrender any other rights it has against the insurance company.

The arbitration section of the Joint Or Disputed Loss Agreement is similar to the Appraisal loss condition in commercial property coverage forms. If both insurers agree to submit their differences to arbitration, each pays its entire undisputed amount and half of the disputed amount to the insured within 90 days. Arbitration then takes place within 90 days after the insured receives these payments. The insured agrees to cooperate with all arbitration procedures. Three arbitrators are involved. Each carrier appoints one and these two arbitrators mutually agree on and select a third. If they

cannot agree, either may request that a judge of a court having jurisdiction select the third arbitrator.

Any decision agreed to by two of the three arbitrators binds both parties. Judgment on any award can be entered in any court having jurisdiction.

The carrier determined to be responsible for the larger portion of the ultimate loss returns the excess contribution to the other insurer(s). It must also pay liquidated damages to the other insurer(s) on the amount of its excess contribution.

Note: Liquidated damages are interest that accrues on the disputed amount from the date the Joint Or Disputed Loss Agreement is invoked until the excess amount is reimbursed. It is calculated at 1.5 times the highest prime rate from the Money Rates column of the Wall Street Journal that appears during the period of the Liquidated Damages.

Note: Arbitration expenses are not part of the excess contribution used for the liquidated damages calculation. They are apportioned between insurers on the same basis that the ultimate loss is apportioned.

Example: Old Hotel, Ltd. uses a low-pressure steam boiler to provide heat for the premises. It has a monoline Equipment Breakdown Protection Coverage Form written with one insurance company and a commercial property coverage form written with a different carrier. A small fire and explosion occurs but all of the damage is confined to the boiler room. Some of the damage is clearly a boiler loss while other damage is clearly a commercial property loss. However, a problem arises from a significant part of the loss that may be covered by either coverage form. Each carrier points out the parts of its coverage form that exclude coverage and suggests that the other carrier's coverage applies instead. Old Hotel wants to resume operations quickly but cannot do so because the two carriers cannot agree on the amount each should pay and neither insurer is willing give the hotel permission to proceed with the repairs. Fortunately, the carriers agree to arbitration, the insured is paid according to the formula in the arbitration clause, the needed repairs are made and operations resume. In addition, the arbitration proceedings resolve the carriers' differences relatively quickly.

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F. DEFINITIONS

Defined words are used throughout the coverage form. Restricting their meaning to those definitions provides the means for all parties involved with the policy to have a clearer understanding of the coverage intended. EB 00 20–Equipment Breakdown Protection Coverage Form has 15 defined terms.

1. Breakdown is direct physical loss that causes damage to covered equipment requiring its repair or replacement. Direct physical loss includes failure of pressure or vacuum equipment, mechanical failure, including rupture or bursting caused by

centrifugal force, or electrical failure, including arcing, unless the loss or damage is excluded elsewhere in the coverage form.

It does not mean or include loss or damage arising from inadequate or improper care and maintenance of the equipment. As a result, breakdown does not include:

- Malfunction, meaning adjustment, alignment, calibration, cleaning, modification of equipment and similar actions.
- Conditions in computer equipment and programs, such as defects, erasures, errors, limitations or viruses. This also includes the inability to provide instructions to covered equipment caused by or resulting from the inability to recognize and process calendar dates and times.
- Damage to valves, connections, joints, shaft seals, fittings and gland packing leakage.
- Damage to vacuum tubes, gas tubes or brushes.
- Damage to structures or foundations that support covered equipment or its parts.
- Failure of any safety or protective device to operate correctly.
- Cracking of any part of an internal combustion gas turbine exposed to the products of combustion.

Note: Despite this exhaustive definition, disputes arise from time to time concerning the coverage intended.

2. Business Income is the total of the net income that would have been earned and continuing normal operating expenses. It includes payroll.

Note: Net income is net profit or loss before income taxes.

3. Business Income Actual Annual Value is the total of net income that would have been earned and continuing normal operating expenses if an equipment breakdown loss had not occurred.

Note: This figure is used to calculate the coinsurance penalty.

4. Business Income Estimated Annual Value is the insured's estimated business income, as defined above, reported on the most recent Annual Report Of Values Form filed with the insurance company.

Note: This figure is also used to calculate the coinsurance penalty.

5. Computer Equipment is the insured's programmable electronic equipment used to store, retrieve and process data. It includes peripheral equipment that provides communication, printing and data transmission, such as printers, keyboards and monitors.

Note: Computer equipment does not include data and media.

6. Covered Equipment

a. Covered equipment means or includes the following:

- Equipment designed and intended to operate under pressure or in a vacuum. This can include equipment subject to mandatory state or municipal jurisdictional inspections.
- Equipment used to generate, transmit or use energy
- Communication equipment
- Computer equipment
- Equipment described above owned by a utility that supplies utility services to the insured exclusively. If Utility Interruption coverage is provided, this equipment is not considered covered equipment.

Note: Covered equipment not owned by the utility must be at a location indicated on the declarations and be owned, leased or operated by the named insured. This requirement does not apply to Utility Interruption, Contingent Business Income And Extra Expense or Extra Expense Only coverages.

b. “Covered equipment” does not mean or include:

- Media
- Any part of pressure or vacuum equipment not under internal pressure of its contents or internal vacuum
- Insulating or refractory material

Note: The glass lining of covered equipment is covered.

- Non-metallic pressure or vacuum equipment

Note: Such equipment constructed and used according to appropriate and approved regulating codes is covered.

- Catalysts

Note: A catalyst, as used in chemistry, is a substance that modifies and increases the rate of a reaction without being consumed in the process.

- Vessels, piping and other equipment below the surface of the ground requiring excavation to inspect, remove, repair or replace them
- Structures, foundations, cabinets or compartments that support or contain parts or all of covered equipment

Note: This includes penstock, draft tube or well casing.

- Vehicles, aircraft, self-propelled equipment or floating vessels, including covered equipment mounted on or used exclusively with any of these

Note: Equipment otherwise covered and occasionally used on vehicles, aircraft, self-propelled equipment or floating vessels is covered.

- Dragline, excavation or construction equipment. This includes any covered equipment mounted on or used exclusively with any of these.

Note: Equipment otherwise covered and occasionally used on dragline, excavation or construction equipment is covered.

- Maintenance property such as felt, wire, screens, dies, extrusion plates, swing hammers, grinding discs, cutting blades, non-electrical cable, chains, belts, ropes, clutch plates and brake pads. This also includes non-metal parts or any parts or tools subject to periodic replacement.

Note: The Equipment Breakdown Protection Coverage Form is not intended to insure relatively minor kinds of maintenance-type property.

- Machines or apparatus used solely for research, diagnosis, medication, surgical, therapeutic, dental or pathological purposes. This includes any covered equipment mounted on or used exclusively with any of these unless Diagnostic Equipment is indicated as included on the declarations.

- Equipment or equipment parts manufactured by the insured for sale.

7. Covered Property is property the named insured owns or property of others in its care, custody or control and for which it is legally liable.

8. Data is programmed and recorded material stored on media and programming records used for electronic data processing or electronically controlled equipment.

9. Extra Expense represents the additional costs the insured incurs to operate the business during the period of restoration. These costs are in addition to the insured's normal costs of operations during the same period if an equipment breakdown loss had not occurred.

10. Fungus is any type or form of fungus. It includes mold, mildew, mycotoxins, spores, scents or the byproducts produced or released by fungi.

Note: Mycotoxins are toxins or poisons produced by fungi.

11. Hazardous Substance is anything determined by a government agency to be a health hazard.

Note: This does not include ammonia.

12. Media is electronic data processing or storage media. Examples are films, tapes, discs, drums or cells.

13. One Breakdown. If an initial breakdown causes additional breakdowns, all are considered one breakdown. In addition, all breakdowns at a single location that occur at the same time as a direct result of the same event are considered one breakdown.

Note: This is important in the application of limits and deductibles. One breakdown means one deductible and one limit of insurance. Multiple breakdowns mean more than one deductible and multiple limits of insurance.

14. Period Of Restoration is a time period. It begins either when a breakdown occurs or 24 hours before the insurance company is notified of the breakdown, whichever is later.

Note: As a result, prompt loss reporting is extremely important to the insured. If notification is delayed, business income coverage does not begin until 24 hours before the notice is received.

Example: Jacklow International's equipment breaks down on 08/01/08. The insurance company is notified on 08/15/08. The period of restoration begins at the later of 08/1/08 or 08/14/08. In this case, coverage begins on 08/14/08. The delay in reporting the breakdown costs Jacklow 13 days of coverage.

It ends five days after the date that the damaged property is repaired or replaced with property of similar quality and on a timely basis.

Note: Even if unforeseen delays occur, coverage still ends when the damaged property could have been repaired or replaced on a timely basis.

15. Stock is merchandise held in storage or for sale. It also includes raw materials, property in process or finished products, including supplies used to pack and ship them.

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ISO EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORM (09 07 edition)

INTRODUCTION

The Insurance Services Office (ISO) Boiler And Machinery Coverage Form was revised with the 07 01 edition and renamed Equipment Breakdown Protection Coverage Form. This name more accurately and completely responds to the coverage needs of the 21st century. This change resulted in the development of completely new forms, provisions and endorsements. Coverages under the Equipment Breakdown Protection Coverage Form can be added to the Commercial Package Policy or be written on a monoline basis.

The Equipment Breakdown Protection Coverage Form is more compact and easier to read. It includes provisions to include ten basic coverages, each of which is triggered by the appropriate entry on the declarations.

Equipment Breakdown Protection Coverage is needed because standard commercial property forms typically exclude loss or damage caused by machinery or equipment breakdowns.

EB 00 20 EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORM

The coverage form opens by stating that certain provisions in the form restrict coverage and encourages the insured to carefully read the entire policy to determine its rights and duties and to determine what is covered and not covered. It also points out that the insurance company uses the terms you and your to refer to the named insured and the terms we, us and our refer to the insurance company providing the coverage. It also directs attention to Section F–Definitions because understanding the definitions is critical to understanding the coverage form, along with the Coverage and Exclusions sections.

A. COVERAGE

1. Covered Cause Of Loss

The only covered cause of loss is a breakdown to covered equipment. Breakdown is a defined term, as is covered equipment, and these definitions should be examined carefully.

2. Coverages Provided

Insurance applies only to the coverages having a limit or the word INCLUDED indicated next to them on the declarations. If an entry is not made, that coverage is not provided.

Note: The limit of insurance provided for each coverage, if any, is the primary limit. If INCLUDED appears next to a coverage, that coverage is included in the total limit per breakdown.

Note: Each coverage provided applies only to the part of any loss that results directly from the covered cause of loss.

Ten coverages are available.

a. Property Damage

This coverage pays for direct damage to covered property located at the premises indicated on the declarations.

b. Expediting Expenses

This coverage applies to additional costs the insured incurs to make temporary repairs and expedite or hasten permanent repairs or replacement of the damaged property.

Example: Perfection Products incurs a covered loss to one of its production boilers. The damage is such that it cannot be repaired and a new boiler must be ordered. Delivery and installation normally takes three months but one of Perfection's customers has an identical boiler on hand if it needed to replace one of its units. The customer makes it available to Perfection at its cost and with an allowance for its storage costs. Perfection jumps at the opportunity because it will be operating again in two weeks instead of three months. Coverage applies to the additional costs because this enabled Perfection to resume operations sooner than expected.

c. Business Income And Extra Expense Or Extra Expense Only

The insured can choose to purchase combined business income and extra expense coverage or extra expense coverage only. There is no option to purchase business income coverage only.

If the insured purchases combined business income and extra expense coverage, the insurance company pays the insured's actual loss of business income during the period of restoration, as well as the extra expenses necessarily incurred to operate the business during the period of restoration. If coverage for extra expense only is purchased, there is no coverage for business income.

The company determines its payment by analyzing the insured's operations before the loss and estimating the effect on continuing operations of the equipment breakdown.

The period of restoration ends five days after the covered equipment is back in service, unless a different number of days are indicated on the declarations.

If ordinance or law coverage is provided, the period of restoration also includes the additional time needed to demolish, remove, repair, remodel or rebuild.

If media is damaged or data is lost or corrupted, coverage applies to the actual loss of business income and/or extra expense during the period of time needed to research, replace or restore the media or data and to reprogram any instructions used with any computer equipment. Coverage does not apply to media or data not replaced or restored.

Example: Perfection Products sustains a covered loss that destroys half of its computer data. While restoring its records, Perfection decides that a business documents archive destroyed in the loss is no longer needed. The adjuster reduces the settlement to reflect that the obsolete records will not be replaced.

The insurance company pays the actual loss of business income and/or extra expense for a maximum of 30 days after the period of restoration, or $25,000, whichever is less.

d. Spoilage Damage

Coverage applies to loss or damage caused by spoilage to raw materials, property being processed and finished products. However, the insured must meet the following conditions:

- The property described above must either be in storage or in the process of being manufactured;
- The insured must either own the property or be legally liable under the terms of a written contract for it; and
- Spoilage must be caused by a lack of or excess of power, light, heat, steam or refrigeration.

Note: Any expenses the insured incurs to reduce the amount of loss are covered, subject to the spoilage damage limit.

Example: Perfection Products' bad luck continues. This time a brownout causes a refrigerated line to go down for almost two hours. As a result, the raw milk product being processed spoils and must be discarded. This coverage applies to the value of the spoiled milk.

e. Utility Interruption

Note: This coverage is not available unless the insured purchases Business Income And Extra Expense, Extra Expense Only or Spoilage Damage coverage. That coverage then extends to include loss or damage resulting from utility services being interrupted at the insured's premises, subject to the insured meeting each of the following conditions:

- The interruption must be the direct result of a breakdown to covered equipment owned, operated or controlled by the local private or public utility or distributor that directly generates, transmits, distributes or provides utility services to the insured;
- The covered equipment must supply electric power, communication services, air conditioning, heating, gas, sewer, water or steam to the insured’s premises; and
- The interruption of utility service must last longer than the time indicated on the declarations. At that time, coverage is effective at the initial time of the interruption, subject to any applicable deductible.

Example: Continuing Perfection's bad luck story above, the production line cannot resume operations until it is cleaned thoroughly, inspected and approved by the Board of Health. This takes four days. Perfection's Spoilage Damage deductible is 24 hours. Perfection recovers three days of lost business income, after application of the deductible.

f. Newly Acquired Premises

This coverage extends insurance to automatically apply at premises the insured purchases or leases. It begins when the insured purchases or leases the property and lasts for the number of days indicated on the declarations for Newly Acquired Premises. The broadest coverage provided at any insured premises applies to the newly acquired property, subject to the terms, conditions and deductibles that apply. The insured must inform the insurance company of the acquisition in writing as soon as practicable and pay the appropriate additional premium.

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g. Ordinance Or Law Coverage

The Ordinance Or Law exclusion eliminates coverage for any increase in loss due to enforcement of ordinances or laws regulating repair, replacement or reconstruction of a building or structure. This coverage pays such costs, within certain guidelines, if the increase in the amount of loss is necessary due to the enforcement of any laws or ordinances in force at the time of the breakdown that regulate demolition, construction, repair or use of the building or structure. It pays:

- Loss in value of the undamaged part of the building or structure due to enforcement of ordinances or laws requiring demolition of undamaged property;
- The insured's costs to demolish and clear the site of such undamaged parts due to enforcement of ordinances or laws concerning demolition of undamaged property; and
- Increased costs actually incurred to repair and reconstruct the building's damaged portions and reconstruct or remodel undamaged portions with similar property, either on the same premises or another.

It does not pay:

- Costs to demolish and clear the site until the building is demolished and cleared;
- Increases in loss until the damaged building or structure is actually rebuilt and approved by the appropriate government agency;
- Losses due to ordinances or laws required to be complied with before the loss that the insured did not comply with;
- Increases in loss that are more than the amount needed to meet the minimum requirements of any ordinance or law in effect at the time of the breakdown;
- Increases in loss due to a declaration concerning hazardous substances by any government agency;
- Loss sustained or expense incurred due to enforcement of any ordinance or law concerning demolition or reconstruction resulting from the presence or any activity of fungus, wet rot or dry rot; or
- Costs associated with enforcement of any ordinance requiring the insured to test for, monitor, clean up or in any way respond to the effects of fungus, wet rot or dry rot.

The insurance company does not pay the full amount of loss under this coverage if the building is damaged by a breakdown insured under this coverage form and simultaneously sustains physical damage not insured by this coverage form. If the total building damage results in ordinances or laws are enforced, this coverage pays only the proportion of such loss that the covered breakdown portion of the loss bears to the total of all physical damage.

Example: A covered building is valued at $500,000. It sustains $300,000 in damage from equipment breakdown and a fire. A local ordinance requires installation of special upgrades any time building damage is 50% or more of its value. Enforcement of this ordinance results in an additional loss of $80,000. The breakdown portion of the loss is $75,000, or 25% of the total, and the fire portion of the loss is $225,000, or 75% of the total. Since the breakdown portion of the loss is 25%, only 25% of the additional loss due to enforcement of the ordinance, or $20,000, is covered.

If the insured purchased Ordinance Or Law Coverage under its Commercial Property Coverage Form, it would respond to the remaining $60,000 of the additional loss due to enforcement of the ordinance.

Note: If the building damage not insured by this coverage form was the reason the ordinance or law provision was triggered, the insurance provided by this coverage form does not apply. The commercial property coverage form insuring the damaged building is responsible for the entire amount due under ordinance or law coverage.

h. Errors And Omissions

This coverage pays for loss or damage not otherwise payable because of:

- The insured's error or unintentional omission in describing the property or where it is located;
- The insured's unintentional failure to include any owned or occupied locations as of the coverage inception date; or
- An error or unintentional omission by the insured that results in cancellation of coverage at one of the insured's locations.

Errors and unintentional omissions must be corrected and reported to the insurance company as soon as they are discovered and the premium adjusted accordingly.

Note: Coverage does not apply as a result of the insured's error or unintentional omission in reporting of values or the coverage it requested.

Example: Perfection Products has a second, much smaller, location that runs the same product line as its main location. Perfection accepts an offer from a competitor to buy it on the same date that its coverage renews and leaves that location off the renewal application. Unfortunately the sale falls through. Even more unfortunately, Perfection completely forgets to notify the insurance company that coverage on that location should continue. Even worse, a significant loss occurs at the location after the policy renews that suddenly reminds Perfection of its oversight in this

matter. However, the story has a happy ending because this coverage pays for Perfection's unintentional omission of this location from its renewal specifications.

i. Brands And Labels

If covered property, consisting of branded or labeled merchandise, is damaged by a breakdown, the insurance company has the option to take all or part of it at either an agreed or appraised value. In that case, the insured may:

- Stamp SALVAGE on the merchandise or its container. This is only if doing so does not physically damage the merchandise.
- Remove the brands or labels and re-label the merchandise or its containers to comply with applicable laws. As with stamping SALVAGE on the merchandise or its container, removing the brands or labels must not damage the merchandise.

The insurance company pays reasonable costs the insured incurs to perform either of these tasks but the costs incurred and values of the merchandise cannot be more than the applicable limit of insurance on such property.

Example: Perfection Products manufactures and sells a line of action figures under its own name. It packages these in sealed metal containers, with a code stamped on the bottom of the container that identifies the figure inside. A covered breakdown in the sealing and labeling machine causes the wrong labels to be affixed to the wrong containers and also causes the containers to be dented, although the contents themselves are not damaged. Perfection and its insurer agree to a salvage value on the damaged merchandise and Perfection stamps SALVAGE on each container. Fortunately for Perfection, the value of this additional work added to the value of the merchandise is less than the limit of insurance and is covered.

j. Contingent Business Income And Extra Expense Or Extra Expense Only Coverage

This coverage is subject to the same terms and conditions as Business Income And Extra Expense or Extra Expense Only coverage. It applies to any loss sustained by the insured that results from a breakdown of covered equipment at a premises the insured does not own or operate that negatively affects the insured's ability to deliver its products or services, or results in lower sales at any insured location indicated on the declarations. Coverage applies only to locations the insured does not own indicated on the declarations.

The insured must do everything it can to influence the contributing or recipient business to do everything it can to resume operations and resume delivery of products or services to the insured or to accept the insured's products or services. The insured is encouraged to cooperate with contributing or recipient properties in every way possible, except for providing financial assistance not authorized by the insurance company.

Example: Teeter Totter Toys manufactures additional action figures for Perfection to meet seasonal and holiday demands that exceed Perfection's manufacturing capabilities. Unfortunately, Teeter's production line's primary power train breaks down under the strain of the additional demands on it and all production ceases. Perfection, sensing its huge sales and enormous profits slipping away, tries to influence Teeter to spend additional sums to expedite replacing the drive train and resuming production, but to no avail. Replacement parts are simply not available outside normal distribution channels and time frames. Perfection has to swallow hard and watch the holiday sales of its enormously popular line of toys dry up.

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B. EXCLUSIONS

This coverage form has 21 exclusions. They apply whether the loss event results in widespread damage or affects a significant geographical area or not and are essentially absolute. Subject to specific exceptions, each is totally excluded, regardless of any other cause or event that contributes to a loss, either concurrently or in any other sequence. The insurance company does not pay for any direct or indirect loss or damage caused by or resulting from any of these events.

Note: Several of the exclusions are similar to exclusions found in commercial property coverage forms.

1. Ordinance Or Law

Coverage does not apply to any increase in loss due to enforcement of any ordinance or law regulating repair, use, operation, installation, clean up or disposal of covered property. This exclusion has one exception. It does not apply to a covered breakdown to electrical supply and emergency generating equipment situated on the premises of a hospital.

2. Earth Movement

Loss or damage due to earth movement is excluded. This includes earthquake, landslide, land or mine subsidence and volcanic action but is not limited to these.

Note: This exclusion is more restrictive than the same exclusion in the Commercial Property Coverage Form. Since it has no exceptions, all earth movement is excluded.

3. Water

Loss or damage caused by the action of water is not covered. This includes flood, waves, tides and overflow of bodies of water, including their spray, all whether wind-driven or not. This also applies to mudflow, mudslide and backup of sewers and drains.

Note: In addition, this exclusion also applies to water damage from sprinkler systems and domestic water pipes.

4. Nuclear Hazard

The insurance company does not pay for loss or damage arising out of nuclear reaction, radiation or radioactive contamination, however caused.

5. War Or Military Action

This exclusion lists three specific types of warlike activity. War can be undeclared or a civil war. It is important to determine who can declare war. In any action that constitutes war, coverage does not apply. In addition, any action involving military forces and/or military agents is not covered. Finally, rebellions, revolution, usurped power, insurrection and any government response to any of them are not covered.

Note: Terrorism is not listed.

6. Explosion

There is no coverage for loss or damage caused by explosion. However, coverage does apply to explosions of covered equipment involving steam boilers, piping, turbines or engines, electric steam generators, gas turbines and moving or rotating machinery when an explosion is caused by centrifugal force or mechanical breakdown.

7. Fire Or Combustion Explosion

Loss or damage caused by a fire or combustion explosion that results in a breakdown or that occurs at the same time as or ensues from a breakdown is excluded.

Note: These events are insured under the insured's Commercial Property Coverage Form. This exclusion prevents the Equipment Breakdown Protection Coverage Form from responding to a fire loss, resulting in duplicate coverage.

8. Fungus, Wet Rot And Dry Rot

Coverage does not apply to loss or damage caused by the presence or any activity of fungus, wet rot or dry rot. However, loss or damage resulting from a covered breakdown is covered.

Note: This exclusion does not apply with respect to any other coverage provided for fungus, wet rot or dry rot by this coverage form. Even then, coverage only applies for the portion of loss or damage caused by the presence or activity of fungus, wet rot or dry rot resulting from a covered breakdown.

9. Virus, Bacterium Or Other Microorganism

There is no coverage for any loss arising out of or resulting from any virus, bacterium or other microorganism that causes physical distress, illness or disease. This exclusion does not apply to loss or damage resulting from a breakdown or loss or damage caused by or resulting from fungus, wet rot or dry rot.

Note: If this exclusion is applied to a particular loss, its provisions do not create coverage for any loss otherwise excluded by the coverage form.

10. Furnace Explosion

Loss or damage caused by or resulting from an explosion within the furnace of a chemical recovery boiler or its piping to the atmosphere is not covered.

Note: These explosions are covered under the Commercial Property Coverage Form.

11. Pressure Or Electrical Testing

Coverage does not apply to loss or damage to covered equipment being tested by pressure or electrical means.

12. Fire Extinguishing Agents

The insurance company does not pay for any loss or damage caused by or resulting from water or any other agents used to extinguish a fire.

Note: This exclusion applies even when such attempts are unsuccessful.

13. Depletion, Deterioration, Corrosion, Erosion, Wear Or Tear

Loss or damage caused by depletion, deterioration, corrosion, erosion, wear and tear is excluded.

Note: The loss or damage resulting from a covered breakdown is covered.

14. Other Insurance

Loss or damage resulting in a breakdown caused by aircraft, vehicles, freezing, lightning, sinkhole collapse, smoke, riot, civil commotion, vandalism, weight of ice, sleet or snow is not covered. This exclusion applies only if coverage against these causes of loss is provided by other insurance coverage.

Note: This applies whether the insured can collect on the other insurance or not.

15. Windstorm Or Hail

Loss or damage resulting from a breakdown caused by windstorm or hail is excluded.

Note: Breakdowns due to these causes of loss are excluded, regardless of whether other coverage is available.

16. Delay Or Interruption

There is no coverage for delays or interruptions of any business, manufacturing or processing activities except as provided by Business Income And Extra Expense, Extra Expense Only or Utility Interruption coverages available under this coverage form.

17. Business Income And Extra Expense, Extra Expense Only And Utility Interruption Coverages

The following additional exclusions apply to these coverages.

- There is no coverage if operations would have ended even if a breakdown had not occurred.
- Coverage does not apply if the insured does not do everything needed and reasonable to resume or continue operations at the covered premises where the loss occurred.
- Coverage does not extend to the period of time between when business operations could have resumed and when they actually did because of the suspension, lapse or cancellation of a contract that took place after a covered breakdown event.

18. Power, Light, Heat, Steam Or Refrigeration

Indirect loss after covered equipment breaks down due to too much or too little power, light, heat, steam or refrigeration is excluded except for the coverage provided by Business Income And Extra Expense, Extra Expense Only or Utility Interruption coverages available under this coverage form.

19. Utility Interruption Coverage

With respect to this coverage, any loss or damage caused by or resulting from acts of sabotage, collapse, deliberate acts of load shedding by the supplying utility, freezing caused by cold weather, impact of aircraft, missile or vehicle or objects falling from an aircraft or missile, lightning, riot, civil commotion, vandalism, sinkhole collapse, smoke, and weight of ice, sleet or snow is excluded. This exclusion applies whether coverage against these causes of loss is provided by other insurance coverage or not.

Note: Load shedding is the intentional reduction or cutting off of service to control overall power requirements.

20. Indirect Breakdown Damage

Indirect loss or damage caused by or resulting from a breakdown to covered equipment is excluded except for the coverage provided under Business Income And Extra Expense, Extra Expense Only, Spoilage Damage or Utility Interruption coverages available under this coverage form.

21. Neglect

There is no coverage for loss or damage that results from the insured failing to use every reasonable means to save and keep covered property from further damage during and after a loss.

C. LIMITS OF INSURANCE

1. The most the insurance company pays for any loss or damage from a single breakdown event is the applicable limit of insurance indicated on the declarations.

2. Payments are not increased if more than one insured appears on the declarations.

3. A limit of insurance or the word INCLUDED must be entered on the declarations for each coverage provided. If INCLUDED appears next to a particular coverage, the limit for that coverage is part of the limit per breakdown, not in addition to it. If a dollar limit appears next to a particular coverage, the insurance company pays up to, not more than, the limit of insurance for that particular coverage.

Example: These are the entries made on two different declarations:

Coverage	Declarations A	Declarations B
Limit Per Breakdown	$ 1,000,000	$ 1,205,000
Property Damage	$ 1,000,000	$ 1,000,000
Expediting Expense	$ INCLUDED	$ 25,000
Business Income/Extra Expense	$	$
Extra Expense Only	$ INCLUDED	$ 50,000
Extended Period Of Restoration (Number Of Days Of Coverage)	_____ Days	_____ Days
Data Or Media ($25,000 Limit of Insurance) or	$	$
Spoilage Damage	$ INCLUDED	$ 25,000
Utility Interruption	$ INCLUDED	$ 10.000
Coverage applies only if services are interrupted at least	24 Hours	24 Hours
Newly Acquired Premises	INCLUDED	INCLUDED
Number Of Days Of Coverage	_____ Days	_____ Days
Ordinance Or Law	$ INCLUDED	$ 25,000
Errors And Omissions	$ INCLUDED	$ 10,000

Brands And Labels	$ INCLUDED	$ 10,000
Contingent Business Income/Extra Expense	$ INCLUDED	$ 50,000
Covered Premises:	$	$
Sales, Services Or Materials:	$	$

4. If covered equipment is for the exclusive use of supplying utility services to the insured's premises, is owned by a private or public utility, is not in the insured's possession or for which it is legally liable, and insured under this coverage form, the Property Damage limit indicated on the declarations is deleted. It is replaced by the sum of one dollar. A slightly different provision applies if the insured is a public or private utility. If the insured is a public or private utility, this provision applies only when the covered equipment is owned by a public or private utility other than that insured.

Note: The nominal one-dollar limit exists as a technicality. Providing this limit permits the coverage form to provide indirect damage protection for consequential loss to an insured as a result of damage to this non-owned utility equipment.

5. This coverage form automatically includes five additional coverages. Each is subject to a $25,000 limit, unless a higher limit or INCLUDED is entered on the declarations. These limits are part of the Limit Of Insurance for Property Damage or the Limit Per Breakdown, not in addition to them.

a. Ammonia Contamination

This coverage applies to spoilage to covered property contaminated by ammonia. It also applies to any salvage expense.

b. Consequential Loss

This coverage applies to the reduction in value of undamaged stock parts of a product that is unmarketable.

Note: The reduction in value must be caused by physical loss or damage to another part of the product.

c. Data And Media

These are the costs incurred by the insured to research, replace or restore damaged data or media. They include the costs to reprogram instructions used in any computer equipment.

d. Hazardous Substance

Coverage applies to the additional expenses incurred by the insured to clean-up, repair, replace or dispose of covered property damaged, contaminated or polluted by a hazardous substance as defined in the coverage form. This coverage is an exception to the Ordinance Or Law exclusion.

Note: The covered expenses are additional costs incurred over and above the amount payable if no hazardous substance was involved with the loss.

e. Water Damage

Coverage applies to loss or damage to covered property damaged by water, except for damage resulting from leakage from a sprinkler system or domestic water piping.

If fungus, wet rot or dry rot results from such water damage, loss or damage from those substances is limited as described in 6. Limited Coverage For Fungus, Wet Rot And Dry Rot below and is part of the Water Damage limit, not in addition to it.

6. Limited Coverage For Fungus, Wet Rot And Dry Rot

This coverage and limit is added:

a. Property damage

The insurance company pays for loss or damage caused by fungus, wet rot and dry rot that is a direct result of a breakdown to covered equipment that occurs during the policy period. The limit is $15,000 for all occurrences that take place during any 12-month period and does not increase the limit of insurance for covered property. A higher limit for this coverage can be indicated on the declarations.

b. Business Income And Extra Expense Or Extra Expense Only

This coverage also applies to Business Income And Extra Expense or Extra Expense Only if these coverages are provided. The loss of business income or extra expense must be due solely to loss or damage to covered property caused by fungus, wet rot or dry rot. It is limited to the loss or expense sustained in a period not exceeding 30 days, unless a different number of days is indicated on the declarations.

D. DEDUCTIBLES

1. Application Of Deductibles

The insurance company pays for loss or damage resulting from a breakdown when the amount of loss or damage exceeds the deductible for the applicable coverage indicated on the declarations, up to its limit of insurance.

Note: Deductibles apply to each applicable coverage separately, with two exceptions:

- If a COMBINED deductible is shown for any coverage on the declarations. In that case, the insurance company subtracts the combined deductible amount from the aggregate amount of loss to which it applies.
- If more than one type of covered equipment is involved in a single breakdown, only the highest deductible is applied to the applicable coverages.

2. Determination Of Deductibles

This coverage form has five different deductibles:

a. Dollar Deductible

This is a flat deductible the insured must pay before the insurance company makes any payment.

b. Time Deductible

A time deductible can also be referred to as a waiting period. The insurance company does not pay until the number of hours or days indicated on the declarations after the occurrence of a covered loss have passed. Loss amounts between the time of the occurrence and the end of the designated time or waiting period are the insured's financial responsibility.

Note: A day equals 24 hours.

Example: Lizzie owns a laundry. She has a five-day waiting period on her Equipment Breakdown Protection Coverage Form Business Income And Extra Expense Coverage. A critical item of equipment breaks down at 3:20 p.m. on 04/01/08. The breakdown results in the laundry being shut down until the equipment is repaired. Repairs are finished on 04/06/08 at 1:45 p.m. While business does not resume until the fifth day after the accident, the repairs are made before five 24-hour periods pass. As a result, Lizzie receives no payment under the Business Income And Extra Expense coverage.

c. Multiple Of Daily Value Deductible

A time deductible can be quite disadvantageous to the insured. The initial period after a loss frequently involves the most loss or expense. Subsequent periods involve less loss or expense because some business activity can begin or contracts can be cancelled in some cases. The consequences of such a loss can be mitigated by use of the Multiple Of Daily Value Deductible. It is calculated as follows:

1. Determine the business income that would have been earned for the entire premises where the breakdown loss occurred during the period of restoration if there was no loss.

2. Divide the figure in 1 above by the number of days the business would have operated during the period of restoration. The result is the daily value.

3. Multiply the daily value in 2 above by the number of days indicated on the declarations. The insurance company subtracts this deductible amount from the amount of loss for which it is liable. It then pays the amount of loss or damage that exceeds this deductible amount up to the applicable limit of insurance.

d. Percentage Of Loss Deductible

Percentage-of-loss deductibles are often used in place of dollar deductibles but the application in this coverage form is different than the way percentage deductibles are applied in other forms. In this form, the percentage is applied to the amount of the loss instead of to the value of the covered property.

Example: Major Manufacturing Company has a $1,000,000 Property Damage limit on its Equipment Breakdown Protection Coverage Form. Major sustains a $300,000 loss when its primary assembling equipment breaks down. Here is what Major recovers under three different deductible approaches:

$50,000 Flat Deductible	Regular 5% Deductible	5% Percentage of Loss Deductible
$300,000 loss	$300,000 loss	$300,000 loss
–$50,000 deductible	–$50,000 deductible	–$15,000 deductible
$250,000 payment	$250,000 payment	$285,000 payment

e. Minimum Or Maximum Deductibles

This deductible is used with the Multiple Of Daily Value Deductible or the Percentage Of Loss Deductible. It allows the insured to have a definite range of payment.

If the insured selects the Multiple Of Daily Value Deductible or the Percentage Of Loss Deductible, the deductible amount is calculated and then compared to the minimum and maximum deductible indicated on the declarations. If the calculated deductible falls between the minimum and the maximum, the insured pays the calculated deductible. If the calculated deductible is less than the minimum, the insured pays the minimum deductible. If the calculated deductible is more than the maximum, the insured pays the maximum deductible.

Example: Lizzie chooses a 10% Percentage Of Loss Deductible for Property Damage and a five-day Multiple Of Daily Value Deductible for Business Income And Extra Expense. Both coverages are subject to a $500 minimum and $5,000 maximum deductible. Lizzie's boiler breakdown causes $60,000 in covered property damage and $15,000 loss of income for the 30 days her operation is shut down. Her daily value is $500.

The Property Damage deductible is $60,000 X .10 (10%) = $6,000. Since $6,000 is more than the $5,000 maximum, she is responsible for only $5,000.

The Business Income deductible is $500 X 5 (days) = $2,500. Since $2,500 falls between $500 and $5,000, Lizzie is responsible for $2,500.

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E. EQUIPMENT BREAKDOWN PROTECTION CONDITIONS

These conditions are in addition to the Common Policy Conditions.

Note: Many of these loss conditions are similar to those found in commercial property coverage forms.

1. Loss Conditions

a. Abandonment

The insured cannot surrender or turn over property to the insurance company without its permission.

Example: Montgomery Metals Manufacturing's secondary production line sustains a covered equipment breakdown loss. Since business is slow, Montgomery decides it can handle all its production on its main production line and informs its insurance company that it will accept a cash settlement if it takes the equipment off Montgomery's hands. The insurance company is not interested and refuses to accept the property. Montgomery has to rethink its decision and determine its next step.

b. Appraisal

If the insured and the insurance company cannot agree on the value of property or the amount of loss, either may request an appraisal of the loss. Each party selects its own competent and impartial appraiser and they, in turn, select an umpire or have one appointed for them. Differences in value or amount that cannot be resolved are submitted to the umpire. A decision by any two parties is binding on all parties. Each party pays its own appraiser and shares the cost of the umpire equally.

Note: Even if there is an appraisal, the insurance company retains its right to deny the claim.

Example: Jane's production boiler breaks down. Jane and Cheapskate Mutual, her insurance company, cannot agree on its value. They both agree to submit the dispute to appraisal. Jane selects an experienced appraiser who just happens to be her brother. Cheapskate selects a totally impartial party who has no appraisal credentials. Both "appraisers" are rejected because Jane’s selection is biased and Cheapskate's selection is not qualified.

c. Defense

At its option, the insurance company can choose to defend the insured against suits resulting from claims by the property owners. If it does, it does so at its own expense.

d. Duties In The Event Of Loss Or Damage

The named insured has a number of duties to perform if a claim or demand for coverage occurs. It must:

- Inform the insurance company of the loss or damage as soon as possible, including a description of the property involved. As a minimum, the notice should include information concerning how, when and where the loss or damage took place.
- Give the insurance company a reasonable amount of time and ample opportunity to examine the damaged property before repairs begin and the physical damage of the breakdown is removed. The insured must also do whatever is needed to protect covered property from further loss or damage.
- Allow the insurance company to inspect the property proving the loss or damage. This includes taking samples of both damaged and undamaged property for inspection, testing and . The company must also be permitted to examine the insured's books and records and make copies of any information needed.
- Send the insurance company a properly executed proof of loss on its forms within 60 days of its request to do so.
- Cooperate with the insurance company as it investigates and settles the claim.

The insurance company has the right to examine any insured under oath at reasonable times concerning the claim or the insurance coverage provided. This includes the insured's books and records. The insured must acknowledge any examination by its signature.

Note: The insurance company has the option of examining anyone alone and not in the presence of any other insured.

e. Insurance Under Two Or More Coverages

When more than one coverage applies to a single loss, payment is limited to the actual amount of loss or damage, subject to any applicable deductible. No duplicate payments are made.

f. Legal Action Against Us

No legal action can be brought against the insurance company until the insured complies with all the terms of the coverage form. In addition, the legal action must commence within two years after the date of the breakdown.

If an obligation to a third party is involved, the insurance company must agree that the obligation exists. This agreement may be the result of arbitration. However, a third party cannot include the insurance company in a legal action to establish the insured’s obligation to that third party.

g. Loss Payable Clause

The insurance company pays any loss to the insured and the loss payee as their interests may appear, subject to it not being caused by the insured's conversion, secretion or embezzlement. If a cancellation notice is mailed to the insured, a similar notice must also be mailed to the loss payee. When payment is made to the loss payee, all of its rights that apply to that loss pass to the insurance company.

Note: An important right that passes to the insurance company is the right to subrogate against third parties possibly responsible for the loss.

h. Other Insurance

If other coverage identical to that provided under this coverage form applies to the same loss, this coverage form pays on a proportional basis.

If other coverage on a different basis applies to the same loss, this coverage is excess over that that other coverage.

Note: In the event of other identical coverage, the insured's obligation is on a proportional basis, not on an equal shares basis.

i. Privilege To Adjust With Owner

If loss or damage occurs to property of others in the insured's care, custody or control, the insurance company has the right to settle the claim directly with the property owner. Documentation of the payment to that party satisfies the insured's claim against the company.

j. Reducing Your Loss

The insured must resume business, either partially or completely, within a reasonable period of time after a covered breakdown loss. It must also attempt to make up for lost business within a reasonable period of time that may not necessarily end when operations resume.

The insured must also use every reasonable means to reduce or avoid a business income loss. This includes:

- Working extra time or overtime to continue operations at the same or another owned or acquired premises;
- Working with and/or sharing property or services of other business;

Example: Sharing or leasing space and/or equipment.

- Using other owned equipment, property or merchandise on hand or readily available; or
- Using the salvage from damaged covered property.

k. Transfer Of Rights Of Recovery Against Others To Us

Any rights of the insured to recover damages from others are transferred to the insurance company to the extent of payments it makes. The insured must secure those rights and do nothing after a loss that negatively affects them. The insured can waive its rights against others in writing in two situations:

- Before a loss to covered property or income; or
- After a loss to covered property or income but only if the other party is another insured, a business the insured owns, a business that owns the insured or a tenant of the insured.

I. Valuation

The value of covered property is the cost to repair, rebuild or replace the damaged property with similar property. While the meaning of "similar" is subject to debate, it usually refers to property of same kind, capacity, size or quality. The value of damaged property may be determined to be the actual cost to repair, rebuild or replace it. The restoration of the covered property must be done at a location where the work can be performed for the lowest cost. For this reason, it could take place at the original location or a new one. The insurance company does not pay for damage to obsolete property or to property that is useless to the insured.

- Improved Equipment

The insurance company pays up to an additional 25% of the property damage loss amount to repair or replace the damaged equipment with equipment that improves the environment, increases efficiency or enhances safety. Two limitations apply. The 25% increase cannot exceed the limit of insurance indicated on the declarations and the function of the equipment must be the same after the repair as it was before the loss occurred.

Example: Maypole Metalmakers is insured under an Equipment Breakdown Protection Coverage Form with a $500,000 limit for property damage. Maypole's insurance adjuster tells Maypole's owner that its recent loss to a hydraulic press is covered. The adjuster goes on to say that he was initially going to offer to replace it with a used machine of the same model and amount of use for $42,000. However, he decides to handle the loss by buying a new model of the same press for $53,000 because it is a cleaner operating model and uses 35% less power than the old model.

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- Extended Warranty

If an extended warranty or service contract is voided due to a covered loss, the insurance company reimburses the insured for the unused costs of non-refundable or non-transferable warranties or contracts.

- Time Limit on Replacement Cost

Repairs or replacement must take place within 24 months of the date of loss. If not, the insurance company pays the lesser of the cost required to repair or replace or the actual cash value of the property at the time of the breakdown.

- Selling Price

Property held by the insured for sale is valued at its selling price. For the purpose of this coverage, selling price means the sales price reduced by the insured's discounts and adjusted for expenses that would have been incurred. This provision only applies to property that was manufactured by the insured, could not be replaced before its anticipated sale and is valued at more than its replacement cost.

- Data and Media Damage or Loss

Loss involving mass-produced data and media is adjusted according to its replacement cost. Other data and media losses are paid based on the cost to research assemble and reproduce the data and media on blank material. However, the insurance company does not pay for any data or media, either mass-produced or custom made, that cannot be replaced with data or media of similar kind and quality or property having similar functional use.

- Spoilage

With respect to this coverage, the insurance company determines the value of covered property according to the type of property. Raw materials are valued at their replacement cost. Property in process is valued at the replacement cost of the raw materials, adjusted by the related labor overhead charges.

Note: This provision only refers to overhead. Profit is not mentioned.

Finished products are valued at their selling price, adjusted for any discounts offered and expenses the insured otherwise would have had.

· Salvage Value of Property

If property is used for temporary repairs or other valid uses after a breakdown, its value is considered in the adjustment of any loss. This property may be purchased as expediting expenses but the insured continues to have use of it after repairs are completed. The salvage value of this property is deducted from the insurance valuation at settlement since it is a new asset the insured did not have before the loss.

m. Business Income And Extra Expense Coverage Conditions

These additional conditions apply only to Business Income And Extra Expense Coverage:

- Annual Reports

The insured must complete an Annual Report of Values Form approved by the insurance company once each year. The report must reach the company within three months of the annual report date indicated on the declarations and annually afterwards.

- Adjustment Of Premium

After receiving the reports of value, the insurance company calculates the earned premium for the past year. If it is more than the premium already charged, the insured pays the difference. If it is less, the insurance company refunds the difference to the insured. The return premium is never more than 75% of the premium originally charged.

- Coinsurance

If a covered business income and extra expense loss occurs and the insured did not submit the reports of value indicated above within three months of the due date, this coinsurance condition applies. The insurance company does not pay the full value of any loss if either the actual business income annual value is more than the estimated business income annual value, the report is received more than three months after its due date, or the report is otherwise overdue. The amount paid is determined by the following formula:

1. Divide the estimated business income annual value by the actual business income annual value at the time of the breakdown. The result is a multiplier factor.

2. Multiply the total business income loss amount by the multiplier factor calculated in 1 above.

3. Subtract any applicable deductible from the amount determined in 2 above.

Note: The insurance company pays the lesser of the amount determined in the last step above or the business income and extra expense limit of insurance. Any remaining amount must be paid by other insurance or from the insured's own financial resources.

Note: The penalty applies separately to each location when coverage applies to more than one location.

2. General Conditions

Many of the Equipment Breakdown Protection Coverage Form general conditions are similar to those found in commercial property coverage forms.

a. Additional Insured

Persons or organizations designated as additional insureds are considered insureds under the Equipment Breakdown Protection Coverage Form to the extent of their interest.

b. Bankruptcy

The insurance company's obligations under this coverage form are not affected or changed by the bankruptcy or insolvency of the insured or the insured's estate.

c. Concealment, Misrepresentation Or Fraud

Coverage is void in the event of fraud or if any insured at any time intentionally conceals or misrepresents material facts with respect to this coverage form, covered property, its interest in covered property or a claim under this coverage form.

d. Liberalization

If the insurance company adopts coverage form revisions that broaden this coverage without making an additional premium charge any time up to 45 days before its inception date or during the policy term, the broadened coverage automatically applies to this coverage form.

e. Mortgage holder

- The insurance company pays the mortgage holder for direct damage to covered property caused by or resulting from a breakdown to covered equipment in their order of precedence and as their interests may appear.

Note: Trustees are also mortgage holders.

- Foreclosure or similar proceedings on covered property does not void the mortgage holder's rights under this condition.

- If the insurance company refuses to pay the insured's claim because of its acts or failure to comply with coverage terms, mortgage holders are still entitled to receive claim payments but must assume additional responsibilities. If the insured did not pay the premium, the mortgage holder must do so if requested. If the insured did not submit a proof of loss, the mortgage holder must do so within 60 days after the company requests. Mortgage holders must also notify the insurance company of any ownership change or change in material hazard at the risk they become aware of.

- If the insurance company refuses to pay the insured's claim because of its acts or failure to comply with coverage terms, it pays the mortgage holder. In that case, the mortgage holder's mortgage rights are transferred to the insurance company to the extent of the amount paid and the mortgage holder's right to recover the full amount of its claims is not impaired.

Note: The insurance company has the option to pay the mortgage holder the entire principal and accrued interest on the mortgage. In that case, the mortgage and note is transferred to the insurance company and the insured pays any remaining mortgage debt to the company.

- If the insurance company cancels or does not renew coverage, it must give notice to the mortgage holder at least 10 days notice before the expiration date for nonpayment of premium and 30 days for all other reasons. Notice of nonrenewal must be at least 10 days before the expiration date.

Note: Statutes in many states supersede these notice periods.

- If the insurance company suspends coverage, it is suspended for both the insured and the mortgage holder. The mortgage holder receives written notice of any such suspension.

f. No Benefit To Bailee

This insurance is for the benefit of the insured. Parties entrusted with an insured's covered property do not receive that benefit.

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g. Policy Period, Coverage Territory

The coverage provided under the Equipment Breakdown Protection Coverage Form applies to loss or damage that occurs during the policy period and in the coverage territory, consisting of the United States of America, its territories and possessions, Puerto Rico and Canada.

h. Premium and Adjustments

The insured must report the full 100% insurable values at each location to the insurance company every year as of the anniversary date. The value for each coverage must be reported separately. The renewal premium is determined based on the rates in effect as of the renewal date for all values at risk.

The insured must maintain the records needed to complete these reports and have them available for examination by the insurance company or its representatives during normal business hours during the policy year and for 12 months after coverage expires or is cancelled.

i. Suspension

This feature is unique to the Equipment Breakdown Protection Coverage Form. If covered equipment is determined to be in or exposed to a dangerous condition, any insurance company representative may immediately suspend coverage with respect to that equipment by delivering or mailing written notice of suspension to the insured's last known address or to the location of the suspended equipment.

Example: Practically Perfect Property Insurance Company insures Kim's Kandee Kitchen. Practically's senior equipment inspector notices certain insured equipment operating at considerably higher temperatures than their rating allows. The inspector enters the shift manager's office and issues a written order to shut down the equipment within 30 minutes or have coverage on that equipment suspended. Kim ignores the order. Three days later, the equipment identified by the inspector breaks down and starts a fire. With a copy of the inspector's written order in hand, Practically notifies Kim that coverage was and still is suspended and that the equipment loss is not covered.

Suspended coverage can only be reinstated by issuance of an endorsement for that covered equipment.

Note: Oral statements authorizing resumption of operations are unacceptable and do not reinstate coverage.

If coverage is suspended, the insured receives a pro rata refund of premium paid to insure that equipment. However, the suspension is effective even if a refund has not been offered or made.

3. Joint Or Disputed Loss Agreement

This agreement is intended to facilitate payment of insurance proceeds when two different carriers for the property and the equipment breakdown coverage disagree about the amount of loss each pays. This condition keeps the insured from being a victim of insurance companies that disagree as to whether coverage exists or the amount of loss each is obligated to pay. Under this provision, the insured's loss is paid and the insurance companies then determine their portion of the loss payment.

Note that this condition applies only when the insurers cannot decide or determine whether coverage applies at all or the amount each owes. It does not apply if there is no dispute between the insurers or when both insurers deny any liability whatsoever.

The following conditions must be met in order for the terms of this provision to apply:

- The commercial property coverage form must have a Joint Or Disputed Loss Agreement similar to the one in this coverage form.
- The damage to covered property must be caused by a loss where both carriers admit to some liability for payment under their respective policies, one carrier contends that the other carrier is responsible for the entire loss, or both carriers decline coverage but contend that the other carrier's coverage applies to all or part of the loss.
- Both the insured and the insurance companies agree as to the total amount of the loss.

If these requirements are met, each company pays its entire undisputed amount and half of the disputed amount to the insured.

Note that this condition does not modify or waive any rights that any insurer has against another insurer or any rights an insured holds against the insurer.

The disputed amount of loss paid by the equipment breakdown carrier is not more than the same loss agreement in the commercial property coverage form or the amount it would have paid if property coverage had not been in force at the time of the loss. In any event, the carrier's liability does not exceed the applicable limit of insurance indicated on the declarations. Amounts paid and accepted by the insured do not alter, waive or surrender any other rights it has against the insurance company.

The arbitration section of the Joint Or Disputed Loss Agreement is similar to the Appraisal loss condition in commercial property coverage forms. If both insurers agree to submit their differences to arbitration, each pays its entire undisputed amount and half of the disputed amount to the insured within 90 days. Arbitration then takes place within 90 days after the insured receives these payments. The insured agrees to cooperate with all arbitration procedures. Three arbitrators are involved. Each carrier appoints one and these two arbitrators mutually agree on and select a third. If they cannot agree, either may request that a judge of a court having jurisdiction select the

third arbitrator. Any decision agreed to by two of the three arbitrators binds both parties. Judgment on any award can be entered in any court having jurisdiction.

The carrier determined to be responsible for the larger portion of the ultimate loss returns the excess contribution to the other insurer(s). It must also pay liquidated damages to the other insurer(s) on the amount of its excess contribution.

Note: Liquidated damages are interest that accrues on the disputed amount from the date the Joint Or Disputed Loss Agreement is invoked until the excess amount is reimbursed. It is calculated at 1.5 times the highest prime rate from the Money Rates column of the Wall Street Journal that appears during the period of the Liquidated Damages.

Note: Arbitration expenses are not part of the excess contribution used for the liquidated damages calculation. They are apportioned between insurers on the same basis that the ultimate loss is apportioned.

Example: Old Hotel, Ltd. uses a low-pressure steam boiler to provide heat for the premises. It has a monoline Equipment Breakdown Protection Coverage Form written with one insurance company and a commercial property coverage form written with a different carrier. A small fire and explosion occurs but all of the damage is confined to the boiler room. Some of the damage is clearly a boiler loss while other damage is clearly a commercial property loss. However, a problem arises from a significant part of the loss that may be covered by either coverage form. Each carrier points out the parts of its coverage form that exclude coverage and suggests that the other carrier's coverage applies instead. Old Hotel wants to resume operations quickly but cannot do so because the two carriers cannot agree on the amount each should pay and neither insurer is willing give the hotel permission to proceed with the repairs. Fortunately, the carriers agree to arbitration, the insured is paid according to the formula in the arbitration clause, the needed repairs are made and operations resume. In addition, the arbitration proceedings resolve the carriers' differences relatively quickly.

F. DEFINITIONS

Defined words are used throughout the coverage form. Restricting their meaning to those definitions provides the means for all parties involved with the policy to have a clearer understanding of the coverage intended. EB 00 20–Equipment Breakdown Protection Coverage Form has 15 defined terms.

1. Breakdown is direct physical loss that causes damage to covered equipment requiring its repair or replacement. Direct physical loss includes failure of pressure or vacuum equipment, mechanical failure, including rupture or bursting caused by centrifugal force, or electrical failure, including arcing, unless the loss or damage is excluded elsewhere in the coverage form.

It does not mean or include loss or damage arising from inadequate or improper care and maintenance of the equipment. As a result, breakdown does not include:

- Malfunction, meaning adjustment, alignment, calibration, cleaning, modification of equipment and similar actions.
- Conditions in computer equipment and programs, such as defects, erasures, errors, limitations or viruses. This also includes the inability to provide instructions to covered equipment caused by or resulting from the inability to recognize and process calendar dates and times.
- Damage to valves, connections, joints, shaft seals, fittings and gland packing leakage.
- Damage to vacuum tubes, gas tubes or brushes.
- Damage to structures or foundations that support covered equipment or its parts.
- Failure of any safety or protective device to operate correctly.
- Cracking of any part of an internal combustion gas turbine exposed to the products of combustion.

Note: Despite this exhaustive definition, disputes arise from time to time concerning the coverage intended.

2. Business Income is the total of the net income that would have been earned and continuing normal operating expenses. It includes payroll.

Note: Net income is net profit or loss before income taxes.

3. Business Income Actual Annual Value is the total of net income that would have been earned and continuing normal operating expenses if an equipment breakdown loss had not occurred.

Note: This figure is used to calculate the coinsurance penalty.

4. Business Income Estimated Annual Value is the insured's estimated business income, as defined above, reported on the most recent Annual Report Of Values Form filed with the insurance company.

Note: This figure is also used to calculate the coinsurance penalty.

5. Computer Equipment is the insured's programmable electronic equipment used to store, retrieve and process data. It includes peripheral equipment that provides communication, printing and data transmission, such as printers, keyboards and monitors.

Note: Computer equipment does not include data and media.

6. Covered Equipment

a. Covered equipment means or includes the following:

- Equipment designed and intended to operate under pressure or in a vacuum. This can include equipment subject to mandatory state or municipal jurisdictional inspections.

- Equipment used to generate, transmit or use energy
- Communication equipment
- Computer equipment
- Equipment described above owned by a utility that supplies utility services to the insured exclusively. If Utility Interruption coverage is provided, this equipment is not considered covered equipment.

Note: Covered equipment not owned by the utility must be at a location indicated on the declarations and be owned, leased or operated by the named insured. This requirement does not apply to Utility Interruption, Contingent Business Income And Extra Expense or Extra Expense Only coverages.

b. Covered equipment" does not mean or include:

- Media
- Any part of pressure or vacuum equipment not under internal pressure of its contents or internal vacuum
- Insulating or refractory material

Note: The glass lining of covered equipment is covered.

- Non-metallic pressure or vacuum equipment

Note: Such equipment constructed and used according to appropriate and approved regulating codes is covered.

- Catalysts

Note: A catalyst, as used in chemistry, is a substance that modifies and increases the rate of a reaction without being consumed in the process.

- Vessels, piping and other equipment below the surface of the ground requiring excavation to inspect, remove, repair or replace them
- Structures, foundations, cabinets or compartments that support or contain parts or all of covered equipment

Note: This includes penstock, draft tube or well casing.

- Vehicles, aircraft, self-propelled equipment or floating vessels, including covered equipment mounted on or used exclusively with any of these

Note: Equipment otherwise covered and occasionally used on vehicles, aircraft, self-propelled equipment or floating vessels is covered.

- Dragline, excavation or construction equipment. This includes any covered equipment mounted on or used exclusively with any of these.

Note: Equipment otherwise covered and occasionally used on dragline, excavation or construction equipment is covered.

- Maintenance property such as felt, wire, screens, dies, extrusion plates, swing hammers, grinding discs, cutting blades, non-electrical cable, chains, belts, ropes,

clutch plates and brake pads. This also includes non-metal parts or any parts or tools subject to periodic replacement.

Note: The Equipment Breakdown Protection Coverage Form is not intended to insure relatively minor kinds of maintenance-type property.

- Machines or apparatus used solely for research, diagnosis, medication, surgical, therapeutic, dental or pathological purposes. This includes any covered equipment mounted on or used exclusively with any of these unless Diagnostic Equipment is indicated as included on the declarations.
- Equipment or equipment parts manufactured by the insured for sale.

7. Covered Property is property the named insured owns or property of others in its care, custody or control and for which it is legally liable.

8. Data is programmed and recorded material stored on media and programming records used for electronic data processing or electronically controlled equipment.

9. Extra Expense represents the additional costs the insured incurs to operate the business during the period of restoration. These costs are in addition to the insured's normal costs of operations during the same period if an equipment breakdown loss had not occurred.

10. Fungus is any type or form of fungus. It includes mold, mildew, mycotoxins, spores, scents or the byproducts produced or released by fungi.

Note: Mycotoxins are toxins or poisons produced by fungi.

11. Hazardous Substance is anything determined by a government agency to be a health hazard.

Note: This does not include ammonia.

12. Media is electronic data processing or storage media. Examples are films, tapes, discs, drums or cells.

13. One Breakdown. If an initial breakdown causes additional breakdowns, all are considered one breakdown. In addition, all breakdowns at a single location that occur at the same time as a direct result of the same event are considered one breakdown.

Note: This is important in the application of limits and deductibles. One breakdown means one deductible and one limit of insurance. Multiple breakdowns mean more than one deductible and multiple limits of insurance.

14. Period Of Restoration is a time period. It begins either when a breakdown occurs or 24 hours before the insurance company is notified of the breakdown, whichever is later.

Note: As a result, prompt loss reporting is extremely important to the insured. If notification is delayed, business income coverage does not begin until 24 hours before the notice is received.

Example: Jacklow International's equipment breaks down on 08/01/08. The insurance company is notified on 08/15/08. The period of restoration begins at the later of 08/1/08 or 08/14/08. In this case, coverage begins on 08/14/08. The delay in reporting the breakdown costs Jacklow 13 days of coverage.

It ends five days after the date that the damaged property is repaired or replaced with property of similar quality and on a timely basis.

Note: Even if unforeseen delays occur, coverage still ends when the damaged property could have been repaired or replaced on a timely basis.

15. Stock is merchandise held in storage or for sale. It also includes raw materials, property in process or finished products, including supplies used to pack and ship them.

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ISO EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORM (07 01 edition)

Insurance Services Office's (ISO) Boiler and Machinery program was revised with the 2001 edition. The traditional name of Boiler and Machinery was eliminated and replaced by Equipment Breakdown Protection. The new name reflects the coverage needed in the 21st century. New forms, provisions and endorsements were developed. Coverages under the latest edition can be added to the Commercial Package Policy, or written on a monoline basis.

The new program is more compact. The base policy form contains language for ten popular coverages. Three of the coverages, Errors and Omissions, Brand and Labels, and Contingent Business Income and Extra Expense, were not available under the old program. These various coverages are options that must be triggered by entry on the declarations page.

The need for Equipment Breakdown Protection Coverage arises from limitations found in the commercial property forms. These forms typically exclude losses caused by machinery or equipment breakdowns.

Coverage

The Equipment Breakdown Protection Coverage Form BM 00 20 has only one covered cause of loss. That cause of loss is the “breakdown” of “covered equipment.”

Equipment Breakdown Protection Coverage

There are ten coverages that can be provided by the Equipment Breakdown Protection Coverage form. The application of each coverage is shown by a limit of insurance or the word “**INCLUDED**” in the declarations.

1. Property Damage

This coverage pays for direct damage to “covered property” located at the premises described in the declarations. The limit of insurance shown under this coverage is the primary limit of insurance. Whenever "included" appears next to another coverage, it means it is part of the PD limit.

2. Expediting Expenses

This coverage applies to extra costs the insured incurs to make temporary repairs and expedite (speed up) the permanent repairs or replacement of the damaged property.

3. Business Income and Extra Expense – Extra Expense Only

The insured has the option of purchasing business income and extra expense coverage together or extra expense coverage alone. There is no option for purchasing just business income coverage.

If both coverages are purchased, the company will pay the insured’s actual loss of "business income" during the "period of restoration.” It will also pay the "extra expense" necessarily incurred to operate the business during that “period of restoration.” If the Extra Expense Only coverage is purchased, there is no coverage for business income.

The company will determine payment analyzing an insured's pre-loss operation and estimating the impact of the equipment breakdown.

The period of restoration ends five days after the covered equipment is back in operation. However, this period is replaced by any number that may appear next to "Extended Period of Restoration Coverage" on the policy's Declarations.

Also, if Ordinance or Law coverage is selected in the Declarations, the added time needed for the coverage is included in the period of restoration.

If media is lost or corrupted, the company will pay the actual loss of business income and/or extra expense during the time necessary to research, replace or restore that data. The coverage also obligates the insurer to pay to reprogram instructions used in covered computer equipment. However, there is no coverage for media or data that is not or cannot be replaced or restored. Coverage is limited to the insured’s actual loss of business income and/or extra expense up to 30 days after the period of restoration or $25,000, whichever is less. Higher limits are available.

Example: An insured suffers a covered loss that destroys nearly half of their computer data. While restoring their records, they decide that an archive of business documents that was part of the loss was no longer needed. The adjuster reduces their settlement to account for the fact that the obsolete records will not be replaced.

4. Spoilage Damage

Spoilage damage to raw materials, property in process or finished products is covered but only if the insured meets all three of the following conditions:

a. The raw materials, property in process or finished products are either in storage or in the course of being manufactured.

b. The insured owns or is legally liable under written contract for the spoiled property.

c. A lack of or excess of power, light, heat, steam or refrigeration caused the spoilage.

If the insured incurs expenses to reduce the amount of the loss, those expenses are covered. The expense payment is subject to the spoilage damage limit.

5. Utility Interruption

Before this coverage can be selected, the insured must purchase coverage for Business Income and Extra Expense – Extra Expense Only or Spoilage Damage. Coverage is contingent upon all of the following conditions being met:

a. The interruption must be the direct result of a breakdown to covered equipment owned, operated or controlled by the local private or public utility or distributor that directly generates, transmits, distributes or provides utility services received by the insured.

b. The covered equipment must supply electric power, communication services, air conditioning, heating, gas, sewer, water or steam to the insured’s premises.

c. The interruption of utility service must last more than the number of hours shown on the Declarations for this coverage. Once this waiting period is met, coverage will be provided as of the initial time of the interruption.

The base rates anticipate the limit of insurance is 25% of the business income annual value but higher limits are permitted.

6. Newly Acquired Premises

This feature automatically covers newly acquired premises purchased or leased by the insured. This coverage begins at the time the property is acquired and continues for a period not exceeding the number of days indicated in the declarations for Newly Acquired Premises. Coverage is subject to the broadest policy provisions that apply to the policy's described premises. The insured must inform the company, in writing, of the newly acquired premises as soon as practicable, and agree to pay an additional premium determined by the company.

7. Ordinance or Law Coverage

The Ordinance or Law Exclusion eliminates coverage for loss created by the imposition of ordinance or laws that restrict or regulate the rebuilding of the damaged property. This coverage pays such costs, within guidelines in the coverage, provided any increase in the loss amount is necessary due to the enforcement of any laws or

ordinances in force at the time of the breakdown which regulate the demolition, construction, repair or use of the building or structure.

Coverages are similar to those provided in the commercial property coverage forms for the loss in value of the undamaged portion of the building, demolition cost, and increased cost of construction.

A separate provision applies if the covered building experiences simultaneous damage from breakdown and from an ineligible source of loss and this incident results in enforcement of an ordinance or law. In this situation, the company will pay only that proportion of loss that the covered breakdown loss bears to the total physical damage.

Example: A covered building, valued at $500,000, suffers $300,000 in damage from equipment breakdown and fire. A local ordinance requiring special upgrades is enforced whenever building damage equals or exceeds 50% of its value. Ordinance enforcement results in an additional loss of $80,000. The portion of loss due to breakdown is $75,000 and the portion of loss due to fire is $225,000. Since the portion of the loss by breakdown is 25% of the total loss [$75,000 ¸ $300, 000, 25% of the ordinance-related loss is covered. In this case, $20,000 [$80,000 x .25%].

If the insured purchased Ordinance or Law Coverage under its Commercial Property form, that policy would respond to the remainder of the $80,000 loss.

8. Errors and Omissions

This coverage pays for loss or damage that would have been covered except for one of the following:

a. The insured’s error or unintentional omission in the description or location of property.

b. The insured’s failure to include any premises owned or occupied at the coverage inception date. The failure must be due to an error on the insured's part - not an intentional act.

c. The insured’s error or unintentional omission that results in the company canceling coverage at one of the insured's premises.

The coverage requires the insured to report and correct any errors or unintentional omissions when they are discovered. The policy premium will be adjusted accordingly. This coverage does not apply to any error or unintentional omission the insured makes in reporting values or requesting coverage.

9. Brands and Labels

If property (intended for sale) is damaged, the insurance company agrees to allow the insured to remove labels and branding providing the removal does not harm the salvaged property. The insured may even require that the property be clearly labeled as SALVAGE. The insured must re-label the merchandise or its containers to comply with any law. The company will pay reasonable costs incurred by the insured to do this, but

the total paid for these costs and the value of the damaged property will not exceed the applicable Limit of Insurance.

10. Contingent Business Income and Extra Expense – Extra Expense Only Coverage

This coverage is subject to the same terms and conditions as the Business Income and Extra Expense or Extra Expense Only Coverage. This Protection applies to the insured's loss resulting from a breakdown of covered equipment at a premises the insured does not own or operate (typically a party located elsewhere in the distribution chain). The premises must be shown in the declarations. The loss must prevent the delivery of services or materials shown in the declarations to the insured, or result in the loss of sales by the insured to the premises shown in the declarations. The insured must encourage the contributing or recipient business to take any necessary effort to resume operations and delivery of services or materials to the insured, or to accept products or services from the insured. However, the insured is barred from giving financial assistance unless authorized to do so by the company.

Exclusions

There are nineteen exclusions in the Equipment Breakdown Protection Coverage form. They apply whether loss is caused directly or indirectly, regardless of any other cause or event that contributes concurrently or in any sequence to the loss. They also apply whether or not the loss event results in widespread damage or affects a substantial area.

Several of the exclusions are similar to exclusions found in the commercial property forms. Some of the form's exclusions apply only to equipment breakdown coverage (as that is the only eligible peril).The exclusions are:

1. Ordinance or Law.

An exception is made for the use and operation of electrical supply and emergency generating equipment located on the premises of a hospital.

2. Earth Movement

This exclusion is more restrictive than a similar exclusion in the Commercial Property form. There are no exceptions, so all volcanic action is excluded.

3. Water

In addition to the standard flood, mudflow and backup or sewers and drains, the exclusion also applies to water damage from sprinkler systems and any domestic water pipes.

4. Nuclear Hazard

This exclusion applies to all nuclear activity, including radioactive contamination.

5. War or Military Action

Damages from war, insurrection and similar activities are excluded.

6. Explosion

This peril is excluded under the Equipment Breakdown policy except for the important exceptions of loss involving an explosion of covered steam boilers, electric steam generators, steam piping, steam turbines, steam engines, or gas turbines. Moving or rotating machinery is covered if the explosion is caused by centrifugal force or mechanical breakdown.

7. Fire or combustion explosion

This clarifies that if a fire or combustion explosion occurs; creating a breakdown, there is no coverage under this policy. If the fire or combustion explosion happens simultaneously with the breakdown there is no coverage. Even if the breakdown causes a fire or combustion explosion, there is no coverage under this policy.

Note: These instances should be insured under an operation's Commercial Property Coverage Form. This exclusion prevents the Equipment and Breakdown policy from responding to a fire loss.

8. Internal Furnace Explosions

The policy bars coverage for explosions that take place within the furnace of any type of chemical recovery boiler or in the passageway between the furnace and the atmosphere. Again, this explosion is better covered under the Commercial Property Coverage Form.

9. Pressure or Electrical Testing

If damage occurs to an insured's equipment during a pressure or electrical test, there is no coverage.

10. Any damage caused when water or other extinguishing methods are used is not covered regardless whether the attempt to control a fire is successful.

11. There is no coverage for depletion, deterioration, corrosion, erosion, or wear and tear BUT if a breakdown results from these causes the company will pay for the resulting loss or damage.

12. Other Insurance

If another source of protection responds to breakdowns caused by aircraft, vehicles, freezing, lightning, sinkhole collapse, smoke, riot, civil commotion, vandalism, weight of snow, ice or sleet, there is no coverage under this policy. Even if the insured is unable to collect the insurance coverage under the other policy, this exclusion still applies.

13. Windstorm or hail

Breakdowns by these perils are excluded, regardless whether other sources of coverage are available.

14. There is no coverage for business, manufacturing or processing interruption unless the insured purchases Business Income And Extra Expense, Extra Expense Only or Utility Interruption Coverage.

15. Business Income and Extra Expense - Extra Expense Only and/or Utility Interruption Coverage

There provisions bar coverage under the following situations:

a. If business operations were ceasing, regardless of a breakdown's occurrence

b. The insured does not attempt to get the business up and running in a timely fashion.

c. If a contract is suspended, lapses or cancels following a breakdown and that event lengthens the down time, there is no coverage for that extended time.

16. Power, light, heat, steam or refrigeration

If damage is caused by either insufficient or excess light, heat, steam or refrigeration, there is no coverage.

Note: Coverage provided by the Business Income And Extra Expense, Extra Expense Only, Spoilage Damage and Utility Interruption Coverage, if purchased, would apply.

17. Utility Interruption Coverage Exclusions

No coverage is provided for breakdowns related to acts of sabotage, collapse, deliberate act(s) of load shedding (intentionally reducing or cutting off service to control overall power requirements) by the supplying utility, freezing caused by cold weather, impact of aircraft, missile or vehicle, impact of objects falling from an aircraft or missile, lightning, riot, civil commotion or vandalism, sinkhole collapse, smoke, and weight of snow, ice or sleet.

18. Indirect Breakdown Damage

While such loss is excluded under the basic equipment breakdown form, an insured can purchase coverage for some indirect acts with the Business Income and Extra Expense, Extra Expense, Spoilage Damage or Utility Interruption Coverages.

19. Insured Post-Loss Neglect

If an insured does not take reasonable steps to protect and preserve property after a loss, there is no coverage for any additional damage that occurs.

Limits Of Insurance

The most the company will pay for any loss or damage from a single incidence of breakdown is the applicable Limit of Insurance shown in the declarations.

A limit of insurance or the word INCLUDED must be shown in the declarations for each of the ten coverages purchased by the insured. If "included" is shown next to the coverage, the limit for that coverage is part of, not in addition to, the limit per breakdown. If a dollar limit is shown next to the coverage, the company will pay up to, but not more than, the limit of insurance for that specific coverage.

Example: Here are two policy declarations entries:

Coverage	Policy A Entry	Policy B Entry
Property Damage	$1,000,000	$1,000,000
Expediting Expenses	"Included"	$25,000
Business Income and Extra Expense – Extra Expense Only	"Included"	$50,000
Spoilage Damage	"Included"	$25,000
Utility Interruption	"Included"	$10,000
Newly Acquired Premises	"Included"	$100,000
Ordinance or Law Coverage	"Included"	$25,000
Errors and Omissions	"Included"	$10,000
Brands and Labels	"Included"	$10,000
Contingent Bus. Inc. & Extra Expense – Ext. Expense Only Coverage	"Included"	$50,000
Total Possible Coverage For A Single Occurrence	$1,000,000	$1,305,000

Special PD Limit

The equipment breakdown policy establishes a special, nominal limit of $1 for certain equipment. This limit applies to equipment used solely to supply utility services to the insured's premises. Eligible equipment must:

- be owned by a public or private utility
- not be in the insured's care, custody or control (except for that which the insured is legally liable)

Note: If the insured is a public or private utility, this provision applies only when the covered equipment is owned by a public or private utility other than that insured.

This nominal limit exists as a technicality. Providing the limit permits the policy to provided indirect damage protection for consequential loss to an insured as a result of damage to this non-owned utility equipment.

Additional Coverages

Five additional coverages are automatically included in the Equipment Breakdown Protection Coverage form. Unless a higher limit or "included" appears next to these coverage, the most the company will pay is $25,000 for each supplemental coverage. The limits are part of, not in addition to, the Limit of Insurance for Property Damage or limit per breakdown.

1. Ammonia Contamination

This coverage applies to spoilage to covered property contaminated by ammonia. The coverage also applies to any salvage expense.

2. Consequential Loss

This coverage applies to the reduction in value of undamaged "stock" parts of a product that is unmarketable due to loss or damage to another part of the product.

3. Data and Media

The insured’s cost to research, replace or restore damaged data or media, including the cost to reprogram instructions used in any computer equipment is covered.

4. Hazardous Substance

Additional expenses the insured incurs for the clean-up, repair or replacement or disposal of covered property that is damaged, contaminated or polluted by a "hazardous substance” is covered. The covered expenses are the additional cost incurred over and above the amount payable had no hazardous substance been involved with the loss. This coverage is an exception to the Ordinance or Law exclusion.

5. Water Damage

Damage to covered property by water, including any salvage expenses, is covered unless the damage was caused by leakage of a sprinkler system or domestic water piping.

Deductibles

The insured must pay the deductible listed in the Declaration before the insurance company starts paying for any damage.

Deductibles apply separately for each coverage unless the word COMBINED, rather than an amount, appears in the Declarations. When the latter is the case, all losses from a single breakdown are combined and a single, combined deductible applies. If more than one covered piece of equipment is involved in a loss and the pieces have different deductibles, only the highest, applies per coverage.

The Equipment Breakdown form includes several types of deductibles. If the deductible is shown in the declarations as a:

Dollar Deductible

This is a flat deductible that must be paid before the insurance company begins payment.

Time Deductible

A time deductible is often called a waiting period. The company does not begin paying until a certain number of hours or days after a covered loss have passed. All loss prior to the end of the waiting period is the insured's financial responsibility.

Note: A day equals 24 hours.

Example: Lizzie owns a laundry. She has a 5 day waiting period on her Equipment Breakdown Business Income coverage. A critical piece of equipment breaks down at 3:20 p.m., 04/01/05. The breakdown meant that the laundry had to shut down until the equipment could be restored. The equipment was restored on 04/06/06 at 1:45 p.m. While business did not resume until the fifth day after the accident, the repairs were made before the passage of five, 24-hour periods. Lizzie received no payment under the Business income Coverage.

Multiple of Daily Value deductible

A deductible using elapsed days can hurt an insured. The first days after a loss often are the most expensive. Later days, when some business activity can begin or contracts can be cancelled, are less expensive. This consequence of a loss can be addressed by using the Multiple Daily Value deductible. It is calculated as follows:

Step 1. The Business Income loss amount is determined.

Step 2. The number of days lost during the period of restoration are calculated and divided into the Business Income loss amount. The result is the daily value.

Step 3. Multiply the daily value by the number of days shown in the Declarations. The company will subtract this deductible amount from any loss amount otherwise payable.

Percentage of Loss Deductible

Instead of a flat dollar deductible, a percentage deductible is used. This type is different from typical percent deductibles. Under an Equipment Breakdown Policy, a given loss is multiplied by the deductible percent to determine the dollar deductible.

Example: Major Manufacturer Ltd. has a $1,000,000 limit on its Equipment Breakdown Policy. Major suffers a huge loss when its main array of assembling equipment breaks down, creating a $300,000 loss. Here's what major recovers under three different deductibles:

$50,000 Flat Deductible	Regular 5% Deductible	5% Percentage of Loss Deductible
$300,000 Loss	$300,000 Loss	$300,000 Loss
- $50,000	- $50,000	- $15,000
$250,000 payment	$250,000 payment	$285,000 payment

Minimum or Maximum Deductibles

This deductible can be used in conjunction with the Multiple of Daily Value Deductible or the Percentage Deductible. It allows the insured to have a definite range of payment.

If the insured has selected the Percentage of Loss Deductible or the Multiple of Daily Value Deductible, the amount of the deductible is computed and then compared to the minimum and maximum deductible indicated on the Declarations. If the calculated deductible is between the minimum and the maximum, the insured will pay the calculated deductible. However, if the calculated deductible is less than the minimum, the insured must pay the minimum deductible. If the calculated deductible is more than the maximum, the insured only pays the maximum.

Example: Lizzie chooses a 10% Percentage of Loss deductible for property damage and a 5 day Multiple of Daily value deductible for Business Income and makes both subject to $500 minimum and $5,000 maximum. Her boiler breaks down causing $60,000 in covered property damage and $15,000 loss of income for the 30 days her operation is shut down. Lizzie's daily value is $500.

Her Property Damage deductible is $60,000 X .10 = $6,000. Since it is more than the maximum of $5,000, she is responsible for only $5,000.

Her Business Income Deductible is $500 X 5 = $2,500. Since that falls between the $500 and $5,000, she is responsible for $2,500.

Loss Conditions

Conditions are presented here by letter as shown in the Equipment Breakdown Protection Coverage form.

Many of the loss conditions are similar to those found in the commercial property forms.

a. Abandonment

The insured cannot give property to the insurance company without its permission.

b. Appraisal

If the insured and the insurance company cannot agree on the amount of the loss, either party can request that an appraisal be conducted. Each party then selects an appraisal and their appraisers select an umpire. The agreement of any two is binding on both parties. Each party pays its own appraiser and shares the cost of the umpire.

c. Defense

The insurance company has the right to defend the insured if other parties bring suit against the insured for property claims covered by this policy.

d. Duties In The Event Of Loss or Damage

An insured must let the insurance company know about a loss promptly. The notification must include a description of the involved property. The initial notice must be followed up with a complete loss description including how, when and where, as soon as possible. The insurance company must be allowed access to the premises and to any damaged property prior to any repairs or removal of that property. The insured is still required to take measures to protect the property from further damage even while waiting for the insurance company to show up.

The insurance company may need to inspect the property, examine an insured's financial records and take samples of damaged and undamaged property. The insured cannot refuse cooperating with any of these actions as long as the requests are considered reasonable.

Within 60 days of the insurance company’s request, the insured must subject a signed and sworn proof of loss using forms supplied by the insurance company.

The insurance company must be allowed to interview any and all insureds separately.

e. Insurance under Two or More Coverages

When a single loss is covered under more than one part of the policy, payment is still subject to the applicable limit and the amount of eligible loss, minus any deductible. No duplicate payments will be made.

f. Legal Action against Us

Legal action cannot be brought against the insurance company until the insured has complied with the terms of the policy. Further, if an insured does file a lawsuit, there's a time limit to do so. Legal actions must be taken no later than two years after the breakdown (loss).

If a third party is involved, there must be an agreement by the insurance company that such obligation exists. This agreement may be the result of arbitration. However, under the policy, no third party can include the insurance company in a legal action to establish the insured's obligation to that third party.

g. Loss Payable Clause

The insurance company pays any loss to the insured and the loss payee as their interests may appear. The insurance company honors the interest of the loss payee unless the loss is caused by an insured that is guilty of conversion, secretion or embezzlement. If a cancellation notice is mailed to the insured, a similar notice must also be mailed to the loss payable. When payment is made to the loss payable, all of their rights that apply to that loss (particularly the right to subrogate), are passed to the insurance company.

h. Other Insurance

If there is identical coverage for the same loss, this policy pays on a proportionate basis.

Note: The insured's obligation is on a proportional, not an equal share basis.

If there is coverage available under another, not identical, coverage, this policy is considered excess over that that other coverage.

i. Privilege To Adjust With Owner

If there is a loss involving property of others that is in the insured's care, custody or control, the company has the right to settle the loss (directly) with the owner of the property. A receipt for payment from the property's owner will satisfy the claim of the insured.

j. Reducing Your Loss

The insured must resume business, either partially or completely, and make up for lost business within a reasonable period of time following a breakdown. This reasonable period could continue beyond the time when operations are resumed. The insured must also make use of every reasonable means to prevent business income loss including:

(1) Working extra time or overtime wherever possible to carry on the same operations especially if there is undamaged space on the same premises or if the insured owns other premises

(2) Working with other business (example, sharing or leasing space and/or equipment)

(3) Taking equipment out of storage and use merchandise that is at hand including reserve stock

(4) Using the salvage from the damaged property

k. Transfer of Rights of Recovery against Others to Us

All rights of recovery that belong to the insured following a loss are transferred to the insurance company unless:

· The insured waives rights before any loss occurs.

· The insured waives rights to a party after the loss. However, a post-loss transfer of rights is valid only if the party that receives the rights is also insured by this insurance or if the party is a business firm. An eligible firm is one that is owned or controlled by the insured, that owns or controls the insured or the business is an insured's tenant.

l. Valuation

The value of covered property is the cost to repair, rebuild or replace the damaged property with similar property. Though what constitutes "similar" can be debated, it usually refers to property of same kind, capacity, size or quality. Damaged property may also have its value determined as the actual cost to repair, rebuild or replace that property. The restoration of the covered property must be done at a location where the job can be performed at the lowest expense. Therefore, it could occur either at the original site or a new site. The company will not pay for damaged property that is obsolete and useless to the insured.

· Improved Equipment

The insurance company will pay up to an additional 25% of the property damage loss amount to repair or replace the damaged equipment in a manner that improves the environment, increases efficiency, or enhances safety. The two limitations are that the 25% increase can't exceed the limit of insurance on the Declarations and the function of the equipment must be the same after the repair as when the loss occurred.

Example: Maypole Metalmakers is insured by an Equipment Breakdown policy with a $500,000 limit for property damage. An adjuster from their insurer reports back to Maypole's owner that the policy will handle their recent loss, a broken hydraulic press. The adjuster reports that, at first they were going to offer replace it with a used machine of the same model and amount of use for $42,000. However, the adjuster later says that they will handle the loss by buying a new model of the same press for $53,000. The adjuster explains that the new press will be bought because it operates more cleanly and uses 35% less power than the old model.

· Extended Warranty

If an extended warranty or service contract is voided due to a covered loss, then the insurance company will reimburse the insured for the unused costs of non-refundable, non-transferable warranties or contracts.

· Time Limit on Replacement Cost

Repairs or replacement must take place within 24 months of the date of loss. If not, the company will pay only the smaller of the cost it would have taken to repair or replace or the actual cash value of the property at the time of the breakdown.

· Selling Price

Property held by the insured for sale will be valued at the selling price. For the intent of coverage, selling price means the sales price that is reduced by an insured's discounts. Sales price is also adjusted for expenses that would have been incurred. This latter provision only applies to property that was manufactured by the insured, could not be replaced before its anticipated sale and is valued at more than the replacement cost.

· Data and Media Damage or Loss

Loss involving data and media that is mass-produced is adjusted according to its replacement cost. Other data and media are paid based on the cost to research, assemble and reproduce the data and media on to blank material. However, the company will not pay for data or media (either mass produced or customized) that cannot be replaced with data or media of like kind and quality or property of similar functional use.

· Spoilage

For Spoilage Damage coverage, the company will determine the value of covered property according to the type of property. Raw materials are valued at replacement cost; Property in process is valued at replacement cost of the raw materials, adjusted by the related labor overhead charges.

Note; This provision only makes reference to overhead and profit is not mentioned.

Finished products are valued at their selling price. The selling price is adjusted for any discounts offered and expenses the insured otherwise would have had.

· Salvage Value of Property

If property is used for temporary repairs or other valid use following a breakdown, its value is considered in the adjustment of any loss. These items might be purchased as expediting expenses but the insured continues to have use of the property once the property is repaired. The salvage value of these items is deducted from the insurance valuation at settlement since it is a new asset that the insured did not have prior to the loss.

m. Business Income and Extra Expense Coverage Conditions

The following additional conditions apply only to the Business Income and Extra Expense Coverage:

(1) Annual Reports

The insured must complete an Annual Report of Values Form approved by the insurer once each year. Form BM 15 31 may be used for this purpose. The report must reach the company within three months of the annual report date shown in the declarations.

(2) Adjustment of Premium

When the value reports are received, the company determines the amount of premium earned for the past year. If the amount determined is more than the premium already charged, the insured must pay the difference. If the amount determined is less than the premium originally charged, the company must refund the difference. Under no circumstance will the return be more than 75% of the original premium.

(3) Coinsurance

If the company does not receive the insured's report on values within three months of the due date, the coverage becomes subject to a coinsurance clause. The coinsurance penalty is calculated as follows:

· Divide the "business income estimated annual value" by the "business income actual annual value" at the time of the breakdown. This results in a multiplier factor.

· Multiply the total amount of the covered loss of business income by the multiplier factor to determine the initial coinsurance figure.

· Subtract any applicable deductible from the coinsurance figure.

The company will pay the amount determined in step two of the coinsurance calculation or the Business Income and Extra Expense limit of insurance, whichever is less. The coinsurance penalty applies separately to each covered premises.

Equipment Breakdown Protection - General Conditions

Many of the Equipment Breakdown Protection general conditions are similar to those found in the commercial property forms.

a. Additional Insured

If a person or organization is designated as an additional insured, the company will consider that party as an insured to the extent of their insurable interest.

b. Bankruptcy

If the insured or the insured's estate becomes insolvent, the insurance company must still meet its obligation under this coverage.

c. Concealment, Misrepresentation or Fraud

If any insured commits fraud or intentionally conceals or misrepresents material facts about the coverage part, the covered property, the named insured's interest in the property or any clam under the coverage part, the policy's protection becomes void.

d. Liberalization

If the insurance company broadens coverage on this coverage part 45 days prior to the policy inception date or during the policy term and there is no additional cost for the broadened features, this policy automatically receives the feature.

e. Mortgage holder

Under Condition I, the insurance company can immediately suspend coverage on a piece of equipment that is deemed unsafe. This suspension applies to the mortgage holder too. The mortgage holder must receive written notice of the suspension but the written notice does not delay the suspension order from taking effect.

f. No Benefit to Bailee

This insurance is meant to benefit an insured. Even if an insured has entrusted covered property with another party, the coverage will not operate in a manner that provides protection to that party.

g. Policy Period, Coverage Territory

Coverage is for the time shown on the declarations and within the United States, territories and possessions, Puerto Rico and Canada.

h. Premium and Adjustments

The insured must report 100% of the total insurable values at each premises to the company every year as of the anniversary date. Form BM 99 53, Report of Total Insurable Value, can be used for this purpose. The values must be reported separately for each of the coverages provided. Premium for each anniversary will be developed for the renewal period on the basis of rates in effect at the anniversary date and for all values at risk.

The insured must keep the applicable records for each policy year available for inspection by company representatives at all times during business hours, during the respective policy year, and for a period of twelve months after the end of the respective policy year or after cancellation of the coverage.

i. Suspension

This is a unique feature of the Equipment Breakdown Protection Coverage form. If a company representative discovers a dangerous condition, that representative can immediately suspend coverage. The notice of suspension can be delivered or mailed to the named insured's last address or the address where the equipment is located.

Example: Practically Perfect Property Insurance's senior inspector was touring Kim's Kandee Kitchen and Industrial Grease Corp. The inspector noticed that several pieces of insured equipment were operating at intensely high temperatures. The inspector went to the shift manager's office, wrote out an order to shut the machinery down within 30 minutes of receiving the notice or the coverage would be suspended. The company ignored the order. A couple of days later, the equipment cited by the inspector broke down and started a fire. Practically Perfect, having a copy of the letter from the inspector, notifies Kim's Kandee that the coverage was still suspended.

Once coverage is suspended, the coverage can be reinstated only by an endorsement for that covered equipment. This means that an oral statement that the equipment is now safe to operate is useless toward reinstating coverage.

If coverage is suspended, the insured will get a pro rata refund of premium for that covered equipment. But the suspension will be effective even if the company has not yet made or offered a refund.

Equipment Breakdown Protection Condition – Joint Or Disputed Loss Agreement

This condition is designed to keep the insured from being victimized by arguing insurance companies. Under this provision, the insured is compensated for a loss and then the insurance companies must determine their respective share of the loss payment.

It is very important to understand that this provision only applies when the insurers have an open issue about coverage or coverage amount. If there is no dispute between the insurers, this provision is inapplicable. It is also inapplicable when both insurers reject any liability.

This condition can only be used when all of the following requirements are met:

1. Both coverage forms must have a similar Joint or Disputed Loss Agreement provision

2. The damage must be caused by a loss where:

· Both insurers admit to bearing some liability under their respective policies,

· One of the insurers contends that all liability exists under the other insurer's policy or

· Both insurers deny liability for payment but contend that some or all liability exists under the other's policy.

3. The total amount of the loss is agreed to by the insured and both insurers.

If all these requirements are met, each company pays their entire undisputed amounts along with one-half of the disputed amount to the insured.

How Condition affects policy rights

It is important to note that this condition does not modify, or waive any rights that any insurer holds against another insurer or any rights an insured holds against the insurer.

How Limit of Liability Applies

There is no increase in an insurer's liability limit as the disputed amount paid by the equipment breakdown insurer is limited to the maximum amount provided by the applicable commercial property insurer's policy. Further, even when this provision applies, any total payment is still subject to the applicable Limit of Insurance shown in the Declarations.

Arbitration

If both insurers agree to submit their differences to arbitration, each will pay the insured within 90 days. Arbitration will then take place within 90 days after payments are made to the insured. The insured must cooperate with all arbitration procedures. There will be

three arbitrators: each insurer will appoint one, and those two arbitrators will select a third arbitrator. If they cannot agree, either may request that selection be made by a judge of a court having jurisdiction. A decision agreed to by two of the three arbitrators binds both parties. Judgment on any award can be entered in any court that has jurisdiction.

The insurer found responsible for the greater percentage of the ultimate loss must return the excess contribution and pay all related, Liquidated Damages to the other insurer. Liquidated Damages are interest that accrues on the disputed amount from the date the Agreement is invoked until the excess amount is reimbursed. The interest is calculated at 1.5 times the highest prime rate from the Money Rates column of the Wall Street Journal that appears during the period of the Liquidated Damages.

Note: Arbitration expenses are not part of the Liquidated Damages calculation. They are apportioned between insurers on the same basis that the ultimate loss is apportioned.

Definitions

The BM 00 20, Equipment Breakdown Protection contains a number of defined terms that take precedence over any common understanding of terms.

1. "Breakdown" – is defined in three ways. Breakdown has occurred if pressure or vacuum equipment fail, if there is a mechanical failure (including rupture or bursting caused by centrifugal force) or if there is an electrical failure (including arcing). Coverage applies unless excluded elsewhere in the form.

The Equipment Breakdown Protection Coverage form is broad, but is not intended to cover routine maintenance items. To clarify this, the definition of “breakdown” states that it does not include any of the following:

· Malfunction - the policy explains that malfunction, includes adjustment, alignment, calibration, cleaning or modification of the equipment. Other instances may also qualify as malfunction.

· Computer equipment and program defects, erasures, errors, limitations or viruses, including processing problems involving dates and times.

· Valve, connections, joints, shaft seals, fittings and gland packing leaks

· Vacuum tubes, gas tubes, or brushes damaged by any source

· Damage to structures or foundations supporting the covered equipment or any of its parts

· Damage to safety or protective devices that help protect, but are not components of, the covered equipment

· Cracks to internal combustion gas turbine parts caused by exposure to the products of combustion

Of course, even with specific wording, there are still disputes over intended coverage.

2. "Business Income” refers to a covered firm's pre-tax income and ongoing operating expenses.

3. "Business Income Actual Annual Value" refers to "Business Income" that would have been realized, except for the occurrence of an eligible loss. This figure is used to calculate any coinsurance penalty.

4."Business Income Estimated Annual Value" refers to "Business Income" that, using the insured's latest business income annual value report, is a guess of what may have been realized, except for the occurrence of an eligible loss. This figure is also used to calculate any coinsurance penalty.

5."Computer equipment," means programmable electronic equipment used to store, retrieve and process data that belongs to the named insured. The term also refers to peripherals (printers, mice, keyboards, monitors, etc.). Data and media DO NOT qualify as computer equipment.

6. "Covered equipment" means:

· Equipment that is built to operate under internal pressure or vacuum other than weight of contents. A key word is 'built' – it may not be operating this way at the time of loss but it is designed to do so.

· Mechanical or electrical equipment used to generate, transmit or utilize energy

· Communication equipment (without further clarification, but likely refers to non-computer items, such as independent phones, faxes, etc.) and "computer equipment"

The property just described as eligible equipment is assumed to be either owned or controlled by the insured. However, if such equipment is owned by a utility service and that property is only used to provide power, heat, light or communications to the insured, it is also protected by the equipment breakdown policy.

Other requirements for equipment breakdown is that the eligible equipment be located at a premises owned, leased or operated under the insured's control and that it be described in the declarations. The policy makes exceptions for the following:

· Equipment owned by a public or private utility used solely to supply utility services to the insured's premises

· Protection provided under Utility Interruption Coverage

· Contingent Business Income and Extra Expense - Extra Expense Only Coverage

"Covered equipment" does not include any of the following:

· Media

· Parts of pressure or vacuum equipment that is not under internal pressure of its contents or internal vacuum

· Insulating or refractory material

Note: The glass lining of any covered equipment IS protected

· Non-metallic pressure or vacuum equipment

Note: An exception exists for such equipment that is made and used according to the American Society of Mechanical Engineers (A.S.M.E.) or similar code

· Any form of catalyst

· Vessels, piping and other equipment when it is accessible only via excavation

· Structure, foundation, cabinet or compartment supporting or containing all or part of covered equipment, including penstock, draft tube or well casing.

· Vehicle, aircraft, self-propelled equipment or floating vessel along with any covered equipment mounted upon or used solely with any of these. If equipment is otherwise covered and is occasionally used on a vehicle, aircraft, self-propelled equipment or floating vessel, it is covered.

· Dragline, excavation, or construction equipment, including any covered equipment mounted upon or used solely with any of these. However, equipment that is used occasionally with this type of equipment and is otherwise covered equipment is covered.

· Maintenance property such as felt, wire, screen, die, extrusion plate, swing hammer, grinding disc, cutting blade, non-electrical cable, chain, belt, rope, clutch plate, brake pad.

Note: The viability and intent of the Equipment Breakdown policy would be compromised if it were called upon to insure relatively minor types of property.

· Machine or apparatus used solely for research, diagnosis, medication, surgical, therapeutic, dental or pathological purposes, including any covered equipment mounted upon or used solely with any of these.

Note: Such items can be included if an insured pays the additional premium and if they are fully described on the Declarations page.

· This coverage is for the named insured’s equipment; therefore it does cover items that the insured holds for sale.

7. "Covered Property” means property the insured owns, or property of others that is in the care, custody or control of the insured and for which the insured is legally liable.

8. "“Data” means programmed and recorded material stored on media and programming records used for electronic data processing or electronically controlled equipment.

9. "Extra expense” is the non-routine, additional cost the insured incurs to operate the business during the period of restoration.

10. "Hazardous Substance” means any substance other than ammonia (ammonia is handled elsewhere) that a government agency has declared to be hazardous to public health.

11. " Media” means electronic data processing or storage media such as films, tapes, discs, drums or cells.

12. “One Breakdown.” If an initial breakdown causes additional breakdowns, all are considered as a single event. Also, all breakdowns at one premises that arise at the same time and from the same cause are considered to be a single breakdown. This is important in the application of limits and deductibles. One breakdown means a single deductible and a single limit. Multiple breakdowns mean applying multiple limits (and respective deductibles).

13. “Period of restoration” – The period of restoration starts at the time of the breakdown or 24 hours before the insurance company receives notice of the breakdown, whichever is later. This makes the report of loss vital to the insured. If the insured delays notification, then the business income coverage does not start until 24 hours before the notice was made.

Example: Jacklow International has an equipment breakdown on 8/1/06. They contact the insurance company on 8/15/06. In this case, the period of restoration starts on 8/1/06 or 8/14/06 whichever is later – so coverage starts on 8/14/06. By waiting to report, Jacklow loses 13 days of coverage.

The period ends five days after the date when the damaged property is repaired or replaced with reasonable speed and with property of similar quality. This means that if delays occur, the coverage still ends when the damaged property could have been repaired or replaced if the insured had used reasonable speed.

14. “Stock” means merchandise that is held in storage or for sale, raw materials, property in process or finished products including the supplies to be used for packing or shipping.

PRE-2001 EDITIONS BOILER AND MACHINERY ENDORSEMENTS

A variety of endorsements designed to tailor the coverage for certain options, exclusions, limitations and changes are available under the older Boiler and Machinery program. The forms reflect the differences between it and the 2001 edition program. The following is a list and brief description of each endorsement.

BM 15 25 – Business Interruption – Valued Coverage

Modifies the form to apply a schedule of locations and daily limits of loss to described objects. A deductible in time (days/hours) or dollar limit is declared.

BM 15 26 - Business Interruption – Actual Loss Sustained Coverage

Changes business interruption coverage to actual loss sustained for loss to described locations and objects. A deductible, either time or dollar or multiple of daily value, applies.

BM 15 27– Extra Expense

Covers additional extra expense to operate the business during the period of restoration following an accident to an object. The limit of extra expense coverage is further subject to a maximum monthly payment, for up to eight months of coverage.

BM 15 28 - Consequential Damage

Provides consequential damage to scheduled property caused by an accident to an object.

Consequential damage means loss due to spoilage from lack of power, light, heat, steam, or refrigeration. The coverage is subject to a coinsurance penalty and a dollar deductible selected.

BM 15 29 - Combined Business Interruption and Extra Expense

Provides additional coverage above amounts in the basic form. The total limit of liability described in the declarations is subject to a monthly limit and a time or dollar deductible. Coverage is for scheduled locations and covered objects.

BM 15 30 - Business Interruption – Ordinary Payroll Expense

Modifies insurance under the Business Interruption -- Actual Loss Sustained endorsement to include ordinary payroll expense.

BM 15 31 - Business Interruption – Report of Values

Provides a work sheet to report values of net sales and earnings for a declared number of working days in period reported.

BM 15 32 - Conditional Suspension of Coinsurance

Is used when the coinsurance clause of actual loss sustained business interruption form is deleted and report of values endorsement is attached.

BM 15 33 - Combined Business Interruption and Extra Expense Actual Loss

Modifies coverage to provide for combined business interruption and extra expense on actual loss sustained rather than a monthly limit basis.

BM 15 34 -Extra Expense Values Work Sheet

Provides a work sheet of estimated extra expenses needed.

BM 15 35 - Utility Interruption

Applies boiler and machinery policy to scheduled objects owned, operated or controlled by a public or private utility that insured has contracted with to provide a specified utility service. Endorsement is subject to a specified limit per interruption and waiting period in hours or dollar deductible.

BM 15 36 - Business Interruption – Gross Earnings Coverage

Provides gross earnings business interruption coverage subject to a time limit, dollar or multiple value deductible.

BM 15 37 - Objects Owned by a Utility

Is used to limit insurance coverage on any object owned by a public utility.

BM 15 38 - Extended Business Interruption

Provides specified number of days of interruption coverage extension beyond the date operations are resumed until business is restored completely.

BM 99 25 - Boilers, Fired Vessels and Electric Steam Generators – Limited Coverage

Limits coverage to sudden and accidental tearing asunder of an object.

BM 99 26 - Chemical Recovery Boiler Exclusion

Excludes loss or damage from an explosion within the furnace of a chemical recovery type boiler.

BM 99 28 - Actual Cash Value

Modifies basic policy to provide actual cash value coverage to property damage as a result of an accident to scheduled objects.

BM 99 29 - Premium Adjustment Rating Plan

Provides a premium adjustment plan to boiler and machinery insurance over a three year period. Subject to a minimum and maximum premium as a percentage of the standard premium.

BM 99 32 - Furnace Explosion

Provides coverage for sudden and accidental explosion of gas or unconsumed fuel within the furnace of the boiler or fired vessel.

BM 99 33 - Mortgage Holders

Adds scheduled mortgage holders interests to coverage under the policy.

BM 99 36 - In Use or Connected Ready for Use

Amends object definition to cover objects being dismantled, reassembled, transported or in storage.

BM 99 37 - Turbine Units – Combined Coverage

Provides coverage for accidents to any gas turbines and driving turbines; driven compressors, auxiliary turbines, electric generators or electric conductors of the object.

BM 99 38 - Coverage Limitations Changes

Provides changes in limits of insurance for expediting expenses, hazardous substance, ammonia contamination and water damage extensions. Addition Exclusion (BM 99 39) adds exclusions of windstorm or hail, smoke, aircraft or vehicles, riot and civil commotion, and vandalism to coverage forms.

BM 99 40 - Explosion Coverage Extension

Provides for additional named coverages under explosion for contain types of objects previous excluded.

BM 99 41 - Machinery and Equipment Value Worksheet

Provides a worksheet to determine machinery and equipment values at described location.

BM 99 42 - Loss Adjustment Endorsement

Is added to the boiler and machinery policy to facilitate payments of insurance proceeds for losses covered on commercial property coverage and boiler and machinery on the same policy.

ISO EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORMS COMPARISON: EB 00 20: 09 07 EDITION TO THE 09 11 EDITION

INTRODUCTION

The changes from the 09 07 edition to the 09 11 include a change made in the 08 08 edition. A number of editorial changes have also been made such as changing twenty four to 24, but they have no impact on the coverage and are not discussed in this comparison.

COMPARISON: 09 07 EDITION TO EB 09 11 EDITION

1. Water Damage Exclusion

The 08 08 edition of the EB 00 20 revised the Water Exclusion. This change is significant but it is the same water damage exclusion being used in all ISO commercial property lines of insurance.

a. Compared to the exclusion being replaced; the first part of this exclusion has four terms that are unchanged, three terms that are modified and one new term. The terms that are unchanged are "flood," "surface water," "tides" and "overflow of any body of water." The new term is ‘’tidal water." The modified terms are:

- "waves" is broadened to be "waves, including tidal wave and tsunami." "Tidal wave" was included in the version being replaced but as a stand-alone term, not as part of the term "waves."
- "or their spray" is broadened to "or spray from any of these."
- "all whether driven by wind or not" is broadened to "all whether or not driven by wind, including storm surge."

Note: "Tsunami" and "storm surge" are new terms. Since neither is defined, judicial interpretation will be based on common usage and definitions in the dictionary.

b. The second part of this exclusion is unchanged. Mudslide or mudflow remain ineligible sources of loss.

c. The third part of the exclusion is broadened in two ways.

Old Version	New Version
Water had to back up or overflow.	Water can be discharged in other ways and those other ways are not described.
Water came from a sewer, drain or sump.	Water may also come from a sump pump or related equipment. No description of related equipment is provided.

d. The fourth part is unchanged and sprinkler system or domestic water piping discharge that causes water damage is not covered.

e. The fifth section is new and excludes water damage from underground water seeping into doors, windows, floors, surfaces, foundations and basements.

f. The sixth section is also new. This section introduces the term "waterborne material." Damage caused by this material carried by waters described in sections a., c, and e. above, or by any material moved or carried by mudslides or mudflow described in section b. above, is not covered.

There is no coverage if water damage is due to an act of nature or is caused in any other manner. An example is given that if a seawall is breached and allows water in, this exclusion continues to apply.

2. Increased Cost of Loss and Related Expenses for Green Updates (09 11 update)

The 09 11 edition introduces this item. Section C. Limits of Insurance is revised by the addition of item 7. Increased Cost of Loss and Related Expenses for Green Updates. It covers the additional expense of replacing damaged items with green or sustainable items. If Business Interruption coverage is provided, up to 30 days are added to the period of restoration for green related issues.

The amount of green related property damage coverage is 25% of the total, non-green property damage loss. The maximum green coverage available is $100.000. These payment limitations apply when no specific amount appears on the declarations for this coverage.

Note: This may not be how the coverage is intended to apply but the opening line says that “unless a different limit or INCLUDED are shown in the declaration” and then describes the percentage limitation and the dollar limitation. This would mean that when

the word INCLUDED is shown, there is no percentage or other cap on this coverage other than the One Breakdown limit on the policy.

3. E. Conditions, 1. Loss Condition, I. Valuation

I. Valuation

Paragraph (2) in the 09 11 edition was changed by the removal of the terms “efficiency” and “environmental impact” as reasons for improving equipment. Those items are now considered in C. Limits of Insurance, Item 7. Increased Cost of Loss and Related Expenses for Green Updates. This item now applies only to improvements that enhance safety.

4. F. Definitions

The following two definitions were added in the 09 11 edition:

- 11. Green is enhanced energy efficiency. Further, the term refers to the use of sustainable materials or products. It is also applies to instances of using sustainable methods in construction, design, manufacturer or operations. In this form, these environment-friendly situations must be recognized as such by a green standards-setter. (09 11 addition)
- 12. A green standards-setter can be a governmental agency or another recognized organization that establishes, maintains and communicates standards for what is considered green in both products and practices. The following are currently considered green standards-setters:
  - The U. S. Building Council Leadership in Energy and Environmental Design Program called LEED
  - A joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy called ENERGY STAR
  - A program of the Green Building initiative called Green Globes

Note: Other, similar organizations may also qualify as standards-setters

ISO EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORMS COMPARISON: BM 00 20 07 01 EDITION TO EB 00 20 09 07 EDITION

INTRODUCTION

ISO Equipment Breakdown Protection Coverage Form EB 00 20 07 01, as its name suggests, represented a major change in providing Boiler and Machinery Coverage by insuring all equipment, not just boilers and related machinery. It also removed the limited liability coverage provided in previous forms and became a strictly property coverage form. It replaced the following previous coverage forms:

- Boiler and Machinery Coverage Form BM 00 25
- Small Business Boiler and Machinery Coverage Form BM 00 40
- Small Business Boiler and Machinery Broad Coverage Form BM 00 45

The Boiler and Machinery Coverage Form required use of numerous endorsements to customize coverage to meet the needs of a given account. Many of the provisions of these endorsements were incorporated into EB 00 20 and separate endorsements were no longer needed.

The coverage provided, while extending to additional classes of property, is still the same. The language was updated to reflect the changes. For example:

- Boiler and Machinery became Equipment Breakdown;
- Object became Covered Equipment;
- Accident became Breakdown;
- Business Interruption became Business Income; and
- Subsidence became Land and Mine subsidence

Some wording was changed to be consistent with other commercial property coverage forms. Some wording was added to the form due to including language that previously appeared in separate, optional endorsements. The additional provisions included Annual Report, Adjustment of Premium, Coinsurance, and Mortgage holder conditions.

COMPARISON: BM 00 20 07 01 EDITION TO EB 00 20 09 07 EDITION

ISO Equipment Breakdown Protection Coverage Form EB 00 20 09 07 completes the transition by changing the BM prefix that was still a reference to Boiler and Machinery to EB, representing Equipment Breakdown. This change also applies to some editorial changes made to the various endorsements available for use with this coverage form. In addition, the text of some forms are incorporated into EB 00 20. This edition is largely unchanged from the previous edition except for adding specific language and provisions with respect to Fungus, Wet Rot and Dry Rot. The changes in the 09 07 edition, compared to the 07 01 edition, are summarized below.

A. Coverage, 2. Coverages Provided, g. Ordinance Or Law Coverage, under (2) We will not pay for any; subparagraphs (f) and (g) are added:

(f) The insurance company does not pay any loss or expense due to enforcement of any ordinance or law relating to the existence or any activity of fungus, wet rot and dry rot.

(g) The insurance company does not pay any costs associated with enforcement of any ordinance or law requiring any response to or assessment of the effects of fungus, wet rot or dry rot.

B. Exclusions. 8. Fungus, Wet Rot And Dry Rot is added:

Unless provided for elsewhere, the insurance company does not pay for loss or damage caused directly or indirectly by the existence or any activity of fungus, wet rot and dry rot. However, the exclusion has an exception. If the fungus, wet rot or dry rot causes a breakdown, the insurance company pays the loss or damage resulting from the breakdown.

B. Exclusions, 9. Virus, Bacterium Or Other Microorganism is added:

Unless provided for elsewhere, the insurance company does not pay for loss or damage caused directly or indirectly by the existence or any activity of any virus, bacterium or

other microorganism that causes physical illness or disease. However, the exclusion has an exception. If the virus, bacterium or other microorganism causes a breakdown, the insurance company pays the loss or damage resulting from the breakdown.

B. Exclusions, 18:

Exclusion 16 is changed to Exclusion 18. It clarifies that it applies to indirect loss that follows a covered breakdown loss.

C. Limits Of Insurance, under 5. e. Water Damage, the following is added:

Loss or damage from fungus, wet rot or dry rot resulting from water damage is limited as described in Limited Coverage For Fungus, Wet Rot And Dry Rot and is part of, not in addition to, the Water Damage limit.

C. Limits Of Insurance, 6. Limited Coverage For Fungus, Wet Rot And Dry Rot is added:

a. Property damage

The insurance company pays for loss or damage caused by fungus, wet rot and dry rot that is a direct result of a breakdown to covered equipment that occurs during the policy period. The limit is $15,000 for all occurrences that take place during any 12-month period and does not increase the limit of insurance for covered property. A higher limit for this coverage can be indicated on the declarations.

b. Business Income And Extra Expense Or Extra Expense Only

This coverage also applies to Business Income And Extra Expense or Extra Expense only if these coverages are provided. The loss of business income or extra expense must be due solely to loss or damage to covered property caused by fungus, wet rot or dry rot. It is limited to the loss or expense sustained in a period not exceeding 30 days, unless a different number of days is indicated on the declarations.

F. Definitions

A definition for fungus is added.

COMPARE: BOILER AND MACHINERY VS. EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORMS

The BM 00 20 07 01 represents a major change in providing Boiler Machinery Coverage. The name says it all – instead of just Boiler and Machinery, it is now Equipment Breakdown Coverage. In addition, it makes the final break from liability coverage. There is NO liability coverage provided in this form. This moves it from the original design of a mixture of liability and property coverages to strictly a property coverage form.

This section reviews the major changes in the latest form and compares it to the prior edition.

Structural Changes

The new ISO Equipment Breakdown Protection Coverage Form BM 00 20 replaces the following:

- Boiler and Machinery Coverage Form BM 00 25

- Small Business Boiler and Machinery Coverage Form BM 00 40
- Small Business Boiler and Machinery Broad Coverage Form BM 00 45

The old program required numerous endorsements in order to handle a given account. Many provisions of the older endorsements were incorporated into the new Equipment Breakdown Protection Coverage form BM 00 20, so they are no longer needed.

The coverage intent of the newer form appears to be the same. However, the language has been updated, resulting in different terms.

Some wording was changed so the form would be consistent with other commercial property forms. Some wording was added due to the form language now including parts that previously appeared in separate, optional endorsements. The additional provisions include the Annual Report, Adjustment of Premium, Coinsurance, and Mortgage holder conditions.

Expansions

The following items result in broader coverage in the newer program:

1. Errors and Omissions, Brand and Labels, and Contingent Business Income and Extra Expense

These coverages are now available as options.

2. Spoilage Damage coverage

The previous boiler and machinery program referred to this as consequential damage. Coverage has been expanded to include damage due to excessive power, light, heat, steam or refrigeration.

3. Newly Acquired Premises Coverage

Under the newest program the coverage granted to new acquisitions will be according to the broadest basis available to any premises on the policy.

4. Ordinance or Law exclusion

An exception has been added. It will allow coverage for hospitals for their use and operation of electrical supply and emergency generating equipment.

5. Sewer, service water, and sprinkler pipes

Coverage for this property has been added.

6. Property Damage Limit on Utility-owned Equipment

A $1.00 property damage limit was added to the Limits of Insurance section. It applies to covered equipment that while used solely to supply services to the insured’s premises, is owned by a public or private utility. This nominal insurance limit permits indirect damage coverage to be triggered if there is a loss to that equipment. Since the intent was to provide an insured with contingent loss protection, it may have been more prudent to create more appropriate policy language.

7. Valuation condition

This provision was amended to include:

· An additional 25% of the property damage limit for repairing or replacing covered equipment in a manner that improves the environment, increases efficiency, or enhances safety while maintaining its existing function.

· Reimbursement for the unused costs of non-refundable, non-transferable extended warranties, or maintenance or service contracts resulting from a breakdown.

· Selling price valuation for property held for sale (which recognizes sales value, a fairer basis for handling loss of such property).

8. Coverage Territory

This condition has been expanded to include Canada and the territories and possessions of the United States of America.

9. “Breakdown”

The definition has been changed so it no longer requires a breakdown to be sudden and accidental.

Example: Errant Enclosement Corp. is insured under an Equipment Breakdown policy. They turn in a loss involving their largest plastic seal oven. It caught fire and was totally destroyed and the flames were confined to the oven. The loss investigation shows that some wiring became crossed, causing a heat buildup that probably went unnoticed for days. Though the starting point of the fire was far from "sudden," it still qualified as a covered incident.

10. “Covered equipment”

Under the latest edition, this term:

· No longer requires that the equipment be in use or be connected and ready for use.

· Includes computer equipment, data and media (which were previously excluded) for property damage and time element coverages.

· May have its meaning expanded to include research and diagnostic equipment. This is accomplished by selecting “included” next to this property on the declarations.

Note: See the “Reductions” comment regarding this term.

Reductions

1. Expediting Expenses

While coverage for such expenses was automatically included in the old forms, it's available only as an optional coverage in the new form.

2. Supplementary Payments

This coverage has been removed since Equipment Breakdown Protection Coverage is basically a first party coverage form.

3. Exclusions, overall

The Equipment Breakdown policy includes a statement. It specifies that the form's exclusions apply even when a loss is caused by a catastrophic event.

4. Water Exclusion

This limitation was revised in two ways. First, since coverage for sewer piping, service water piping, and sprinkler piping was added, it was amended to specify the types of piping loss that remain ineligible. Second, mudflow has been added to the water exclusion for consistency with property forms.

5. Fire and Combustion Explosion Exclusion

This was modified so that it applied uniformly to all property. In the older forms, three separate exclusions were used, each barring coverage for a different set of property.

6. Furnace Explosion Exclusion

Under the earlier program, this was a separate form. It was attached to risks with chemical recovery type boilers. Under the 2001 Equipment Breakdown program, the limitation is included in the basic form so that it applies to all accounts.

7. Riot, Civil Commotion or Vandalism Exclusion

This has been added to eliminate duplicate coverage. Such losses are generally covered by property forms.

8. Neglect Exclusion

This provision complements the Duties in the Event of Loss or Damage condition. It now, also, excludes damage resulting from an insured's post-loss neglect to save or preserve covered property.

9. Defense Condition

While there may be some limited third party coverage for property of others in the insured's care, custody or control, the revised condition recognizes that Equipment Breakdown Protection Coverage is a first party coverage form.

10. "Covered equipment"

The definition of "covered equipment" was amended to provide a detailed description of ineligible property. This may result in a reduction of coverage for some insureds.

ISO EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORM AVAILABLE ENDORSEMENTS AND THEIR USES (09 07 EDITION)

INTRODUCTION

The following listing identifies endorsements available to modify the Insurance Services Office (ISO) Equipment Breakdown Protection Coverage Form. The list is arranged by form number and title and includes a brief explanation of the use of each form. This section does not include any state specific endorsements, changes or amendments. New endorsements are shown in bold print.

FORM NUMBERING

The ten-digit numbering sequence of ISO forms and endorsements has a very specific meaning.

- The first two entries are alphabetical characters that indicate the line of insurance involved. For example, EB denotes Equipment Breakdown.
- The next two digits designate the specific insurance category. The numerals "15" apply to Equipment Breakdown Protection Coverage forms and endorsements.
- The next two digits are the form or endorsement number within the insurance category.
- The last four digits are the edition date of the form or endorsement expressed in month and year format. These digits are not used in this .

Note: Endorsements previously identified as "BM" are now identified as "EB."

ENDORSEMENTS

EB 15 39–Refrigeration Interruption Coverage

This endorsement provides coverage on the insured's refrigerated property that spoils because of lack of or excess refrigeration due to a breakdown to covered equipment (occurring at either owned or non-owned locations). It includes coverage of expenses that reduce the loss. The coverage provided is subject to receipt of an annual report of values and a coinsurance condition that is triggered if the annual report of values is late or is not submitted. The form has its own limit and deductible or waiting period.

EB 99 51–Amendment of Declarations (09 11 change)

This endorsement is used to change the original entries on the declarations to reflect changes in limits, coverages, deductibles and conditions. This has been updated to match the current declarations.

EB 99 52–Turbine Units Explosion Coverage

This endorsement restricts coverage to turbine units of the kind and at the premises described on the endorsement schedule. It redefines and narrows the definitions of Breakdown and Covered Equipment specifically to turbine units.

Note: Use of this endorsement results in a lower premium because the breakdown coverage is not as broad and applies only to turbines.

EB 99 55–Pressure Or Vacuum Equipment

This very restrictive endorsement replaces the definition of covered equipment to include only equipment intended to operate under internal pressure or vacuum. This equipment must be subject to mandatory inspection by state or municipal entities which authorized insurance company inspection personnel can conduct.

Note: Use of this endorsement results in a lower premium because the breakdown coverage provided is so limited.

EB 99 56–Limited Coverage for Specified Equipment

This endorsement allows separate, restricted coverage for certain equipment while maintaining broader coverage for other equipment and premises. A limit of loss for the equipment along with a complete description of the equipment and premises must be scheduled on the endorsement.

Note: This endorsement changes coverage from a blanket to a scheduled basis for the premises listed.

EB 99 57–Production Machinery Exclusion

This endorsement restricts coverage. It amends the definition of covered equipment to exclude production or process machinery and related equipment.

EB 99 58–Spare Equipment and Parts

This endorsement allows the insured to separately cover spare parts and equipment that are not functioning or that are not available for use. Such property is subject to the details scheduled on the endorsement. This permits the named insured to fully cover equipment and parts that are important to its operation while still allowing for limited coverage for spare items.

Note: Read the endorsement very carefully and make sure all scheduling matches the wording in the endorsement.

EB 99 59–Actual Cash Value

This endorsement changes the Property Damage Valuation from replacement cost to actual cash value, but only for the equipment shown on the schedule. This is a significant reduction of coverage so any scheduling should describe the particular equipment in detail in order to prevent confusion.

EB 99 60–Suspension/Reinstatement of Coverage

The insurance company can immediately suspend coverage on any equipment it considers unsafe. This endorsement identifies the suspended equipment and the date the suspension commenced. It can also be used to reinstate suspended coverage.

Note: Suspension is immediate but equipment is not reinstated until the coverage form is endorsed.

EB 99 61–Valuation of Specified Property

This endorsement is used to change the valuation for the covered property listed on the endorsement schedule. The new valuation is its fair market value, reduced by any salvage obtained and labor, materials or expenses not incurred in its sale.

EB 99 62–Covered Equipment Deductible Waiver (09 11 addition)

If covered equipment sustains a second loss within two years of the first loss, the deductible for the second loss is waived. The waiver is for the equipment only. The waiver does not apply to any related property damage caused by the breakdown. Also, if the deductible for the first loss is less than the deductible for the second loss, only the amount of the first deductible is waived.

EB 99 63–Off-Premises Equipment Coverage (09 11 addition)

Coverage is extended off premises but only while the equipment is at a fixed location, is ready for use and is under the control of the named insured. There is no in-transit coverage.

EB 99 64–Optional Valuation Coverage (09 11 addition)

This endorsement replaces paragraph (1) of the Valuation condition and then only for items less than five years old. It allows the named insured to replace equipment that is considered a total loss with equivalent-in-purpose equipment rather than same kind of equipment. If the equipment is not replaced, only actual cash value is paid. This permits the named insured to carry a lower amount of coverage on equipment that will not be replaced with identical equipment.

FB 99 65–Product Withdrawal Coverage (09 11 addition)

The expense to replay or repair defective covered product is covered if the defect happened in the course of production and because of equipment breakdown. Additional withdrawal related expenses can be covered if selected in the schedule. A separate limit deductible applies to this endorsement.

EB 99 66–Solidification Coverage (09 11 addition)

The damage that occurs because items solidify following a covered breakdown is covered by this endorsement. This does not cover the loss of value to the solid item but just the damage caused when it occurs. Examples are molten metal that cools and adheres to processing equipment or concrete that hardens and adheres to a mixer when agitation ceases.

EB 99 67–System Installation Coverage (09 11 addition)

The installation of some equipment can take many months. This coverage applies for damage to equipment while it is being installed and during testing. It also covers loss of income because of such damage. Coverage options are available. Once the installation is complete, the value for this equipment should be added to the per breakdown coverage for the policy.

ISO EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORM AVAILABLE ENDORSEMENTS AND THEIR USES (07 01 edition)

The Equipment Breakdown program offers a variety of endorsements designed to tailor coverage for certain options, exclusions, limitations and changes. The following provides a brief description of each endorsement.

Note: This section does not address state-specific endorsements, changes or amendments.

Optional Equipment Breakdown Endorsements

BM 15 31 – Business Income – Report of Values

Business Income coverage is available in the Equipment Breakdown Protection Coverage Form BM 00 20. That form's Valuation Condition requires the insured to provide information on equipment values each year. Failure to comply with this condition can result in a coinsurance penalty being applied to a covered loss. BM 15 31 may be used for this purpose. The form requests the information on actual values for the preceding 12-month period, and a value estimate for the coming 12-month period.

BM 15 39 – Refrigeration Interruption Coverage

This endorsement covers the insured's refrigerated property that spoils because of a disruption to the refrigeration or contamination by a refrigerant. The refrigeration disruption must be due to a breakdown of covered equipment. The covered property must be owned by or in the control of the insured. Property also qualifies for protection if it is under the control of a utility. Reimbursement of expenses to reduce the loss is included in the coverage. An annual report of values is required for this coverage with a coinsurance penalty imposed if the reports are not timely. Use of the endorsement includes a coverage schedule and a waiting period (deductible).

BM 15 40 – Refrigeration Interruption – Report of Values

An insurer can supply this form for clients to use to report values as required by the Refrigeration Interruption Coverage form (see above). The form requires a monthly breakdown of total insurable values. Insurable values must be calculated using the property's current selling price. Such reports must include complete information for eligible property at each covered premises. The form should be signed by one of the insured’s company officials.

BM 99 51 - Amendment of Declarations

This endorsement can be used to alter the original Declarations to reflect the provisions/coverage options that apply to a given insured. The form may be used to modify coverage amounts, exclusions, deductibles and other provisions.

BM 99 52 – Turbine Units Explosion Coverage

This limiting endorsement allows the insured to restrict coverage at the designated premises to turbine units only. For the indicated premises, the definitions in the Equipment Breakdown Protection Coverage form are replaced with turbine specific terms.

Note: A considerable premium reduction applies to this endorsement since the modified policy only responds to losses involving turbines.

BM 99 53 – Report of Total Insurable Value

This form helps to meet the Equipment Breakdown Protection Coverage value reporting requirement. The report identifies the insurer, the insured, covered premises, the type of occupancy, and the class code. It must indicate the total insurable values for property at the covered premises (excluding stock) valued at its replacement cost. The form should be signed by one of the insured's company officials. An insured will be held accountable for the values it lists in this form since the insurer bases its coverage and premiums on this information.

BM 99 54 - Limited Coverage For Fungus, Wet Rot, Dry Rot and Bacteria

This endorsement is structured to strip out and then add back a limited amount of coverage for Fungus, Wet Rot, Dry Rot and Bacteria. The modified coverage is limited to $15,000 aggregate over the annual policy term for Property Damage and 30 days aggregate for Business Income and Extra Expense. This is NOT extra coverage. It is a restriction of coverage that must be carefully reviewed with the insured prior to adding.

Note: The $15,000 limit can be modified for an additional charge. The modification may apply to all locations or a specified location.

BM 99 55 – Pressure or Vacuum Equipment

This endorsement does not require specific premises or equipment to be shown in a schedule, so it can apply to all covered premises and equipment. The BM 99 55 changes the covered equipment definition. The modified term includes any equipment operating under internal pressure or a vacuum. But such equipment must be subject to mandatory state or municipal inspection. Further, such inspection requirements can be conducted by an authorized insurance company inspector. The form does not impose any obligation on the insurer to conduct such inspections.

BM 99 56 - Limited Coverage for Specified Equipment

This endorsement restricts coverage by creating a sublimit for specified equipment and premises. The limit is NOT extra coverage, it is an amount that is carved out of the total policy limit and reserved for the listed property. This endorsement changes the policy from a blanket policy to a scheduled policy for any premises listed.

BM 99 57 – Production Machinery Exclusion

This endorsement is a restriction of coverage. All production or process machinery is ineligible property. There is a significant premium reduction for using the form. The insured should review the definition of production equipment before agreeing to the change in coverage.

BM 99 58 - Spare Equipment and Parts

This restriction of coverage allows the insured to decide what spare parts to include in the limit of insurance and then to reduce the limit accordingly. Since the spare parts may

already be covered under the commercial property coverage form, duplicate protection is unnecessary.

Example: Prudent Processors, Inc. is insured under a Commercial Package and an Equipment Breakdown Protection Policy. The latter policy has a $425,000 policy limit that was carefully determined after submitting detailed information on the value of their equipment. One of Prudent's managers discovers that its package policy covers possible loss to many of its parts. After determining the amount of duplicate coverage, Prudent sends a request to its insurer to reduce their Equipment Breakdown Protection policy limit to $340,000.

The form's schedule provides options for the insured to select different coverage limits to apply at different premises. An insured may also choose whether different coverages, such as Business Income, apply according to location.

BM 99 59 – Actual Cash Value

When this form is attached, the Equipment Breakdown Protection Coverage form's Valuation condition is replaced. Under the BM 99 59, the company will pay the amount the insured spends to repair or replace the policy with property of the same kind, capacity, size or quality, or the actual cash value of the damaged property, whichever is less. The insured may repair or replace the damaged property at the same site or on another site, whichever is less costly. The company will not pay for damaged property that is obsolete and useless to the insured. There is a schedule, so the insured can choose which premises property to settle according to Replacement Cost and which to adjust at Actual Cash Value.

BM 99 60 - Suspension/Reinstatement of Coverage

The insurance company can immediately suspend coverage on any piece of equipment that is considered unsafe. This endorsement states which items are under suspension and the date of suspension. The same endorsement can be used to reinstate suspended coverage. It is important to note that suspension is immediate but reinstatement only takes place when the endorsement of reinstatement is received.

BM 99 61 - Valuation of Specified Property

The insured can choose to value specified property on a fair market value rather than the replacement cost basis used under the BM 00 20. Fair market is defined as the price that the property could be sold for as of the date of the loss. The value must be based on the item being used for the same purpose used by the insured.

EB 00 20–EQUIPMENT BREAKDOWN PROTECTION COVERAGE FORM

The coverage form opens by stating that certain provisions in it restrict coverage. It encourages careful reading of the entire policy to understand the rights and duties of the

named insured and the insurance company, as well as to determine what is covered and what is not. It also points out that the insurance company uses the terms you and your to refer to the named insured, and the terms we, us and our refer to the insurance company that provides coverage. Additional terms are also defined, but their definitions are found in F. Definitions later in this.

A. COVERAGE

1. Covered Cause of Loss

The only covered cause of loss is a breakdown of covered equipment.

Note: Breakdown and covered equipment are both defined terms and are explained in detail in F. Definitions.

2. Coverages Provided

Insurance applies to only coverages that have a limit or the word INCLUDED entered in the spaces provided on the declarations. There is no coverage if there is no entry in that space.

The limit of insurance entered for each coverage is the primary limit. If INCLUDED is entered next to the coverage on the declarations, that coverage is included in the total limit per breakdown.

Each coverage provided applies to only the part of any loss that results directly from the covered cause of loss. There are ten coverages.

a. Property Damage

This coverage pays for direct damage to covered property located at a premises listed and described on the declarations.

b. Expediting Expenses

This coverage pays for surcharges, express charges, and other similar costs incurred in order to allow the named insured to remain in operation or to return to operation more quickly. The expenses may be used to make temporary or permanent repairs happen faster. They may also be used to obtain replacement items faster than normal.

Example: A production boiler at Perfection Products breaks down. The damage is too extensive to repair, and a new boiler must be ordered. Delivery and installation are estimated to take three months. Ready Helper, Inc. has an identical boiler and is willing to immediately sell and ship it to Perfection at its cost plus 10%.

Expediting Expenses pays the 10% additional cost so that the boiler can be installed and operations resumed immediately instead of in three months.

c. Business Income and Extra Expense or Extra Expense Only

Extra expense only coverage is available, a combination of business income and extra expense coverage is available, or an extra expense only coverage is available. There is no option to purchase only business income coverage.

(1) With combined business income and extra expense coverage, the insurance company pays the sum of the following:

· The named insured's actual loss of business income during the period of restoration

· The extra expenses the named insured must incur in order to continue operating the business during the period of restoration

When only extra expense coverage is selected, no business income payment is made.

The payment amount is determined through an of the pre-loss operations in order to estimate the operations had there been no loss.

(2) This coverage is subject to the following:

- The period of restoration ends five days after the covered equipment is back in service. However, a different number of days to extend this time period can be entered on the declarations.

Business Interruption Loss Justified

Hartford Steam Boiler Inspection and Insurance Company was one of 32 companies operating as Industrial Risk Insurers (IRI). It had issued, in 1987, a policy to Rubbermaid Inc. which included coverage for business interruption because of mechanical breakdown.

On July 12, 1988, the hydraulic cylinder of a 2800-ton press in the insured's Wooster, Ohio, plant failed. That press was used to manufacture a 32-gallon refuse container, which had been made for only about a year. The insured shipped the mold for the container to another manufacturer, which produced 28,704 units from August 15 to September 30. The mold was then returned to the Wooster plant for reconditioning and then shipped to the insured's commercial production division in Iowa. That plant produced 131,418 units from October 16, 1988, to February 1, 1989.

On February 12, 1989, while the mold was being installed on the Iowa press, it broke. No units were made until the third week in May. In March, the insured put the product on "special order" status since it believed it could not fulfill orders being placed. It was not until June 1989 (after a replacement mold had been received) that production began again.

Rubbermaid submitted a claim for business interruption for the July breakdown of about $2.4 million and approximately $1.2 million for the February breakdown. The claim was based on the insured's belief that it could have sold every unit that would have been made during that period.

The companies, represented by Hartford (HSB), argued that the July breakdown ended on October 16 when Centerville made the containers. It was further argued that the insured did not experience any business interruption loss as a result of the February breakdown since its inventory did not fall below the sales of the item. The case was

tried before a jury, which returned a verdict in favor of Rubbermaid for nearly $3.2 million. That amount was reduced to approximately $2.5 million since IRI had made some payments to the insured. IRI appealed.

The higher court decided that the policy issued to the insured did not require the depletion of inventory. In addition, the court found the evidence as to whether the insured had suffered a business interruption loss was properly submitted to the jury, and its verdict was supported by the evidence.

The judgment entered in the trial court in favor of the insured was affirmed.

- If ordinance or law coverage is provided, the period of restoration is extended to include the additional time needed to demolish, remove, repair, remodel, or rebuild in accordance with the ordinance or law.

- Media may be damaged, or data may be lost or corrupted. In that case, coverage applies to the actual loss of business income and/or extra expense for the period of time needed to research, replace, or restore the media or data, as well as to reprogram the computer equipment.

There is no coverage for loss of business income or extra expense due to media or data that will not be or cannot be replaced or restored, based on the insurance company's determination.

Media coverage is limited to the actual loss of business income and/or extra expense sustained during the period of restoration plus no more than 30 days following restoration of operations. It is further limited to no more than $25,000. The $25,000 limit can be increased by entries on the declarations.

Example: The computer at Perfection Products is damaged, and half of its data is destroyed. Perfection estimates it will take two months to totally restore the lost records. As the work progresses, Perfection realizes that many of the files cannot be restored. This reduces the downtime the insurance company will pay to one month but increases the actual downtime incurred to three months.

d. Spoilage Damage

(1) Coverage applies for spoilage damage to finished products, property being processed, and raw materials. Coverage is dependent on all of the following:

- The covered property described in (1) above must be either in the process of being manufactured or in storage.
- The named insured must either own the property or have a written contract that makes it legally liable for the property described in (1) above that it does not own.
- Either excess or lack of power, light, heat, steam, or refrigeration must cause the spoilage.

Example: Perfection Products' bad luck continues. This time a boiler breakdown caused a refrigerated line to go down for almost two hours. As a result, the raw milk product being processed spoiled and must be discarded. This coverage applies to the value of the spoiled milk.

(2) The named insured may incur necessary expenses in order to reduce the amount of loss due to spoilage. In that case, coverage applies to those expenses but only to the extent that they reduce the loss otherwise payable.

Example: Instead of Perfection Products' refrigerated lines being down for two hours, the maintenance crew contacts a nearby neighbor to borrow their generator. The line is down for less than 15 minutes, and the product is considered uncompromised. The cost of the borrowed generator is covered because it reduces the loss.

e. Utility Interruption

This coverage is available only if one or more of the following coverages is in force:

- Business Income and Extra Expense
- Extra Expense
- Spoilage Damage

The above coverage(s) that applies is extended to include resulting loss or damage when utility services are interrupted. However, coverage does not apply unless all of the following conditions are met:

(1) The interruption must be a direct result of a breakdown of the utility's covered equipment used to supply the named insured's with services.

(2) The covered equipment that breaks down must supply electric power, communication services, air conditioning, heating, gas, sewer, water, or steam to the named insured's premises.

(3) The utility service interruption to the named insured's premises must last longer than the number of days waiting period on the declarations. Coverage begins once that waiting period ends. However, payment is still subject to other deductibles in the coverage form.

Example: No coverage would have applied if Perfection Product's interruption problems were due to an offsite utility failure. This utility interruption coverage, if purchased, would respond, though.

f. Newly Acquired Premises

Coverage automatically applies to new premises the named insured purchases or leases during the policy period. Coverage applies for no more than the number of days shown on the declarations for Newly Acquired Premises. The time period begins as soon as the named insured purchases or leases the property. There are important conditions that must be met for this coverage to apply:

(1) The named insured must give the insurance company written notification of the new location once it knows about it and is able to do so.

(2) The named insured must pay the additional premium the insurance company calculates for the new location.

(3) The same coverage, terms, conditions, exclusions, and limitations that apply to other locations apply to the new location.

(4) The existing locations may have different coverages and deductibles. In such cases, the broadest coverage, the highest deductible, and the highest limits for existing locations apply to the new location.

Example: Perfection Products has four locations. The limits are $200,000, $300,000, $400,000, and $500,000, respectively. Each location is subject to a 5% deductible. Perfection purchases a new location, and a loss occurs before it can notify the insurance company. The limit for that location is $500,000, subject to a 5% deductible.

g. Ordinance or Law Coverage (01 13 changes)

The Ordinance or Law exclusion deletes coverage for any increase in loss that is the result of complying with ordinances or laws that regulate repairing, replacing, or rebuilding a structure or building or being subject to their enforcement. This coverage pays such costs, subject to certain conditions. Coverage applies only if such laws or ordinances were in effect at the time of the breakdown.

(1) The insurance company pays for the following with respect to damage to a structure or building as a result of a breakdown:

- Loss of the undamaged portion of the structure or building's value due to complying with ordinances or laws or the enforcement of such that requires demolishing the structure or building's undamaged parts (01 13 words added)
- The named insured's actual cost to demolish the structure or building's undamaged parts as a consequence of or complying with ordinances or laws or the

enforcement of such that require demolishing the property. This also includes the actual costs to clear the site. (01 13 words added)

- The increased cost the named insured actually incurs to:
  - Rebuild or repair the parts of the structure or building that were destroyed or damaged
  - Remodel or rebuild the structure or building's undamaged parts with structures or buildings on the same premises or another premises that are similar in height, style, materials, or floor area, whether or not any demolition is necessary

The named insured can choose to rebuild at another premises. If it does, the insurance company does not pay more than the increased costs of construction it would have paid to rebuild at the location that sustained the loss.

The named insured may have to rebuild at another premises because ordinances or laws require that it do so. In that case, the most the insurance company pays is the new premises' increased cost of construction.

(2) The insurance company does not pay for any of the following:

- Any costs to demolish and clear the site until the building is actually demolished and cleared
- Any increases in loss until the damaged building or structure is actually rebuilt, and the appropriate government agency approves the reconstruction
- Any ordinance or law cost increase if the ordinance or law should have been complied with prior to the loss
- Costs for changes that exceed the minimum requirements of ordinances or laws in effect at the time of the breakdown
- Increases in loss that exceed the amount required to meet the minimum requirements of enforcing any ordinance or law at the time the breakdown occurs
- Increases in loss because a government agency makes a hazardous substances declaration
- Loss or expense the named insured sustains due to enforcing or complying with any fungus, wet rot, or dry rot-related ordinance or law (01 13 words added)
- Costs associated with enforcing or complying with any fungus, wet rot or dry rot-related ordinance or law requiring an assessment (01 13 words added)

(3) When part of the loss is a covered loss and part of the loss is not covered

When the structure or building is damaged by a covered breakdown and at the time is damaged by another cause of loss that is not covered under this form, the cost of the ordinance or law compliance or enforcement must be shared by the carriers providing insurance coverage if the reason is based on the entirety of the loss. Each company pays only the proportion of the total ordinance or law loss that the breakdown loss represents. (01 13 change/words added)

Example: An old, covered building is valued at $500,000. It sustains $300,000 in damage from equipment breakdown and a fire. A local ordinance requires installing special upgrades any time building damage is 50% or more of its value. Enforcing this ordinance results in an additional loss of $80,000. The breakdown portion of the loss is $75,000, or 25% of the total, and the fire portion of the loss is $225,000, or 75% of the total. Because the breakdown portion of the loss is 25%, only 25% of the additional loss due to enforcing the ordinance ($20,000) is covered.

If the named insured purchased Ordinance or Law Coverage under its Commercial Property Coverage Form, that coverage would respond to the remaining $60,000 of the additional loss due to enforcing the ordinance.

Ordinance Or Law Coverage

BACKGROUND

Grandfathering is an important tool in passing laws to improve the quality of new construction. It is needed because it exempts existing structures and does not require their owners to comply with new laws and ordinances. Revolts and chaos would prevail if existing buildings had to be upgraded each time a new code or ordinance was introduced.

Laws that permit grandfathering also specify when and the circumstances under which an exemption ends. In many cases, an existing building must comply with new codes and ordinances after a significant property loss or when it undergoes a major renovation. A typical provision may require that the entire structure that does not currently comply with the code be brought up to code if 50% or more of it must be repaired or rebuilt. The rationale is that upgrades can more easily be made when other major repairs are taking place.

Insurance policies are contracts of indemnity. This means they return the insured to the condition that existed before the loss occurred and nothing more. They are not intended to improve the insured's situation. Complying with codes and ordinances creates a betterment for the insured, which is why most insurance coverage forms and policies do not cover the cost of such improvements. Even replacement cost valuation provisions state that any changes required due to an existing ordinance or laws are excluded.

Example: F & J Slaughtering was built outside the original city limits. Over the years, the city limits expanded and
F & J is now inside the city limits and violates the ordinance that prohibits livestock within the city limits. F & J was grandfathered when the zoning laws were enacted. A severe tornado destroys 75% of F & J's property. When it contacts the city and attempts to obtain building permits, it is informed that the slaughterhouse cannot be re-built at its current location because it violates current zoning requirements. F & J's only option is to rebuild elsewhere. The insurance company pays only the cost of rebuilding 75% of the slaughterhouse at the current location because of the ordinance or law exclusion. It does not pay for the expense to demolish the undamaged portion of the building. It also does not pay any additional costs associated with rebuilding at a new site.

In light of this dilemma, what can be done to protect against the issue of complying with ordinances or laws?

BUILDING CODE COMPLIANCE HELD COMPENSABLE BY "REASONABLE EXPECTATIONS" OF INSURED

The issue in this case was whether two insurers were required to pay in excess of $200,000 in costs of rebuilding a school building to code under identical policies with replacement cost provisions. The building had been destroyed by fire and the insurers paid $3 1/2 million for its replacement, but refused payment of the costs necessitated by building code upgrades made since the original construction of the school building.

The school board appealed a trial court judgment in favor of the insurers, based solely on the civil authority exclusion in the policies. The Alaska Supreme Court noted the civil authority clause in the policies, in pertinent part as follows:

"The policy does not insure against loss or increased cost occasioned by any Civil Authority's enforcement of any ordinance or law regulating the reconstruction, repair or demolition of any property insured hereunder." Similar exclusionary language was included in the insuring agreement and replacement cost provisions of the policies. The school district argued that the replacement cost provisions of its policies were intended to pay the cost of reconstruction "....so that the new building would be able to replace in function the building which was destroyed." It said that it reasonably expected its insurance to fully cover the cost of replacing a building that was destroyed.

The Alaska Supreme Court said, quoting Appleman, Insurance Law and Practice, that insurance contracts "....will be construed according to the principle of reasonable expectations." Quoting Robert Xeeton, Basic Text on Insurance Law, the court said that the reasonable expectations doctrine holds that "....the objectively reasonable expectations of applicants and intended beneficiaries regarding the terms of insurance policies will be honored even though painstaking study of the policy provisions would have negated those expectations. "The insured further argued that fire, not the building codes, caused the increased costs. It contended that the pertinent group of exclusions applied "....only when the loss is solely caused by enforcement of an ordinance, and not when a covered event such as a fire triggers enforcement"

Citing precedent for that argument and, especially, the application of the "reasonable expectations" principle, the court, with dissenting opinion, concluded that the increased replacement costs caused by building code upgrade requirements were covered by the policies. The judgment of the trial court was reversed in favor of the insured school district

DOES POLICY COVER CODE-MANDATED REPAIRS?

DEB Associates (DEB) owned an eight-story office building in New Jersey that Greater New York Mutual Insurance Company (GNY) insured. A windstorm in December 2003 damaged the north side of the building's seventh floor. Specifically, the brick façade was blown away and the perimeter wall and windows were damaged. When local code officials inspected the damage, they discovered that steel fasteners known as "angle irons" were not used to secure the floor to the walls. The officials investigated further and discovered that angle irons had not been used at all in the entire building. (The building had been constructed between 1970 and 1972, prior to the 1975 adoption of the State Uniform Construction Code Act, which required use of angle irons.) As a result of the inspection, the municipal code officials required that the building be vacated and brought up to current code standards before a certificate of occupancy could be issued. The cost of the repairs was approximately $500,000.

The GNY policy included "Increased Cost of Construction Coverage" as follows: "a. If a Covered Cause of Loss occurs to the covered Building property, we will pay for the increased cost to: (1) Repair or reconstruct damaged portions of that Building property; and/or (2) Reconstruct or remodel undamaged portions of that Building property whether or not demolition is required, when the increased cost is a consequence of enforcement of building, zoning or land use ordinance or law."

GNY agreed to pay for the repairs to the seventh floor, but not for repairs to the rest of the building. When DEB sued GNY, a judge found that, but for the seventh floor collapse, repairs to the other floors would not have been necessary. It concluded that coverage existed for all of the repairs. GNY appealed.

On appeal, GNY argued that the connection between the wind damage to the seventh floor and the order to repair the rest of the building was not sufficient for coverage to apply. It also argued that there was no coverage "where damage to one portion of a building caused code officials to require repairs to separate, undamaged portions of the building." DEB argued that there was always coverage as long as there was a "covered cause of loss."

It also argued, in the alternative, that there was a sufficient connection between the damage to the seventh floor and the requirement to repair the remaining floors for coverage to apply.

The Superior Court of New Jersey, Appellate Division, addressed both arguments. It adopted a “proximate cause” approach, holding that there was coverage “where the insured risk was the last step in the chain of causation set in motion by an uninsured peril, or where the insured risk itself set into operation a chain of causation in which the last step may have been an excepted risk.” The court then concluded that there was a direct connection between the damage to the seventh floor and the additional work required to repair the building and that the policy provided coverage. It affirmed the lower court's decision in favor of DEB.

AVAILABLE ORDINANCE OR LAW COVERAGE

1. CP 00 10–Building and Personal Property Coverage Form

Additional Coverage–Increased Cost of Construction provides a limited amount of coverage to bring a damaged building up to code. It applies automatically to any building that uses the optional replacement cost valuation. The amount of coverage is very low. It is the lesser of $10,000 or 5% of the limit of insurance. But the coverage is similar to the coverage provided by Coverage C of CP 04 05–Ordinance or Law Coverage. It does not cover the value of the undamaged part of the building nor the cost to demolish that undamaged part.

CP 00 10–Building And Personal Property Coverage Form

INTRODUCTION

This coverage form opens by defining the terms "you or your" as the named insured and "we, us, and our" as the company that provides the insurance coverage. Named insured is not defined. As a result, it means only entities listed or named on the declarations. If a given entity is not listed, there is no coverage for its property except as personal property of others, if scheduled. This coverage form has other words that have special meanings. They are defined in H. Definitions.

A. COVERAGE

The coverage form obligates the insurance company to pay for direct physical loss or damage to certain types of property. The property must be at a location listed or described on the declarations. However, this is not open-ended coverage. The loss or damage must be the result of a cause of loss described in the causes of loss form attached to the policy for coverage to apply.

Coverage applies to only loss or damage that occurs at a definite place and time. There is no coverage for a loss event that is not tangible, or that is not capable of being measured.

The reference to premises means that coverage applies to only property located in or on the premises listed or described on the declarations. This is why the declarations is a very important document. Coverage does not apply if the location and type of property is not properly listed or described.

1. Covered Property

Covered Property is defined in two ways. In the first, the coverage form lists the types of property eligible for coverage. In the second, it provides information on the types of property not eligible for coverage. One way to determine if an item is covered is to take the following steps:

Step 1. Is the item described in the listings provided under Building, Your Personal Property, or Personal Property of Others? If the answer is no, there is no coverage. If yes, continue to Step 2.

Step 2. Is there a limit of insurance on the declarations for the qualifying type of property? If the answer is no, there is no coverage. If the answer is yes, continue to Step 3.

Step 3. Is the item of the type of property described in Property Not Covered? If the answer is yes, there is no coverage. If the answer is no, this coverage form should cover that item.

Example: Lydia's declarations has a $50,000 limit of insurance for business personal property. There are no other limits on the declarations. When Lydia has a loss, she determines the items that are covered by using the step method described above:

Property Description	Step 1.	Step 2.	Step 3.	Coverage
Owned floor coverings	Yes	Yes	No	Covered
Owned grills and storage bins	Yes	Yes	No	Covered
Stock	Yes	Yes	No	Covered
$5,000 in cash	Yes	Yes	Yes	Not Covered
Borrowed desk and cabinets	Yes	No	Yes	Not Covered

a. Building

Building is the first type of covered property. The following property is covered in addition to the actual building or structure listed on the declarations:

- Completed additions

Note: This means an addition to the described structure during the policy term is covered even though it did not exist at policy inception.

Example: The Kingsley Office Plaza expanded its first floor and added extra storage in its most recent addition. The addition was made during the policy period and was considered building once it was complete, and the builders' risk policy no longer covered it.

- Fixtures, including outdoor fixtures. Light poles, fences, satellite dishes, and similar property are considered fixtures. Indoor light fixtures, cabinets, and restaurant booths are also considered fixtures.

The ceiling tiles, the lighting, the cabinets, and the sink in this lunchroom are all considered part of the building because they are fixtures.

- Permanently installed machinery and equipment

Note: The key word is *permanently.* Machinery or equipment that is placed permanently is considered building. If it is not, it is considered personal property. This is a very important distinction when rating and pricing the exposure as well as at the time of loss or damage. In most cases, the premium charge for building property is significantly lower than the charge for personal property. The difference is because permanently installed property is usually considered less vulnerable to loss. This distinction is also important when determining whether the coverage is the landlord or the tenant's responsibility, as well as with respect to coinsurance issues.

This printing press is building, not personal property, because it is permanently installed.

- Owned personal property used to maintain or service the building

Note: Some property in this category, while appearing to be personal property because it is portable, is treated as building property because of its relationship to the building. Property such as fire extinguishing equipment, outdoor furniture, floor coverings, and appliances used for refrigerating, ventilating, cooking, dishwashing, or laundering is not personal property but is classified and treated as building property and should be listed as such. However, such listings are not necessarily exclusive. Other property used to service and maintain the premises not included on a list of property may still be treated as building property.

- Two other types of property are covered but only if not covered elsewhere:
    - Additions being built. Alterations and repairs to the building or structure are also included.
    - Any materials, equipment, supplies, and temporary structures situated on the described premises or within 100 feet of it. These are building only if they are to be used to make additions, alterations, or repairs to the building or structure specifically described.

Note: This coverage is provided because of the way most building owners work on their buildings. Repairs and alterations are often handled as time and money permits. The materials and property may be obtained early and kept on site until the repairs or alternations can be made. These materials would be considered business personal property without this item.

The building addition under construction (and materials used in its construction) is covered as building but *only* if not covered elsewhere.

b. Your Business Personal Property (10 12 change)

The next type of covered property is Business Personal Property. There are three distinct conditions to meet in order for coverage to apply:

- The named insured must own the property.
- The property must be located or situated at any of the following:
  - In or on a building listed or described on the declarations
  - **In or on a structure listed or described on the declarations**
  - In the open **either** within **100 feet of the building/structure or** within 100 feet of the premises, **whichever is greater**
  - In or on a vehicle **either** within **100 feet of building/structure or** within 100 feet of the premises**, whichever is greater**

Note: A **premises** is not the same as a building. A premises is the land where the building is situated. This means personal property can be off the premises and still be covered. An example is personal property in a vehicle on the street in front of the premises. There is no coverage if it is parked down the street more than 100 feet from **either the premises or the building.**

This coverage form considers this truck's cargo to be personal property if all of the following apply:

· The named insured owns the cargo.

· The vehicle is within 100 feet of the premises or the building.

· The coverage form considers the cargo to be personal property.

- The property must be considered as personal property.

The following is considered personal property. Certain provisions in 2. Property Not Covered limit this otherwise inclusive listing. Personal property is:

o Furniture and fixtures

Note: This could include the same fixtures included as building property. If the insured owns the building, the fixtures should be included in only the building coverage because payment is limited to not more than the item's value, even if covered in more than one place.

o Machinery and equipment

Note: This does not refer to permanent or mobile, but both are eligible for coverage. If the insured owns the building, as well as the machinery or equipment, any permanently installed machinery and equipment should be covered under building coverage, not under personal property coverage. This is because duplicate coverage wastes premium but does not increase coverage.

This punch press is portable. As a result, it is considered business personal property.

- Stock as defined in H. Definitions
- All other personal property is covered if it passes a two-part test. The named insured must own it. The property must be used in its business.

Example: Bill owns a hardware store with a large basement. His family is rapidly outgrowing its home, and he decides to move some extra household items to the hardware store's basement instead of renting space in a storage facility. If a fire occurs, the Building and Personal Property Coverage Form does not pay anything for the household items damaged or destroyed. This is because the property is not used in the business, even though Bill owns it.

- Coverage applies to labor, materials, or services provided on personal property of others. However, there is no coverage for the personal property of others.

Example: Jeremy's Machine Shop sends a customer's die to a tool and die shop for repair. Jeremy pays for that service. The die is returned but a tornado rips through his building the following day and damages it. The damage to the die is not covered. The amount Jeremy paid to the tool and die shop is covered.

- Improvements and betterments that the insured cannot legally remove from a building have no value to the insured except for their use value. As a result, coverage does apply but is subject to both of the following limitations:
    - The improvements must be in a building the named insured does not own.
    - The named insured must have incurred the expense to install the improvements but not be legally permitted to remove them.

Use interest is the value the named insured invested in the improvements. It is generally based on the length of the lease agreement.

Example: The insured leases a restaurant building for ten years and installs $50,000 in improvements that cannot be removed. If a loss occurs, the value is prorated based on the remaining term of the lease contract. If the loss happens on the named insured's opening day, it should expect to receive a claim settlement equal to almost the entire initial investment. On the other hand, if the loss occurs toward the end of the lease, it should expect a much lower settlement amount.

- Coverage on personal property of others applies only if the named insured is contractually obligated to provide the coverage. Agreements for leased office equipment usually require that the named insured provide coverage on it. This provision responds to that requirement. However, this coverage is superseded if coverage under Personal Property of Others applies.

c. Personal Property of Others (10 12 change)

There is no coverage under Your Business Personal Property for Personal Property of Others, except for the coverage that a lease agreement requires. All other personal property of others is covered only if there is a limit for this type of property on the declarations. However, when there is a limit of insurance entered for this coverage, the automatic coverage for personal property of others subject to a lease agreement is moved from Business Personal Property to Personal Property of Others.

Example: Mary is under a lease agreement to insure cash registers valued at $15,000. She adds their value to her $100,000 stock for a total Business Personal Property limit of insurance of $115,000. During the year, she accepts $25,000 property of others to sell on consignment. She requests that Personal Property of Others coverage be added for a limit of $25,000. However, she does not request a reduction in her business personal property limit for the leased equipment, nor does she request that the personal property of others be increased for the leased equipment.

A total loss occurs after the endorsement. Mary is very disappointed to learn that because the Personal Property of Others had been added, the $15,000 of leased cash registers had moved from your business personal property to personal property of others, and she was underinsured by $15,000.

Type of coverage	**Type of property**	**Value**	**Limit of Insurance**	**Fire loss payment**
Business Personal Property	Stock Leased Property	$100,000 $ 15,000	$115,000	
Personal Property of Others	None			
Add Consigned Property coverage				

Business Personal Property	Stock	$100,000	$115,000	$100,000
Personal Property of Others	Leased Property Property on Consignment	$15,000 $25,000	$25,000	$25,000

Coverage applies only for personal property in the insured's care, custody, or control and located or situated at any of the following:

- In or on a building listed or described on the declarations
- **In or on a structure listed or described on the declarations**
- In the open **either** within **100 feet of the building/structure or** within 100 feet of the premises, **whichever is greater**
- In or on a vehicle **either** within **100 feet of the building/structure or** within 100 feet of the premises, **whichever is greater**

Personal property of others does not have to be used in the named insured's business in order for coverage to apply.

Example: Bill's neighbor asks if he can keep some of his excess stock in the basement of Bill's hardware store. If that property is damaged, coverage applies as long as a limit of insurance for personal property of others was on the declarations.

Note: The named insured should be informed that any loss settlement is with the personal property's owner, not with the named insured. This coverage is not the same as Bailees' Coverage.

2. Property Not Covered

This section modifies the Coverage section to apply to the typical insured's coverage needs. If coverage on any excluded property is needed, separate coverage options are often available for an additional premium charge.

The following property is not covered:

a. Accounts, bills, currency, deeds, food stamps, other evidences of debt, money, notes, or securities. Lottery tickets are a unique type of property. They are considered covered property only if they are held for sale. Otherwise, they are excluded. Most property excluded in this section can be covered under crime or inland marine coverage forms and policies.

b. All animals are not covered with two exceptions:

- Animals owned by others that the named insured boards
- Owned animals that are considered stock. A limitation to this exception is that are only covered while inside a building.

Note: It is important to review the causes of loss form animal limitation because coverage is further limited to apply if the animal is killed or must be destroyed. Veterinary services are not covered.

c. Automobiles. This item applies only if the automobiles are held for sale. However, this is not the only automobile exclusion. Item p. below excludes other types of automobiles.

d. Bridges, roadways, walks, patios, or other paved surfaces. This property is considered fixtures and is treated as building property if covered. This type of property is not usually insured because of the comparatively high cost to do so and the low probability that it will sustain loss or damage. If an insured decides to cover this property, it can do so by attaching CP 14 10–Additional Covered Property and increasing the property limits.

Bridge coverage is also available under Inland Marine coverage forms because bridges are considered instrumentalities of transportation.

e. Any property involved with illegal transportation, trade, or related activities is not covered because insurance coverage is not intended to facilitate illegal activities.

Example: George "2Bad" Rotterbee has commercial property coverage on his small grocery store with Good-Deal Mutual Insurance. George operates a "Meth Lab" in the back of the building. George arrives at the store one morning and, upon entering the lab, discovers that a week's supply of ether was stolen. Because ether is used to manufacture illegal drugs, Good-Deal's adjuster informs George that the property is excluded. The adjuster also notifies the police and tells Good Deal's underwriting department to expedite issuing a notice of cancellation.

f. Costs to excavate, grade, backfill, or fill. These costs are not covered because these expenses are usually associated with new construction and are not usually part of repairing existing construction. Most insureds do not want to pay the premiums required to cover these costs as part of building. However, coverage is available for an additional premium charge by using CP 14 10–Additional Covered Property and increasing the property limits.

g. Foundations at or below ground level. Foundations are not covered because of the minimal chance of loss or damage to them. This foundation exclusion applies to foundations of machinery and equipment as well as to the building and structure. Coverage is available for an additional premium charge by using CP 14 10–Additional Covered Property and increasing the property limits.

h. Land, water, lawns, and crops that have not yet been harvested, even though they have value. Growing crops can be covered under farm or agricultural coverage forms and policies. **Lawns that are part of a vegetated roof are exceptions to this exclusion and are covered. (10 12 change)**

i. Personal property in transit by air or water conveyances. While a small amount of transit coverage is provided in this form, it does not expand to air or water transport. Coverage on this property is available under Inland Marine coverage forms.

j. Bulkheads, pilings, piers, wharves, and docks. This property is excluded because most insureds do not have this type of property. Coverage is available for an additional premium charge by using CP 14 10–Additional Covered Property and increasing the property limits. In some cases, an Ocean Marine coverage form may be more appropriate.

This pier should be covered under an Ocean Marine coverage form or policy. However, this coverage form could cover a smaller one on a private pond by using CP 14 10–Additional Covered Property.

k. If other coverage more specifically insures property that the Building and Personal Property Coverage Form also covers, this coverage form treats that other coverage as primary and responds to losses on an excess basis.

Note: Even if the other coverage is exhausted, is not available, or cannot be collected for any reason, this coverage form still responds only on an excess basis over that other insurance.

Example: Mary's Construction Company purchases a builders risk policy to cover the addition to John's Restaurant. An arsonist burns down both the addition and the rest of the building. John's insurance should pay for the loss to the restaurant, and the builders risk policy should pay for the loss to the addition. However, Mary's insurance company went into receivership just as it prepared to pay the claim. As a result, Mary's insurance company did not pay for the loss to the addition, and John's policy did not respond because Mary's builders risk policy limits were sufficient to cover the loss if it had been able to respond.

l. Retaining walls but only if the walls are independent and are not part of the building. Coverage is available for an additional premium charge by using CP 14 10–Additional Covered Property and increasing the property limits.

m. Underground pipes, flues, or drains. This property is excluded because the potential for loss is fairly remote. Coverage is available for an additional premium charge by using CP 14 10–Additional Covered Property and increasing the property limits.

n. Electronic data. However, 4. Additional Coverages f. Electronic Data provides a nominal limit of insurance. Electronic data is defined as all programs, information, and data stored, created, transmitted, or used on computers. The data can be in the form of floppy disks, hard disks, CD-ROMS, tapes, flash drives, and similar storage media even when not on the computer.

Prepackaged software the named insured holds for sale is exempt from this item and is covered.

Electronic data that is an integral part of the building HVAC, elevator, and lighting or security systems is also exempt from this item and therefore covered. (10 12 change)

Coverage for all other electronic data can be provided on an electronic data processing coverage form or policy.

o. The cost to restore information on valuable papers and records. This exclusion also applies if the records are in electronic form. 5. Coverage Extensions c. Valuable Papers and Records (Other Than Electronic Data) provides a limited amount of coverage.

Valuable papers and records include proprietary information such as (but not limited to) accounts, books, deeds, card index systems, drawings, abstracts, and manuscripts.

This exclusion applies to only the cost to restore information. Valuable papers and records themselves are covered but, without restoration costs, the coverage is very limited.

p. Vehicles and self-propelled machines licensed for use on public roads or that are operated primarily away from the described premises are not covered. Aircraft, autos and watercraft are three types of such machines. This property is excluded because it is correctly covered under automobile, inland marine, ocean marine, or aviation coverage forms designed for their specific exposures. However, this exclusion does not apply to the following covered property:

- Any such property the named insured manufactures, processes, or warehouses
- Vehicles or self-propelled machines the named insured is holding with the intent to sell. Autos held for sale are not part of this exception and therefore continue to be excluded.
- Rowboats or canoes that are at the described premises while out of the water
- Trailers to the extent that 5. Coverage Extensions f. Non-owned Detached Trailers provides

Example: Grady Auto Restoration Services has 40 vehicles on its premises. A break-in occurs. The coverage applies as follows:

- The 20 vehicles held for sale are excluded based on item d.
- The 10 vehicles licensed for use on the road are excluded based on item p.
- The 5 vehicles owned by others are excluded based on item p.
- The 5 vehicles Grady owns that are being restored are covered based on the item p. exception but only as long as they remain in process. Their status changes once restoration is complete.

q. Grain, hay, straw, and other crops. This property should be covered under farm or agricultural coverage forms or policies.

Fences, outdoor radio and television broadcasting and receiving equipment, and shrubs, plants, and trees, other than stock held for sale are also not covered except for the limited coverage provided under 5. Coverage Extensions e. Outdoor Property. **Trees, shrubs, and plants that are part of a vegetated roof are exceptions to this item and are covered. (10 12 change)**

Note: Coverage Extensions Outdoor Property provides coverage against specified perils for nominal limits of insurance. Other endorsements are available to provide additional coverage on this property. CP 14 10–Additional Covered Property can be used to extend coverage on fences. CP 14 30–Outdoor Trees, Shrubs, and Plants can be used to extend coverage for that property. CP 14 50–Radio or Television Antennas extends coverage for antennas, satellite dishes, and supporting equipment.

3. Covered Causes of Loss

This coverage form requires that one or more of the causes of loss forms be attached. Different types of property may have different causes of loss forms. The applicable cause of loss form is entered on the declarations.

 **Example:** Crainston Furs purchases CP 10 30–Causes of Loss–Special Form on all building property and CP 10 10–Causes of Loss–Basic Form for all business personal property because its furriers block policy covers all furs and fur-related property.

4. Additional Coverages

a. Debris Removal (10 12 change)

After a loss that involves physical loss or damage, debris must be removed. Coverage to pay for the removal costs is needed. Over the years, this relatively simple concept has become a hotly debated issue under commercial property coverage forms as insurance buyers search for alternate sources for pollution coverage. Debris removal coverage was never intended to be environmental clean-up coverage, but in various court decisions prior policy language was found to cover such losses. Efforts to eliminate any misunderstanding have made this coverage much more complicated, but the concept remains the same.

This coverage is explained as follows:

(1) Actual expenses to remove debris are paid if all of the following apply:

- The named insured actually incurs the debris removal expenses.
- The debris to be removed is covered property.
- **The debris to be removed is not covered property, but it meets all of the other criteria in this paragraph and also the criteria in paragraph (2) below. (10 12 addition)**
- The property became debris because of a covered cause of loss
- The loss occurs during the policy period.
- The expenses are reported within 180 days of the direct physical loss.

 **Example:** Martha's Clothing House (a retail dress shop) is vandalized. The interior is completely trashed, and a significant amount of debris must be removed

before replacement property can be brought in. The cost to remove the debris is covered provided Martha pays the costs of debris removal, the debris is actually removed, the personal property damaged is covered property, the loss occurs during the policy period, and Martha reports the expense to the insurance company within 180 days of the date of loss.

The coverage this paragraph provides is subject to limitations as outlined below.

(2) The 10 12 edition broadens this paragraph significantly. The 06 07 edition limited itself to only pollutant-related items. This paragraph is needed because paragraph (1) is broadened to include debris of certain types of property that is not considered covered property. This paragraph limits that broadening of debris coverage. Although these items appear to be limiting, they actually establish the boundaries for the broadened coverage in paragraph (1).

There is no coverage for the costs to remove the following items:

- **Debris that belongs to the named insured that is either not insured or is of the type of property listed under 2. Property Not Covered**
- **The debris of the landlord's property when the named insured is a tenant. However, the costs ARE covered if both of the following apply:**

o **The named insured is contractually obligated to insure the landlord's property.**

o **The landlord's property is insured under this policy.**

- **Any property item described in 2. Property Not Covered. This also applies to property that has limited coverage under 5. Coverage Extensions e. Outdoor Property.**

Note: This limitation does not mention debris of such property. It applies to the property itself.

- **Any property belonging to others that is not considered Covered Property under this coverage form.**

Note: This limitation does not mention debris of such property. It applies to the property itself.

- **Mud or dirt that is deposited on the grounds of the premises**
- Any pollutants from land or water
- Polluted land or waters. The cost to restore or replace the polluted land or waters is also excluded.

Example: As a final act of vandalism, the vandals find containers of dyes that Martha's uses to customize clients clothing and throw them into the pond located

behind the store. The lost dyes are covered, but the cost to remove the dyes from the pond is not.

(3) This paragraph explains the amount of coverage provided under the basic limits. There are two distinct limitations:

(a) The total amount paid for a direct loss PLUS the debris removal is the **lesser** of:

· The actual physical loss or damage PLUS the debris removal expense

· The limit of insurance for the damaged covered property

(b) The total amount paid for debris removal is the **lesser** of:

· The sum of the amount paid for the direct physical loss (plus any applicable deductible amount) multiplied by a factor of .25. The formula is:

(Paid Loss Amount + Deductible Amount) x .25 = Debris Removal Coverage Amount

· The actual debris removal expense

Example: Ken's photography shop has a small fire. The actual paid physical loss amount is $5,000. The limit of insurance is $25,000 and the deductible is $500. The maximum debris removal expense available is $1,375 [($5,000 + $500) X .25]. The sum of $5,000 + $1,375 = $6,375. Because the sum is less than $25,000, $1.375 is the amount paid for debris removal.

If there is no direct physical damage to covered property, the most paid to remove the other property debris is $5,000 per location, subject to other items in this additional coverage.

(4) This paragraph provides an additional amount of insurance to remove debris if one of the limitations in paragraph (3) above applies. The additional amount of coverage is **$25,000,** subject to the following:

(a) The total amount paid for a direct loss PLUS the debris removal is the lesser of:

· The actual physical loss or damage PLUS the debris removal expense

· The limit of insurance for the damaged covered property PLUS **$25,000** Debris Removal Additional Coverage

Example: We'll change the loss amount in the Ken's photography example to a $23,000 physical damage paid loss and $5,000 in debris removal

expenses. The maximum debris removal expense available is $5,875 [($23,000 + $500) X .25]. However, because the limit of insurance is $25,000, the most paid for debris removal expense is $2,500 [$25,000 – ($23,000 + $500)]. This results in Ken having to pay $2,500 out of pocket. However, when the $25,000 Additional Coverage is used, Ken has full coverage and does not have any out of pocket expense.

(b) The total payment for debris removal is the lesser of:

· The total of the amount paid for the direct physical loss plus any applicable deductible amount multiplied by a factor of .25 PLUS **$25,000.** The formula is [(Paid loss amount + deductible amount) x .25] + **$25,000** = Debris Removal Coverage Amount.

· The actual debris removal expense

Example: Continuing the example above, Ken's photography loss involved chemicals. The chemicals had to be removed by environmental specialists and taken to a special disposal facility. The removal cost was $10,000. Because the debris removal expense in step (3) (b) is limited to $5,875, $4,125 of the loss is not covered. However, the additional $25,000 limit is (4) (b) provides the necessary coverage to fully fund the loss.

The last point to make with respect to this coverage is that the maximum amount of insurance available for direct physical loss and debris removal expense does not exceed the coverage limit of insurance plus **$25,000.**

Example: Gretel's commercial property limit is $750,000. She sustains a huge grease fire loss, and a large amount of debris remains. The direct damage paid loss is $735,000, and the debris removal cost is $44,000. In this case, Gretel absorbs the following out of pocket loss:

Direct Damage Paid Loss Amount	$735,000
Add Debris Removal Expense	+$44,000
Total Loss	*$779,000*
Limit Of Insurance	$750,000
Add Additional Debris Removal Amount	+$25,000
Available Limit of Insurance	*$775,000*

Debris Removal Expense Not Covered	**$4,000**

CP 04 15–Debris Removal Additional Limits is used to provide higher debris removal limits.

b. Preservation of Property

If you do not have insurance, know that your business is being threatened, and have time to act, you probably start by moving your most valuable possessions out and away from danger. The same course of action is just as important when you do have insurance. The Building and Personal Property Coverage Form encourages the insured to protect its property by providing coverage as an incentive to do so.

If it is necessary to move covered property from an insured location in order to avoid it being damaged by a covered cause of loss, the insurance company pays for any direct loss or damage that such property sustains during the move. In addition, coverage applies at the location the property is stored at for up to 30 days after the date it is moved there.

There are several important points to consider:

- The only property insured is covered property at a location listed on the declarations. Property eligible for coverage moved from a location that is not covered does not create coverage.
- The potential loss or damage to the covered property must be from a covered cause of loss.

Example: Kermit moves his business furniture from his offices to protect it from rising floodwaters. He drops several pieces of furniture while loading them on a rented truck. This results in hundreds of dollars in damage. This Additional Coverage does not insure this damage because flood is not a covered cause of loss.

- While the property is being moved to and from and while at the "safe" location it is covered for ANY cause of loss. This coverage applies for up to 30 days.

Example: Miller’s Bakery is located in a rural area near a national forest. A major wild fire is nearby, and the wind is blowing in the wrong direction. Miller realizes its equipment is in the direct line of the fire and moves it to a safe location on the other side of the river. A heavy rain extinguishes the fire before it reaches his property.

However, a new problem develops. Due to the heavy rain, a flash flood overflows the river's banks and totally destroys Miller's relocated property. Even though flood is not a covered cause of loss, the loss to the property moved is covered because it was moved to protect it from a fire, a covered cause of loss.

Note: The property removed must be moved back to the covered location, or the temporary location must be added to the policy within 30 days from the date of the move. Otherwise, all coverage ends after 30 days.

c. Fire Department Service Charge (10 12 change)

This additional coverage responds to situations where the insured must pay for the expense of a fire department that responds to an emergency. The old maxim: "He who hesitates is lost" applies to this coverage. The sooner a fire is reported, the faster it is controlled. Taking the time to consider the cost of fire department response is time lost in fighting the fire. This coverage pays only if the insured is contractually obligated to pay for the expense of a fire department that responds to an emergency or is required to pay because of a local ordinance. It provides up to $1,000 **per premises** to apply to the service charge and is not subject to a deductible. Higher limits are available. **The $1,000 is a premises limit that applies regardless of the number of departments that respond or the number of services provided. (10 12 change)**

Note: This could be a significant reduction in coverage for certain enterprises. Higher limits should be recommended in such cases.

Example: Tricounty Industries is in a rural area and has service contracts with three different fire departments in case of an emergency. A fire occurs in the main production area, and all three fire departments respond to the fire. One department provides both firefighting and EMT service for injured employees. Another sprays down other buildings on the premises as a precaution. The total charge for all departments

and all services is $28,500. Tricounty has a $10,000 limit per premises and must pay the remaining $18,500 from its own resources.

d. Pollutant Clean-Up and Removal

The second paragraph of Debris Removal Additional Coverage specifically excludes expenses to extract pollutants from land or water. This additional coverage provides a limited amount of coverage for those expenses. Each of the following requirements must be met in order for coverage to apply:

- The expenses must be the insured's actual expenses to extract pollutants from land or water at the described premises.
- The pollutants must result from a covered cause of loss.
- The covered cause of loss must occur during the policy period.
- All expenses must be reported to the insurance company within 180 days of the date that the covered loss occurred.
- The only covered expenses for testing, monitoring, or assessing for levels of pollution are tests conducted during the extraction process.

The $10,000 limit for this additional coverage is unusual because it is an aggregate limit and not an occurrence limit. It is the total amount available to a premises during a single annual coverage period. As a result, any and all losses that involve eligible expenses at the premises reduce the available $10,000 aggregate limit at that premises.

Example: Ace Manufacturing has five premises in Michigan. During the spring, a series of tornadoes damage two of them. Paint spills at one location, and toxic chemicals are released into a nearby pond at another. The pollutant clean-up cost at the first premises is $15,000 and $30,000 at the other. Because of the $10,000 aggregate coverage limit applies per premises, $10,000 of the $15,000 expenses at the first location is paid, and $10,000 is paid at the other. If another loss occurs at either of those locations in the same 12-month policy period, no pollutant clean-up and removal coverage is available. Each of the other premises continues to have coverage.

Note: CP 04 07–Pollutant Clean Up and Removal Additional Aggregate Limits of Insurance is used to increase the limit.

e. Increased Cost of Construction (10 12 change)

This is welcome protection for any company subject to the Americans with Disabilities Act (ADA) or many local, state, and federal ordinances that are not enforced until a building requires significant renovations or repairs. These ordinances and codes are helpful to many people, and their cost is relatively easily absorbed in new construction. However, updating an existing structure after a partial loss can add substantially to the costs to rebuild it, and coverage for such costs is specifically excluded in the Causes of Loss Forms.

Example: Havor Academy is a private school that has served elementary school children for over 100 years. The building is joisted masonry with plaster interior walls. The hallways in certain areas are rather narrow but lead to spacious areas. A fire starts in the academy's kitchen and causes significant damage to the kitchen and dining hall. Havor obtains the required building permits for the reconstruction but is informed that the hallways must be widened to meet ADA standards. Because the walls that must be moved are not damaged, the only coverage available to pay to widen the hallways is the limited amount this Additional Coverage provides.

This coverage is explained in nine paragraphs.

(1) This paragraph states that coverage is conditional and not automatic. It applies only when the basic policy includes Replacement Cost Optional Coverage. While it is unusual to require including an optional coverage as a condition of an additional coverage, it is necessary in this case.

(2) This paragraph explains the coverage. It responds to additional costs that must be incurred in order to bring the building up to the existing **minimum standards** of the ordinances or codes. Coverage is subject to modifications in paragraphs e. (3) through (9). This coverage applies when all of the following events occur:

- A covered cause of loss damages covered property.
- The insured incurs increased costs to repair, rebuild, or replace the damaged portions of covered property.
- The increased costs are the result of compliance with an enforced ordinance or law.

Example: Havor Academy meets the requirements because covered property is damaged by fire, a covered cause of loss. Increased costs are incurred to rebuild, repair, or replace the damaged covered property. The increased costs result from Havor complying with an enforced ordinance or law. If Havor has Replacement Cost Optional Coverage, it is possible that coverage is available, subject to paragraphs (3) through (9).

(3) This paragraph states that the law or code in (2) above must meet two requirements before increased costs are covered:

- It must regulate construction or repair of buildings or must establish a zoning or land use requirement at the described premises.
- It must be in force at the time of loss.

Example: The town council was considering an ordinance that required installing sprinkler systems in all schools that exceeded two stories in height when the Havor Academy loss occurred. The council voted and passed the ordinance two weeks after Havor's loss, and the building inspector informed Havor of the change. This Additional Coverage does not apply to the cost to add the sprinkler system because the ordinance passed after Havor's loss.

(4) This paragraph relieves the insurance company of any costs due to ordinances or laws the insured should have complied with before the loss but hadn't.

Example: Havor Academy and the town argued for years about the fire escape ordinance, but Havor never had the funds to comply with it. It believed its evacuation procedure was more than adequate and that the town was unfair in requiring that it remodel its building. However, the town held the advantage after the fire loss and insisted that Havor either comply with the ordinance or the building would not be allowed to reopen.

Havor turned to this additional coverage but, since installing the fire escape was required prior to the loss (and Havor chose not to act), the insurance company was not obligated to pay the added cost.

(5) This coverage form is not designed to cover pollutants. This item clearly excludes pollution. This additional coverage does not pay when local ordinances or laws force the insured to take actions because of pollutant contamination or the presence of fungus in a building. It also does not pay any costs associated with enforcing **or complying with** ordinances or laws that require the insured or others to test for, monitor, clean-up,

remove, contain, treat, detoxify, neutralize, respond to, or assess the effects of pollutants, fungus, wet rot, dry rot, or bacteria.

(6) This paragraph states that the limit of insurance for this additional coverage is the lesser of $10,000, or 5% of the limit of insurance for the damaged building. If the damaged building is part of a blanket limit, the coverage is limited to the lesser of $10,000 or 5% of the value of the damaged building at the time of loss multiplied by the coinsurance percentage that applies.

Note: The blanket provision is important because it keeps the 5% from being applied to the blanket limit. Doing so would allow each building within the blanket to receive the maximum limit for this additional coverage even if the specific building was worth less than $10,000.

Example: Havor Academy has 20 buildings on its campus insured for a blanket limit of $25,000,000 at 100% coinsurance. The fire damaged three of them. The maximum increased cost of construction limit available to each building is:

Building Number	Value	Lesser of:	Maximum Paid
#1	$10,000,000	$500,000 or $10,000	$10,000
#2	$500,000	$25,000 or $10,000	$10,000
#3	$10,000	$500 or $10,000	$500

(7) This paragraph outlines the insured's options under this additional coverage after a loss.

- The insured can decide not to build or repair. If this is selected, no amount will be paid from this Additional coverage.
- The insured can repair the building or can rebuild at either the current location or at another location. Payment will be made under this Additional Coverage only if completed within two years of the loss. The time period can be extended by the insurance company. The most paid at a new location will be no more than what would be paid at the existing location.
- When the ordinance or law requires rebuilding at a different location, payment is made only if completed within two years of the loss. The time period can be extended by the insurance company.

Example: Havor Academy is unhappy with the loss settlement and the amount it must spend to repair the building and bring it up to code. After reviewing its options, it decides that building a new building is less costly than repairing the old one. In addition, doing so will enhance the overall appearance of the entire campus. The good news is that the company still pays up to the $10,000 limit to help it meet the standards.

(8) A conflict could arise between this coverage and the Ordinance or Law Exclusion in any of the Causes of Loss forms. However, there is no conflict because this paragraph states that this Additional Coverage is not subject to that exclusion.

(9) The Valuation Condition and Replacement Cost Optional Coverage exclude the increased costs of construction due to enforced ordinances or laws. Only this Additional Coverage provides such coverage. As an attempt to clarify issues, this paragraph states that those increased costs of construction limitations stated in the Valuation Condition and Replacement Cost Optional Coverage do not apply to this Additional Coverage. The intent of this paragraph is to eliminate any confusion over the coverages and limitations that exist under these three separate policy provisions.

Note: CP 04 05–Ordinance or Law Coverage should be used if higher limits or broader coverage is needed.

f. Electronic Data

Electronic data is considered property not covered except for the small $2,500 limit this additional coverage provides. If a covered cause of loss damages or destroys electronic data, this additional coverage provides the cost to replace or restore it but, only on a very limited basis. This item does not apply to prepackaged stock or to **electronic data that is an integral part of the building heating, ventilating, air conditioning, elevator, lighting or security systems because they are exceptions to the property not covered electronic data item and therefore already covered under the coverage form.**
(10 12 change)

This additional coverage has two unusual features. The first is that the covered cause of loss that applies varies by the cause of loss form that applies to business personal property at the location where the loss occurs. If CP 10 30–Causes of Loss–Special Form applies, the covered causes of loss for electronic data are only the specified causes of loss plus collapse. If CP 10 20–Causes of Loss–Broad Form applies, collapse and the other causes of loss that are part of the broad form apply. There is no mention of CP 10 10-Causes of Loss – Basic because all of its covered causes of loss are applicable.

Loss or damage caused by viruses, harmful code, and similar attacks on the computer system is covered, regardless of the causes of loss form that applies. However, normal computer entry or data manipulation problems are excluded.

The second unusual feature is that the $2,500 limit is an aggregate amount and is the most paid over all locations for an entire year. If a loss begins in one year and continues into a second year, the only limit available is the aggregate limit from the first year. **This limit can be increased but remains an aggregate limit.**

This is extremely limited coverage. As a result, an insured that has electronic data exposures should consider an Electronic Data Processing coverage form or policy.

5. Coverage Extensions

There are several coverage extensions that apply to covered property if 80% or higher coinsurance applies, or if coverage is written on a reporting basis. They are limited to protecting property located in or on buildings listed on the declarations. They also protect property in the open or in or on vehicles, but only when the property is within 100 feet of the described premises.

Note: The 10 12 edition changes to the building, business personal property and personal property of others were not added to this opening paragraph, so the definition of property in the open or in a vehicle is slightly different.

Any exceptions to the opening paragraph requirements are stated in the specific coverage extension.

Each extension provides additional limits of insurance. None of them is subject to the coinsurance condition.

a. Newly Acquired or Constructed Property

Because contacting an insurance agent to report a new acquisition is not automatic behavior, this extension gives the named insured some peace of mind coverage for new purchases. However, this coverage is not free. The property acquired must be reported, and an additional premium paid starting from the date it was acquired.

- **Buildings**

If building coverage is provided, this extension applies to new buildings the insured is constructing at a premises described on the declarations. Buildings the insured purchases at other premises are also covered but only if they are intended for use similar to other scheduled buildings or as a warehouse. The maximum limit for any newly built or purchased building is $250,000.

Note: As stated above, the newly purchased building at a premises not described on the declarations use must be similar to that of existing buildings or be used as a warehouse. The insurance company accepts risks based on occupancy and should not be expected to automatically add a new location with a dramatically different occupancy than what it already covers.

Example: L&M Property Management is a successful commercial real estate developer. L&M owns 15 office buildings and 10 apartment buildings. It has an

opportunity to purchase a building that a furniture manufacturer occupies and quickly does so. A fire occurs two days after the acquisition but before it notifies the insurance company. The coverage L&M expects under this coverage extension does not apply because the occupancy is not similar to that of other scheduled buildings.

Note: The occupancy limitation does not apply to buildings being constructed at a premises already listed on the declarations.

- **Your Business Personal Property**

If coverage on the named insured's business personal property is provided, this extension applies to any and all the following:

  - Business personal property (newly acquired or existing) at newly acquired locations. Property at fairs, trade shows, or exhibitions is not covered.
  - Business personal property (newly acquired or existing) in newly constructed or acquired buildings at locations already listed on the declarations

Note: Unlike the requirement under newly acquired building, there is no requirement that newly acquired business personal property be the same as or similar to existing business personal property. However, it must qualify as eligible business personal property.

Note: The 10 12 edition no longer automatically provides coverage on newly acquired business personal property at a described location. This could be a significant reduction of coverage for businesses that have rapid and constant turnover of stock. **(10 12 coverage removal)**

The maximum limit per building is $100,000.

This coverage extension does not apply to certain types of personal property of others that are in the named insured's custody on a temporary basis. If the reason the personal property is with the named insured is because the insured is installing or performing work on it, there is no coverage under this extension. In addition, if the personal property is part of the named insured's wholesaling or manufacturing activities there is no coverage under this extension.

- **Period of Coverage**

Coverage is provided on a very limited time frame. It ends on whichever of the following is earliest:

  - The policy expires
  - 30 days after the property is acquired (or construction on it begins)
  - The date the property or value is reported to the insurance company

Note: This provision is occasionally applied with unfortunate and undesirable results.

Example: If the insured acquires a building on 12/31/2021 and the policy renews on 01/01/2022, coverage ends the day after the property was acquired.

This is especially important for the insured that requests that the 30-day time period be increased to 180 days. Even then, coverage still ends on the earliest of the above dates.

The construction date is the date the insured begins constructing a new building. Because covered property does not usually cover foundations, the 30-day limitation does not begin until construction above grade level begins.

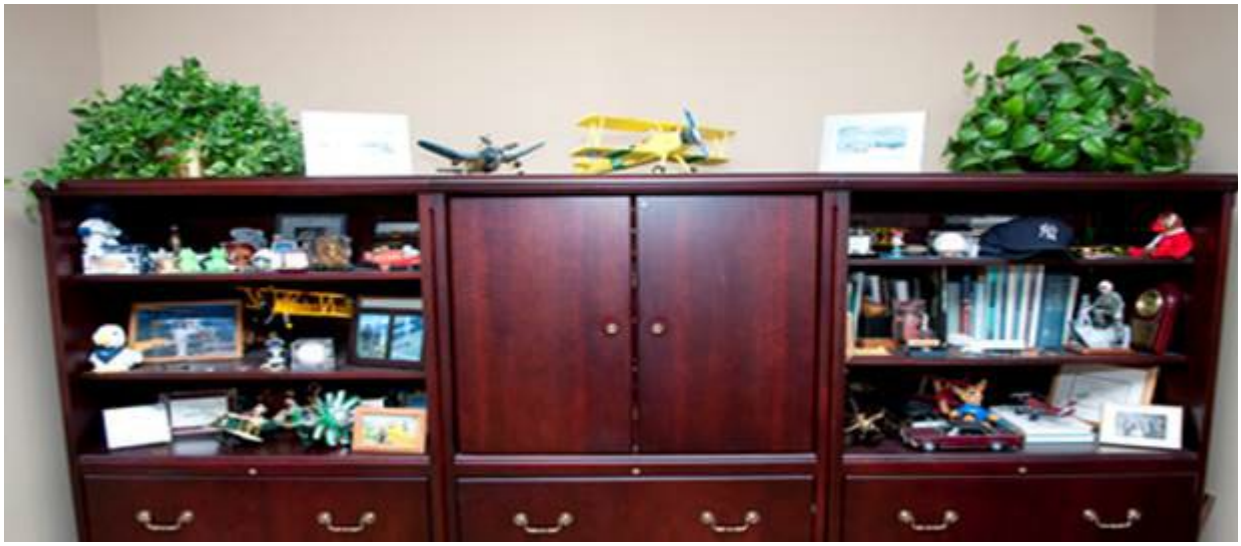
The date that building and/or personal property was acquired is reported to the insurance company so that premium can be charged for the entire period it was covered. This extension is provided for the insured's convenience, but coverage requires a premium charge. It is better to owe premium than to have an uninsured loss.

b. Personal Effects and Property of Others

Coverage for business personal property can be extended to include personal effects that belong to the named insured, its partners, officers, members, employees, or managers. An important restriction of this part of the extension is that coverage does not include theft regardless of the cause of loss form attached.

Coverage also extends to property of others while it is in the named insured's care, custody, or control. This part of the extension does not have a theft limitation which means that whatever cause of loss applies to the business personal property would also apply to this extension.

The most paid at a described location is $2,500. This is the most available, regardless of the number of persons involved and the value of the property lost. Loss adjustments that involve such claims are handled directly with the property's owner.



Example: A break-in occurred at January Plus. In addition to the loss of stock and other business personal property the following items were stolen:

- The president's model airplane collection.
- An employee's prized stuffed animals
- A client's briefcase and coat

Only the client's briefcase and coat were covered under this extension because personal effects are not covered for loss by theft.

c. Valuable Papers and Records (Other Than Electronic Data)

The coverage form does not insure the cost to restore and replace information on valuable paper and records. This coverage extension provides a small limit of insurance to pick up this cost but only for valuable papers and records that are not electronic data.

The covered cause of loss that applies varies by the cause of loss form that applies to business personal property at the location where the loss occurs. If CP 10 30–Causes of Loss–Special Form applies, the covered causes of loss are only the specified causes of loss plus collapse. If CP 10 20–Causes of Loss–Broad Form applies, collapse and the other causes of loss that are part of the broad form apply. There is no mention of CP 10 10-Causes of Loss – Basic because all of its covered causes of loss are applicable.

The limit is $2,500 at each location. Higher limits are available. The cost of research and duplication is considered additional coverage. However, the blank material used for

the process is covered under business personal property coverage and is not additional coverage.

Note: There are two options if the insured requires higher limits. One is to increase the limits for this coverage extension. The second is to use a separate Inland Marine Valuable Papers and Records coverage form. While increasing this coverage form's limits for this exposure may be simpler and less expensive, doing so may mean losing valuable coverage enhancements and the portable nature of a floater form in a stand-alone policy. Both coverage forms should be compared carefully before making any coverage recommendation.

d. Property Off-Premises

Most business personal property tends to move around. This extension recognizes this fact and provides up to $10,000 when property is off premises. However, this coverage applies only to property that is usually situated at a described location and is away from the premises for only a short period. The personal property can be temporarily:

- At a location the named insured does not own, lease, or operate
- At a storage location the named insured leases but only if the lease was made after the policy period began
- At a fair, trade show, or exhibition

If storage space leased during the policy period is still leased when the policy renews, it must be added to the policy as a separate covered location. Otherwise, coverage at that leased storage space ends.

This extension has two important limitations. It does not apply to property in or on a vehicle. It also does not apply to property in the possession of the named insured's salespersons unless the property and the salespersons are at a fair, trade show, or exhibition.

Inland marine coverage forms are available to cover off premises property, property in transit, or property at the premises of others for storage, service, or repair.

e. Outdoor Property (10 12 change)

Under Property Not Covered, q. (2) lists the following as not covered:

- Fences
- Radio and television antennas and satellite dishes
- Trees, shrubs, and plants. Stocks of trees, shrubs, or plants held for sale **or that are part of a vegetated roof are exceptions to this exclusion. (10 12 change**)

This coverage extension insures this property, but only for loss or damage caused by or that results from the aircraft, explosion, fire, lightning, riot, or civil commotion causes of loss. The limit of insurance is $1,000 in any one occurrence, subject to a maximum of $250 for any one tree, shrub, or plant. **The limit must cover both restoring or replacing the damaged items and removing their debris.**

Note: The 10 12 edition debris removal revision specially states that it does not apply to removing any item that this coverage extension covers.

Example: A group of high school kids looking for treats on a Halloween evening approaches Mitzi's Daycare just as Mitzi is leaving to go home. They yell at her, "Trick or treat!" A smiling Mitzi tells them that she is sorry, but she doesn't have anything for them. The next morning, a frowning Mitzi reads, "Here's your treat!" scrawled on her wood fence now lying on the ground. If her insurance company agrees the damage was due to civil commotion as opposed to vandalism, this coverage extension may apply to some of the damage caused by the disappointed tricksters.

The expense to remove the debris of any tree, shrub, or plant owned by others is also covered unless the named insured is a tenant and the tree, shrub, or plant is owned by the landlord and is located on the premises the named insured occupies. (10 12 addition)

The Commercial Property Program has an endorsement available to include or schedule additional coverage for outdoor trees, shrubs, and plants. CP 14 30–Outdoor Trees, Shrubs, and Plants allows the insured to increase these coverage extension limits and schedule specific coverage for this property.

CP 14 50–Radio or Television Antennas is available to use to increase limits on that property. In addition, inland marine coverage forms are available that provide both higher limits and broader coverage.

f. Non-owned Detached Trailers (10 12 change)

Business Personal Property coverage can extend to include coverage for non-owned trailers that meet all of the following conditions:

- The trailer is used in the insured's business.
- The trailer is at a premises listed on the declarations.
- The trailer is in the insured's care, custody, or control.
- The named insured is **contractually responsible** to pay for loss or damage to the trailer.

Note: Using the phrase "contractually responsible" is unusual and may be a preview of things to come in other areas of insurance that have been murky or unclear in the past.

However, there is no coverage for loss or damage that occurs:

- When the trailer is attached to a motor vehicle or motorized conveyance (whether moving or not)
- During any hitching or unhitching operations. This applies even if the trailer is accidentally unhitched from a motor vehicle or a motorized conveyance.

The most paid under this extension is $5,000. Higher limits are available. This coverage is excess over any other insurance that covers such property, whether that insurance can be collected or not.

Note: The limit could be per-trailer or per premises. However, because there is no such statement, the limit should be applied per occurrence. If a named insured uses a number of non-owned trailers, the limit should be increased to reflect those values.

g. Business Personal Property Temporarily in Portable Storage Units (10 12 addition)

Business personal property stored in a portable storage unit is covered subject to the following criteria:

- **The unit is located either within 100 feet of the building or within 100 feet of the premises, whichever distance is greater**
- **The storage unit is portable. It may be a detached trailer.**
- **The unit is in use for no more than 90 days.**
- **The coverage limitation within the causes of loss form with respect to sand, dust, sleet, snow, ice, or rain within a structure applies to any property within the storage unit.**

The business personal property is covered for not more than 90 days once placed in the storage unit.

This coverage is subject to a sublimit of $10,000. It does not increase the amount of business personal property coverage. This sub-limit can be increased.

This is not duplicative or excess coverage, so if a damaged item is covered elsewhere under this coverage form or by endorsement, there is no coverage under this extension for that item.

Example: Olivia gets a great deal on Christmas merchandise but does not have room for it in her warehouse. A month after the merchandise was received, it was destroyed by fire.

Scenario 1: Olivia had put the merchandise in her personal off-site storage unit. There is no coverage.

Scenario 2: Olivia had stored the merchandise at a friend's warehouse. There is no coverage under this coverage form, but her friend's policy may provide coverage.

Scenario 3: Olivia arranged to store her merchandise in a warehouse and notified her agent to add the location to her policy. There is coverage, but the endorsement was required to add the location, another to delete it, and an additional premium charge.

Scenario 4: Olivia leased a detached trailer, parked it next to her building, and placed all of the merchandise in it. She had access to the merchandise and gradually brought it into her building throughout the season. When the fire occurred, the merchandise was covered.

B. EXCLUSIONS AND LIMITATIONS

Exclusions and limitations are in the Causes of Loss Forms that apply. More than one causes of loss form may be attached based on entries on the declarations.

C. LIMITS OF INSURANCE

This section states the maximum limits the insurance company pays in any one loss. In most cases, the limit on the declarations is the total amount that can be recovered for a single loss. If an outdoor sign (whether attached to the building or not) is damaged or destroyed, coverage applies for up to $2,500 per sign in each occurrence.

Example: A fire breaks out at Wally's Winery on July 8. The intense heat pouring out of the winery's doors shatters the front and rear signs. The sign at the rear is valued at $810. The larger sign in front is valued at $2,710. The insurance company pays only $3,310 for the damage to both signs, $810 for the sign at the rear and $2,500 for the sign at the front of the building.

On August 23 (after both signs are replaced), a severe windstorm breaks a limb off a nearby oak tree. The limb smashes the sign at the rear and completely destroys it. The brand-new sign just recently installed is valued at $1,973. The full value of each sign is paid for the second occurrence.

The limits provided for the following coverages are in addition to the limits of insurance for other coverages listed on the declarations:

- Fire Department Service Charge
- Pollutant Clean-up and Removal
- Increased Cost of Construction
- Electronic Data

Insurance company payments made under 4. Additional Coverages b. Preservation of Property does not increase the limit of insurance that applies.

Example: Let's go back to Wally's Winery. Wally moves $40,000 in stock to a truck during the fire to save it. A fire engine responding to the fire strikes the truck and destroys that stock. Wally's Business Personal Property limit is $300,000. The $300,000 is the most available to pay for the combination of the Preservation Of Property loss and the fire loss to the business personal property that had not been removed.

Note: The limits for the Coverage Extensions are also in addition to the Limits of Insurance on the declarations, even though this section does not specifically make that statement. The explanation of the limits appears in the Coverage Extensions closing paragraph.

D. DEDUCTIBLE

The deductible is the amount of a loss that the named insured must pay. However, the amount of loss must be reduced by any coinsurance or agreed amount condition penalty before the deductible is applied. This becomes the adjusted loss amount.

The amount of adjusted loss is compared to the deductible amount. If it is less than the deductible, the named insured is responsible for the entire loss amount.

Example: Mary's Meat Market has a $50,000 limit of insurance on Business Personal Property and a $1,000 deductible. The police cut short an attempted break-in but not before the criminals damage the entry doors and a safe. The total loss is $988. Mary pays for the repairs from her own funds because the amount of loss is less than the deductible.

If the amount of adjusted loss exceeds the deductible, the insurance company pays the lesser of the amount of loss above the deductible or the limit of insurance.

Example: The criminals return to Mary's two nights later. They are much more successful this time and manage to remove a large amount of inventory. Because of their concern about getting caught, they decide to set a fire to cover their tracks. The total loss is $63,000. The amount of loss after the $1,000 deductible is applied is

$62,000. Because the limit of insurance is only $50,000, the insurance company pays $50,000.

If the occurrence that causes the loss involves two or more items of covered property and each has its own limit of insurance, the occurrence deductible is applied only once.

Example: The fire from Mary's Meat Market damages the building that LRO Property Management owns. LRO insures the main building for $250,000, subject to a $1,000 deductible. LRO also has a garage at the rear of the main building insured for $15,000. The loss amounts are $125,000 on the main building and $5,000 on the garage. The loss payment on the main building is $124,000, based on the $125,000 loss reduced by the $1,000 deductible. The deductible is applied to the loss on the main building. The garage is not subject to a deductible, and its $5,000 loss is paid.

An optional deductible endorsement is available. CP 03 20–Multiple Deductible Form is used to apply different deductibles to different coverages or types of property.

E. LOSS CONDITIONS

These Loss Conditions apply in addition to IL 00 17–Common Policy Conditions and CP 00 90–Commercial Property Conditions.

1. Abandonment

The named insured still owns the property after a loss and is responsible for all expenses associated with it, unless or until the insurance company agrees to accept ownership of the property.

Example: A sinkhole causes the Montgomery Fashion Palace to tilt and slide off its foundation into the middle of Main Street. This creates a major traffic obstruction. Montgomery informs its insurance company that it will accept a cash settlement and then close the business. However, the insurance company is not interested and refuses to accept the property. As a result, Montgomery must either move the building back to its original position or arrange to have it demolished. Montgomery is also responsible for all fines and penalties from the city for obstructing traffic.

2. Appraisal

The insurance company and the insured may occasionally disagree on the value of property or on the actual amount of loss. The appraisal condition is designed to resolve these disagreements without a court intervention. In the first step, one party decides it has reached an impasse with the other party and makes a written request for an appraisal. Each party then hires an independent appraiser. Each appraiser must be both competent and impartial.

Example: Jane is the insured, and her insurance company is Bargun-Downe Property Company. They disagree on the value of the roof damaged by a lightning strike. They both agree to submit the dispute to appraisal. Jane selects an experienced appraiser who just happens to be her brother. Bargun-Downe selects a totally impartial party who does not have any appraisal credentials. Both appraisers are rejected. Jane's selection is biased, and the company's selection is not qualified.

The appraisers then choose an umpire. If they cannot agree on one, they can request that a judge of a court that has jurisdiction select one. Once all parties are selected and are in place, each appraiser states the value of the property and the amount of loss. If both parties agree, the amount of loss is settled. Only disputed amounts are submitted to the umpire. Any decision made by any two of the three is binding on both the insurance company and the insured.

The expenses associated with this process fall outside the category of expenses the coverage form pays. The insured pays the following costs or expenses. The insurance company does not reimburse it for them:

- Its appraiser
- Its equal share of the cost of the umpire
- Its equal share of any other appraisal expenses

The insurance company pays the following costs and expenses. None of these expenses reduce the limit of insurance:

- Its appraiser
- Its equal share of the cost of the umpire
- Its equal share of any other appraisal expense

Example: A tornado seriously damages Baron's Furniture Store. Furniture is strewn over many city blocks. Sheila is the owner and believes the value of the loss is $560,000, based on her inventory records. The Cheapskate Mutual claims representative visits the store, views both damaged and undamaged merchandise and determines the loss to be $350,000. Each side presents its case to the other, but the impasse cannot be resolved. Sheila needs to restore the inventory to get back in business. She sends a letter to Cheapskate and requests an appraisal.

Each party selects a qualified and impartial appraiser but cannot agree on an impartial umpire. They ask a local judge to select one, and he does so. Sheila's appraiser determines the loss to be valued at $625,000, but Cheapskate's appraiser determines a value of the loss of $450,000. The umpire reviews their figures and agrees with the insured on some items and with Cheapskate on others. The final settlement is $510,000. Each party bears its own expenses for the appraisers and umpire, but the agreed value of the loss is $510,000.

3. Duties in the Event of Loss or Damage

The insured is expected to act reasonably whenever a loss occurs. If not, the company's obligation to pay the loss may end. The named insured must:

- Notify the police or other law enforcement authorities if a law may have been broken. Even though this requirement may sound obvious, the circumstances surrounding a loss may make this issue more complicated than it appears.

Examples:

Scenario 1: A theft occurs at Paul's Camera Shop. Paul reports the loss to the insurance company. It begins to adjust the loss and discovers that Paul did not make a police report. He explains that he suspects that a relative may be involved and doesn't want to get her in trouble.

Scenario 2: A fire destroys Jerry's warehouse. The insurance company adjuster discovers that a local gang may have started the fire. Jerry does not fill out a police report because he fears reprisal.

In cases like these, the insurance company has the right to refuse to pay the loss. It needs this requirement to protect its interests, which include being certain that the claim is legitimate as well as making sure there is a chance that the responsible parties are found and punished. When theft of property is involved, police involvement increases the chances that the property will be recovered.

- Give prompt notice to the insurance company of loss or damage and describe the property involved. This notice is not a complete and thorough report. It provides only enough information for the insurance company to begin to process the claim and decide how to respond. Some court cases have challenged the meaning of "prompt." As a result, the best advice is for the insured to send as much loss information to the insurance company as soon as it knows that a loss has occurred.
- Give a description of how, when, and where a loss occurred as soon as possible after it occurs. This requirement is slightly different than the prompt notification obligation. That obligation is to inform the insurance company on a timely basis that a loss has occurred. This obligation assists the company to determine if the loss is actually covered.
    - **HOW** is what actually caused the loss. The answer determines if the loss is covered.
    - **WHEN** is the exact time the loss occurred. Because coverage applies only if the loss occurs during the policy period, this information is very important. There is coverage if the loss occurs at 12:02 a.m. on the inception date. There is no coverage if it started at 11:59 p.m. the day before the inception date. In addition, accurate information on when the loss or damage occurred may help resolve whether the loss occurred suddenly or over a period of time. This is important. There is a distinction because sudden losses tend to be fortuitous and covered while losses that take place over a period time may be maintenance issues that are not covered.
    - **WHERE** is important because most coverages require that the property be at a location or premises listed on the declarations. If the loss occurs elsewhere, the coverage form must be examined carefully to determine if any coverage applies at such locations.
- Take appropriate steps to protect the covered property from any further damage. The time to take that annual Florida vacation is never immediately after a loss occurs. The requirement to protect property involves taking reasonable measures, not extraordinary or unreasonable ones. Covering property with tarps

to protect against moisture damage, boarding up windows, and hiring security guards are examples of reasonable measures to take after a loss. Any expenses the named insured incurs are taken into consideration in the loss adjustment and settlement but paying these expenses does not increase the limit of insurance. Finally, the named insured should separate the damaged property from undamaged property and set the damaged property aside for examination whenever possible.

Example: The front window of Haptown Appliances blows in during a violent thunderstorm. Flying glass, debris, and water badly damage the televisions on display. The police notify the owner, and the owner informs his insurance agent and the insurance company. When the storm ends, the owner goes to the store and evaluates the situation. His immediate concern is that the security system no longer works. He purchases lumber, boards up the window, and contacts the alarm company. The alarm company recommends a security company that can provide extra security until the window is repaired and the alarm system is put back into operation. After these arrangements are in place, the owner examines the appliances and moves the damaged ones to the rear of the store and begins to clean-up. The insurance company includes the expenses for temporary security and boarding-up the window in the loss adjustment and settlement.

- Provide inventories of damaged and undamaged property when the insurance company requests them. This includes quantities, costs, values, and the amount of loss claimed. This detailed information is important to properly adjust the loss and offer a fair settlement. The named insured controls the inventory and is responsible for supplying the information needed.
- The insurance company has the right to verify that the information the named insured provides is accurate and correct. For this reason, it may inspect the property to prove the loss or damage. It may also examine the insured's books and records that relate to the loss or damage. The insurance company can also take samples of the damaged and undamaged property and make copies of the insured's books and records.

This condition states that the insurance company must be reasonable in its requests. Because reasonable is not a defined term, the two parties might disagree about the intent of this condition. For example, the company may state that repeat visits are necessary to be thorough. The insured may view the same actions as being a delaying tactic that slows down the settlement. While the essence of this condition is to prevent the insurance company from harassing the insured, it also benefits the company.

Because of the way it is written, an uncooperative insured cannot claim that a single visit is sufficient for the carrier to adjust and settle a loss.

- Show good faith in the truth and accuracy of a claim for loss by providing the insurance company with a signed and sworn proof of loss. This must be done no later than 60 days after the company requests it, along with any other information needed. The insurance company provides the necessary forms and instructions on exactly the information it needs.

Note: If the company's requests are not clear and the insured is confused, any delay in providing the information cannot be used as an excuse to deny coverage.

- Cooperate with the insurance company as it investigates and settles the claim.

In addition to the points outlined above, the insurance company has the right to examine any insured under oath. The examination can take place without another insured being present. The examinations can be done as often as necessary with respect to anything related to either the insurance coverage or the claim itself. They can include examinations of the insured's books and records. In all examinations, the written document used to record the insured's answers must be signed.

Note: Loss investigation is a serious part of the insurance claims process. The insurance company must have complete access to information as necessary to investigate and settle the claim. This may include information the insured would rather not disclose. Claims adjusters want to believe their insurance customers are honest but the sheer number of incidents of fraud makes them cautious. While the insurance company cannot use intimidation or harassment, it must still be diligent in order to protect its assets and to prevent or limit fraud.

4. Loss Payment

a. and b. The insurance company must use one of the four options below to settle a claim:

- Pay the value of the lost or damaged property.
- Pay the cost to repair or replace any lost or damaged property. This cost does not include any expense for increased cost due to enforcing **or complying with** any ordinance or law that regulates use, repair, or construction of any property. **(10 12 change)**
- Take all or any part of the property at an agreed or appraised value.
- Pay to repair, rebuild, or replace the damaged property with property of similar type and quality. This payment does not include any expense for increased cost due to enforcing **or complying with** any ordinance or law that regulates use, repair, or construction of any property. **(10 12 change)**

The value of damaged or destroyed property, or the cost to repair or replace, is based on the terms of the coverage form's valuation condition or any other provision that amends or replaces the valuation condition.

c. The insurance company must tell the insured the option it will use within 30 days after it receives a properly prepared and signed sworn proof of loss.

d. Insurance is meant to indemnify, not reward. As a result, the insurance company does not pay more than the insured's financial interest in the covered property at the time of loss.

Example: Mary and Jane form a partnership called Mary Jane's Clothing. Five years later, Mary purchases Jane's interest. A covered loss occurs two months after the purchase. Because Jane's name is still on the policy, she files a claim against the policy. She is politely informed that she has no right to make a claim and that the coverage form will not respond to her claim because she no longer has a financial interest in the covered property.

e. The insurance company has the right to adjust claims for loss or damage to property the named insured does not own directly with the property's owner. However, the insurance company has the right to settle those claims with the named insured and allow the named insured to work with the property's owner. Any settlement reached must satisfy all claims for the property because the insurance company pays only once. The most the insurance company will pay for such a loss is the property owner's financial interest in the property.

f. The insurance company that provides the property coverage may decide to defend the named insured against suits due to claims brought by the property's owner. In such cases, the insurance company does so at its own expense.

g. The insurance company must pay the loss within 30 days after it receives the insured's signed and sworn proof of loss. This obligation depends on the insured meeting all policy conditions as well as one of the following determining the value of the loss:

- The parties having agreed on the amount of loss
- An appraisal award having been made

h. Buildings that abut one another often share a party wall. This wall separates the two buildings but is also part of each building. Loss settlements are not affected if the same insured owns all buildings. However, loss settlements may be more difficult if different insureds own the shared party wall.

When both building owners plan to repair and rebuild, the insurance company pays its insured's proportional share of the damage to the party wall. However, the insurance company pays the full value of the party wall if its insured wants to rebuild, but the other

building owner does not. The paying insurance company then has the right to subrogate against the adjoining building owner.

Example: Marsh's Restaurant is the middle building in a row of five buildings. Each shares a common wall with its neighbor. A fire starts at Marsh's and spreads to both its neighbors. The loss is substantial. Marsh's is determined to rebuild, but the business on the south side is not. Marsh's insurance company works with the business on the north side, and both pay their share of the party wall. However, Marsh is paid the full amount for the wall on the south side, and then its insurance company subrogates against the business on the south side for its share of that wall.

5. Recovered Property

Either the named insured or the insurance company may recover property after the company pays a loss. The recovering party must promptly notify the other to inform it of the recovery. The named insured has the right to decide whether to return the claim payment and keep the recovered property or allow the insurance company to keep the recovered property. The insurance company is responsible for recovery expenses and any repair to the recovered property, subject to the limit of insurance.

Example: Burglars break into Floyd's Music Shop and steal $25,000 in CDs. The insurance company pays the claimed amount of $25,000. Two years later, the police notify Floyd that they located the CDs in a warehouse. Floyd notifies the insurance company of this development.

The insurance company representative and Floyd visit the warehouse, and Floyd realizes that the current value of the CDs is negligible due to their age. He decides to keep the claim payment and let the insurance company keep the CDs.

6. Vacancy

Insurance companies are interested in insuring successful and ongoing businesses. Risk pricing contemplates an active occupancy. As a result, rates on vacant properties are heavily surcharged. Because vacancy is often discovered only after a loss occurs, the loss conditions dramatically limit coverage if the insurance company was not informed of the vacancy in advance.

This condition has harsh penalties. As a result, it is very important to understand the definition of vacancy. If the named insured is a tenant, the only part of the building considered when analyzing vacancy is the portion it occupies. That portion is considered vacant if the business personal property on premises is not sufficient for the tenant to conduct its customary operations.

Example: Millie’s Florist Shop occupies a quarter of the Landow building. The tenant that previously occupied the rest of the building, The Cat and Mouse Café, moved out. The building owner is looking for a new tenant, and the search is now in its ninth month. A fire breaks out in the building's vacant portion, and Millie's space experiences heavy smoke damage. This condition does not affect Millie’s loss because the portion of the building she occupies is not considered vacant.

If the named insured is the building owner or a general lessee, the entire building is considered in determining vacancy. The building is vacant unless at least 31% of the total square foot area is either of the following:

- Rented to a lessee or sub-lessee that uses it to conduct its customary operations
- Used by the building owner to conduct customary operations.

Note: The key word is customary.

Example: If the lessee, sub-lessee, or building owner is a retail business, the retail business is its customary operation. The insurance company may deny a claim when a loss occurs, and it discovers that 90% of the building is used for storage because the building is vacant according to the coverage form's language.

Buildings under construction or being renovated are not considered vacant. Questions could arise as to how long a project can be considered under construction and under renovation. If a building is being renovated, but the renovation involves only the owner working on the building in his spare time (because he knows there are no tenants interested in it), how long will it be before that building is considered vacant?

Example: The Eastward Shopping Center has four separate buildings and always struggles with vacancy issues. Building A is totally occupied by one tenant. Building B has one shop that occupies 20% of the space. The rest of the building has been vacant more than six months. Building C has multiple tenants but is 15% vacant. Building D has just

been leased subject to completion of major remodeling. A contract has been signed, and remodeling has begun.

A major summer storm's heavy winds damage all four buildings. Based on the definition of vacancy, Buildings A and C are not vacant, and their coverage is not affected. Building B is vacant and is subject to a vacancy penalty. Building D is not vacant at the time of the loss (and the vacancy penalty is not applied) because it is being remodeled.

Having defined vacancy, the vacancy condition can be stated. If the building damaged by a covered cause of loss has been vacant as defined above more than 60 consecutive days before the date of loss the following apply:

- The insurance company does not pay anything if the loss is caused by vandalism, breakage of building glass, water damage, theft, or attempted theft. It also does not pay for sprinkler leakage damage if the sprinkler system is not protected against freezing.
- The insurance company reduces the amount of any loss it pays by 15% if the claim is caused by or results from any covered cause of loss not listed above.

Example: Building B in the Eastward Shopping Center example above was penalized 15% because the loss was caused by storm damage. The loss would have been denied if it had been caused by vandalism.

7. Valuation (10 12 change)

The value of covered property at the time of a covered loss or damage is determined as follows:

a. Actual cash value at the time of loss except as described below. The coverage form does not define actual cash value, but court decisions refer to it as replacement cost new minus accumulated depreciation.

Note: Optional Coverage Replacement Cost, described later in this analysis, replaces actual cash value valuation with replacement cost valuation when RCV is shown on the declarations for the type of property.

Example: Listings, Inc. has a small fire that produces considerable smoke. It provides a complete inventory along with purchase prices for all items damaged. The claims adjuster then develops the current replacement cost new for those items and applies a depreciation factor to that replacement cost new in order to develop each item's actual cash value.

Item Description	Item Age	Purchase Price	Replacement cost new	Depreciation factor	Actual Cash Value
Office furniture	2 years	$6,000	$7,500	.80	$6,000
Computers	5 years	$15,000	$9,000	.50	$4,500
Carpet	5 years	$20,000	$25,000	.70	$17,500
Window Coverings	2 years	$10,000	$12,000	.90	$10,800
Total Value			$53,500		$38,800

The maximum loss paid using actual cash value valuation is $38,800. If the replacement cost option had been selected, a maximum payment of $53,500 is available.

b. The insurance company pays the building loss at full replacement cost value if the building limit of insurance meets the requirements of F. Additional Conditions 1. Coinsurance and the cost to repair or replace it is $2,500 or less. This is a bonus to the insured for carrying a limit of insurance that satisfies the coinsurance requirement.

This cost does not include any increased costs due to enforcing **or complying with** any ordinance or law that affects construction or use. **(10 12 change)**

This item has exceptions. The following property remains valued at its actual cash value, whether or not it is attached to the building.

- Awnings
- Floor coverings
- Refrigerating, ventilating, cooking, dishwashing, or laundering appliances
- Outdoor equipment
- Outdoor furniture

c. Stock sold but not delivered is valued at its net selling price less discounts and expenses the insured would have had otherwise.

Example: Ben's Wholesale stocks only merchandise it has sold. A covered loss destroys all the stock. The merchandise was sold at an agreed price of

$600,000. Ben provides a 10% 30-day payment discount, and it costs $50,000 to transport the merchandise to the customer. The value of Ben's loss is $600,000 minus the 10% discount of $60,000 and minus transportation costs of $50,000, for a total of $490,000.

d. Damaged glass that is required by law to be replaced with safety glass is replaced with safety glass, even when the damaged glass was not safety glass

Example: Mary purchases a small, older building and is charmed by the full-length bay window where she can display her wares. One day a customer mistakenly drives through the window. The insurance company discovers that the glass is original single pane. Current building codes require that any window that is lower than 18 inches above the floor and more than nine square feet must be replaced with tempered or safety glass. The cost of the new tempered bay window is covered because of the legal requirement for it and this valuation condition.

e. Tenants' improvements and betterments valuation is unique because the tenant purchases, owns, and uses them but cannot legally exercise its ownership right to remove them when the lease ends, and it moves out. One of the following three valuation methods is used that are based on actions of the insured or the landlord:

- Actual cash value is used to determine the amount of loss if the insured repairs or replaces the improvements or betterments.
- A cash settlement based on the proportional value of the items is determined if the insured does not promptly repair or replace the improvements and betterments. The proportion is established as follows:

Step 1. Determine the number of days from the date of loss to the lease's expiration date. The expiration date is considered the end of the renewal option period, if there is one.

Step 2. Determine the number of days from the date the improvements and betterments were installed to the lease's expiration date. The expiration date is considered the end of the renewal option period, if there is one.

Step 3. Multiply the original cost of the improvements and betterments by Step 1.

Step 4. Divide Step 3. by Step 2.

Example: Sally's Card Shop added $5,000 in improvements when it moved in two years ago. The five-year lease includes a five-year renewal option. Lightning damages the improvements, and they must all be replaced. Sally is not sure

that the improvements are really needed at this time, so the proportion must be calculated to pay the loss.

Step 1. Date of loss is 01/01/2023. Date of lease is 01/01/2019-12/31/24 with an option to 12/31/29. The number of days from 01/01/19 to 12/31/27 is 2,920.

Step 2. The lease inception is 01/01/2019, and lease expiration with renewal option is 12/31/29. The total number of days is 3,650.

Step 3. $5,000 X 2,920 = $14,600,000

Step 4. 14,600,000/3,650 = $4,000

Sally would receive $4,000 based on this proportional method.

- The insured does not receive anything if another party, such as the landlord, repairs the improvements or betterments.

F. ADDITIONAL CONDITIONS

These two additional conditions are extremely important. Mistakes in either can be extremely costly.

1. Coinsurance

This condition applies only if there is a coinsurance percentage on the declarations. The insurance company does not pay the full amount of any loss if the value of the covered property at the time of loss multiplied by the coinsurance percentage on the declarations exceeds the property's limit of insurance.

It is important to understand that coinsurance is not required or mandatory. However, it is recommended because pricing is surcharged significantly when coinsurance is not selected. The lower premium is provided on the condition that the insured maintain a limit of insurance equal to the selected 80%, 90%, or 100% of the value of the covered property. If it does not, a coinsurance penalty is applied to any loss sustained.

The coinsurance penalty is calculated as follows:

Note: The insured can select the Agreed Value option and not be subject to coinsurance or the coinsurance penalty. This option is analyzed in G. Optional Coverages.

Step 1. Determine the value of the covered property at the time of loss. The value of the property as of the policy inception date is irrelevant.

Example: Keith’s Saddle Barn has coverage on its stock and other business personal property. The total value is $150,000 on the inception date. Keith decides to use 80% coinsurance and purchase coverage with a $120,000 limit. A fire occurs three months into the policy period. At the time of loss, the total value of stock and other business personal property is $200,000 because Keith purchased a large

amount of stock in advance of the Christmas season. The loss is valued at $50,000. The value used to determine the coinsurance penalty is $200,000, the value at the time of loss, and not the $150,000 value on the inception date.

Step 2. Multiply Step 1. by the coinsurance percentage on the declarations. There is no penalty if the result is greater than the limit of insurance. However, if the result is less than the limit of insurance, go to step 3.

Options available are 80%, 90%, 100%, or none. The premium is surcharged if the no coinsurance option is selected. Property rates are developed assuming 80% coinsurance and are not surcharged or credited. Limits that reflect 90% coinsurance are credited 5%, and those that reflect 100% coinsurance are credited 10%.

The limit of insurance is not required to be the value multiplied by the coinsurance. It should be based on the maximum value expected during the policy period. If fluctuating values are expected, the insured should consider writing coverage on a reporting form or using the peak season endorsement.

In some cases, the insured may choose to insure at 100% value of the property but keep the coinsurance at 80% or 90%, so the limit is adequate in case of unanticipated value increases and to avoid a coinsurance penalty.

Example: Because the value of the property at the time of loss is $200,000, Keith's Saddle Barn's limit should have been $160,000. Keith chose 80% but applied it to the value of $150,000 as of the inception date and now faces a coinsurance penalty because the limit is only $120,000.

Step 3. Divide the limit on the declarations by Step 2 to develop the coinsurance penalty factor.

Step 4. Before applying the deductible, multiply the loss amount by Step 3.

Step 5. Subtract the deductible from step 4.

The insurance company pays the lesser of the amount determined in Step 5. or the limit of insurance. The named insured pays any difference.

Example: Keith's Shoe Barn's loss amount with a coinsurance penalty is determined as follows:

Step 1. The value is $200,000

Step 2. $200,000 X .80% = $160,000.

Step 3. $120,000 / $160,000 = .75

Step 4. $50,000 X .75 = $ 37,500.

Step 5. $37,500 – the $1,000 deductible = $36,500

The insurance company pays $36,500. The remaining $12,500 is not covered.

The coverage form includes three useful examples that explain how the coinsurance condition applies. The coinsurance condition may be suspended by selecting G. Optional Coverages 1. Agreed Value which is analyzed later in this article.

2. Mortgage holder

Mortgage holder is not defined in this coverage form except to state that trustees are included as mortgage holder. The insurance company pays for covered loss or damage to buildings or structures to each listed mortgage holder in the order of precedence and as its respective interest appears. The mortgage holder must prove its interest at the time of loss.

The mortgage holder retains the right to receive loss payments even when foreclosure proceedings or similar actions are being taken against the insured. However, it loses those rights after the foreclosure is complete because at that point the named insured no longer has any interest in the property. Instead, the bank is the owner, and its policy should respond.

If the insured's claim is denied because of actions taken by the insured, or because it failed to comply with any of the coverage form's terms and conditions, the mortgage holder retains its right to receive loss payments but only if it has done all of the following, as applicable:

- Paid any premium due when the insurance company notified it that the insured had not done so
- Submitted a signed, sworn proof of loss within 60 days after the insurance company notified it that the insured had not done so
- Notified the insurance company of any change it knows of in ownership, occupancy, or substantial change in risk

Example: Gravyboat LLC buys and sells homes. It owned 35 homes when a market adjustment occurred. Gravyboat is overextended and cannot sell a number of houses. The mortgage holder, Bank Three, begins foreclosure proceedings on five properties. Gravyboat does not pay the premium, and CloseEnuf insurance company sends a notice of cancellation. Bank Three receives the notice and pays the premium but does not tell CloseEnuf that Millicent, LLC had actually purchased two of the properties. When one of the Millicent properties is damaged by fire, CloseEnuf denies the loss because Bank Three had not informed it that the ownership had changed.

Once the mortgage holder takes such intervening action, the coverage form's terms apply to the mortgage holder because it assumed the named insured's position.

If the insurance company pays the mortgage holder for a covered loss or damage but refuses to pay the insured because of its actions or because it did not comply with the terms and conditions of the coverage form, both of the following apply:

- The mortgage holder's rights under the mortgage transfer to the insurance company to the extent of the amount paid.
- The mortgage holder's right to recover the full amount of its claim is not impaired.

The insurance company has the option to pay off the entire mortgage, including accrued interest. If it does, it owns the mortgage, and the insured must pay the remaining mortgage debt to the insurance company.

If the insurance company cancels the policy for non-payment of premium, it must give at least 10 days prior written notice to the mortgage holder before the cancellation takes effect. It must give at least 30 days written notice to the mortgage holder for any other reason.

If the insurance company decides not to renew the policy, it must give at least 10 days written notice to the mortgage holder prior to the expiration date.

G. OPTIONAL COVERAGES

This coverage form has four optional coverages. They are optional because they apply only if there are entries for them on the declarations that indicate they have been selected. The optional coverage may apply to one type of coverage but not another. As a result, the entries on the declarations must be very precise.

1. Agreed Value

The coinsurance condition includes serious penalties if the value of covered property at the time of loss is less than the value the coinsurance clause requires. While the agreed value option gives the insured an alternative valuation technique, it is also subject to certain conditions and requirements.

The coinsurance condition does not apply when the insured selects this optional coverage. Instead, the insurance company does not pay more for covered loss or damage to covered property than the proportion that the limit of insurance bears to the agreed value entered on the declarations.

An expiration date for the agreed value option must be entered on the declarations. If its expiration date is prior to the policy expiration date and it is not extended by endorsement, the coinsurance condition is reinstated, and the option no longer applies. This optional coverage applies to only loss or damage that occurs on or after the effective date of this optional coverage and before the expiration date of the agreed value option date on the declarations or the policy expiration date, whichever is earlier.

Note: This option is called agreed value because the insurance company and the named insured agree that the value is adequate based on documentation submitted to

substantiate the values. Before extending the option, updated documentation must be submitted so that a new agreed value can be determined.

Example: Kitty's Tavern submits an application and requests agreed value optional coverage. The worksheet also submitted shows a business personal property value of $150,000. However, Kitty wants to insure it to only 90% of this value. AlcoHall Insurance company and Kitty agree on a 90% agreed value of $135,000. The policy is issued with this limit for the period 01/01/2021 to 01/01/2022. The agreed value clause expiration date is also 01/01/2022.

A $5,000 covered loss occurs. The loss is paid in full because the limit and the agreed value are the same.

The policy is extended to 04/01/2022 without a request to extend the agreed value optional coverage. When a loss occurs on 03/01/2022, the coinsurance clause is reinstated, and the loss is adjusted based on coinsurance because the Agreed Value Optional Coverage date was not extended.

2. Inflation Guard

This option gives the named insured a certain degree of flexibility. It is used primarily on real property, not personal property. The named insured selects an annual inflation rate. The insurance limit automatically increases by the inflation rate selected during the course of the year. As a result, if a loss occurs, the new limit as of the date of loss is determined before any loss calculation is done. The new limit is calculated as follows:

Step 1. Determine the limit of insurance that applies to the loss.

Step 2. Multiply the limit in Step 1. by the decimal version of the annual increase percentage selected on the declarations.

Step 3. Determine the number of days since the limit was last changed.

Step 4. Divide Step 3. by 365.

Step 5. Multiply Step 2. by Step 4. to determine the amount of increase.

Step 6. Add Step 1. to Step 5. to determine the limit of insurance that applies to the loss.

Example: Caldwell Manufacturing is issued on January 1 a $1,250,000 limit and an 8% inflation guard factor. A loss occurs on July 1. The limit available to pay the loss is calculated as follows:

Step 1. $1,250,000 is the limit of insurance

Step 2. $1,250,000 X .08 = $100,000.

Step 3. There are 181 days between January 1 and July 1.

Step 4. 181/365 = .496

Step 5. $100,000 X .496 = $49,600

Step 6. $1,250,000 + $49,600 = $1,299,600. This is the amount available to apply to pay for the claim.

Note: When Optional Coverages–Inflation Guard is included, the renewal limit should be reviewed carefully. If the inflation guard factor is 8%, the limit at renewal should be at least 8% higher than the current limit, or the insured's renewal limits are actually a reduction in coverage.

Example:

- Policy term: 01/01/2021 to 01/01/2022
- Limit of insurance: $1,000,000
- Inflation guard factor: 8%
- Limit of insurance as of 12/31/2021: $1,000,000 X .08 = $1,080,000

The insured that wants the policy renewed "as is" should be reminded that this means a renewal limit of $1,080,000. This reflects the original limit increased by the annual inflation guard factor. Renewing for the $1,000,000 limit is actually a reduction in limits.

3. Replacement Cost

a. The Valuation Loss Condition is amended by replacing Actual Cash Value with Replacement Cost. This means that there is no deduction for depreciation of property when determining payment for property that a covered cause of loss damages or destroys.

b. Replacement cost valuation does not apply to:

- Personal property of others
- Contents of a residence
- Works of art, antiques, or rare articles such as etchings, pictures, statuary, marbles, bronzes, porcelains, and bric-a-brac.
- Stock, unless an entry on the declarations includes stock as covered property subject to replacement cost

c. The insurance company does not force the insured to accept replacement cost valuation at the time of loss. The insured can accept a settlement based on actual cash value. The insured can later make a claim based on replacement cost as long as it notifies the insurance company within 180 days after the date of loss that it wants to exercise the replacement cost. The reason to accept an actual cash value settlement and then revert to replacement cost is to obtain initial funds to begin the process to repair or replace.

Example: Connie's Feed and Grain has a $225,000 limit, including replacement cost optional coverage. A fire destroys her store. Connie decides to take the actual cash value settlement of $150,000 instead of rebuilding. When members of the community beg her to reconsider her decision, she changes her mind and on the 179th day, notifies the insurance company of her intent to rebuild. She uses the $150,000 settlement to start rebuilding. She receives the remaining $75,000 after construction is complete.

d. The insurance company does not pay on a replacement cost basis until the property damaged or destroyed is actually repaired or replaced. If the arrangements for repairs or replacement are not made as soon as possible after the date of loss, a replacement cost settlement can be denied.

Note: The longer the insured takes to begin to make repairs, the more expensive the loss becomes because of deterioration and general exposure to the elements. Water damage is always a concern, especially in warm climates.

Tenants' improvements or betterments are subject to replacement cost when personal property is subject to replacement cost. However, if the named insured does not meet the conditions in d. above, the valuation reverts to the method explained under the Valuation Condition. In addition (and to prevent double dipping), the insurance company

pays the named insured only when the named insured actually pays for the repairs. When the landlord or another party pays for the repairs to the tenant's improvements and betterments, the named insured will not receive any payment.

e. The insurance company is obligated to pay only the least of the following amounts:

- The limit of insurance that applies to the damaged or destroyed property
- The cost to replace the damaged or destroyed property with comparable property used for the same purpose

Note: There is no requirement that the property be replaced with comparable property that is used for the same purpose only that the cost for whatever replacements are made will not exceed the cost of comparable property used for the same purpose.

- The actual cost to repair or replace the damaged or destroyed property

The named insured has the option to rebuild at a different location. When that option is selected, the amount paid is limited to how much it would have cost to rebuild at the original site with comparable value property that is used for the same purpose.

Example: Barney's Gun Shop is destroyed. Barney has been subject to harassment at the current location so decides to relocate to a more amenable area. He also decides to change operations entirely. He has always dreamed of running a British Tea Shop, and this seems like the perfect time. The cost to rebuild Barney's Gun Shop at its current site is $325,000. The cost to build Barney's Tea Shop is $400,000. The most Barney will receive is $325,000, and he will receive it only after the Tea Shop is built.

f. The cost of repair or replacement does not include any increase caused by enforcing **or complying with** any ordinance or law that applies to the construction, use, or repair of the property. **(10 12 change)**

4. Extension of Replacement Cost to Personal Property of Others

This extension can be used only when the Replacement Cost Optional Coverage is selected because it simply modifies it. This coverage removes the exclusion for personal property of others from the above Replacement Cost Optional Coverage.

There is one limitation. If personal property of others is subject to a written contract that establishes the named insured's liability for loss or damage to it, valuation of that property is based on the least of:

- The amount stated in the contract
- The property's replacement cost
- The property's limit of insurance

Example: Mary has a contract for leased equipment in her office. The contract states that she is not responsible for more than $40,000 if a loss occurs. A loss occurs, and the replacement cost value for the equipment is determined to be $60,000. The most the insurance company pays is $40,000 due to the contract's language.

H. DEFINITIONS

This coverage form has three defined terms.

1. Fungus

This term includes any and all forms of fungus. Mold, mildew, spores, scents, mycotoxins (or by-products that the fungus releases or produces) are examples of items considered fungus, but the term is not limited to only them.

An example of mildew

Note: 4. Additional Coverages e. Increased Cost of Construction uses this term to restrict coverage.

2. Pollutants

This term refers to any solid, liquid, gaseous, or thermal irritant or contaminant. It includes smoke, vapor, soot, fumes, acids, alkalis, chemicals, and waste. Waste includes materials to be recycled, reconditioned, or reclaimed.

Pollutants take many forms.

Note: ISO uses this definition in all its coverage forms.

3. Stock

This is merchandise held for sale or in storage. Raw materials, goods in process, and finished goods are all considered stock. In addition, supplies that will be used in the packing or shipping of stock are stock.

2. CP 04 05–Ordinance or Law Coverage

This endorsement includes three separate coverages. Each is treated separately and apart from the others.

- Coverage A insures against loss to the undamaged portion of the building. This coverage is unusual because it pays for the value of property that must be intentionally destroyed. However, coverage applies only to that portion of the building that must be destroyed to comply with a building code or ordinance that was previously grandfathered but is being imposed following a covered loss.
- Coverage B insures against the cost to demolish and remove the undamaged portions of the building. This coverage is even more unusual than Coverage A because these are the costs to destroy undamaged property. As with Coverage A, it applies to only the costs to demolish and remove the portion of the building that must be removed in order to comply with a building code or ordinance that was previously grandfathered that is imposed following a covered loss.

- Coverage C insures against the increased costs to repair or rebuild the property to comply with current building, zoning, or land use ordinances or laws. The increased costs must be incurred in order to comply with building codes or ordinances that were previously grandfathered that are being imposed following a covered loss.

3. CP 04 26–Ordinance of Law Coverage Form Tenant's Interest in Improvements and Betterments (Tenant's Policy)

The three coverages described under CP 04 05 are covered under this newly introduced endorsement in a very similar manner but modified because improvements and betterments are not the same as buildings. Those differences are described and analyzed after the CP 04 05.

CP 04 05–ORDINANCE OR LAW COVERAGE

A. Schedule

The first part of the endorsement is a schedule that allows the insured to select the type of coverage desired. A limit of insurance must be entered if Coverage B and/or Coverage C is selected. There is an option to combine Coverage B and Coverage C into a single combined limit of insurance.

A limit of insurance is not entered for Coverage A because it depends on the building limit on the declarations. The insured cannot establish a value on a possible undamaged portion of the building that may have to be demolished. Rating for Coverage A is based on a rate surcharge applied to the total building limit.

Yes or No must be selected for the Post-Loss Ordinance or Law Option.

B. Application of Coverage(s)

Certain conditions must be met in order for any of the coverages selected to apply. Coverage does not apply without these conditions.

The ordinance or law must regulate building construction, repair, demolition, or zoning and land use requirements. Coverage is subject to the following:

1. The ordinance or law must be in force at the time of the loss.

Example: The Merrilltown city council fought for years to require that only buildings of masonry non-combustible or better construction be permitted in the downtown area. The ordinance was passed on 02/01/2022. Merrilltown Furniture occupied a large frame building downtown that a large fire damaged on 01/28/2022. It was forced to comply with the new ordinance when it applied for a building permit. Merrilltown Furniture requested coverage under CP 04 05, but its request was denied because the law was enacted after the loss had occurred.

If the "post-loss ordinance or law option" in the schedule on this endorsement is marked as yes item B. 2 applies instead of item B.1 above.

2. The ordinance or law must be in force at the time of the loss. However, this coverage will continue to apply if the ordinance or law was put into place or revised after the loss but before the rebuilding commenced. The ordinance or law must require compliance in order for a building permit or certificate of occupancy to be issued.

Example: Merrilltown Furniture was not pleased when its request was denied. It asked the claims adjuster to review its form because it had requested that the "post-loss ordinance or law" option be marked Yes. The adjuster reviewed the form, and coverage was granted because the law had gone into effect after the loss but before building had started.

3. This coverage does not apply to all actions the insured takes in order to comply. It covers only the cost to meet the minimum standards. Any costs that are taken to exceed those minimums must be paid for by the insured.

4. and 5. A covered cause of loss must cause the damage to the building that results in forced compliance with building ordinances or laws.

- There will be times when part of a loss is covered, and part is not. The policy will respond as follows:

When the uncovered part of the loss is the reason the ordinance or law compliance is required, no coverage is provided.

- When the covered part of the loss is the reason the ordinance or law compliance is required, the entire compliance is covered under this endorsement.
- When the combination of covered and uncovered loss is the reason the ordinance or law compliance is required, this endorsement will respond in the proportion that the covered loss bears to the total loss.

Example: Fair Weather Hotel does not have wind coverage on its commercial property coverage form, but it does include CP 04 05–Ordinance Or Law Coverage. A Wind Pool policy provides wind coverage. A hurricane causes direct wind damage to the building and also downs a power line that starts a fire in the building.

Scenario 1: The reason the ordinance or law is being imposed is due to the wind loss. No coverage under this endorsement.

Scenario 2: The reason the ordinance or law is being imposed is due to the fire loss. This endorsement responds to the total ordinance or law loss.

Scenario 3: The reason the ordinance or law is being imposed is due to the combined loss. The covered direct loss is $150,000, and the total direct loss is $300,000, so this endorsement pays 50% of the cost to comply with the ordinance or law.

6. It is not unusual for an insured to seek pollution coverage in every insurance coverage form or policy. The coverage this endorsement provides does not include any coverage for pollution, fungus, or mold, even if an ordinance or law requires cleaning up a contaminated or affected building. In addition, there is no coverage for the costs associated with any testing or response to pollutants at any site.

7. No coverage applies for the cost to comply with any ordinance or law that was in effect at the time of loss and which had **NOT** been grandfathered such that the insured was responsible for compliance but elected not to do so.

Example: Farley's Restaurant was told it had to install two additional drains in the kitchen to comply with current health department requirements, but it ignored the order. When rioting occurred, and the restaurant was damaged, Farley's added the cost of the drains to the increased cost of construction. However, the claims representative refused to pay for the drains when he discovered the outstanding orders to install them.

C. Coverage

1. Coverage A–Coverage for Loss to the Undamaged Portion of the Building

Property insurance usually applies to only damaged property. This coverage does just the opposite and covers undamaged property. The Building and Personal Property Coverage Form covers the damaged property. This coverage applies to the undamaged portions of the building that must be demolished because of a law or ordinance that controls construction.

Example: McKinley Department Store is a five-story, joisted masonry building in the downtown area. A city ordinance requires that all buildings two stories or higher be of masonry noncombustible or better construction. Grandfathered buildings must conform to this ordinance if more than 30% of a building is destroyed. A fire destroys 40% of the building. McKinley is informed of the ordinance and told that it cannot rebuild the structure as is. In addition, it must demolish and remove the remaining 60% because it does not meet current construction requirements. Coverage A applies to the undamaged 60% of the building. CP 00 10–Building And Personal Property Coverage Form applies to the damaged 40% portion.

2. Coverage B–Demolition Cost Coverage

Providing coverage on the undamaged portion of a building is not enough. In order to rebuild the structure, the undamaged portion must be removed and the site cleared to allow for new construction. This coverage allows the insured to anticipate the expense to demolish an older structure and requires a separate limit of insurance. This limit should be selected carefully and after much thought and review because of the high costs of demolition. The actual costs of demolition and site clearance are covered up to the limit of insurance on the endorsement schedule.

3. Coverage C–Increased Cost of Construction

a. This coverage is important for any company subject to the Americans with Disabilities Act (ADA) or any of a number of similar or related local, state, and federal ordinances that affect construction, reconstruction, repairs, remodeling, and renovations after a loss. Many of these ordinances and codes are helpful, and the cost to comply is relatively inexpensive and easily accommodated in new construction. However, similar compliance in existing buildings or structures following a loss is considerably more expensive and difficult to accomplish. In addition, most insurance coverage forms and policies do not cover these costs.

Example: Golden Years Nursing Home has served the needs of the aged in the community for decades. The building is masonry construction with plaster walls. The hallways in certain areas are rather narrow but lead to spacious open areas. A fire that starts in the kitchen damages the kitchen and dining hall. When building permits are obtained to repair the damage, Golden Years is told that the hallways must be widened to meet ADA standards.

b. This coverage pays the increased repair costs that must be incurred to bring the damaged portions of the building up to the minimum requirements of the ordinances or laws. It also pays the costs to remodel or even rebuild the undamaged portions of the building in order for them to comply with the ordinance or law's minimum requirements. The buildings do not have to be demolished before this is implemented.

Example: Golden Years meets these requirements because covered property is damaged by fire. Golden Years incurs increased costs to repair, rebuild, or replace the damaged part of the covered property to comply with enforcing an ordinance or law.

This coverage applies only if the building is actually repaired, remodeled, or rebuilt for the same or a similar occupancy. The occupancy cannot be changed unless the law or

ordinance requires a change in occupancy due to current land use or zoning restrictions.

Example: Golden Years looks at its options after the loss. One is to change from a home for the aged to a restaurant. After a review of its policy and this coverage form, Golden Years realizes that the coverage available under this endorsement does not apply if it decides to rebuild as a restaurant because that is not the same or a similar occupancy.

One unusual feature of this coverage is that certain types of property usually excluded may be covered. If any of the property listed below must be altered because of a building ordinance or law's requirements, the increased costs for the alteration are covered:

- Costs of excavations, grading, backfilling, or filling
- Building foundations
- Pilings
- Underground pipes, flues, and drains

Example: The building inspector from the local health department visited Golden Years after the loss and informed it that the kitchen needed an additional drain to comply with health department requirements. The cost of the additional drain is covered because this requirement was in effect before the loss and is a minimum requirement to obtain health department approval.

D. Loss Payment

1. Proportional Loss Settlements

When a combination of covered loss and uncovered loss triggers coverage under this endorsement, any settlement is paid based on the percentage the covered loss bears to the total loss.

Example: Jamey's Garage is destroyed. 50% of the damage was from a covered loss, and 50% was not covered. Jamey requests his Coverage A, B, and C settlement, but he receives only 50% of any settlement calculated in this section.

2. Coverage A

Loss payments vary depending on the valuation selected. They are based on whether the valuation basis is actual cash value or replacement cost.

When replacement cost valuation applies and the building is repaired or replaced, the loss payment is based on the least expensive of the following options:

- The actual amount to repair, rebuild, or reconstruct the building on the same premises, with the same height, floor area, style, and comparable quality
- The limit of insurance on the declarations for the covered property. If flood or earthquake coverage has been added by endorsement with a lower limit of insurance and flood or earthquake is the cause of loss, the limit on the applicable endorsement is used instead of the declarations limit.

This coverage does not apply to the increased cost to upgrade the type of construction to meet current codes. For example, if the building construction must be changed from frame to masonry non-combustible, Coverage C–Increased Cost of Construction provides the additional cost to do so.

When replacement cost valuation applies, and the building is not repaired or replaced, or when actual cash value valuation applies, the loss payment is based on the least expensive of the following options:

- The building's actual cash value at the time of loss
- The limit of insurance on the declarations for the covered property. If flood or earthquake has been added by endorsement with a lower limit of insurance, if flood or earthquake is the cause of loss, the limit on the applicable endorsement is used instead of the declarations limit.

Example: The Finway Pianos plant sustains flood damage to 60% of its building. Finway purchased Coverage A, and its limit on a replacement cost basis is $2,500,000. The Finway family considers rebuilding, but they no longer have the heart or will to continue the business. Finway decides to demolish the building and sell the land to the city.

The amount paid in this case should be the building's $1,000,000 actual cash value, but Finway had purchased only a limit of $750,000 for flood damage, so only $750,000 is paid.

3. Coverage B Specific Limit (not a combined limit)

If there is a limit for Coverage B on the endorsement schedule, the loss payment is based on the least expensive of the following options:

- The insured's actual cost to demolish and clear the site at the covered premises
- The limit of insurance on this endorsement's schedule

Example: Continuing the example above, Finway Pianos has a $150,000 Coverage B limit. The actual cost to demolish the remaining portion of the building is $100,000. The cost to clear the site is apportioned with the debris removal limit in CP 00 10–Building and Personal Property Coverage Form. As a result, the total cost of demolition and debris removal is completely covered.

4. Coverage C Specific Limit (not a combined limit)

If there is a limit for Coverage C on the endorsement schedule, the insurance company pays for the increased cost of construction. However, it does not pay:

- Until the building is actually repaired or replaced at the same premises or at another location
- Unless the repair or replacement is made as soon as reasonably possible after the loss or damage. This is subject to a two-year maximum time period following the loss. The insurance company may extend this period in writing during the two-year period.

If the building is repaired or replaced at the same location, or if the insured decides to rebuild at another location, the most paid under Coverage C is the least expensive of the following options:

- The increased cost of construction that would have been incurred at the same location
- The increased cost of construction limit of insurance on the endorsement schedule

If the ordinance or law requires that the insured relocate its operations to a different location, the most Coverage C pays is the lesser of either the increased cost of construction at the new location or the increased cost of construction limit of insurance on the schedule.

Note: There is no payment under this coverage if construction does not take place.

Example: Finway Pianos had an increased cost of construction limit of $500,000 because it planned to rebuild with a different kind of construction if a loss occurred. In this case, Finway does not rebuild. It asks for the $500,000 in the settlement, but the insurance company denies the request because it does not rebuild.

5. Coverage B and Coverage C Combined Limit

If the insured requests a combined limit to apply to both Coverage B and Coverage C, that limit is the most paid in any one occurrence. However, certain limitations apply. For example, with respect to demolition, the insurance company does not pay more than the insured's actual costs to demolish and clear the debris from the site after a loss.

If increased costs are incurred during construction, the insurance company does not pay:

- Until the property is actually repaired or replaced at the same location or at a different one
- Unless the repair or replacement is made as soon as reasonably possible after the loss or damage. This is subject to a two-year maximum time period following the loss. The insurance company may extend this period in writing during the two-year period.

If the building is repaired or replaced at the same location, or if the insured decides to rebuild at a different location, the most the insurance company pays under Coverage C is the least expensive of the following:

- The increased cost of construction that would have been incurred at the same location
- The increased cost of construction limit of insurance on the endorsement schedule

If the ordinance or law requires that the insured relocate, the most the insurance company pays is the least expensive of the following options:

- The increased cost of construction at the new location
- The increased cost of construction limit of insurance on the endorsement schedule

E. Endorsement Terms

Each building listed on the endorsement schedule is treated individually. All terms apply separately to each listed building.

F. Examples of Proportionate Loss Payment

This endorsement provides an example of how coverage applies when a loss is only partially covered.

G. Definition

Fungus is defined. It is the same definition as the one used when the term fungus is used in other forms.

CP 04 26–ORDINANCE OR LAW COVERAGE FOR TENANTS INTEREST IN IMPROVEMENTS AND BETTERMENTS (TENANT'S POLICY)

A section is added to the schedule called "Description of Tenant's Improvements and Betterments. A description of the actual improvements and betterments must be provided for each of the building number/premises numbers provided in the coverage selection section.

The coverage applies to only those improvements and betterments that are described in the schedule. This replaces the reference to buildings in CP 04 05.

B. Application of Coverage

Only item B.4. is changed. Instead of referring to direct physical damage it refers to property damage caused by a cause of loss that is covered under the policy. That property damage must result in an ordinance or law requirement being enforced. This difference is needed because it will not be the improvements or betterments that result in the ordinance or law requirements to be enforced but will instead be due to property damage to the building to which those improvements or betterments are attached.

C. Coverage

Only items 1. and 2. are changed because these are the coverages for undamaged improvements and betterments being destroyed and the cost of its demolition. In most cases, the reason for the improvements and betterments being destroyed is because the entire building, which is owned by others, is being destroyed.

1. Coverage A. applies for the value of the undamaged improvements and betterments that are destroyed because the building must be destroyed due to a law or ordinance. However, there is an important condition that applies. IF, prior to the demolition, those undamaged improvements and betterments can be removed without damage to them, no coverage is provided.

2. Coverage B pays only the amount of demolition cost that is separate and distinct from the cost to demolish the rest of the building and only for the amount for which the named insured is responsible. No payment is made if the undamaged improvements and betterments could be removed with damage to them.

D. Loss Payment

The only difference throughout this section is that the term improvements and betterments is used in place of the term building.

When the reason for the ordinance or law enforcement or compliance is based solely on the damage to the structure or building that is not covered under this coverage form, then no ordinance or law coverage will be provided even if a covered breakdown may have occurred at the same time as the other loss.

Note: The commercial property coverage form that insures the damaged building is responsible for the entire amount due under ordinance or law coverage.

Example: A fire damaged more than 50% of a five-story brick wood-joisted building in the downtown area. A local ordinance required that such buildings be torn down if over 50% is damaged in a loss. The construction must be at least masonry non-combustible if the named insured decides to rebuild. A covered breakdown loss to the building's boilers occurred at the same time. The breakdown loss is covered.

However, this ordinance or law coverage does not apply because the fire loss on its own triggered the ordinance enforcement.

h. Errors and Omissions

This unusual coverage is really forgiveness for forgetfulness. The insurance company has the right to deny coverage because of any of the following the insurance carrier agrees not to exercise its right:

· The description or the location of the property was omitted or was in error

· An owned or occupied location as of the coverage inception date was not included

· Coverage was cancelled at an insured premises because of an error omission of the named insured error

Forgiveness happens only if the situations were due to the named insured's unintentional errors or omissions. As soon as the named insured becomes aware of such error or omission, it must report it to the insurance company and pay the premium back to the date when the item of property or premises should have been added to the policy.

An important exception is that there is no forgiveness when the named insured makes an error or unintentional omission in reporting values or the coverages requested.

Example: Perfection Products' second location runs the same product line as its fourth location. Perfection accepts an offer from a competitor to purchase the second location and omits that location from the renewal application. Unfortunately, the sale falls through. Even more unfortunate, Perfection forgets to notify the insurance company that coverage on the second location should continue. To make matters worse, a significant loss occurs at the second location after the policy renews, suddenly reminding Perfection of its oversight concerning the building. However, this story has a happy ending because this coverage pays for Perfection's unintentionally omitting this location from its renewal application.

i. Brands and Labels

This coverage is an agreement by the insurance company to reduce the salvage value of branded or labeled covered property damaged by a covered breakdown. The named insured is permitted to remove all branding/ labeling or stamp the word salvage on the merchandise, but only when doing so does not actually damage the property. The insurance company pays the removal or stamping expenses, but the real value of this coverage is that full value is paid by the insurance company for the property even

though the salvage value of the property for the insurance company is significantly reduced.

The sum of the cost of the damaged property plus the relabeling expenses cannot exceed the limit of insurance.

Example: Perfection Products manufactures and sells a line of toys under its own name. An accident occurs that causes smoke damage to the packaged toys. Perfection and its insurance company agree on a settlement for the damaged merchandise. The company plans to sell all of them as salvage. Perfection agrees but arranges to have all packaging stamped with the word SALVAGE before relinquishing the property. The insurance company must accept the salvage as marked and also pay for the stamping costs.

j. Contingent Business Income and Extra Expense or Extra Expense Only Coverage

This coverage is subject to the same terms and conditions as Business Income and Extra Expense or Extra Expense Only coverage.

Coverage applies to any loss the named insured sustains because of breakdown of covered equipment at a premises it does not own or operate. The loss must negatively affect the named insured's ability to deliver its products or services or must result in lower sales at any insured location listed on the declarations.

Coverage applies to only contingent locations scheduled on the declarations and for only loss of income and extra expense or extra expense for the scheduled sales, services, or materials.

The named insured most do everything it can to influence the contributing or recipient business to resume its operations. It must also cooperate with contributing or recipient properties in every way possible. However, it cannot provide financial assistance that the insurance company does not authorize.

Example: The demand for Perfection's toys exceeds its manufacturing ability. Perfection enters into a contract with Teeter Totter Toys to produce additional toys under Perfection's label to meet demand. Unfortunately, Teeter's production line's primary power train breaks down under the strain of the additional demand, and all production ceases. Perfection unsuccessfully tries to influence Teeter to spend additional money to expedite replacing the drive train and resuming production. This is because replacement parts are unavailable outside normal distribution channels and time frames.

Perfection swallows hard and suffers the loss of unmet sales. Partly because of this coverage, the good news is that the loss of expected business income from the products Teeter Totter would have produced is covered.

B. EXCLUSIONS

This coverage form has 21 exclusions. They apply whether the loss event results in widespread damage or affects a significant geographical area or not and are essentially absolute. Subject to specific exceptions, each is totally excluded, regardless of any other cause or event that contributes to a loss, concurrently or in any other sequence. The insurance company does not pay for any direct or indirect loss or damage caused by or that results from any of these events.

Note: Some of the following exclusions do not have titles. We have added titles in these cases that suggest the nature and content of the exclusion.

1. Ordinance or Law (01 13 change)

There is no coverage for any increase in loss due to enforcing or complying with any rule, ruling, regulation, ordinance, or law that regulates or restricts building, installing, altering, repairing, replacing, operating, using, disposing of, or cleaning up covered property. (01 13 words added)

There is a very specific exception. This exclusion does not apply when the ordinances or laws apply to the use and operations of electrical supply and emergency generating equipment. This exception is further limited to apply to only covered property situated on a hospital premises.

Example: A breakdown causes a significant loss at Judson Hospital. It was built in 1980 and had been grandfathered from several changes in ordinances and laws. None of those upgrades is covered except for the five separate upgrades to the electrical and backup generating equipment.

2. Earth Movement (01 13 change)

Loss or damage due to earth movement is excluded. Earthquake, landslide, land or mine subsidence, volcanic action, tremors, and aftershocks related to earthquake are listed as types of earth movement, but this exclusion is not to be limited to only those types. (01 13 words added)

3. Water

Coverage does not apply to any of the following:

a. Any damage from flood, surface water, waves, tides, tidal water, or overflow of a body of water. Waves include tidal waves and tsunamis. A body of water is any natural or man-made river, creek, ocean, or lake. Spray from any of the above, wind-driven water, and storm surge are also excluded.

b. Damage from or related to mudslide or mudflow

c. Damage from water that discharges, overflows, or backs up in any way from sewers, drains, sumps, sump pumps, or other similar equipment

d. Damage caused when water leaks or discharges from either domestic water pipes or sprinkler systems

e. Water damage from underground water that seeps into doors, windows, floors, surfaces, foundations, and basements. There is also no coverage if water that presses against any of these items or that flows into them causes the damage.

f. Damage caused by material that waters described in a., c., and e. above carry, or by any material that mudslide or mudflow described in b. above moves or carries

Example: The river was flowing fast and picked up trees, shrubs, docks, and more. Mavis was relieved that the flood did not enter her warehouse but was upset that a waterborne tree crashed against its foundation and caused an opening that allowed water into the air conditioning units. There is no coverage for the breakdown of the air conditioning unit because of this exclusion.

There is no coverage if the water damage is due to an act of nature or in any other way.

4. Nuclear Hazard

The insurance company does not pay for loss or damage from nuclear reaction, radiation, or radioactive contamination. This exclusion applies regardless of the way that such incidents occur.

5. War or Military Action

There are three specific excluded types of warlike activity. War can be undeclared or a civil war. In addition, any action that involves military forces and/or military agents is excluded. Rebellion, revolution, usurped power, insurrection, and any government response to any of them are also excluded.

Note: Terrorism is not listed.

6. Explosion

There is no coverage for loss or damage that explosion causes. However, coverage does apply to explosions of covered equipment that consists of steam boilers, piping, turbines, or engines; electric steam generators; or gas turbines. There is also an exception for centrifugal force or mechanical breakdown that causes an explosion in moving or rotating machinery.

Note: The Commercial Property Coverage Form covers these types of explosions.

Explosion Exclusion Exceptions Are Examined By Court

A boiler and machinery policy insurer declined coverage for claims arising from death, injuries, property damage and business interruption caused by the catastrophic bursting of a pulp digester at a plant owned by the insured, a major international company engaged in the production of paper, packaging products and market pulp.

The declination was based on a policy exclusion for loss caused by an explosion except for explosion of an "object of a kind described below," namely, a covered steam boiler, electric steam generator, steam piping, steam turbine, steam engine, gas turbine, or moving or rotating machinery caused by centrifugal force or mechanical breakdown. The core issue was whether the failure of the digester was an explosion and, if so, whether the occurrence was an exception to the explosion exclusion.

The pulp digester involved was one of 22 huge containers, over 36 feet in height, weighing over 28 tons and holding over 74 tons of wood chips. The contents were subjected to intense steam pressure for two hours during the pulping process.

The production of the entire facility was interrupted for several months when the described digester suffered a catastrophic failure. Engineering and investigation by OSHA determined that a fracture in a metal plate, brought about by intense internal pressurization of the vessel, precipitated the incident. The insured brought a declaratory judgment action for determination that the policy covered the losses sustained.

The court found that the pulp digester was "covered property" along with other machinery and equipment at the facility. The record showed that a representative of the insurer surveyed the facility and assessed the risk. The insurer knew that ".... operations .... involved the use of batch digesters and that (it) would be providing insurance for

some accidents to those vessels." The court noted that "accident" was defined as ".... a sudden and accidental breakdown of the 'object' or a part of the 'object.'"

The court concluded that coverage existed under the policy for the losses that occurred. Accordingly, judgment was entered in favor of the insured and against the insurer.

7. Fire or Combustion Explosion

Loss or damage caused by a fire or combustion explosion is excluded. There is no coverage, even if the fire or combustion causes a breakdown. Coverage also does not apply if the fire or explosion occurs at the same time as or ensues from a breakdown.

Note: The named insured's Commercial Property Coverage Form insures these events. This exclusion prevents the Equipment Breakdown Protection Coverage Form from responding to a fire loss that results in duplicate coverage.

8. Fungus, Wet Rot, and Dry Rot

Coverage does not apply to loss or damage caused by the presence or any activity of fungus, wet rot, or dry rot. However, if such activity or presence causes a covered breakdown, that covered breakdown loss or damage is covered.

Note: C. Limits of Insurance 6. Limited Coverage for Fungus, Wet Rot, and Dry Rot, provides some coverage, and this exclusion does not preclude such coverage. However, that coverage applies only to the portion of loss or damage caused by the presence or activity of fungus, wet rot, or dry rot that result from a covered breakdown.

9. Virus, Bacterium, or Other Microorganism

There is no coverage for any loss because of any virus, bacterium, or other microorganism that causes or could cause physical distress, illness, or disease. However, if these items cause a breakdown, that loss or damage is covered. In addition, if a loss event could be considered excluded in this exclusion or in exclusion 8. above, the terms of exclusion 8. apply.

A final paragraph states that this exclusion cannot be used to try to create coverage elsewhere in the policy.

Note: This statement is unusual because it presupposes that a claimant may try to use this exclusion wording as a way to create coverage elsewhere in the policy.

10. Furnace Explosion

Loss, damage caused by, or that results from, an explosion within the furnace of a chemical recovery boiler or its piping to the atmosphere is excluded.

Note: The Commercial Property Coverage Form covers these types of explosions.

Furnace Not Defined Object Covered By Policy

A steel galvanizing facility, covered by a boiler and machinery policy, suffered both physical damage loss and business interruption and loss of income due to heat damage to the large, cylindrical "rolls" internal to their galvanizing furnaces. The insured submitted a claim for damages to their boiler and machinery carrier, who denied coverage based on policy exclusions.

The basis of the contention between the insured and insurer was the definition of a furnace. "Furnace" was not defined in the policy, nor could the insured or insurer come up with a reasonable definition.

The rolls were actually a part of the robotic conveyance system that rolled or moved large steel through a series of four separate but continuous furnace processes. Without the rolls, the steel would not be able to move through the operation and, as such, were an essential part of the system. It was not disputed that the rolls were a part of the system's robotics equipment.

The boiler policy covered as defined objects" any: "(1) Boiler, fired vessel, unfired vessel normally subject to vacuum or internal pressure other than weight of its contents, refrigerating and air condition vessels, and any piping and its accessory equipment, including any boiler or pressure vessel mounted on mobile equipment. (2) Mechanical or electrical machine or apparatus used for the transmission or utilization of mechanical or electrical power including but not limited to: (a) fiber optic cable; (b) robotic equipment . . . ." Since the furnace assembly covered by the policy was pressurized, the insured contended the coverage applied.

The policy exclusions stated: "Object does not mean any: . . . (6) oven, stove, furnace, incinerator, pot or kiln; . . . ." The insurer used this exclusion to deny coverage but did not define furnace in the policy, nor could the insurer provide the court with a definition that would be used by a reasonable person.

The original trial court ruled in favor of the insurer as the rolls in question were the robotics or equipment for the item or object described as furnaces.

Upon appeal, the district court also ruled that the rolls were part of the furnace operation and thus excluded.

The case went to U. S. District Court where, after careful and thorough review, it was determined that since a technical definition of furnace was not provided in the policy and that a dictionary definition was so broad as to exclude even those items shown as covered, the term as used in the policy contract was ambiguous and would defeat the intent of the coverage provided.

The lower courts' decisions were overturned and ruled in favor of the insured.

11. Pressure or Electrical Testing

There is no coverage when covered equipment sustains damage during either pressure testing or electrical testing.

Example: Air is pumped into pipes to test its strength. The air pressure gauge malfunctions so that the pressure pumped in is ten times the testing requirement. The pipes explode due to pressure. Coverage is denied. However, later the building owner sues the testing contractor for damages.

12. Fire Extinguishing Agents

Coverage does not apply to any loss or damage caused by water or any other agents used to extinguish a fire, regardless of whether or not the extinguishing attempt was successful.

Note: This is another attempt to prevent duplication of coverage. The policy covering fire should pay for fire-related damage.

13. Depletion, Deterioration, Corrosion, Erosion, Wear, or Tear

Loss or damage caused by depletion, deterioration, corrosion, erosion, wear, and tear is excluded unless a breakdown occurs. Coverage then applies to only the damage the breakdown causes.

Damage To Insured Property Caused By Corrosion Not Covered

A boiler and machinery policy, applicable to equipment in a power company's generating station, contained an insuring agreement to pay for loss or damage to the insured's property directly caused by an "Accident," as defined, to a covered "Object."

"Accident" was defined in the policy as ". . . .any sudden and accidental occurrence to the Object, or part thereof, which results in damage to the Object and necessitates repair or replacement of the Object or part thereof; but Accident shall not mean. . . .corrosion. . . ."

Several turbine blades were directly damaged in an accident at the generating station. The replacement cost was within the policy deductible, but the incident prompted an examination of the blades in the turbine by the turbine manufacturer. Though not directly damaged in the accident, some of the blades were found to have been damaged by corrosion pitting and stress corrosion cracking. The insured decided to replace the suspect blades (not involved in the accident) and brought a lawsuit against the insurers to recover the cost. The insurers appealed a trial court judgment in favor of the insured.

The issue was whether the policy covered the cost of replacing the blades. The insured acknowledged that corrosion per se was not included in the protection afforded by the policy but contended that damage caused by corrosion was not excluded. It said that ". . . .the stress corrosion cracks are not themselves corrosion, but unexpected accidental damage caused by corrosion. . . ." It argued that, accordingly, the damage claimed was covered.

The appeal court noted expert testimony that corrosion caused the cracks. It found that the policy covered damage directly caused by accidents, specific events. Corrosion was specifically excluded from the kinds of happenings that trigger coverage, and, therefore, damage directly caused by corrosion was not covered.

The trial court's judgment was reversed in favor of the insurers, with all court costs assessed to the insured.

14. Other Insurance

There is no coverage for loss or damage that results in a breakdown if aircraft, vehicles, freezing, lightning, sinkhole collapse, smoke, riot, civil commotion, vandalism, or the weight of ice, sleet, or snow causes the breakdown. This exclusion applies only if other coverage the named insured carries insures against these causes of loss, regardless of whether or not the named insured can collect it.

Example: Vandals who are angry at their landlord break into the Mendleton Apartments' boiler room, destroy piping, and rip out control panels. As a result of this activity, the boiler overheats and sustains a mechanical breakdown. Mendleton has vandalism coverage under a businessowners policy with Acme Insurance Company. Mendleton presents the claim to Acme, but Acme voids Mendleton's businessowners policy when it realizes that Mendleton lied on the application.

Because other insurance would have been in effect except for Mendleton's own actions, there is no coverage under this coverage for the boiler's mechanical breakdown.

15. Windstorm or Hail

There is no coverage when windstorm or hail causes a breakdown.

Note: The Commercial Property Coverage Form insures these causes of loss.

16. Delay or Interruption

Coverage does not apply to delays or interruptions of any business, manufacturing, or processing activities. However, the Business Income and Extra Expense, Extra Expense Only, or Utility Interruption insurance this coverage form provides may cover these losses.

17. Business Income and Extra Expense, Extra Expense Only, and Utility Interruption Coverages

The following additional exclusions apply to these coverages.

- There is no coverage if a business would have ceased operations even if a breakdown had not occurred.
- Coverage does not apply if the named insured does not respond to a loss with diligence in taking appropriate steps to resume or continue operations at the covered premises.
- The lapse, suspension, or cancellation of a contract that follows a breakdown loss does not increase the period of restoration, even if it delays business operations from resuming.

Example: A breakdown caused by centrifugal force shattered equipment and sent fragments flying throughout Percussive Industries' rented space and into the rented space of its neighbors. The building owner immediately cancelled Percussive's lease because its operations did not align with the other occupants. Percussive was able to relocate, but the change increased the period of restoration by four weeks. The four weeks of additional time is not covered because it was due to the lease being cancelled.

18. Power, Light, Heat, Steam, or Refrigeration Indirect Damage

Covered equipment may break down, and that breakdown causes loss or damage to covered property because of too much or too little power, light, heat, steam, or refrigeration. This exclusion eliminates coverage for property that sustained the indirect damage. Coverage provided within the Business Income and Extra Expense, Extra Expense Only, or Utility Interruption insurance under this coverage form is an exception to this exclusion.

19. Utility Interruption Coverage

With respect to only Utility Interruption Coverage, there is no coverage for any loss that is a result of any of the following.

- Any act of sabotage. The party that commits the sabotage is left open-ended, so it could be actions by employees, competitors, owners or terrorists. The term sabotage is unusual and, therefore, could be a difficult exclusion to enforce.
- The supplying utility's deliberate acts of load-shedding. Load-shedding is the intentional reducing or cutting off of service to control overall power requirements.
- Freezing, but this is not about freezing within the unit or the building. This is the freezing that is caused by cold weather.
- Direct impact by aircraft, missiles, or vehicles and any objects falling from an aircraft or missile. Therefore, damage by sonic boom would be covered, and also indirect damage could be covered, such as a vehicle striking a tree, which then causes the tree to fall, and the tree then damages utility lines resulting in utility interruption.
- Collapse, lightning, vandalism, riot, civil commotion, sinkhole collapse, smoke, and weight of ice, sleet, or snow

This exclusion applies regardless of the named insured having coverage for such losses under other insurance.

20. Indirect Breakdown Damage

The Business Income and Extra Expense, Extra Expense Only, Spoilage Damage, or Utility Interruption insurance are the only indirect breakdown damage coverages available. All other indirect losses are excluded.

21. Neglect

The named insured cannot walk away from a loss without taking appropriate action to save and protect covered property from further damage during the loss and after it. If the named insured neglects to do so, any losses attributed to such inaction will go unpaid.

C. LIMITS OF INSURANCE

This section contains much more than just the Limits of Insurance. It has a unique condition for public utility entities as well as eight additional coverages.

1. One Breakdown

The Limit Per Breakdown on the declarations is a cap. It is the most that the insurance company pays for any loss or damage from a single breakdown event regardless of the number of applicable coverages or the sub-limits entered.

2. More Than One Insured

The limit is a per breakdown limit, not a per insured limit, so regardless of the number of insureds, the limit of insurance on the declarations is the most paid.

3. Per Coverage Limits

a. A limit of insurance or the word INCLUDED must be entered on the declarations for each coverage provided. If INCLUDED is entered next to a particular coverage, the limit for that coverage is part of the limit per breakdown.

b. If a dollar limit is entered next to a particular coverage, the insurance company pays up to that limit of insurance for that particular coverage.

Note: It is important to note that a limit entered for a coverage is not an additional limit. It is a sub-limit within the per breakdown limit described in Item 1. Using the term **INCLUDED** provides the named insured with the most flexibility in any settlement.

Example: Responsible Business, Inc. has coverage for $1,000,000 per Breakdown and schedules the limits as follows:

Coverage	Scenario 1	Scenario 2
Limit Per Breakdown	$ 1,000,000	$ 1,000,000
Property Damage	$ 1,000,000	$ 1,000,000
Expediting Expense	$ INCLUDED	$ 25,000

Business Income/Extra Expense	$	$
Extra Expense Only	$ INCLUDED	$ 50,000
Extended Period Of Restoration (Number Of Days Of Coverage)	_____ Days	_____ Days
Data Or Media ($25,000 Limit of Insurance) or	$	$
Spoilage Damage	$ INCLUDED	$ 25,000
Utility Interruption	$ INCLUDED	$ 10.000
Coverage applies only if services are interrupted at least	24 Hours	24 Hours
Newly Acquired Premises	INCLUDED	INCLUDED
Number Of Days Of Coverage	_____ Days	_____ Days
Ordinance Or Law	$ INCLUDED	$ 25,000
Errors And Omissions	$ INCLUDED	$ 10,000
Brands And Labels	$ INCLUDED	$ 10,000
Contingent Business Income/Extra Expense	$ INCLUDED	$ 50,000
Covered Premises:	$	$
Sales, Services Or Materials:	$	$

Responsible has a covered breakdown loss and submits the following loss amounts:			
Coverage	Actual loss	Available Coverage	
		Scenario 1	Scenario 2
Property damage	$850,000	$850,000	$850,000
Extra Expense	$75,000	$75,000	$25,000
Spoilage	$50,000	$50,000	$25,000

Ordinance or Law	$35,000	$35,000	$25,000
Brands and Labels	$15,000	$15,000	$10,000
Total settlement amount		$1,000,000	$935,000
The total amount of loss is $1,025,000. As a result, Scenario 1's loss payment is capped at $1,000,000. Because of the use of sub-limits, the loss payment in scenario 2 is only $935,000.			

4. Public or Private Utility Property

The Limit of Insurance for Property Damage on the declarations is replaced by the amount of one dollar ($1.00) when the property meets all of the following conditions:

- Is used exclusively to provide utility services to the named insured's premises
- Is owned by a private or public utility

If the named insured is a private or public utility, this item is changed to state that the property must be owned by a private or public utility that is not the named insured

- Is not in the named insured's care, custody, or control
- The named insured is NOT legally liable for it
- Is covered by this coverage form

Note: The nominal one-dollar limit exists as a technicality. Providing this limit permits the coverage form to provide indirect damage protection for consequential loss to the named insured as a result of damage to this non-owned utility equipment.

5. Coverage Limitations

The insurance company pays no more than $25,000 for such direct damage that is a direct result of a breakdown of covered equipment for each of the following. When the term INCLUDED is entered, or a higher limit is entered on the declarations, they replace the $25,000 sub-limit. These sublimits are subject to Limit of Insurance for Property Damage or the Limit per Breakdown. They provide additional coverage but not additional limits.

a. Ammonia Contamination

When ammonia contamination occurs because of a covered breakdown and spoils covered property, this limitation applies. Any necessitated salvage expense is part of this limitation.

b. Consequential Loss

When a part or parts of a product are damaged, other undamaged parts of the product may be impossible to market. The reduction in the value of undamaged parts of a product because another part was damaged is subject to this limitation.

Example: Premier Cutlery sells cutlery sets. A mechanical breakdown loss results in the knives being destroyed. The forks and spoons in the warehouse are undamaged. All cutlery parts are made from the same batch of metal and cannot be properly matched to create a new batch of knives. The forks and spoons are sold as separates at a deep discount because they cannot be marketed as a set. The value of this loss is the reduction in value between the price as separates and what Premier could have been received as part of a set. The most paid for the loss in value is $25,000.

c. Data and Media

This limitation applies to the costs the named insured incurs to research, replace, or restore damaged data or media. It includes the costs to reprogram instructions used in any computer equipment.

d. Hazardous Substance

This limitation applies to the additional expenses the named insured incurs to clean-up, repair, replace, or dispose of covered property that a hazardous substance damaged, contaminated, or polluted.

Expenses subject to this limitation are those additional costs incurred over and above the amount that would have been paid if the hazardous substance was not present.

Ammonia is not considered a hazardous substance and, therefore, not subject to this limitation.

The coverage provided in this limitation is not subject to B. Exclusions 1. Ordinance or Law.

e. Water Damage

This limitation applies to water damage to covered property. The applicable limit of insurance must pay for both the damage and any salvage expense. Fungus, wet rot, or dry rot may result from such water damage. In that case, loss or damage from those substances is subject to the limitations described in 6. Limited Coverage for Fungus, Wet Rot, and Dry Rot below and becomes subject to the limit for Water Damage.

6. Limited Coverage for Fungus, Wet Rot, and Dry Rot

Loss or damage to covered property caused by fungus, wet rot, and dry rot is excluded under Exclusion 8. This limited coverage gives back a small amount of coverage under very specific terms.

a. Property Damage

The limit of insurance is $15,000 aggregate over a 12 month time period. This is a per policy limit and not a per premises limit. A separate premises limit option is available but

must be selected on the declarations. The limit can also be increased on the declarations. Whatever limit is entered remains subject to the Covered Property limit.

The coverage pays for loss or damage caused by fungus, wet rot, and dry rot resulting from breakdown of covered equipment, but only if the fungus, wet rot and dry rot occur in the same policy period that the breakdown occurs. The costs to tear out and replace covered property to access the fungus, wet rot, or dry rot is covered. Testing costs incurred after the property is restored are also covered, but only if there are reasons to suspect that fungus, wet rot, or dry rot is present. However, all of these costs are subject to the very small limit of insurance available.

b. Business Income and Extra Expense or Extra Expense Only

This item applies only if coverage for Business Income and Extra Expense or Extra Expense Only has been selected on the Declarations.

When fungus, wet rot, or dry rot resulting from a covered breakdown causes a business income or extra expense loss, 30 days of coverage is available. This 30-day coverage is available if it is the only reason for the resulting business income and/or extra expense loss. It is also available as an add-on or add-into when it is only one of the reasons for the business income and/or extra expense loss. The 30 days are a maximum amount of time in a year, and the days are not required to be taken consecutively.

The 30 days can be changed to whatever number of days is entered on the declarations.

c. Ordinance or Law (01 13 change)

Any coverage purchased for ordinance or law does not extend to coverage to enforce or comply with any ordinances or laws that relate to demolishing, destroying, rebuilding, remodeling, or remediating property because fungus, wet rot, or dry rot is active or present. There is also no coverage for any type of required response to or assessment of the effects of fungus, wet rot, or dry rot.

7. Increased Cost of Loss and Related Expenses for Green Upgrades

One consideration when replacing damaged equipment is its environmental impact and energy efficiency. The named insured might decide that the energy and environmental savings from using more efficient or Green items more than offsets their higher upfront costs. This coverage provides some insurance for those upgrades.

a. Property Damage

When a breakdown of covered equipment occurs during the policy period, and the insured incurs expenses due to green upgrades, this extension applies. The insurance company pays for the following:

- The increased cost to repair or replace the damaged covered property with green items or using green methods. However, this provision does not apply to stock, finished goods, property in process, and raw materials.
- The following green-related additional expenses are eligible for coverage:
    - Reusing or salvaging the damaged property

- Ensuring that the recyclable damaged property and construction waste is taken to appropriate disposal sites
- Using vegetated roof sections in place of damaged roof sections but only if installed after a Green standards-setter recommends doing so

- The additional expenses to hire qualified engineers or architects to provide engineering suggestions and designs in order to repair or replace the building's damaged portions. The expenses must be customary and reasonable.

- The following fees and costs
  - Fees that the Green standards-setter imposes to determine if any certification or recertification is in order according to its standards
  - Equipment testing fees required as part of the certification or recertification process
  - Cost to flush out and/or test the air of the renovated space after it is repaired or rebuilt. This cost is incurred only if the Green standards-setter recommends doing so because of air quality concerns related to repairs or rebuilding.
  - Fees to flush out and/or test the air of the renovated space after it is repaired or rebuilt. This is done according to the Green standards-setter's recommended procedures and to mitigate deficiencies in indoor air quality that result from the repair or rebuilding.

The items described above are only for amounts that exceed the amounts the insurance company would have paid if the loss did not involve Green upgrades.

The insurance company does place some limitations on its willingness to pay green expenses. It will not pay for:

- Additional modifications after a covered property fails to gain certification or recertification

· Green additional costs to repair or replace damaged property if it is simply a way to accumulate points towards certification or recertification

The amount the insurance company pays is 25% of the total property damage loss without any Green upgrades, subject to a maximum limit of $100,000. This can be overridden by entering a different limit or the word INCLUDED in the appropriate spaces on the declarations.

b. Business Income and Extra Expense or Extra Expense Only

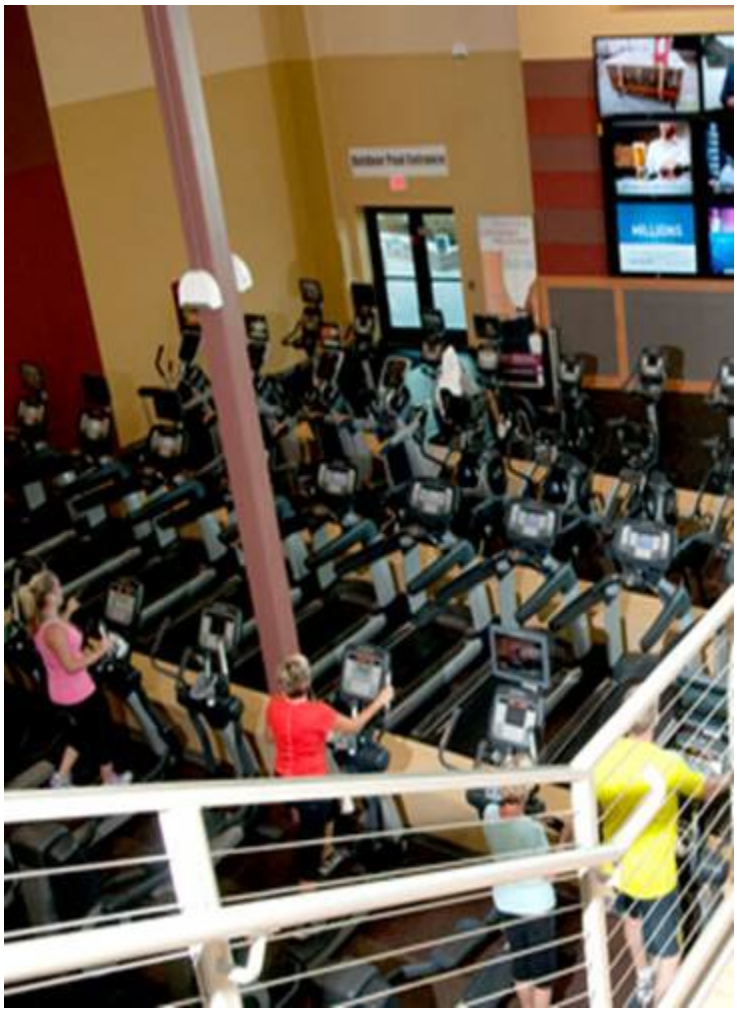
This item applies only if coverage for Business Income and Extra Expense or Extra Expense Only has been selected on the Declarations.

If green upgrades used to repair or replace the damaged coverage property lengthen the period of restoration, this coverage does not pay more than an additional 30 days. The days do not have to be consecutive. The 30 days can be changed on the declarations.

c. Green Upgrades Conditions

This coverage:

- Does not increase any limits of insurance
- Is an exception to B. Exclusions 1. Ordinance or Law
- Cannot be used to reduce coverage to repair or replace property that was already Green prior to the loss or damage



Example: Fit and Green Health and Fitness Center is dedicated to reducing its carbon footprint. All newly purchased equipment must generate its own power, where possible. A covered loss destroys 15 bikes and 10 treadmills, damages one portion of the roof, and most of the interior walls.

- Fit and Green finds replacement bikes and treadmills that generate and actually return energy to the power grid. The cost is 10% higher than the standard equipment. This increase is covered.
- Fit and Green hires an architect to redesign the interior, so it uses less energy and also to design a vegetated garden for the roof. These costs are covered.
- The architect recommends green wallboard and paint for the interior repairs. The costs above replacement cost are covered.
- The cost above replacement cost to repair the damaged roof portion with a vegetated roof is covered. The cost to replace the entire roof is not.
- Redesigning the interior adds 15 days to the period of restoration. The additional loss of income is covered.

The one breakdown limit is $350,000. The cost of the repairs and replacement is $400,000: $275,000 to bring the club back to how it was and $125,000 for the green upgrades. Because the one breakdown limit is only $350,000, the named insured must pay the remaining $50,000 for the upgrades.

D. DEDUCTIBLES

1. Application of Deductibles

The insurance company starts to pay only after the amount of any loss or damage exceeds the deductible shown on the declarations but will pay no more than the limit of insurance. The deductible is applied per coverage with two exceptions:

- When the combined deductible applies, all coverages marked INCLUDED are subject to the single deductible shown. This means that when the loss is adjusted, the aggregate amount of the loss for those coverages must exceed the single deductible before payment begins. Only one deductible applies even if there are multiple coverages involved.
- Although not shown on the declarations, deductibles may vary by type of equipment. When that occurs, and more than one type of covered equipment is involved in a single covered breakdown, only the highest deductible is applied. This is applied by coverage involved.

Example: Periwinkle has a Per Breakdown Limit of $2,500,000. $750,000 Property damage loss occurs, and the business is down for three months, with a loss amount of $250,000. The first 48 hours of the loss resulted in extra expense and business income losses totaling $10,000.

Scenario 1: Periwinkle's Property Damage Limit is $1,500,000, Expediting Expense is $50,000, Business Income/Extra Expense is $500,000, and Brands and Labels is $25,000. The Property Damage Deductible is $2,500, Business Income and Extra Expense is 48 hours.

Scenario 2: Periwinkle's Property Damage, Expediting Expense, Business Income/Extra Expense and Brands and Labels limits of insurance are INCLUDED. The combined deductible is $3,000.

Payments apply as follows:

Coverage	Scenario 1 Loss Deductible Total	Scenario 2 Loss Deductible Total
Property Damage	$750,000 - $ 2,500 = $747,500	$750,000 - $3,000 = $747,000

Business Income/Extra Expense	$250,000 - 10,000 = 240,000	$250,000 - 0 = 250,000
Expediting Expenses	$ 50,000 - 2,500 = 47,500	$ 50,000 - 0 = 50,000
Brands and Labels	$ 15,000 - 2,500 = 12,500	$ 15,000 - 0 = 15,000
Total Paid by Insurance Company	$1,047,500	$1,062,000

2. Determination of Deductibles

There are five different types of deductible.

a. Dollar Deductible

When a flat dollar amount is entered on the declarations that amount is deducted from any loss settlement before the insurance company pays.

b. Time Deductible

This type of deductible is also known as a waiting period. The insurance company does not pay a covered loss until the number of hours or days entered on the declarations passes. Loss amounts incurred between the time of the occurrence and the end of the designated time or waiting period are the named insured's financial responsibility. A day equals 24 hours.

Example: Lizzie owns a dry cleaning operation. She has a five-day waiting period on her Business Income and Extra Expense coverage. A critical piece of equipment breaks down at 3:20 p.m. on 08/03/2022. The breakdown results in the business being shut down until the equipment is repaired. Repairs are finished on 08/08/2022 at 1:45 p.m.

Business does not resume until the fifth day after the accident, but the repairs are made before five 24-hour periods pass. As a result, the Business Income And Extra Expense coverage does not pay any part of this loss.

c. Multiple of Daily Value Deductible

Time deductibles may not be to the named insured's advantage. The initial period after a loss frequently involves a significant loss of income and extra expense. Subsequent periods involve lesser loss amounts because arrangements have often been made for the business activity to continue, and contracts are renegotiated or cancelled. This front loaded disadvantage can be mitigated by developing a more equitable time deductible. It is the Multiple of Daily Value Deductible and is calculated as follows:

Step 1. Determine the business income that would have been earned for the entire premises where the breakdown loss occurred during the period of restoration as if there was no loss.

Step 2. Divide Step 1 by the number of days the business would have operated during the period of restoration. The result is the daily value.

Step 3. Multiply Step 2. by the number of days entered on the declarations for this deductible.

Step 4. The insurance company subtracts Step 3. from the amount of the covered loss. It then pays the amount of loss or damage that exceeds this deductible amount up to the limit of insurance that applies.

d. Percentage of Loss Deductible

Percentage-of-loss deductibles are often used in place of dollar deductibles. However, the way this coverage form applies them is different from the way other coverage forms apply them. This coverage form applies the percentage to the amount of the loss instead of to the covered property's value.

Example: Major Manufacturing Company has a $1,000,000 Property Damage limit on its Equipment Breakdown Protection Coverage Form. Major sustains a $300,000 loss when its primary assembling equipment breaks down. The following is what Major recovers under three different deductible approaches:

$50,000 Flat Deductible	5% Deductible used in other property forms	5% of Loss Deductible used in this coverage form
$300,000 loss	$300,000 loss	$300,000 loss

–$50,000 deductible	–$50,000 deductible (5% 0f $1,000,000 limit)	–$15,000 deductible (5% of loss)
$250,000 payment	$250,000 payment	$285,000 payment

e. Minimum or Maximum Deductibles

This deductible is used with both the Percentage of Loss Deductible and the Multiple of Daily Value Deductible. It gives the named insured a definite range of payment.

If the named insured selects the Multiple of Daily Value Deductible or the Percentage of Loss Deductible, the deductible amount is calculated and then compared to the minimum and maximum deductible on the declarations.

- If the calculated deductible falls between the minimum and the maximum, the named insured is responsible for the deductible that was calculated.
- If the calculated deductible is less than the minimum, the named insured is responsible for the minimum deductible.
- If the calculated deductible is more than the maximum, the named insured is responsible for no more than the maximum deductible.

Example: Lizzie chooses a 10% Percentage of Loss Deductible for Property Damage and a five-day Multiple of Daily Value Deductible for Business Income and Extra Expense. Both coverages are subject to a $500 minimum deductible and a $5,000 maximum deductible. Lizzie's boiler breakdown causes $60,000 in covered property damage and $15,000 loss of income for the 30 days her operation is shut down. Her daily value is $500.

The Property Damage deductible is $60,000 X .10 (10%) = $6,000. Because $6,000 is more than the $5,000 maximum, she is responsible for only $5,000.

The Business Income deductible is $500 X 5 (days) = $2,500. Because $2,500 falls between $500 and $5,000, Lizzie is responsible for $2,500.

E. EQUIPMENT BREAKDOWN PROTECTION CONDITIONS

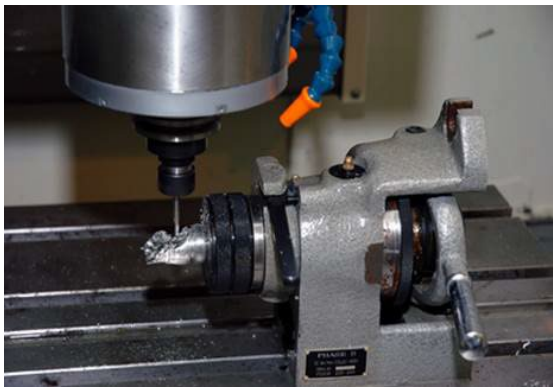
These conditions are in addition to the Common Policy Conditions.

Note: Many of these loss conditions are similar to those found in commercial property coverage forms.

1. Loss Conditions

a. Abandonment

The named insured cannot surrender or turn over property to the insurance company without its permission.



Example: Montgomery Metals Manufacturing's secondary production line sustains a covered equipment breakdown loss. Because business is slow, Montgomery decides it can handle all its production on its main production line, informs its insurance company that it will accept a cash settlement, and requests that the company remove the equipment from its premises. The insurance company refuses to accept the equipment. Montgomery has to rethink its decision and determine its next step.

b. Appraisal

The named insured and the insurance company may not be able to agree on the value of property or the amount of loss. In that case, either may make a written demand for an appraisal of the loss. Each party selects its own competent and impartial appraiser. The appraisers then select an umpire or have a judge in the court that has jurisdiction appoint one. They submit to the umpire differences in value or amount that they cannot resolve. A decision by any two parties is binding on all parties. Each party pays its own appraiser and shares the cost of the umpire equally.

The insurance company retains its right to deny the claim, even if there is an appraisal.

Example: Jane's production boiler breaks down. Jane and Cheapskate Mutual, her insurance company, cannot agree on its value. They agree to submit the dispute to appraisal. Jane selects an experienced appraiser who just happens to be her brother. Cheapskate selects a totally impartial party who has no appraisal credentials. Both "appraisers" are rejected because Jane’s selection is biased, and Cheapskate's selection is not qualified.

Insurer Must Accept Decision of Its Approved Umpire

General Casualty issued a fire policy to Tracer Industries, Inc. (Tracer), with a limit of $100,000 for a commercial building. The record showed that William Knake (Knake) was the corporation's sole owner and that his sons, Robert and William, had purchased the property for $67,500 about one week before the fire loss.

Before buying the building, two appraisers estimated the property's market value, including the land it sat upon, at $69,900 and $71,000, respectively. Both appraisers valued the land at $52,500, which in effect resulted in a market value for the building at only $17,400 and $18,500, respectively.

The insured showed that an agent of General Casualty had inspected the property. Based on the inspection, the agent agreed to write a $100,000 limit on the building and $100,000 on the contents, charging a premium based on those values.

The fire occurred about a week after the sale, and the building and contents were destroyed. General Casualty paid the full limit on the contents. However, after they failed to agree on the building loss amount, General Casualty asked for arbitration, which was granted. Both parties selected an appraiser, and the court appointed an independent umpire. The arbiters reached an agreement on the loss amount, and General Casualty sought to have the appraisal award set aside on the grounds that it was excessive. The insurer complained the appraisers and court-appointed umpire had not taken into consideration the obsolescence of the building. On appeal, General Casualty also contended the following:

- the disparity between the market value and the award was fraudulent,
- allowing a fraudulent award would be against public policy, and
- the umpire appointed by the court had a disqualifying bias or conflict of interest.

Darrell Hilst (Hilst), the umpire appointed by the court, reported that he agreed with the insured's appraiser, who had fixed the fire loss at $111,900. This total was reduced to the policy limit of $100,000.

On appeal, the court pointed out that where the policy provides for arbitration, substantial deference was given to the appraisers. Their conclusion, and that of the umpire, in the absence of fraud and mistake, was binding. Being bound by the decision was in accordance with the parties' mutual choice to resolve their dispute through the policy's arbitration provision.

The insured's appraiser and the court-appointed umpire chose not to consider obsolescence. General Casualty asserted that obsolescence had to be deducted in determining "actual cash value," but Hilst based his appraisal on the general rule where, if a property is usable for its intended purpose or another purpose, obsolescence is not a factor. The parties agreed the purpose of fire insurance was to insure, as much as possible, that the insured would be in nearly as good a position after the fire loss as before the occurrence. The record also showed that General Casualty's appraiser calculated the replacement cost of the building was about $88,500.

In conclusion, the higher court ruled that Hilst did not have a disqualifying conflict of interest and noted also that General Casualty did not object to his appointment until after his report was filed. Neither the insured nor General Casualty had an advantage in the appointment of Hilst by the court. The judgment of the lower court was affirmed.

c. Defense

Owners of property may sue the named insured because of claims that involve their property. If they do, the insurance company has the option to defend the named insured, and it does so at its own expense.

Note: Defense at its own expense means the company does not reduce the amount of insurance to pay losses.

d. Duties in the Event of Loss or Damage

(1) The named insured has a number of duties to perform if a claim or demand for coverage occurs. It must:

- Inform the insurance company of the loss or damage as soon as possible and include a description of the property involved. As a minimum, the notice should include information concerning how, when, and where the loss or damage took place.
- Give the insurance company a reasonable amount of time and ample opportunity to examine the damaged property before the affected property is removed and/or repairs begin. The named insured must also protect covered property from further loss or damage using reasonable methods.
- Allow the insurance company to inspect the property to prove the loss or damage. This includes taking samples of both damaged and undamaged property for inspection, testing, and . The company must also be allowed to examine the named insured's books and records and make copies of any information it needs.
- Send the insurance company a properly executed proof of loss on its forms within 60 days of its request to do so.
- Cooperate with the insurance company as it investigates or settles the claim.

(2) The insurance company has the right to examine any insured under oath at reasonable times concerning the claim or the insurance coverage provided. This includes questions regarding the named insured's books and records. The insured must acknowledge any examination by its signature. The insurance company has the option to examine any person alone and not in the presence of any other insured.

INSURED FAILS TO PRODUCE REQUIRED DOCUMENTS FOLLOWING FIRE LOSS

The insured, Myers, Smith & Granady, Inc. owned property in New York City, and had secured a one-year policy from the company covering loss from physical damage, including fire. The policy provided, among other things, that the insured would cooperate in the event of any loss, and would answer interrogatories, under oath. It barred any action against the company until all the conditions of the policy had been met. It contained the usual clause requiring suit to be filed within two years after a loss.

On August 5, 1988, the property was damaged by fire, and the loss was estimated at $327,377.84. Notice was given promptly. The company's inspectors determined the cause to be arson, and the company thereafter conducted four examinations of the insured under oath, all of which had to be adjourned because of the insured's failure to bring requested documents. The company sent the insured copies of each of the transcripts, but only the first one was executed and returned. The company asserted the insured never produced the documents it requested, but the insured claimed, at trial, the missing documents were lost in the fire. The company never denied nor paid the claim and contended its investigation was never concluded.

The insured filed suit on April 24, 1991, alleging breach of contract and "deceptive acts and practices" in violation of the New York statute.

The trial court granted summary judgment for the company and held the suit was filed too late, and failed to state a claim, and this was affirmed by the intermediate court.

On appeal by the insured to the Court of Appeals of New York, it agreed that the insured could not recover due to its failure to produce the missing documents and its failure to execute the transcripts which had been sent to it by the company.

The judgment entered in the courts below in favor of the company was affirmed.

e. Insurance under Two or More Coverages

More than one coverage may apply to a given loss. In that case, the insurance company does not pay more than the actual amount of loss or damage, subject to any applicable deductible. Duplicate payments are not made.

f. Legal Action against Us

No legal action can be brought against the insurance company until all of the following requirements are met:

· There is compliance with all of the coverage form’s terms

· It is brought within two years following the date of the breakdown

· The insurance company agrees that an obligation exists when a third party alleges the insured is obligated to it. This agreement may be the result of arbitration. However, a third party cannot include the insurance company in a legal action to establish the named insured’s obligation to that third party.

g. Loss Payable Clause

The following conditions apply to loss payees:

- The insurance company pays any loss to the named insured and the loss payee as their interests appear. The loss payee interests are covered unless the named insured’s conversion, secretion, or embezzlement caused the loss.

- The insurance company can cancel the policy according to this coverage form’s Cancellation Condition. If it does, the cancellation terminates coverage with respect to the loss payee’s interest. The insurance company is required to mail the notice of cancellation to both the named insured and the loss payee.

- Payments the insurance company makes to the loss payee entitle it to the loss payee's rights against any other party. The other party could be the named insured or any other party.

h. Other Insurance

There may be other insurance that is identical to the insurance that this coverage form provides that applies to the same loss. In that case, this coverage form pays on a proportional basis.

There may be other insurance written on a different basis than the insurance this coverage form provides that applies to the same loss. In that case, this coverage is excess over that other coverage, subject to the limit of coverage that applies to the loss.

Note: E. Equipment Breakdown Protection Conditions 3. Joint or Disputed Loss Agreement addresses claim situations where a commercial property coverage form and this coverage form insure the same loss.

CP 12 70–JOINT OR DISPUTED LOSS AGREEMENT: COORDINATING EQUIPMENT BREAKDOWN INSURANCE WITH COMMERCIAL PROPERTY INSURANCE

SITUATION

Peter’s boiler explodes. The resulting fire completely destroys his building and all his business personal property. Peter is completely covered because he has an equipment breakdown policy with Only Equipment, Inc. and a commercial property policy with Property Plus, Inc. Unfortunately, each carrier points out the parts of its policy that exclude coverage and suggests that the other policy provides the coverage. As a result, neither is willing to budge or give an inch. At the same time, Peter is unable to rebuild because the carriers cannot resolve the coverage issue, even though both agree that Peter has coverage under one or both policies.

SOLUTION

The Joint Loss Agreement was designed to guarantee payment to any insured caught in a situation like Peter’s where the insurance companies cannot agree on which policy provides what coverage, but when both agree that there is coverage. The purpose of this agreement is to get Peter "out of the middle.”

When one carrier writes a commercial property policy, and another writes an equipment breakdown policy, the recommendation is that *both* policies include the appropriate joint loss agreement wording. This facilitates loss payment to the insured if the property policy and the equipment breakdown policy carriers cannot agree on which one covers a loss. This endorsement does not provide any coverage when both insurance companies deny coverage. It only applies if coverage applies under one or both policies and the carriers simply disagree about how each policy should respond and the amount each one should pay.

ISO changed its approach to this wording when Equipment Breakdown Coverage replaced the Boiler and Machinery Coverage Part. BM 99 43–Joint or Disputed Loss Agreement had to be attached to the Boiler and Machinery Coverage Part. However, Equipment Breakdown Coverage now includes this wording as a condition. This is definitely to the insured's advantage because there is the potential for such coverage disputes whenever Equipment Breakdown Coverage is written.

Although it might be preferable to automatically include this wording in commercial property coverage forms and policies, it is not; this means that CP 12 70–Joint or Disputed Loss Agreement must be attached whenever this potential conflict exists.

Some insurance companies have developed and use their own versions of these joint or disputed loss agreement endorsements which allow them to tailor the endorsement to fit any coverage arrangement, such as a Difference in Conditions (DIC) policy written in conjunction with a commercial property policy or an equipment breakdown policy.

CP 12 70–JOINT OR DISPUTED LOSS AGREEMENT

A. This endorsement applies only if all of the following are met:

- An equipment breakdown/boiler and machinery policy and this policy are in effect.
- Property that both policies cover is damaged.
- The insurance companies disagree as to the amount of coverage each should pay.

B. This endorsement does not apply if both carriers agree that there is no coverage, or no coverage disagreements exist.

C. The following conditions must be met in order for the terms of this provision to apply:

- The equipment breakdown/boiler and machinery policy must have a Joint or Disputed Loss Agreement similar to the one in this endorsement.
- The damage to covered property can be caused by a loss where both carriers admit to some liability for payment under their respective policies. It can also be caused by a loss where one carrier contends that the other carrier is totally responsible or both carriers decline coverage but contend that the other carrier's coverage applies to all or part of the loss.
- The named insured and the insurance companies all agree as to the total amount of the loss.

D. If these requirements are met and the named insured requests payment under this endorsement, each company pays the insured its entire undisputed amount and half of the disputed amount.

Note: This condition does not modify or waive any rights that any carrier has against another carrier or any rights an insured holds against the carrier.

The disputed amount of loss the commercial property carrier pays is not more than the same loss agreement in the equipment breakdown/boiler and machinery policy or the amount it would have paid if such coverage was not in force at the time of the loss. In any event, the carrier's liability does not exceed the applicable limit of insurance on the declarations. Amounts paid that the named insured accepts do not alter, waive, or surrender any other rights it has against the insurance company.

E. Once the insured is paid, the insurance companies enter arbitration to resolve the differences. The insured may be required to assist in the arbitration.

F. The disputing insurance carriers must pay for the arbitrator's costs. The carrier responsible for paying the excess amount must pay interest. This interest cost encourages the parties to resolve their differences quickly.

RESOLUTION

We'll revisit Peter's problem discussed at the beginning of this article. This time he had CP 12 70 on Property Plus's policy and Only Equipment's policy incorporates the wording in its Conditions section. All parties agree that the amount of the loss is $350,000 and both insurance carriers believe coverage exists for the loss, but both are adamant that they owe nothing.

Property Plus and Only Equipment must each pay 50% of the agreed upon loss amount of $175,000. This means that Peter gets his $350,000 and can start getting back to business.

In the meantime, Property Plus and Only Equipment must enter into arbitration. Each company selects an arbitrator, and then the two arbitrators select a third one. Within the required 90 days, the arbitrators determine that Property Plus is responsible for 75% of the loss and Only Equipment is responsible for 25% of the loss. Property Plus must pay Only Equipment $87,500 plus interest based at 1.5 times the highest prime rate from the money rates column that was posted in the Wall Street Journal during the period of arbitration.

The good news for Peter is that he received his money before the arbitration.

i. Privilege to Adjust With Owner

Loss or damage to property of others may occur when it is in the named insured's care, custody, or control. In that case, the insurance company has the right to settle the claim directly with the property's owner. Documentation that the insurance company paid the owner satisfies the named insured's claim against the company.

j. Reducing Your Loss

The named insured must do a number of things after a covered breakdown occurs:

(1) Resume full or partial business operations as soon as possible.

(2) Attempt to make up for lost business within a reasonable period of time. The time period to make up for lost business often will extend beyond when the operations are able to resume.

(3) Use all reasonable means to minimize or avoid a business income loss. The following are some examples:

- Work extra time or overtime to continue operations at the same premises or at another premises the named insured owns or acquires to perform the same operations.
- Work with and/or share property or services of another business.
- Use other owned equipment, property, or merchandise that is on hand or is readily available.

- Salvage the covered property that was damaged.

k. Transfer of Rights of Recovery against Others to Us

If the named insured or any other covered party has rights of recovery against another entity, those rights transfer to the company at the time of payment. The rights transferred apply only to the amount the insurance company paid. Those rights must be secured and nothing done after a loss that negatively affects them. The named insured can waive its rights against others in writing under either of the following situations:

- Before a loss to covered property or covered income
- After a loss to covered property or covered income but only if the other party is any of the following:
  - Another party that this policy insures
  - A business that the named insured owns or controls
  - A business that owns or controls the named insured
  - A tenant of the named insured

l. Valuation

This section contains eight separate paragraphs relating to valuation, but there is no tying together of the paragraphs. Each appears to stand on its own. If there is a conflict between any of them, there is no method of resolution within the coverage form wording.

(1) This first item is ambiguous because it states that one of the following is used by the insurance company to determine the value, but it doesn't explain which will be used. Normally, a statement would be included to state that the lesser or greater of the two is to be used.

- The costs to repair, replace, or rebuild the damaged property with similar property with the same characteristics as the damaged property. The costs must be evaluated at the current site and at another site. The two costs are compared, and the insurance company pays the lower of the two.
- The actual costs that were paid to repair, replace, or rebuild on the same site or a different one. The costs at the current site and at another site must be evaluated. The two costs are compared, and the insurance company pays the lower of the two.

If obsolete equipment or property that has no value to the named insured is damaged, the insurance company will pay nothing for it.

(2) Improved Equipment

This is an addition to the basic valuation. Up to 25% above the amount of the property damage that is recoverable is available to pay to enhance the safety of the covered equipment. This amount is available if the named insured desires it or if the insurance company requires it.

Example: Maypole Metalmakers is insured under an Equipment Breakdown Protection Coverage Form with a $500,000 limit for property damage. Maypole's insurance adjuster tells Maypole's owner that its recent loss to a hydraulic press is covered. The owner is concerned about safety and decides to replace the current model, which costs $42,000, with a much safer one, which costs $51,000. This additional amount is covered.

(3) Warranty or Service Contract

When covered property that is subject to a maintenance or service contract or a warranty is damaged in such a way that the contract or warranty is made void, the insurance company will reimburse the named insured for the amount it had paid for the unused portion of that warranty or contract. This applies only when the warranty or contract is nonrefundable and cannot be transferred.

(4) Time to Replace

The named insured has 24 months after the date of the covered breakdown to repair or replace the damaged property. Unless it agrees in writing to a longer period, the insurance company pays only the cost it would have paid to repair or replace the damaged property or the damaged property's actual cash value at the time of the breakdown, whichever is less.

(5) Selling Price

The named insured must meet all of the following conditions before property it holds for sale is valued at selling price:

- The named insured manufactured the property.
- The property's selling price was more than its replacement cost.
- The named insured was not able to replace the property before its expected sale date.

Selling price is the price the property would have sold for if there was no loss or damage. However, it is reduced by any discounts the named insured would have offered and expenses it would have otherwise incurred.

(6) Data or Media

Valuation for loss or damage to Media or Data is based on the following:

- Mass produced, and commercially available Media and Data are valued at replacement cost.
- For all other Media and Data, valuation is based on the expenses the named insured incurs to reproduce the records on blank material. This includes the costs to gather or assemble the information to be reproduced.

No payment will be made for damaged data or media that, based on the insurance company's determination, cannot be replaced with similar property that serves the same function.

(7) Spoiled Property

Loss or damage to Covered Property under the Spoilage Damage Coverage is valued as follows:

- Raw materials are valued based on their replacement cost.
- Property in process is based on the raw materials' replacement cost plus labor expended in the process plus the appropriate allocation of overhead charges.

Note: This section of this condition addresses only overhead. It does not address profit.

- Finished products is the price the property would have sold for if there was no loss or damage. However, it is reduced by any discounts the named insured would have offered and expenses it would have otherwise incurred.

(8) Salvage Value

A named insured may obtain items to use on a temporary basis following a covered loss in order to keep operating. The salvage value of this property is deducted from the insurance valuation at settlement because it is a new asset that the named insured did not have before the loss.

m. Business Income and Extra Expense Coverage Additional Conditions

The named insured can choose to be on either a coinsurance basis or an annual reporting basis. The type of operation should be considered when deciding the best option for a particular named insured.

These are not general conditions. Instead, they apply to only Business Income and Extra Expense Coverage.

(1) Annual Reports

The annual reporting basis can provide the most flexibility for an operation and does match the premium and the exposures precisely. When this is the option selected, the named insured must complete the insurance company's approved Annual Report of Values Form once a year. The report is required to reach the company within three months of the annual report date entered on the declarations. It is then due on each subsequent anniversary date.

Note: It is unclear if it is due on the anniversary date of the three months due date or the anniversary date of the reporting form date on the declarations.

(2) Adjustment of Premium

The insurance company calculates the earned premium for the past year after it receives the report of value. If it is more than the premium the company charged, the named insured pays the difference. If it is less, the insurance company refunds the difference to the named insured. The return premium is never more than 75% of the premium originally charged.

(3) Coinsurance

If the named insured does not submit the required reports, the penalty is that coverage becomes subject to a coinsurance penalty. However, it is difficult to see how this could apply because the report isn't due until after the policy period is complete. This would mean that the coinsurance penalty would be applied retroactively, which could be difficult. Of course, many business income losses are not settled until after the policy period because the losses themselves often extend beyond the policy period. When the coinsurance condition applies, the insurance company does not pay the full value of any loss if the actual business income annual value is more than the estimated business income annual value. The amount paid is determined by the following formula:

Step 1. Divide the estimated business income annual value by the actual business income annual value at the time of the breakdown. The result is a multiplier factor.

Step 2. Multiply the total business income loss amount by Step 1.

Step 3. Subtract any deductible amount that applies from the amount determined in Step 2.

The insurance company pays the lesser of the amount determined in Step 3 or the business income and extra expense limit of insurance. Other insurance or the named insured's own financial resources pay any amount that remains.

Note: It does not seem to be necessary to include a statement that the named insured would have to rely on some other specified source to take care of any unpaid loss. It should be sufficient to state the maximum amount the policy pays and leave it at that.

Important: The penalty applies separately to each location when coverage applies to more than one location.

2. General Conditions

Many of these general conditions are similar to the corresponding ones in commercial property coverage forms.

a. Additional Insured

Persons or organizations designated as additional insureds are considered insureds under the Equipment Breakdown Protection Coverage Form but only to the extent of their interest.

b. Bankruptcy

The insurance company's obligations under this coverage form are not affected or changed if the named insured or his or her estate becomes insolvent or declares bankruptcy.

c. Concealment, Misrepresentation, or Fraud

This is a foundational condition because trust is an essential part of the insurance contract. When ANY insured conceals, misrepresents, or is engaged in fraud regarding certain material facts, the coverage part is void. This means that it is though it never existed. This protects the insurance company.

This is a drastic situation so to protect the named insured this condition is limited and applies only if the action is intentional, the information is material, and it is related to one of the following:

- The coverage part itself
- The property that meets the description of covered property
- The named insured's interest in that covered property
- Claims made under this coverage part.

d. Liberalization

The insurance company may adopt coverage form revisions that broaden this coverage without making an additional premium charge. If it does so at any time up to 45 days before this policy's inception date or during its term, the broadened coverage automatically applies to this coverage form.

e. Mortgage holder

Trustees are included in the term mortgage holder.

The insurance company pays the mortgage holder for direct damage to covered property caused by or that results from a breakdown of covered equipment in their order of precedence and as their interests appear.

Foreclosure or similar proceedings on covered property does not void the mortgage holder's right to receive loss payments.

The insurance company may refuse to pay the named insured's claim because of its acts or failure to comply with coverage terms. In that case, the mortgage holder is still entitled to receive claim payments, but it must assume the following additional responsibilities:

- Pay premiums that the named insured did not pay when the insurance company requests
- Submit a properly executed proof of loss within 60 days after the company requests in cases where the named insured fails to do so
- Inform the insurance company of any material change in risk or change in ownership that comes to its attention

Once the insurance company agrees that the mortgage holder is entitled to the payments, but the named insured is not entitled, the mortgage holder becomes responsible for satisfying the coverage form's terms. When the insurance company pays the mortgage holder and not the named insured, the following apply:

- The mortgage holder's rights against the named insured transfer to the insurance company but only for the claim amount paid by the insurance company.
- The mortgage holder continues to hold on to its rights of recovery against the named insured.

The insurance company may choose to become the mortgage holder. It does so by paying the mortgage holder the entire principal plus accrued interest. In this case, the named insured must pay the insurance company the remaining mortgage debt.

If the insurance company decides to cancel, it is required to give the mortgage holder the following number of days written notice before cancellation takes effect:

- Ten days for non-payment of premium
- Thirty days for all other reasons

Note: Statutes in many states supersede these notice periods.

If the insurance company decides to non-renew, it is required to give the mortgage holder at least ten days written notice before the policy's expiration date.

If the insurance company suspends coverage, it suspends it for both the named insured and the mortgage holder. Suspension takes place immediately – see Condition i – and applies even if the mortgage holder has not yet been notified. However, the mortgage holder must receive written notice of any such suspension.

f. No Benefit to Bailee

This insurance is for the named insured's benefit. Parties entrusted with covered property that belongs to the named insured are not entitled to that benefit.

g. Policy Period, Coverage Territory

The insurance that this coverage form provides applies to loss or damage that begins during the policy period and in the coverage territory. The coverage territory consists of the United States of America, its territories and possessions, Puerto Rico, and Canada.

h. Premium and Adjustments

The named insured must report the full 100% insurable values at each location to the insurance company every year as of the anniversary date. It must report the value for each coverage separately. The renewal premium is determined based on the rates in effect as of the renewal date for all values at risk.

The named insured must maintain the records it needs to complete these reports and have those records available for the insurance company or its representatives to examine at the following times:

- During normal business hours
- During the respective policy year
- Up to 12 months after the expiration or cancellation date

i. Suspension

This feature is unique to the Equipment Breakdown Protection Coverage Form. Any insurance company representative can determine that covered equipment is in or is exposed to a dangerous condition. In that case, that representative may immediately suspend coverage with respect to that equipment by delivering or mailing written notice of suspension to the named insured's last known address or the location of the suspended equipment.

Example: Practically Perfect Property Insurance Company insures Kim's Kandee Kitchen. Practically's senior equipment inspector notices that certain insured equipment is operating at considerably higher temperatures than their rating allows. The inspector enters Kim's office and issues a written order to shut down the equipment within 30 minutes or have coverage on that equipment suspended. Kim ignores the order. Three days later, the equipment the inspector identified breaks down and starts a fire. With a copy of the inspector's written order in hand, Practically notifies Kim that coverage was and still is suspended and that the equipment loss is not covered.

Suspended coverage can be reinstated only by the insurance company issuing an endorsement for that covered equipment.

Note: Oral statements that authorize resuming operations are unacceptable and do not reinstate coverage.

If coverage is suspended, the named insured receives a pro rata refund of premium paid to insure that equipment. However, the suspension is effective immediately, even before any refund is offered or issued.

3. Joint or Disputed Loss Agreement

This condition keeps the named insured from being a victim of insurance companies that disagree with one another about the way to handle a loss. It provides a way to pay a loss, after which the insurance companies determine their portion of the loss payment.

This condition applies only if all of the following are met:

- An equipment breakdown/boiler and machinery policy and this policy are in effect.
- Property that both policies cover is damaged.
- The insurance companies disagree as to the amount of coverage each should pay.

This condition does not apply if both carriers agree that there is no coverage or no coverage disagreements exist.

The following conditions must be met for the terms of this provision to apply:

- The property coverage form must have a Joint or Disputed Loss Agreement similar to the one in this condition.
- The damage to covered property can be caused by a loss where both carriers admit to some liability for payment under their respective policies. It can also be caused by a loss where one carrier contends that the other carrier is totally responsible or both carriers decline coverage but contend that the other carrier's coverage applies to all or part of the loss.
- The named insured and the insurance companies all agree as to the total amount of the loss.

If these requirements are met and the named insured requests payment under this condition, each carrier pays the insured its entire undisputed amount and half of the disputed amount.

Note: This condition does not modify or waive any rights that any carrier has against another carrier or any rights an insured holds against the carrier.

The disputed amount of loss paid by this carrier is no more than the same loss agreement in the property coverage form that it would have paid if this coverage was not in force at the time of the loss. In any event, the carrier's liability does not exceed the applicable limit of insurance on the declarations. Amounts paid that the named insured accepts do not alter, waive, or surrender any other rights it has against the insurance company.

If the insurance carriers both agree to arbitration, the named insured will be paid within 90 days. After the insured is paid, the two carriers will enter into arbitration which is to be resolved within 90 days. The disputing insurance carriers each select an arbitrator, and then the arbitrators select a third arbitrator, or if they can’t agree on a third, the parties can request a judge to select one. The carrier responsible for paying the excess amount must pay interest. This interest cost encourages the parties to resolve their differences quickly. The interest is calculated at 1.5 times the highest prime rate from the Money Rates column of the Wall Street Journal published during the period of the Liquidated Damages.

Arbitration expenses are not part of the excess contribution used to calculate the liquidated damages. The carriers pay them in the same proportion that applies to the ultimate loss payment.

Example: Old Hotel, Ltd. uses a low-pressure steam boiler to heat its premises. It has a monoline Equipment Breakdown Protection Coverage Form written with Boiler Coverage, Inc. and a commercial property coverage form written with Fire Insurance, Inc. A small fire and explosion occur, but the damage is confined to the boiler room. The entire loss amounts to $100,000. Some of the damage is clearly a boiler loss, while other damage is clearly a commercial property loss. However, a problem arises from a significant part of the loss that either coverage form may insure. Each carrier points out the parts of its form that exclude coverage and suggests that the other carrier's coverage applies instead. Old Hotel wants to resume operations quickly but cannot because the two carriers cannot agree on the amount each should pay, and neither wants to give the hotel permission to begin repairs.

Old Hotel writes to each carrier and requests payment according to the Joint or Disputed Loss Agreement.

Boiler Coverage Inc. pays $10,000 as its undisputed amount. Fire Insurance, Inc. pays $15,000 as its undisputed amount. Each then pays $37,500 as its 50% of the $75,000 disputed amount. Old Hotel is able to begin repairs.

The carriers agree to arbitration. The arbitrators determine that Fire Insurance, Inc. is responsible for 75% of the disputed amount. As a result, it must pay Boiler Coverage, Inc. $22,500 plus the interest owed on that amount starting with the date of the payment made to Old Hotel and ending on the date Fire Insurance, Inc. reimburses Boiler Coverage, Inc.

F. DEFINITIONS

Defined words are used throughout the coverage form. Restricting their meaning to those definitions allows all parties to have a clearer understanding of the coverage intended. There are 17 defined terms.

1. Breakdown

Direct physical loss that damages covered equipment to the extent that it must be repaired or replaced. It must result from one or more of the following except as this coverage form otherwise excludes:

- Pressure or vacuum equipment failure
- Rupture or bursting caused by centrifugal force and other types of mechanical failure
- Arcing and other types of electrical failure

The following are not considered breakdown:

- Adjusting, aligning, calibrating, cleaning, or modifying equipment that results in malfunction
- Computer equipment and programs defects, erasures, errors, limitations or viruses. Inability to process dates or time or to provide instructions to covered equipment is considered a defect.
- Leaks from valves, connections, joints, shaft seals, fittings, or gland packing
- Damaged vacuum tubes, gas tubes, or brushes
- Damaged structures or foundations when the structures or foundations support covered equipment or its parts
- Any safety or protective device function
- Any part of an internal combustion gas turbine that cracks when exposed to the products of combustion

Note: Despite this comprehensive definition, disputes arise concerning coverage intent.

"Mechanical Breakdown" And "Corrosion" Interpreted By Court

The insured, a manufacturer of a dairy product, used a press in a pasteurization process that involved heating and cooling of the product on one side of 250 metal plates. Heat or cold was provided by hot or cold water on the other side of the plates.

Bacteria were found to have entered and contaminated the product, resulting in customer claims. It was determined that the contamination occurred because of leaks due to pitting/corrosion in plates used in the cooling process. The insured's claim for its losses under boiler and machinery insurance covering the pasteurization equipment was denied by the insurer. An ensuing lawsuit resulted in a judgment in favor of the insured. The insurer appealed.

The policy covered loss or damage to property "solely caused by or resulting from....mechanical breakdown...." Loss caused by or resulting from water damage was specifically excluded. Corrosion was excluded, but it was provided that ensuing damage from an insured peril was covered.

The appeal court agreed with the trial court's finding that "mechanical breakdown" characterized not only the complete stopping of a machine's function but also failure to function correctly. Thus: "A reasonable party might....believe that the heat exchanger unit suffered a mechanical breakdown when, by reason of holes resulting from corrosion, it admitted contaminated water into the dairy product."

The court also concluded, as did the trial court, that the terms "water damage" and "corrosion" were subject to more than one interpretation in their application to the damage that occurred. The terms were not defined in the policy, and convincing arguments could be made for coverage, notably that a covered peril ensued from their occurrence.

The judgment of the trial court was affirmed in favor of the insured and against the insurer.

2. Business Income

The net income that would have been earned added to the continuing normal operating expenses. Net income is net profit or loss before income taxes. Payroll is considered a continuing expense.

Use Of Reserve Inventory Not Considered Lost Income

An insured business was involved in purchasing scrap metal, shredding it, and selling the shredded metal. A motor breakdown on a machine used in the metal shredding operations prevented the shredding of metal for 32 days. To fill orders during the month when the machine was being repaired, the company used 5,500 tons of its reserve stock of shredded metal. This was adequate to meet the sales demand; consequently, there was no loss of gross income. The inventory was restored to its former level within 60 days after the machine was back in operation.

Business interruption coverage in the insured's policy, in addition to paying daily indemnity for prevention of business, made provision for payment of "that amount of expense which is reasonably incurred by the insured or the company to reduce or avert prevention of business" to the extent that the total amount that would otherwise have been paid is thereby reduced. The coverage was subject to a condition that the insured must "....utilize every available means, including.... surplus or reserve stock....which might reduce the amount for which (the insurer) would otherwise be liable...."

The issue, in this case, was whether or not the cost of the reserve stock was an "expense reasonably incurred to reduce or avert a prevention of business." The cost of raw materials used to replenish the inventory was $154,000. The insured filed a suit for declaratory judgment, seeking a finding that the insurer was liable for such expense. It appealed the trial court judgment for the insurer.

The insured argued that the cost of the raw material used to prevent a loss of income was an "expense" within the policy meaning of the term. The appeal court disagreed, believing that the insured would be in a better position than it was before the breakdown if recovery were allowed for the cost of materials used to replenish the inventory.

The court stated that the policy would cover any additional expenses, such as costs above those for routine labor, utilities and other overhead necessary in the shredding process to rebuild the inventory. However, it concluded that the cost of the raw materials was not an "additional expense" covered under the policy.

The trial court's judgment was affirmed in favor of the insurance company and against the insured.

3. Business Income Actual Annual Value

The net income that would have been earned if there was no breakdown loss added to incurred continuing normal operating expenses.

Net income is net profit or loss before income taxes. Payroll is part of continuing normal expenses.

4. Business Income Estimated Annual Value

The net income added to continuing normal operating expenses is based on the named insured's estimate provided in its most recent Annual Report of Values Form filed with the insurance company. Payroll is included as part of normal operating expenses.

Note: This figure is also used to calculate the coinsurance penalty.

5. Computer Equipment

Programmable electronic equipment the named insured owns and uses to store, retrieve, and process data. Peripheral equipment that provides communication input and output, printing, and data transmission functions is included in this definition but no media or data.

6. Covered Equipment

a. Covered equipment is the following:

- Equipment designed and intended to operate under internal pressure or in a vacuum. It does not include equipment that operates under only the pressure of contents within it.
- Equipment of an electrical or mechanical nature that is used to generate or transmit energy or that uses energy
- Equipment used for communications
- Computer equipment
- Equipment described above that a utility owns used exclusively to supply utility services to only the named insured. This equipment is not considered covered equipment if Utility Interruption coverage is provided.

Covered equipment must be at a location listed on the declarations that the named insured owns, operates, or leases. This location-based requirement does not apply to Utility Interruption, Contingent Business Income and Extra Expense, or Extra Expense Only coverages.

b. Covered equipment does not mean or include the following:

- Media
- Any part of pressure or vacuum equipment that is not under either the internal pressure of its contents or an internal vacuum
- Insulating or refractory material. However, the glass lining of covered equipment is covered.
- Non-metallic pressure or vacuum equipment. However, such equipment constructed and used according to appropriate and approved regulating codes is covered.
- Catalysts

Note: As used in chemistry, a catalyst is a substance that modifies and increases the rate of a reaction without being consumed in the process.

- Below ground vessels, piping, and equipment when excavation is required in order to inspect, remove, repair, or replace them
- Structures, foundations, cabinets, or compartments that support or contain parts or all of covered equipment. This also includes penstock, draft tube, or well casing.
- Vehicles, aircraft, self-propelled equipment, or floating vessels. This also includes covered equipment mounted on or used exclusively with any of these.

Note: Equipment otherwise covered and only occasionally used on vehicles, aircraft, self-propelled equipment, or floating vessels is covered.

- Dragline, excavation, or construction equipment. This includes any covered equipment mounted on or used exclusively with any of these.

Note: Equipment otherwise covered and only occasionally used on dragline, excavation, or construction equipment is covered.

- Maintenance property such as felt, wire, screens, dies, extrusion plates, swing hammers, grinding discs, cutting blades, non-electrical cable, chains, belts, ropes, clutch plates, and brake pads. This also includes non-metal parts or any parts or tools subject to periodic replacement.

Note: The Equipment Breakdown Protection Coverage Form is not intended to insure relatively minor kinds of maintenance-type property.

- Machines or apparatus used exclusively for research, diagnosis, medication, surgical, therapeutic, dental, or pathological purposes. This includes any covered equipment mounted on or used only with any of these. Coverage for this property can be provided when the declarations includes entries for Diagnostic Equipment.

- Equipment or equipment parts the named insured manufactures with the intent to sell them.

7. Covered Property

Property that the named insured owns or property of others in its care, custody, or control for which it is legally liable.

8. Data

Programmed and recorded material that is stored on media. It is also programming records used for electronic data processing or to electronically control equipment.

9. Extra Expense

The additional cost the named insured incurs to operate its business during the period of restoration. It is those costs that are in addition to the normal costs of operations that would have been incurred during the same period had there been no equipment breakdown loss.

10. Fungus

Any type or form of fungus. Mold, mildew, mycotoxins, spores, scents, and the byproducts that fungi produces or releases are provided as examples.

Note: Mycotoxins are toxins or poisons that fungi produce.

11. Green

Enhanced energy efficiency and the use of sustainable materials or products. It is also the use of sustainable methods in construction, design, manufacture, or operations. In order for any of the above to be considered green, a Green standards-setter must recognize it as such.

12. Green standards-setter

A governmental agency or another recognized organization that establishes, maintains, and communicates standards for what is considered Green in both products and practices. The following are currently considered Green Standards-Setters, but organizations similar to them can also be considered as such:

- The U.S. Building Council Leadership in Energy and Environmental Design Program known as LEED
- A joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy known as ENERGY STAR
- A program of the Green Building initiative known as Green Globes

13. Hazardous Substance

Anything that a government agency determines to be a health hazard. Ammonia is an exception.

14. Media

This is electronic data processing or storage media. Examples are films, tapes, discs, drums, or cells.

15. One Breakdown

When an initial breakdown causes additional breakdowns, the sum of the initial plus all of the additional breakdowns are considered one breakdown. When multiple breakdowns occur at one location at the same time and are due to the same cause of loss, the sum of all such breakdowns is considered one breakdown.

Note: This is important when applying limits and deductibles. One breakdown means one deductible and one limit of insurance. Multiple breakdowns mean more than one deductible and multiple limits of insurance. This is similar to the 168-hour rule in earthquake and volcanic eruption coverage.

16. Period of Restoration

The time period that begins when a breakdown occurs or 24 hours before the insurance company is notified of the breakdown, whichever is later.

Note: As a result, it is extremely important that the named insured promptly report losses. If notification is delayed, business income coverage does not begin until 24 hours before the insurance company receives the notice.

Example: Jacklow International's equipment breaks down on 08/01/2022. The insurance company is notified on 08/15/2022. The period of restoration begins at the later of 08/01/2022 or 08/14/2022. In this case, coverage begins on 08/14/2022. The delay in reporting the breakdown costs Jacklow 13 days of coverage.

It ends five days after the date that the damaged property is repaired or replaced with property of similar quality on a timely basis. However, there is a condition. If the property could have been repaired or replaced sooner than what actually occurred had reasonable speed been used, coverage ends five days after that date that the repair COULD have been completed with reasonable speed.

17. Stock

Merchandise that is being held in storage or for sale. Raw materials, property in process and finished products are all considered stock. Supplies used to pack and ship the merchandise are also stock.

CP 00 20–Builders Risk Coverage Form

INTRODUCTION

This coverage form opens by stating that various policy provisions restrict coverage. For this reason, the named insured should carefully read it to determine and understand its rights and duties and to understand what is covered and what is not covered.

It also defines the terms "you or your" as the named insured and "we, us, and our" as the company that provides coverage. Named insured is not defined. As a result, it means only entities listed or named on the declarations. If a given entity is not listed, there is no coverage for its property, even if the property is described on the declarations.

This coverage form has one word that has special meaning. It is defined in G. Definitions.

BUILDERS RISK POLICIES ON SEPARATE INTERESTS OF OWNER AND CONTRACTOR HELD NOT PROFITABLE

An apartment developer/owner contracted with a builder for the construction of an apartment complex. The contract provided for waiver of "....all rights against....each other....for damages caused by fire....to the extent covered by property insurance obtained pursuant to the (agreement)...." There was a specific provision that the owner would purchase "....an all risk policy and would insure against the perils of fire."

Each of the parties bought a builders risk policy, in its own name, covering the complex during the course of construction. Neither was named an additional insured nor loss payee in the other's policy. Fire destroyed part of the complex and the builder withdrew a claim against its insurer when the owner was paid in full for damages to the property, and undertook necessary reconstruction.

Unsuccessful in a subrogation action against the builder, by virtue of the release agreement in the construction contract, the owner's insurer sued the builder's insurer seeking indemnification for the full amount paid or, alternatively, for contribution. It appealed trial court judgment relieving the builder's insurer from reimbursing any part of the settlement.

The appeal court said that, though the property and the risks were the same in both policies, the interests were different. The one covered an ownership interest; the other, "....contractual interests in completing and delivering the complex."

The court could find no case in Michigan or any other state that required insurers to contribute in like circumstances. The construction contract had the effect of transferring fire risk to insurers and mandated that the owner obtain coverage for it. Its insurer could not recover from the other, which insured different interests and did not name the owner as additional insured or loss payee.

The judgment of the trial court was affirmed in favor of the builder's insurer and against the owner's insurer.

A. COVERAGE

This coverage form obligates the insurance company to pay for direct physical loss or damage to certain types of property. The property must be at a location listed or described on the declarations. However, this is not open-ended coverage. The loss or

damage must be due to a covered cause of loss described in the causes of loss form attached to the policy in order for coverage to apply.

Coverage applies to only loss or damage that occurs at a definite place and time. There is no coverage for a loss event that is not tangible, or that cannot be measured.

The reference to premises means that coverage applies to only property located in or on the premises listed or described on the declarations. For this reason, the declarations is a very important document. Coverage does not apply if the location and type of property are not properly listed or described.

1. Covered Property

Covered Property is defined in two ways. In the first, the coverage form lists the types of property that are covered. In the second, it identifies the types of property that are not covered.

Building under Construction is the only type of property this coverage form insures. It is the building or other structure listed or described on the declarations being built. In addition to the building or structure the following property is covered:

a. Foundations

b. The following property but only if it is intended to be located permanently at the premises. The intention must be that it will be either in or on the building or structure listed on the declarations or within 100 feet of the premises:

- Machinery and fixtures
- Building maintenance and service equipment
- The named insured's supplies and building materials which will be used in the construction

c. Temporary structures that are constructed and used on the job site. Scaffolding, cribbing, and construction forms are examples of such structures, but coverage is not limited to only these. An important exception is that coverage for these structures applies only when no other insurance covers them.

Example: Buildings-R-Us always has an office trailer on the construction job site where it stores tools and similar items. A fire completely destroys the trailer and its contents. The trailer is excluded because it was not built on the premises, even though it was temporary. The tools are also excluded because they are not a structure and they are intended to be a permanent part of the building.

2. Property Not Covered

This section modifies A. Coverage to apply to the typical insured's coverage needs. If coverage for any of these items is needed, separate coverage options are often available for an additional premium charge.

The following property is excluded:

a. Land and water. Land includes the land beneath the covered building or structure. Water simply means all water on the premises.

Example: Acme Spa Retreat's construction is almost complete when it sustains extensive smoke damage. All of Spa's deluxe, Olympic-sized spas must be emptied, cleaned, and refilled because of smoke contamination. The expense to drain and refill their three dozen spas is not covered.

b. The following specific property while outside buildings:

- Trees, plants, shrubs, and lawns. Lawns, trees, shrubs, and plants that are part of a vegetated roof are exceptions to this exclusion and are covered. (10 12 change)
- Television and radio antennas and their towers, masts, and lead-in wiring. Satellite dishes are also not covered.
- Signs that are not attached to buildings

Note: This property is excluded while outside buildings. This suggests that such property is covered when inside buildings. In addition, 5. Coverage Extensions b. Sod, Trees, Shrubs, and Plants provides a limited amount of coverage on this property.

Example: Buildings-R-Us recently received the satellite dish and its wiring and placed it in the trailer for safe keeping. A fire destroyed the trailer. The dish and its wiring were covered because they were not outside the building at the time of loss.

3. Covered Causes of Loss

This coverage form requires that one or more of the causes of loss forms be attached. Different types of property may have different causes of loss forms. The cause of loss form that applies is entered on the declarations.

Endorsements are available that provide additional covered causes of loss. One that specifically relates to this coverage form is CP 11 21–Builders Risk–Theft of Building Materials, Fixtures, Machinery, and Equipment.

CP 11 21–BUILDERS RISK–THEFT OF BUILDING MATERIALS, FIXTURES, MACHINERY, EQUIPMENT

INTRODUCTION

The Insurance Services Office (ISO) CP 00 20–Builders Risk Coverage Form insures buildings or structures under construction subject to the causes of loss, exclusions, and limitations in the causes of loss form attached to the policy. None of the causes of loss forms cover theft of building materials. The basic and broad forms do not provide any theft coverage and the special form, which does provide theft, specifically excludes theft of most building materials. The Limitations section in CP 10 30–Causes of Loss – Item d. eliminates coverage for the theft of building supplies and materials that are not yet attached to the building/structure.

CP 11 21–Builders Risk–Theft of Building Materials, Fixtures, Machinery, Equipment is unusual because, while it is actually modifying a cause of loss, the modification is made only within CP 00 20, so no reference is made to a causes of loss form.

This endorsement is updated with the 10 12 edition. The major change is that the term employee is expanded to specifically include both leased and temporary workers. This could be viewed as a reduction of coverage because the term “employees” used in the previous editions did not specifically include or exclude temporary workers or leased employees.

SCHEDULE

Each covered building or structure must be listed and described on the endorsement schedule. A limit of insurance and a deductible for theft must also be entered on the endorsement schedule. Coverage applies only for a listed building and location.

A. COVERAGE

The insurance company pays for loss or damage as a result of theft or attempted theft of the following property:

- Machinery and fixtures
- Building service equipment
- The named insured's building materials and supplies used in construction

Coverage applies only if the property is intended to be located permanently in or on a building or structure that is within 100 feet of the premises.

B. LIMITATION

Coverage is conditional and applies only during working hours. There is no coverage if the theft or attempted theft happens after working hours. If coverage is needed after hours, a watchman must be on duty. A watchman is NOT required during working hours.

C. LIMIT

The most the insurance company pays in any one occurrence is the theft limit on the endorsement schedule.

Note: This endorsement is subject to all of CP 00 20's terms and conditions. F. Additional Conditions 2. Need for Adequate Insurance in CP 00 20 also applies. The limit of insurance should be the building or structure's completed value because of that additional condition. Otherwise, the named insured could be penalized for not carrying adequate insurance.

D. DEDUCTIBLE

ISO Rules state that $1,000 is the minimum deductible for this coverage but this endorsement does not have a default deductible. Higher deductibles are available and can be used. This deductible amount is separate and apart from any other deductibles and must be entered in the space provided on the endorsement schedule. This deductible is the only per occurrence deductible that applies to this endorsement's coverage. This deductible provision should be reviewed along with D. Deductible in CP 00 20–Builders Risk Coverage Form.

Example: The Pringle family purchases CP 00 20–Builders Risk Coverage Form on a building under construction that has a completed value of $500,000. CP 10 30–Causes of Loss–Special Form applies, and the deductible is $5,000. They also include CP 11 21–Builders Risk–Theft of Building Materials, Fixtures, Machinery, Equipment with a $5,000 deductible. A well-organized gang of thieves overpowers the night watchman and steals every bit of copper on the jobsite, both copper already installed and copper still to be installed. The value of the copper already installed is $25,000, and the value of the copper to be installed is $50,000. The Pringles make the claim for the copper already installed against CP 00 20 and the claim for the copper still to be installed against CP 11 21. However, the $5,000 deductible is applied only once because the total loss is due to one occurrence.

E. EXCLUSIONS

This coverage is subject to three important exclusions.

1. Dishonest or criminal acts

These are dishonest or criminal acts committed by the named insured, its partners, managers and members of LLCs, employees, directors, trustees, or authorized representatives. Such actions that contractors, subcontractors, or their employees, or any party entrusted with covered property commit are also excluded. This exclusion applies whether the persons act alone or collude with others. It also applies whether or not the acts take place during regular working hours.

The term “employee” used above includes leased and temporary workers.

Example: There is a break-in during construction of the Kellogg building, and thieves steal over $50,000 of building material on the construction site. Kellogg’s owners file a claim for the loss. A short time later, the police arrest a carpentry sub-contractor’s employee along with his friends who confess to the crime. This loss is not covered because of this exclusion.

2. Voluntary parting

This is the named insured or anyone else entrusted with the property being tricked or deceived into giving it away.

Example: Greg is the building owner. He receives a load of decorative brick from a building materials dealer. A few hours later, a man in a truck who claims to be the dealer's employee arrives and tells Greg that the brick delivered is the wrong color and grade. He says his instructions are to pick up that material and return with the correct brick later in the day. Greg agrees and calls the dealer later in the day to follow-up on the delivery. The dealer denies knowing anything about this "misdelivery" and Greg suddenly realizes he has been tricked. The building materials dealer does not have any obligation in this situation because Greg signed the invoice that acknowledged that he received the original delivery. Coverage does not apply to this incident because Greg voluntarily parted with the bricks.

Note: This exclusion is designed to encourage insureds to act prudently. In the example above, Greg should have asked the "employee" for identification and discussed the situation with the building materials dealer. He should have also demanded to see the signed receipt because he had signed the invoice when the brick was first delivered. This coverage gap can be filled by attaching CR 04 17–Fraudulent Impersonation to a crime coverage form.

3. Missing property

When the only evidence that property is missing is a shortage in inventory or similar unexplained disappearance, there is no coverage. This is sometimes referred to as "inventory shrinkage."

RATING AND PREMIUM CALCULATIONS

The rate for this coverage begins with the builders risk Group I rate for each covered premises multiplied by a .25 factor. The limit of insurance is then multiplied by this rate. The premium determined contemplates the $1,000 minimum deductible. Higher deductibles are available. The insurance company determines any additional credits to apply if there is a higher deductible.

4. Additional Coverages

a. Debris Removal (10 12 changes)

After a loss that involves physical loss or damage, debris must be removed. Coverage to pay for the removal costs is needed. Over the years, this relatively simple concept has become a hotly debated issue under commercial property coverage forms as insurance buyers search for alternate sources for pollution coverage. Debris removal coverage was never intended to be environmental clean-up coverage, but in various court decisions, prior policy language was found to cover such losses. Efforts to eliminate any misunderstanding have made this coverage much more complicated, but the concept remains the same.

This coverage is explained as follows:

(1) Actual expenses to remove debris are paid if all of the following apply:

- The named insured actually incurs the debris removal expenses.
- The debris to be removed is covered property.
- The debris to be removed is not covered property, but it meets all of the other criteria in this paragraph and also the criteria in paragraph (2) below. (10 12 addition)
- The property became debris because of a covered cause of loss.
- The loss occurs during the policy period.
- The expenses are reported within 180 days of the direct physical loss.

Example: The Point construction project is vandalized and a fire the vandals set destroys much of the building materials on the site. The debris must be removed before replacement materials can be delivered. The cost to remove the debris is covered if The Point pays the costs of debris removal; the debris is actually removed; the property damaged is covered property; the loss occurs during the policy period, and the expense is reported to the insurance company within 180 days of the date of loss.

The coverage this paragraph provides is subject to limitations as outlined below.

(2) This paragraph is broadened significantly in the 10 12 edition. The 06 07 edition limited itself to only pollutant-related items. This paragraph is needed because paragraph (1) has been broadened to include debris of certain types of property that is not considered covered property. This paragraph limits that broadening of debris coverage. Although these items appear to be limiting, they actually establish the boundaries for the broadened coverage in paragraph (1).

The costs to remove the following items are excluded:

- Debris that belongs to the named insured that is of the type of property listed under 2. Property Not Covered
- The debris of the landlord's property when the named insured is a tenant. However, the costs are covered if both of the following apply:
  - The named insured is contractually obligated to insure the landlord's property.
  - The landlord's property is insured under this policy.

- Any property item described in 2. Property Not Covered. This even applies to property that has limited coverage under 5. Coverage Extensions b. Sod, Trees, Shrubs, and Plants.

Note: This limitation does not mention debris of such property. It applies to the property itself.

- Any property belonging to others that is not considered covered property under this form.

Note: This limitation does not mention debris of such property. It applies to the property itself.

- Mud or dirt that is deposited on the grounds of the premises.
- Any pollutants from land or water
- Polluted land or waters. The cost to restore or replace the polluted land or waters is also excluded.

Example: Continuing the example above, the vandals also tip over the upright gasoline storage tank, and its contents flow down the slope into the retention pond. The value of the gasoline is covered, but the cost to extract it from the pond is not.

(3) This paragraph explains the amount of coverage provided under the basic limits. There are two distinct limitations:

(a) The total amount paid for a direct loss PLUS the debris removal is the lesser of:

· The actual physical loss or damage PLUS the debris removal expense

· The limit of insurance for the damaged covered property

(b) The total amount paid for debris removal is the lesser of:

· The sum of the amount paid for the direct physical loss (plus any applicable deductible amount) multiplied by a factor of .25. The formula is:

(Paid Loss Amount + Deductible Amount) x .25 = Debris Removal Coverage Amount

· The actual debris removal expense

Example: A small fire breaks out in the temporary storage structure erected on The Point's construction site. The amount of loss is $5,000. The limit of insurance on the temporary structure is $25,000, and the deductible is $500. The maximum debris removal expense available is $1,375 [($5,000 + $500) X .25]. The sum of $5,000 + $1,375 = $6,375. Because this is less than the $25,000, $1.375 is the maximum amount available to pay for debris removal.

If there is no direct physical damage to covered property, the most paid to remove the other property debris is $5,000 per location, subject to other items in this Additional Coverage.
(10 12 change)

(4) This paragraph provides an additional amount of insurance to remove debris if one of the limitations in paragraph (3) above applies. The additional amount of coverage is $25,000, subject to the following:

(a) The total amount paid for a direct loss PLUS the debris removal is the lesser of:

· The actual physical loss or damage PLUS the debris removal expense

· The limit of insurance for the damaged covered property plus $25,000 Debris Removal Additional Coverage

Example: Let's change the loss amount in the fire to the temporary structure example above to a $23,000 physical damage paid loss and $5,000 in debris removal expenses. The maximum debris removal expense available is $5,875 [($23,000 + $500) X .25]. However, because the limit of insurance is $25,000, the most paid for debris removal expense is $2,500 [$25,000 – ($23,000 -
$ 500)]. This results in The Point paying $2,500 out of pocket. However, when the $25,000 Additional Coverage is used, The Point has full coverage and no out of pocket expense.

(b) The total payment for debris removal is the lesser of:

· The total of the amount paid for the direct physical loss plus any applicable deductible amount multiplied by a factor of .25 PLUS $25,000. The formula is [(Paid loss amount + deductible amount) x .25] + $25,000 = Debris Removal Coverage Amount.

· The actual debris removal expense

Example: Let's continue the example that involves fire to the temporary structure at The Point. This time the loss involves chemicals that environmental specialists remove and take to a special disposal facility. The removal cost is $10,000. Because the debris removal expense in step (3) (b) is limited to $5,875, $4,125 of the loss is not covered. However, the additional $25,000 limit in (4) (b) provides the necessary coverage to fully fund the loss.

The last point to make with respect to this additional coverage is that the maximum amount of insurance available for direct physical loss and debris removal expense does not exceed the coverage limit of insurance plus $25,000.

Example: The Point's builders risk coverage form limit is $1,000,000. The Point sustains a significant fire loss and a large amount of debris remains. The direct damage paid loss is $980,000,000 and the debris removal cost is $75,000. In this case, The Point does have an out of pocket loss:

Direct Damage Paid Loss Amount	$980,000
Add Debris Removal Expense	+$75,000
Total Loss	*$1,055,000*
Limit Of Insurance	$1,000,000
Add Additional Debris Removal Amount	+$25,000
Available Limit of Insurance	*$1,025,000*
Debris Removal Expense Not Covered	$30,000

CP 04 15–Debris Removal Additional Limits is used to provide higher limits for debris removal.

b. Preservation of Property

If you do not have insurance, know that your business is being threatened, and have time to act, you probably start by moving your most valuable possessions out and away from danger. The same course of action is just as important when you do have insurance. CP 00 20 encourages the named insured to protect its property by providing coverage as an incentive to do so.

If covered property must be moved from an insured location in order to avoid it being damaged by a covered cause of loss, the insurance company pays for any direct loss or damage that such property sustains during the move to safety and for its return. In addition, coverage applies at the location where the property is stored for up to 30 days after the date it was moved there.

There are several important points to consider:

- The only property insured is covered property at a location listed on the declarations. Property eligible for coverage moved from a location that is not covered does not create coverage.

Example: Jason keeps building materials for the building insured under his builders risk at two separate locations. One is the premises where the building is taking place, and the other is at a nearby warehouse. He is worried about a potential riot and moves all of the materials to a building in the next county. A flood occurs while the material is being stored and destroys all of the material. The property that was moved from the scheduled premises is covered, but the property moved from the warehouse is not.

- The potential loss or damage from which the property is being protected must be from a covered cause of loss.

- While the property is being moved to and from and while at the "safe" location, it is covered for **ANY** cause of loss. This coverage applies for up to 30 days.

Example: The Point is aware of an approaching wildfire and moves its uninstalled building materials to a safe location. Along the way, one of The Point's trucks overturns, and part of the property is destroyed. The rest of the vehicles continue the trip, and the property arrives at and is stored temporarily in a general warehouse on the river. Heavy rains extinguish the wildfire but also cause a flood that destroys the building materials at the riverfront warehouse. Both the overturn loss and the flooding loss are covered because they occurred within the 30-day time period, and the effort to preserve the property was made to save it from fire, a covered cause of loss.

Note: The property removed must be moved back to the covered location or the temporary location must be added to the policy within 30 days from the date of the move because coverage ends after 30 days.

c. Fire Department Service Charge (10 12 changes)

This additional coverage responds to situations where the named insured must pay for the expense of a fire department that responds to an emergency. The old maxim: "He who hesitates is lost" applies to this coverage. The sooner a fire is reported, the faster it is controlled. Taking the time to consider the cost of fire department response is time lost in fighting the fire.

This coverage pays only if the named insured is contractually obligated to pay for the expense of a fire department that responds to an emergency or is required to pay because of a local ordinance. It provides up to $1,000 per premises to apply to the service charge and is not subject to a deductible. Higher limits are available. The $1,000 is a premises limit that applies regardless of the number of departments that respond or the number of services provided. (10 12 changes)

Note: This could be a significant reduction in coverage for certain risks. Higher limits should be recommended in such cases.

d. Pollutant Clean Up and Removal

The second paragraph of Additional Coverage Debris Removal specifically excludes expenses to extract pollutants from land or water. This additional coverage provides a limited amount of coverage for those expenses. Each of these requirements must be met for coverage to apply:

- The expenses must be the named insured's actual expenses to extract pollutants from land or water at the described premises.
- The pollutants must result from a covered cause of loss that occurs.
- The covered cause of loss must occur during the policy period.
- All expenses must be reported to the insurance company within 180 days of the date that the covered loss occurred.
- The only covered expenses for testing, monitoring, or assessing for levels of pollution are tests conducted in the course of extraction.

The $10,000 limit for this additional coverage is unusual because it is an aggregate limit, not an occurrence limit. It is the total amount available during a single annual coverage period and is not affected by the number of locations or the number of losses that occur during that period. As a result, any and all losses that involve eligible expenses reduce the $10,000 aggregate limit.

Note: CP 04 07–Pollutant Clean Up and Removal Additional Aggregate Limits of Insurance is used to increase the limit.

ISO COMMERCIAL PROPERTY PROGRAM AVAILABLE ENDORSEMENTS AND THEIR USES

INTRODUCTION

This listing identifies endorsements available to modify the Insurance Services Office (ISO) Commercial Property Program. It is arranged by form number and title and includes a brief explanation of the use of each form. It does not include any state specific endorsements.

Note: Endorsements added and/or changed with and after the 10 12 editions are in bold type.

FORM NUMBERING

The ten-digit numbering sequence of ISO forms and endorsements has a very specific meaning.

- The first two entries are alphabetical characters that indicate the line of insurance involved. For example, CP denotes Commercial Property.
- The next two digits designate the specific insurance category. Additional detail and information on these categories is in the next section below.
- The next two digits are the form or endorsement number within the insurance category.

- The last four digits are the edition date of the form or endorsement expressed in month and year format. These digits are not used in this .

CATEGORIES

Endorsements are grouped in categories according to their purpose, as follows:

- Category CP DS–Declaration and Schedules
- Category CP 00–Coverage Forms and Declarations
- Category CP 01–Amendatory Endorsements (this does not address state specific endorsements)
- Category CP 02–Cancellation Endorsements (this does not address these endorsements)
- Category CP 03–Deductible Endorsements
- Category CP 04–Additional Coverage Endorsements
- Category CP 10–Causes of Loss Endorsements
- Category CP 11–Builders Risk Endorsements
- Category CP 12–General Endorsements
- Category CP 13–Value Reporting Form and Related Endorsements
- Category CP 14–Additional Covered Property and Property Not Covered
- Category CP 15–Time Element Endorsements
- Category CP 17–Standard Property Policy Condominium Endorsements
- Category CP 19–Supplemental Schedules
- Category CP 60–Leasehold Interest Factor Tables
- Category CP 99–Miscellaneous Endorsements
- Category IL–Interline Forms and Endorsements

CATEGORY CP DS–DECLARATIONS AND SCHEDULES

CP DS 00–Commercial Property Coverage Part Declarations Page

CP DS 01–Commercial Property Coverage Part Supplemental Declarations

CP DS 00 has space to enter only one premises. When there are more than one, an advisory supplemental declarations must be added to designate the premises and the coverages, mortgage holders and endorsements that are specific to that scheduled premises.

CP DS 02–Commercial Property Policy Renewal Endorsement

This advisory endorsement is used to renew the policy as is except for the changes noted on the endorsement. Any forms and endorsements that are different from the ones on the expiring policy must be attached.

CP DS 03-Standard Property Policy Renewal Endorsement

The Standard Policy differs from other commercial property coverage forms so it must have its own renewal endorsement.

CP DS 04–Reported-Acquired-Incidental Locations Schedule

This schedule is required whenever CP 13 20–Additional Locations – Special Coinsurance Provisions is attached to the policy.

CP DS 05–Legal Liability Coverage Schedule

When Legal Liability Coverage is provided this advisory schedule is recommended in addition to the CP DS 00.

CP DS 06–Earthquake–Volcanic Eruption Coverage Schedule (Sub-Limit Form) (02 19 change)

(Sub-Limit Form with Percentage Deductible) Coverage

CP DS 07–Leasehold Interest Coverage Schedule

Unique information must be displayed when leasehold coverage is selected. This advisory schedule provides that necessary information.

CP DS 65–Flood Coverage Schedule

CATEGORY CP 00–COVERAGE FORMS

CP 00 10–Building and Personal Property Coverage Form

CP 00 17–Condominium Association Coverage Form

CP 00 18–Condominium Commercial Unit-Owners Coverage Form

CP 00 20–Builders Risk Coverage Form

CP 00 30–Business Income (and Extra Expense) Coverage Form

CP 00 32–Business Income (Without Extra Expense) Coverage Form

CP 00 40–Legal Liability Coverage Form

CP 00 50–Extra Expense Coverage Form

CP 00 60–Leasehold Interest Coverage Form

CP 00 70–Mortgage holders Errors and Omissions Coverage Form

CP 00 80–Tobacco Sales Warehouse Coverage Form

CP 00 90–Commercial Property Conditions

CP 00 99–Standard Property Policy

CATEGORY CP 01–AMENDATORY ENDORSEMENTS

CP 01 40–Exclusion of Loss Due to Virus or Bacteria

This is a mandatory endorsement in a number of states. It is an absolute exclusion that eliminates all loss or damage caused by disease or illness that causes viruses and microorganisms. Most states use this version of the endorsement, but others may use a different version that has the same title but a different form number. The intent of all versions is similar.

CATEGORY CP 03–DEDUCTIBLE ENDORSEMENTS

CP 03 20–Multiple Deductible Form (04 18 change)

CP 03 21–Windstorm or Hail Percentage Deductible (10 12 changes)

CP 03 29–Deductibles by Location (04 18 change)

CATEGORY CP 04–ADDITIONAL COVERAGE ENDORSEMENTS

CP 04 01–Brands and Labels

This endorsement allows the insured to control its labeling. If a loss occurs, the insurance company agrees to settle the claim the way it usually does. The difference lies with any salvage the insurance company plans to distribute. The insurance company allows its salvage potential to be reduced by permitting the insured to stamp “salvage” on the property and to remove the labels. In addition, the insured is reimbursed for its expenses to do so. A higher limit of insurance may be needed to cover the insured's expenses to stamp and remove labels.

CP 04 02–Increased Cost of Loss and Related Expenses for Green Upgrades (10 12 changes)

This endorsement allows the insured to anticipate replacing existing non-green construction with green construction following a loss. A percentage of the limit of insurance must be entered on the endorsement schedule, along with the maximum limit to be paid for such upgrades. In addition, business income coverage period of restoration can be extended for the additional time needed for such upgrades. Changes made in the 10 12 edition mesh with changes in CP 00 10 to add flexibility in scheduling on the endorsement and to address deductible concerns.

CP 04 04–Specified Business Personal Property Temporarily Away from Premises (10 12 addition)

The property temporarily off premises must be described and a limit for it entered on the endorsement schedule. Temporarily is not defined. The named insured or an employee authorized to have the property must have care, custody, or control of it. Property is covered at exhibitions, trade shows, in transit, and other locations within the coverage territory but not while in the air or on the water.

This endorsement does not cover salespersons samples except when at exhibitions or trade shows.

CP 04 05–Ordinance or Law Coverage (09 17 changes)

CP 04 07–Pollutant Clean Up and Removal Additional Aggregate Limit of Insurance

This endorsement is unusual because instead of replacing the limit for Pollution Clean Up Aggregate in the coverage form it provides a limit to be added to that aggregate. It also introduces a deductible.

CP 04 08–Higher Limits (10 12 addition)

This endorsement is available to increase Coverage Extensions, Additional Coverage, and Theft Limitations limits in the coverage form. Any limit entered replaces the existing limit within the coverage form. It is not added to the existing limit. It can be used only if the coverage form states that the limit can be increased.

CP 04 09–Increase in Rebuilding Expenses Following Disaster (Additional Expense Coverage on Annual Aggregate Basis) (10 12 addition)

The cost to repair a house damaged during a disaster is often much more than if the same damage occurred in normal time. This endorsement permits an insured to schedule a higher limit for such expenses in anticipation of such a need.

CP 04 10–Electrical Apparatus

This coverage form is mandatory on policies that cover public service light, power, and utility property. It modifies the artificially generated exclusion in the causes of loss form by expanding the exception for resulting fire to resulting fire, explosion, or electricity to covered property electrical apparatus. This endorsement includes a $1,000 minimum deductible.

CP 04 11–Protective Safeguards (09 17 change)

This endorsement applies only for the fire cause of loss and replaces IL 04 15. It is required when the insurance company provides a premium credit because of any listed protective safeguard. This endorsement lists and describes the various scheduled services or protective safeguards on the insured's premises and requires that the insured keep them in working order which includes being maintained in an “on” position. Protective safeguards are identified by symbol for automatic sprinkler systems, automatic fire alarms, security services, and service contracts with private fire departments.

Important Note: This is a warranty. If a fire loss occurs and the described systems are not in proper working order at the time, the insurance company will not pay for the loss.

CP 04 14–Limited Coverage for Unmanned Aircraft (Scheduled and/or Blanket Coverage) (12 16 addition)

Unmanned aircraft that are used off premises are considered Property Not Covered unless this endorsement is attached. The aircraft must be described with a scheduled limit of insurance. Valuation can be either ACV or RCV. Coverage can be blanketed. Business income and extra expense coverages can be purchased.

This is available only with CP 10 30–Causes of Loss-Special Form. An important limitation is that coverage does not apply when the aircraft is used to deliver goods to others.

CP 04 15–Debris Removal Additional Insurance (10 12 change)

This endorsement replaces the debris removal limit in the coverage form with the limit on the endorsement schedule. The limit may apply to only specific premises or specific buildings. The revised limit must be higher than $25,000.

CP 04 17–Utility Services–Direct Damage (10 12 change)

CP 04 18–Condominium Commercial Unit-owners Optional Coverages (10 12 change)

(Use with CP 00 18 and CP 00 99)

CP 04 25–Newly Acquired or Constructed Property–Increased Limit

This endorsement increases the $250,000 automatic limit of insurance in the coverage extension for newly acquired or constructed buildings to the limit entered on the endorsement schedule.

CP 04 26–Ordinance of Law Coverage for Tenants Interest in Improvements and Betterments (Tenant's Policy) (09 17 new)

CP 04 30–Electronic Commerce (E-Commerce)

CP 04 31–Changes–Fungus, Wet Rot, Dry Rot, and Bacteria

This endorsement replaces the $15,000 limit for Additional Coverage–Limited Coverage for Fungus, Wet Rot, Dry Rot and Bacteria in any of the causes of loss forms with the limit on the endorsement schedule. The limit can apply per location.

CP 04 32–Business Personal Property Limited International Coverage

This endorsement broadens the coverage territory. Your Personal Property coverage is extended to the listed foreign territory/territories while the property is in transit to, while in, and in transit from it/them. This coverage is for U.S. based operations that send employees or management personnel overseas for short periods of time to present and/or exhibit products.

CP 04 33–Property in Process of Manufacture by Others Limited International Coverage

This endorsement covers the insured's raw material, stock in process, and finished products while temporarily at a non-owned location in the foreign territory on the endorsement schedule. This is coverage for property on premises, not transit coverage. Because this is temporary coverage, there is no coverage if the stock is kept at the foreign location to be sold.

CP 04 38–Functional Building Valuation (09 17 change)

CP 04 39–Functional Personal Property Valuation Other Than Stock

CP 04 40–Spoilage Coverage

This endorsement extends coverage to include spoilage of perishable stock within the building at the described premises. The insured must own the stock, or the stock must be in its care, custody, or control. The spoilage can be caused by power outage and/or breakdown/contamination.

CP 04 60–Vacancy Changes (10 12 change)

CATEGORY CP 10–CAUSES OF LOSS ENDORSEMENTS

CP 10 10–Causes of Loss–Basic Form

CP 10 20–Causes of Loss–Broad Form

CP 10 28–Earthquake and Volcanic Eruption Coverage with Flat-Dollar Deductible (02 19 addition)

CP 10 29–Earthquake and Volcanic Eruption Coverage (Sub-Limit Form with Flat-Dollar Deductible) (02 19 addition)

CP 10 30–Causes of Loss–Special Form (09 17 change)

CP 10 32–Water Exclusion Endorsement (10 12 change)

This endorsement is withdrawn because its wording was incorporated into the 10 12 edition of the Causes of Loss Forms.

CP 10 33–Theft Exclusion (10 12 change)

(Use with CP 10 30)

This endorsement restricts coverage. It allows the named insured to have all the advantages of the causes of loss–special form without paying the price for theft coverage. It may be used as an underwriting tool, as a cost savings device, or to prevent duplicate coverage because an inland marine coverage form provides theft coverage. It excludes all theft losses except those that occur during looting that accompanies a riot. Coverage also applies to loss or damage caused by or that results from burglars attempting to enter or exit the premises. The 10 12 edition adds an endorsement schedule.

CP 10 34–Exclusion of Loss Due to By-Products of Production or Processing Operations (Rental Properties) (10 12 addition)

A tenant’s operations may produce vapor, gas, smoke, or other substances as a regular part of production. In such cases, this endorsement can be added to the property owner’s coverage form to exclude any damage those releases cause. Examples of such releases are meth-house situations, grease residue, and other legal or illegal substances. This applies to only the buildings and locations on the endorsement schedule.

CP 10 35–Watercraft Exclusion

(Use with CP 10 30)

This endorsement excludes loss or damage to retaining walls, bulkheads, pilings, piers, wharves, and docks struck by a watercraft. It is mandatory only if such waterfront property has been added to the coverage using CP 14 10–Additional Property.

CP 10 36–Limitations on Coverage for Roof Surfacing (10 12 addition)

This endorsement restricts coverage. It contains two potential limitations. The first changes valuation on roofs from replacement cost to actual cash value. The second excludes loss or damage by wind or hail to the roof that is considered only superficial or cosmetic. The premises must be scheduled along with the limitation selection(s).

CP 10 37–Radioactive Contamination

This endorsement adds limited or broad radiation coverage to the property and/or income on the endorsement schedule. The limited coverage provides coverage only if another cause of loss triggers the contamination. The broad coverage does not require that another cause of loss be involved.

CP 10 38–Discharge from Sewer, Drain, or Sump (Not Flood-related) (10 12 addition)

This endorsement provides coverage for direct damage and/or business income coverage from a sewer, drain, sump water, or waterborne discharge. The discharge cannot be the result of a flood. A limit must be entered that may or may not be subject to an annual aggregate based on entries on the endorsement schedule.

CP 10 39–Sprinkler Leakage–Earthquake Extension

This endorsement was withdrawn in 2001. CP 10 40–Earthquake and Volcanic Eruption Endorsement now provides this coverage.

CP 10 40–Earthquake and Volcanic Eruption Coverage With Percentage Deductible (02 19 change)

CP 10 41–Earthquake Inception Extension (02 19 change)

CP 10 44–Theft of Building Materials and Supplies (Other than Builders Risk) (10 12 addition)

(Use with CP 10 30)

Building materials intended to become part of the named insured’s building are covered for theft when this endorsement is used. However, the coverage is subject to the limit and the deductible on the endorsement schedule. This endorsement is needed because theft coverage under CP 10 30 does not apply to this property.

CP 10 45–Earthquake and Volcanic Eruption Coverage (Sub-limit Form with Percentage Deductible) (02 19 change)

CP 10 46–Equipment Breakdown Cause of Loss (10 12 addition)

(Use with CP 10 30)

CP 10 47–Suspension or Reinstatement of Coverage for Loss Caused by Breakdown of Certain Equipment (10 12 addition)

CP 10 51–Grain Properties–Explosion Limitation

(Use with CP 10 10, CP 10 20, and CP 00 99)

This endorsement restricts coverage. It is mandatory when covering grain properties. It excludes coverage under the explosion cause of loss for any explosion due to changes in temperature.

CP 10 52–Broken or Cracked Glass Exclusion Form

This endorsement excludes loss or damage that is the result of existing breaks or cracks listed and described on the endorsement schedule.

CP 10 54–Windstorm or Hail Exclusion

This endorsement excludes windstorm and hail as covered causes of loss at the locations listed on the endorsement schedule.

CP 10 55–Vandalism Exclusion

This endorsement excludes vandalism as a covered cause of loss at the locations listed on the endorsement schedule.

CP 10 56–Sprinkler Leakage Exclusion

This endorsement excludes sprinkler leakage as a covered cause of loss at the locations listed on the endorsement schedule.

CP 10 60–Molten Material

(Use with CP 10 10, CP 10 20, and CP 00 99)

This endorsement adds Molten Material as a covered cause of loss. This means that loss of damage caused by molten material accidently discharged from equipment is covered.

CP 10 65–Flood Coverage Endorsement (10 12 change)

CP 10 70–Pier and Wharf Additional Covered Causes of Loss

(Use with CP 10 10, CP 10 20, and CP 00 99)

This endorsement covers damage to piers and wharves. It should be used only if piers and wharves have been added as covered property using CP 14 10–Additional Covered Property. This additional cause of loss is for damage caused by floating ice as well as if a vessel or floating object collides with the pier or wharf.

CATEGORY CP 11–BUILDERS RISK ENDORSEMENTS

CP 11 05–Builders Risk Reporting Form

CP 11 06–Builders Risk Premium Adjustment Form

This form is used to report the monthly property values at risk that CP 11 05–Builders Risk Reporting Form insures.

CP 11 13–Builders Risk Renovations

CP 11 14–Builders Risk–Separate or Sub-Contractors Exclusion

CP 11 15–Builders Risk–Separate or Sub-Contractors Coverage

CP 11 20–Builders Risk–Collapse During Construction

CP 11 21–Builders Risk–Theft of Building Materials, Fixtures, Machinery, Equipment (10 12 change)

CP 11 99–Builders Risk Changes–Standard Property Policy (10 12 change)

This endorsement must be used whenever builders risk coverage is purchased in connection with CP 00 99–Standard Property Policy. It provides the necessary changes to that policy to complete the builders risk coverage.

CATEGORY CP 12–GENERAL ENDORSEMENTS

CP 12 01–Commercial Property Coverage Part Policy Changes

This general-purpose endorsement is used to list and summarize endorsement and premium changes to a commercial property coverage form or policy.

CP 12 05–Commercial Property Coverage Part Supplemental Declarations

This supplemental declarations was withdrawn with the 10 00 edition and replaced by CP DS 01.

CP 12 11–Burglary and Robbery Protective Safeguards (09 17 change)

This endorsement applies only for the theft cause of loss. It excludes all coverage for theft if at the time of the loss, the scheduled burglary and robbery protective safeguards are not in working order. In working order includes that the system be turned on and active during non-work hours and while the premises is not occupied.

Important: This is a warranty that voids theft coverage if the described systems are not in working order at the time of loss.

CP 12 18–Loss Payable Provisions (10 12 change)

This endorsement is used to provide the names and addresses of loss payees, lender's loss payees, or the interests involved in a contract of sale. The named insured's building owner can be listed on this endorsement when the named insured is a tenant. Its language explains the terms and conditions of coverage for the various insurable interests but does not extend coverage beyond the loss payee's financial interest or the policy limit. The 10 12 edition has minor editorial changes that do not affect coverage.

Note: A building owner that is listed on CP 12 19–Additional Insured–Building Owner cannot also be listed on this endorsement on the same policy.

CP 12 19–Additional Insured–Building Owner

This endorsement is available when the named insured is a tenant. It adds the building owner as a named insured but only for direct physical loss or damage to the building listed on the endorsement schedule. It cannot be attached if the building owner is named as a loss payee under CP 12 18–Loss Payable Provisions.

CP 12 30–Peak Season Limit of Insurance

CP 12 32–Limitation on Loss Settlement–Blanket Insurance (Margin Clause)

CP 12 40–Commercial Property Coverage Part Renewal Endorsement

This endorsement was withdrawn with the 10 00 edition and replaced by CP DS 02.

CP 12 60–Loss Adjustment Endorsement–Commercial Property Coverage

This schedule was withdrawn and replaced by CP 12 70.

CP 12 70–Joint or Disputed Loss Agreement

This endorsement should be attached when property covered under the commercial property coverage form is also covered under a boiler and machinery or equipment breakdown coverage form. It is especially important when different carriers provide the property and equipment breakdown coverage. It details how a loss that potentially involve both coverage forms are to be settled. The intent of the endorsement is to compensate the named insured promptly and to encourage the carriers providing the coverages to resolve the coverage dispute without delaying the insured's settlement.

CP 12 99–Standard Property Policy Renewal Endorsement

This endorsement was withdrawn with the 10 00 edition and replaced by CP DS 03.

CATEGORY CP 13–VALUE REPORTING FORM AND RELATED ENDORSEMENTS

CP 13 10–Value Reporting Form

CP 13 20–Additional Locations–Special Coinsurance Provisions

This endorsement is used only for risks subject to the multiple location average rating technique. It extends coverage to reported, acquired, and incidental locations. It adds a coinsurance provision that applies solely to such locations. CP DS 04–Reported–Acquired–Incidental Locations Schedule must be attached to show the applicable limits.

CP 13 30–Agricultural Products Storage

This endorsement is used only if CP 13 10–Value Reporting Form is also attached. It is intended to provide coverage for grain, hay, straw, and other crops harvested and stored in the open. Storage can be on premises or off premises. However, coverage does not apply to such property while in transit or at fairs. This endorsement also addresses ownership and valuation issues that are unique to this type of property.

CP 13 60–Report of Values

This form is used to submit periodic reports of value to the insurance company. It is required when CP 13 10–Value Reporting Form is part of the coverage form or policy.

CP 13 61–Supplemental Report of Values

This form is used when there are more locations than can be listed on CP 13 60–Report of Values.

CP 13 70–Multiple Location/Premium and Dispersion Credit Application

This application is used to request that ISO develop the Multiple Location Premium and Dispersion Credit for the specific risk.

CATEGORY CP 14–ADDITIONAL COVERED PROPERTY AND PROPERTY NOT COVERED

CP 14 01–Scheduled Building Property - Tenant's Policy (09 17 new)

When the named insured is a tenant and is contractually obligated to insure building property this endorsement can be attached. It provides coverage for described glass and/or other types of scheduled building property. A valuation and deductible must be selected.

Note: This replaces CP 14 70–Building Glass–Tenant's Policy.

CP 14 02–Unscheduled Building Property - Tenant's Policy (09 17 new)

This endorsement is identical to CP 14 01 except that all glass is blanketed at a single limit without description and the other types of building property coverage is blanketed with its own limit.

Note: This is not the same as Improvements and Betterments coverage.

CP 14 10–Additional Covered Property

Property described on this endorsement's schedule is moved from Property Not Covered to Property Covered. It must be completed very carefully and specifically because of the impact it has on both coverage and coinsurance. It is extremely important to add the value of the property back into the building or personal property limits in order to avoid underinsurance and coinsurance problems.

Note: Some examples of property that can be included by scheduling them on this endorsement include the cost of excavations, foundations, underground pipes, pilings, fences, retaining walls, bridges, vehicles, self-propelled machines, and animals.

CP 14 15–Additional Building Property

This endorsement is used to transfer business personal property to building property. An example is machinery and equipment that is permanently installed. This can save premium because building property has a lower rate. The building limits must be increased for the additional items and the business personal property limits reduced.

CP 14 20–Additional Property Not Covered

This endorsement can be used to customize coverage in many situations. It allows an insured to eliminate property it does not wish to insure. Some examples of property that can be listed are awnings, chimneys, crop silos (and their contents), swimming pools, waterwheels, value of improvements, alterations, and repairs, personal property in safes and vaults, glass, metal, ores, gravel, property of others, signs, vending machines, and stock. This endorsement must be used very carefully and with the insured's full knowledge because it eliminates coverage. The description of the excluded property on the endorsement schedule must be very specific.

Note: The use of this endorsement should be revisited every renewal and a signed approval from the insured obtained.

CP 14 30–Outdoor Trees, Shrubs and Plants (10 12 change)

This endorsement broadens the limited coverage provided for trees, shrubs, and plants. Coverage is customized with a limit for all items, subject to a sub-limit per item. The causes of loss form that applies to the coverage form may or may not apply to this endorsement based on entries on the endorsement schedule. The insured has the option to exclude vehicles as a covered peril. The property's value must include debris removal expense because debris removal is part of the coverage. As a result, no additional amount is available to pay for it.

CP 14 40–Outdoor Signs

Commercial property coverage forms cover all outdoor signs for up to a $2,500 per sign limit. This endorsement replaces the $2,500 limit for the sign(s) listed on the endorsement schedule with the revised limit, subject to the coinsurance percentage for that sign.

CP 14 50–Radio or Television Antennas

This endorsement transfers scheduled radio or television antennas (including satellite dishes, their lead-in wiring, and masts or towers) from Property Not Covered to Property Covered. The property is subject to the limits, coinsurance, and causes of loss on the endorsement schedule.

CP 14 60–Leased Property

Leased property in the insured's care, custody, or control that it is contractually required to insure is considered part of Business Personal Property coverage. This endorsement provides the insured the option to specifically schedule such leased personal property of others and to do so on an agreed value basis as an option.

CP 14 70–Building Glass–Tenant's Policy (10 12 change)

Withdrawn with 09 17 change and replaced with CP 14 01–Scheduled Building Property - Tenant's Policy.

CATEGORY CP 15–TIME ELEMENT ENDORSEMENTS

CP 15 01–Business Income from Dependent Properties Limited International Coverage (10 12 change)

CP 15 02–Extra Expense from Dependent Properties Limited International Coverage (10 12 change)

CP 15 03–Business Income–Landlord as Additional Insured (Rental Value)

This endorsement is used to meet a tenant's contractual obligation to provide coverage for the landlord's rental value. The limit, business income coverage form number, coinsurance, and causes of loss form that applies must be entered on the endorsement schedule. The tenant is not required to carry any other type of business income coverage.

CP 15 04–Discretionary Payroll Expense

This endorsement includes payroll expenses for the listed job classifications or employees without requiring that they be necessary for operations to resume. An option is available to limit coverage to a maximum number of days.

CP 15 05–Food Contamination (Business Interruption and Extra Expense) (10 12 addition)

This endorsement provides extra expense payments for the clean-up following closure by a government authority. It also covers advertising to restore the business's reputation, loss of income, replacement of contaminated food and employee vaccinations that are related to the closure.

CP 15 06–Off-premises Interruption of Business – Vehicles and Mobile Equipment (02 14 addition)

Businesses that depend on mobile equipment or vehicles to sustain their operations can purchase this endorsement. Extra expenses and loss of business income coverage is provided when the scheduled equipment and/or vehicles are damaged by a covered cause of loss.

CP 15 07–Expanded Limits on Loss Payment

This endorsement customizes the extra expense period of restoration. The number of time periods and the percentages that apply to each time period can be modified to suit a specific operation's needs.

CP 15 08–Business Income from Dependent Properties–Broad Form (10 12 change)

CP 15 09–Business Income from Dependent Properties–Limited Form (10 12 change)

CP 15 10–Payroll Limitation or Exclusion (10 12 change)

This endorsement allows the insured to completely exclude payroll expenses for selected groups of employees. The expenses may be totally excluded or be limited to only a selected number of days. The 10 12 edition eliminates the term "ordinary payroll." It also increases flexibility by introducing scheduling options. This approach means that the insured can carry a lower limit of insurance in return for a premium surcharge.

CP 15 11–Power, Heat, and Refrigeration Deduction

This endorsement excludes the costs of power, heat, or refrigeration used in production operations from continuing business expenses. If utility obligations do not continue after a loss, the insured might include this endorsement and deduct the cost of power, heat, and refrigeration from its business income limit of insurance. This approach means that the insured can carry a lower limit of insurance in return for a premium surcharge, but the result is usually a lower net premium.

CP 15 13–Seasonal Leases–Monthly Limits on Loss Payment

This endorsement recognizes that many rental properties are seasonal. Coverage applies only for the months and limits entered in the spaces provided on the endorsement schedule. Coverage applies if the named insured occupies the property or rents it to others.

CP 15 15–Business Income Report/Work Sheet (10 12 change)

CP 15 20–Business Income Premium Adjustment

CP 15 24–Mining Properties–Business Income

CP 15 25–Business Income Changes–Educational Institutions (10 12 change)

CP 15 29–Electronic Media and Records

This endorsement was withdrawn with the 04 02 edition.

CP 15 31–Ordinance or Law–Increased Period of Restoration (09 17 change)

CP 15 32–Civil Authority Changes

CP 15 34–Extra Expense from Dependent Properties (10 12 change)

CP 15 45–Utility Services–Time Element (09 17 change)

CP 15 50–Radio or Television Antennas–Business Income or Extra Expense (10 12 change)

Business income coverage forms exclude loss of income due to damage to radio or television antennas. This endorsement eliminates that exclusion. The 10 12 edition has minor editorial changes that do not affect coverage.

CP 15 55–Business Income Changes–Time Period

This endorsement was withdrawn with the 06 07 edition.

CP 15 56–Business Income Changes–Beginning of the Period of Restoration

CP 15 57–Business Income and/or Extra Expense Coverage for Year 2000 Computer-Related and Other Electronic Problems

This endorsement can be added only if IL 09 35–Exclusion of Certain Computer-Related Losses is attached. It softens that exclusion by providing an annual aggregate of $25,000 for such computer-related losses.

CATEGORY CP 17–STANDARD PROPERTY POLICY CONDOMINIUM ENDORSEMENTS

CP 17 98–Condominium Commercial Unit-owners Changes–Standard Property Policy (10 12 changes)

(Use with CP 00 99)

This endorsement modifies the coverage form for the unique aspects of condominium ownership. It is mandatory any time a condominium unit-owner is a named insured. The 10 12 edition introduces changes that mesh with changes in CP 00 99.

CP 17 99–Condominium Association Changes–Standard Property Policy (10 12 changes)

(Use with CP 00 99)

This endorsement modifies the coverage form for the unique aspects of condominium ownership. It is mandatory any time a condominium association is a named insured. The 10 12 edition introduces changes that mesh with changes in CP 00 99.

CATEGORY CP 19–SUPPLEMENTAL SCHEDULES

CP 19 10–Your Business Personal Property–Separation of Coverage

This endorsement allows the insured to schedule different types of business personal property at a location with different limits, coinsurance, and causes of loss. This should be used very carefully because of its potential impact on a loss settlement. If used, the values should be evaluated regularly because of potential underinsurance problems.

CP 19 13–Reported–Acquired–Incidental Locations Schedule

This endorsement was withdrawn with the 10 00 edition and replaced by CP DS 04.

CP 19 15–Glass Coverage Schedule

This schedule was withdrawn with the 10 00 edition of the Commercial Property Program.

CP 19 40–Legal Liability Coverage Schedule

This schedule was withdrawn with the 10 00 edition and replaced by CP DS 05.

CP 19 45–Earthquake–Volcanic Eruption Coverage Schedule

This schedule was withdrawn with the 10 00 edition and replaced by CP DS 06.

CP 19 60–Leasehold Interest Coverage Schedule

This schedule was withdrawn with the 10 00 edition and replaced by CP DS 07.

CATEGORY CP 60–LEASEHOLD INTEREST FACTOR TABLES

Each of these endorsements provides supplementary information to be used with CP 00 60–Leasehold Interest Coverage Form. Each contains a schedule of factors at the stated percentage for use with the form.

CP 60 05–Leasehold Interest Factors For 5.0%

CP 60 06–Leasehold Interest Factors For 6.0%

CP 60 07–Leasehold Interest Factors For 7.0%

CP 60 08–Leasehold Interest Factors For 8.0%

CP 60 09–Leasehold Interest Factors For 9.0%

CP 60 10–Leasehold Interest Factors For 10.0%

CP 60 11–Leasehold Interest Factors For 11.0%

CP 60 12–Leasehold Interest Factors For 12.0%

CP 60 13–Leasehold Interest Factors For 13.0%

CP 60 14–Leasehold Interest Factors For 14.0%

CP 60 15–Leasehold Interest Factors For 15.0%

CATEGORY CP 99–MISCELLANEOUS ENDORSEMENTS

CP 99 02–Manufacturers' Consequential Loss Assumption

When stock in process is damaged, the value of undamaged stock also in process is reduced because of its relationship to the damaged stock. This endorsement pays the resulting loss of value to undamaged stock in process.

Example: A furniture manufacturer has a fire at its facility. The section where the tables are manufactured is destroyed, but the section where the chairs are manufactured is undamaged. The value of the chairs is reduced because they must be sold as singles instead as part of a complete set. That reduction in value is not covered if this endorsement is not attached.

CP 99 05–Distilled Spirits and Wines Market Value

CP 99 10–Alcoholic Beverages Tax Exclusion

CP 99 20–Contributing Insurance

If more than one carrier provides the named insured's property coverage, this endorsement is used to state the percentage of coverage the carrier provides. The total limits for each listed location's buildings, business personal property, personal property of others, business income, and other specific additional coverages must be scheduled.

CP 99 30–Manufacturers' Selling Price (Finished "Stock" Only)

This endorsement modifies the valuation loss condition for stock. When it is attached, instead of requiring that stock be sold in order to be valued at selling price, the stock must only be manufactured and considered finished. The business personal property limit must reflect this type of valuation or underinsurance may result in a coinsurance penalty.

CP 99 31–Market Value–Stock

This endorsement modifies the valuation loss condition in the coverage form for stock. The value of stock is based on its market value at the time and place of any covered loss or damage, reduced by all discounts and expenses that normally apply. This might be used with the type of stock bought and sold at an established market exchange where market prices are posted and quoted. Some examples are certain commodities traded on the market, such as grains, coffee, concentrated orange juice, cotton, and pork bellies. The value of the business personal property must reflect this type of valuation, or there may be a coinsurance penalty due to underinsurance when this endorsement is used.

CP 99 42–Storage or Repairs Limited Liability

This endorsement modifies the valuation loss condition in the coverage form for personal property of others the insured holds in storage or for repairs. Its value is changed to the lesser of actual cash value or the value on the receipt.

CP 99 92–Household Personal Property Coverage

This endorsement adds household personal property to the definition of covered property in the property coverage form but only for the location and limit on the endorsement schedule. It defines household personal property and includes a provision that 10% of the limit can be applied to such property when it is away from the described premises.

CP 99 93–Tentative Rate

This endorsement explains that the premium charged at inception is based on preliminary tentative rates and that it will be adjusted when final rates are available. It is attached when ISO plans to publish a new or revised rate that is not yet available when the policy is issued.

CATEGORY IL–INTERLINE ENDORSEMENTS

IL 00 03–Calculation of Premium

This endorsement is used on multi-year or continuous policies to inform the insured that the premiums are subject to annual review, re-rating, and adjustment.

IL 00 17–Common Policy Conditions

IL 00 30–Exclusion of Terrorism

IL 00 31–Exclusion of Terrorism Involving Nuclear, Biological, or Chemical Terrorism

IL 00 32–Limitation for Terrorism–Sub-limit on Annual Aggregate Basis

IL 04 15–Protective Safeguards (10 12 change)

This endorsement is withdrawn with the 10 12 edition and replaced by CP 04 11–Protective Safeguards.

IL 09 35–Exclusion of Certain Computer-Related Losses

This endorsement eliminates coverage for losses that occur because a computer is unable to recognize a date and similar computer-related losses.

IL 09 52–Caps on Losses from Certified Acts of Terrorism

IL 09 53–Exclusion of Certified Acts of Terrorism

IL 09 86–Exclusion of Certified Acts of Terrorism Involving Nuclear, Biological, Chemical, or Biological Terrorism; Cap on Losses from Certified Acts of Terrorism

IL 09 87–Limitation of Coverage for Certified Acts of Terrorism (Sub-limit on Annual Aggregate Basis)

IL 09 95–Conditional Exclusion of Terrorism (Relating to Disposition of Federal Terrorism Risk Insurance Act)

IL 09 96–Conditional Exclusion of Terrorism Involving Nuclear, Biological, or Chemical Terrorism (Relating to Disposition of Federal Terrorism Risk Insurance Act)

IL 09 97–Conditional Limitation of Coverage for Terrorism–Sub-limit on Annual Aggregate Basis (Relating to Disposition of Federal Terrorism Risk Insurance Act)

5. Coverage Extensions

a. Building Materials and Supplies of Others

Coverage can be extended to apply to building materials and supplies that others own but only if the materials and supplies meet all of the following criteria:

- In the named insured's care, custody, and control
- In, on, or within 100 feet of the building that is listed and described on the declarations
- Intended to be permanently added to the building

The most paid is $5,000. Higher limits are available. Payments on this property are for the sole account of the property's owner.

b. Sod, Trees, Shrubs, and Plants (10 12 changes)

Coverage can be extended to apply to loss or damage to sod, trees, shrubs, and plants that are outside the building or structure but that are still at the described premises. Sod, trees, shrubs, and plants located inside the building or structure are already included as covered property, so are not part of this extension.

Coverage applies only if the loss or damage is due to fire, lightning, explosion, riot, civil commotion, or aircraft. The most paid per occurrence is $1,000, subject to a $250 sub-limit for any one tree, shrub, or plant. The limit must cover both the damaged property's replacement or restoration and its debris removal. (10 12 change)

Note: The 10 12 edition debris removal revision specifically states that it does not apply to removing anything this coverage extension insures.

The expense to remove the debris of sod or any tree, shrub, or plant owned by others is also covered unless the named insured is a tenant, the landlord owns the sod, tree, shrub, or plant, and the named insured occupies the premises. (10 12 addition)

Examples:

- A fire damages a building under construction, and the loss is covered. The same fire destroys eight trees and eight shrubs that are at the same location but are outside the building. The shrubs are valued at $50 each, and each tree is valued at $250. In addition, the cost to remove the debris is $500. The total loss is $2,900. The loss payment is limited to only $1,000.

- A windstorm destroys a nearly completed construction project, including three trees valued at $300 each. There is no coverage for the trees because a covered cause of loss that applies to this extension did not cause the damage. However, the sod in the garage awaiting installation valued at $10,000 is covered as part of building coverage.

B. EXCLUSIONS AND LIMITATIONS

Exclusions and limitations are in the Causes of Loss Forms that apply. More than one causes of loss form may be attached based on entries on the declarations.

Note: Carefully review F. Additional Conditions 3. Restriction of Additional Coverage–Collapse. This very important restriction of collapse coverage should be part of the causes of loss forms. However, it is part of this coverage form instead.

C. LIMITS OF INSURANCE

This section states the maximum limits the insurance company pays in any one loss. In most cases, the limit on the declarations is the total amount that can be recovered for a single loss. If an outdoor sign (whether attached to the building or not) is damaged or destroyed, coverage applies up to $2,500 per sign in each occurrence.

The limits provided for the coverage extensions and the following additional coverages are in addition to the limits of insurance for other coverages listed on the declarations:

- Fire Department Service Charge
- Pollutant Clean-up And Removal

Payments the insurance company makes under A. Additional Coverages b. Preservation of Property does not increase the limit of insurance that applies.

D. DEDUCTIBLE

The deductible is the amount of a loss that the named insured must pay. However, the amount of loss is adjusted based on F. Additional Conditions, 2. Need for Adequate Insurance before the deductible is applied. This becomes the adjusted loss amount.

The adjusted amount of loss is compared to the deductible amount. If it is less than the deductible, the named insured is responsible for the entire amount of loss.

If the adjusted amount of loss exceeds the deductible, the insurance company pays the lesser of the amount of loss above the deductible or the limit of insurance.

If the occurrence that causes the loss involves two or more items of covered property and each has its own limit of insurance, the occurrence deductible is applied only once.

An optional deductible endorsement is available. CP 03 20–Multiple Deductible Form is used to apply different deductibles to different coverages or types of property.

E. LOSS CONDITIONS

These Loss Conditions apply in addition to CP 00 90–Commercial Property Conditions and IL 00 17–Common Policy Conditions.

1. Abandonment

The named insured still owns the property after a loss and is responsible for all expenses associated with it, unless or until the insurance company agrees to accept ownership of the property.

Example: Primary Builders is close to finishing building a one family dwelling in a new development when a propane tank inside the house explodes. The city government demands that Primary demolish the house and clear the site within 48 hours, or it will impose fines. Although Primary may want to abandon it to We're Not That Dumb Insurance Company, it cannot due to this condition. Primary Builders must respond to the city's demand or be fined. We're Not That Dumb may become involved, but it is not required to do so.

2. Appraisal

The insurance company and the named insured may occasionally disagree on the value of the property or on the actual amount of loss. The appraisal condition is designed to solve this problem. In the first step, one of the parties decides it has reached an impasse with the other party and makes a written request for an appraisal. Each party then hires an independent appraiser. Each appraiser must be both competent and impartial.

Example: Primary Builders and its insurance company, Down 'N Durty Mutual, disagree on the value of the roof damaged by a lightning strike. They both agree to submit the dispute to appraisal. Primary's experienced appraiser happens to be its principal's wife. Down 'N Durty's appraiser recently lost his appraisal credentials. Both appraisers are rejected. Primary's selection is biased, and Down 'N Durty's is not qualified.

The appraisers then choose an umpire. If they cannot agree on one, they can request that a judge of a court that has jurisdiction over the matter select one. Once all parties are selected, and in place, each appraiser states the value of the property and the amount of loss. If both parties agree, the amount of loss is settled.

Only disputed amounts are submitted to the umpire. Any decision made by any two of the three is binding on both the insurance company and the named insured.

The expenses associated with this process fall outside the category of expenses the coverage form pays. The named insured pays the following costs or expenses. The insurance company does not reimburse it for them:

- Its appraiser
- Its equal share of the cost of the umpire
- Its equal share of any other appraisal expenses

The insurance company pays the following costs and expenses. None of these expenses reduce the limit of insurance:

- Its appraiser
- Its equal share of the cost of the umpire
- Its equal share of any other appraisal expense

3. Duties in the Event of Loss or Damage

The named insured is expected to act reasonably whenever a loss occurs. The insurance company's obligation to pay the loss may end if it does not. The named insured must:

- Notify the police or other law enforcement authorities if a law may have been broken. Even though this requirement may sound obvious, the circumstances surrounding a loss may make this issue more complicated than it appears.

Examples:

Scenario 1: Ace Building's comptroller informs Heavy Metal Mutual, its insurance company, that copper tubing was stolen from the storage building at the new Amherst Condominiums project. Ace's comptroller does not file a police report because she is concerned that a criminal investigation will delay construction. However, Heavy Metal refuses to pay unless she files the report. She must decide to either report it or not have the loss covered.

Scenario 2: Paraklete Construction uses local vocational school students to help build a warehouse. A fire damages the building. Paraklete's supervisor is concerned that one of the students may have intentionally started the fire and does not want to notify the police department. Virtue and Diligence Insurance Company suspects arson and refuses to adjust the loss until Paraklete notifies the police.

In cases like these, the insurance company has the right to refuse to pay the loss. It needs this requirement to protect its interests, which include being certain that the claim is legitimate as well as making sure there is a chance that the responsible parties are found and punished. When theft of property is involved, police involvement increases the chances that the property will be recovered.

- Give prompt notice to the insurance company of loss or damage and describe the property involved. This notice is not a complete and thorough report but instead provides enough information for the insurance company to begin to process the claim and decide how to respond. Some court cases have challenged the meaning of "prompt." As a result, the best advice is for the named insured to send as much loss information to the insurance company as soon as it knows that a loss has occurred.

- Give a description of how, when, and where a loss occurred as soon as possible after it occurs. This requirement is slightly different than the prompt notification obligation. That obligation is to inform the insurance company on a timely basis that a loss has occurred. This obligation assists the company to determine if the loss is actually covered.

  - **HOW** is what actually caused the loss. The answer determines if the loss is covered.

  - **WHEN** is the exact time of the loss. Because coverage applies only if the loss occurs during the policy period, this information is very important. There is coverage if the loss occurs at 12:02 a.m. on the inception date. There is no coverage if it started at 11:59 p.m. the day before the inception date. In addition, accurate information on when the loss or damage occurred may help resolve whether the loss occurred suddenly or over a period of time. This is important. There is a distinction because sudden losses tend to be fortuitous and covered while losses that take place over a period of time may be maintenance issues that are not covered.

  - **WHERE** is important because most coverages require that the property be at a location or premises listed on the declarations. If the loss occurs elsewhere, the coverage form must be examined carefully to determine if any coverage applies at such locations.

- Take appropriate steps to protect the covered property from any further damage. The requirement to protect property involves taking reasonable measures, not extraordinary or unreasonable ones. Covering property with tarps to protect against moisture damage, boarding up windows, and hiring security guards are examples of reasonable measures to take after a loss. Any expenses the named insured incurs are taken into consideration in the loss adjustment and settlement but paying these expenses does not increase the limit of insurance. Finally, the named insured should separate the damaged property from the undamaged property and set the damaged property aside for examination whenever possible.

- Provide inventories of the damaged and undamaged property when the insurance company requests them. This includes quantities, costs, values, and the amount of loss claimed. This detailed information is important to properly adjust the loss

and offer a fair settlement. The named insured controls the inventory and is responsible for supplying the information needed.

- The insurance company has the right to verify that the information the named insured provides is accurate and correct. For this reason, it may inspect the property in order to prove the loss or damage. It may also examine the named insured's books and records that relate to the loss or damage. The insurance company can also take samples of the damaged and undamaged property and make copies of the named insured's books and records.

This condition states that the insurance company must be reasonable in its requests. The term “reasonable” is not a defined term though. Two parties might disagree on how to apply this condition. For example, the company may take the position that repeat visits are necessary in order to be thorough. The named insured may view the same actions as being a delaying tactic that slows down the settlement. While the essence of this condition is to prevent the carrier from harassing the named insured, it also benefits the insurance company. Because of the way it is written, an uncooperative insured cannot claim that a single visit is sufficient for the carrier to adjust and settle a loss.

- Show good faith in the truth and accuracy of a claim for loss by providing the insurance company with a signed and sworn proof of loss. This must be done no later than 60 days after the company requests it, along with any other information needed. The insurance company provides the necessary forms and instructions on exactly the information it needs.

Note: If the company's requests are unclear and the named insured is confused, any delay in providing the information cannot be used as an excuse to deny coverage.

- Cooperate with the insurance company in investigating and settling the claim.

In addition to the points outlined above, the insurance company has the right to examine any insured under oath. The examination can take place without another insured being present. The examinations can be done as often as necessary with respect to anything related to either the insurance coverage or the claim itself. They can include examinations of the named insured's books and records. In all examinations, the written document used to record the insured's answers must be signed.

Note: Loss investigation is a serious part of the insurance claims process. The insurance company must have complete access to information it needs to investigate and settle the claim. This may include information the named insured would rather not disclose. Claims adjusters want to believe their insurance customers are honest, but the sheer number of incidents of fraud makes them cautious. While the insurance company cannot use intimidation or harassment, it must still be diligent in order to protect its assets and to prevent or limit fraud.

4. Loss Payment (10 12 change)

a. and b. The insurance company must use one of the four options below to settle a claim:

- Pay the value of the lost or damaged property.

- Pay the cost to repair or replace any lost or damaged property. This cost does not include any expense for increased cost due to enforcing or complying with any ordinance or law that regulates use, repair, or construction of any property.
- Take all or any part of the property at an agreed or appraised value.
- Pay to repair, rebuild, or replace the damaged property with property of similar type and quality. This payment does not include any expense for increased cost due to enforcing or complying with any ordinance or law that regulates use, repair, or construction of any property.

The value of the damaged or destroyed property or the cost to repair or replace is based on the terms of the valuation condition of the coverage form or any other provision that amends or replaces the valuation condition.

c. The insurance company must tell the named insured the option it will use within 30 days after it receives a properly prepared and signed sworn proof of loss.

d. Insurance is meant to indemnify, not reward. As a result, the insurance company does not pay more than the named insured's financial interest in the covered property at the time of loss.

e. The insurance company has the right to adjust claims for loss or damage to property the named insured does not own directly with the property's owner. However, the insurance company has the right to settle those claims with the named insured and allow the named insured to work with the property’s owner. Any settlement reached must satisfy all claims for the property because the insurance company pays only once. The most the insurance company will pay for such a loss is the property owner’s financial interest in the property.

f. The insurance company that provides the property coverage may decide to defend the named insured against suits due to claims brought by the property's owner. In such cases, the insurance company does so at its own expense.

g. The insurance company must pay the loss within 30 days of receiving the named insured's signed and sworn proof of loss. This obligation depends on the named insured meeting all policy conditions as well as the value of the loss being determined by one of the following:

- The parties having agreed on the amount of loss
- An appraisal award having been made

h. Buildings that abut one another often share a party wall. This wall separates the two buildings but is also part of each building. Loss settlements are not affected if the same insured owns all buildings. However, loss settlements may be more difficult if different insureds own the shared party wall.

When both building owners plan to repair and rebuild, the insurance company pays its named insured’s proportional share of the damage to the party wall. However, the insurance company pays the full value of the party wall if the named insured wants to rebuild, but the other building owner does not. It then has the right to subrogate against the owner of the adjoining building.

5. Recovered Property

Either the named insured or the insurance company may recover property after a loss is paid. When this occurs, the party that recovers the property must promptly notify the other and inform it of the recovery. The named insured has the right to decide whether to return the claim payment and keep the recovered property or allow the insurance company to keep the recovered property. The insurance company is responsible for recovery expenses and any repair to the recovered property, subject to the limit of insurance.

Example: Burglars break into The Point's temporary storage building and steal $25,000 in toilet fixtures. The insurance company pays the claimed amount of $25,000. Four years later, the police notified The Point that they found the toilet fixtures at a warehouse. The Point notifies the insurance company of this development. The insurance company representative and The Point's representative visit the warehouse. The Point representative realizes that the current value of the toilet fixtures is negligible due to their age and the technological breakthroughs in similar models currently in use. He decides to keep the claim payment and let the insurance company keep the toilet fixtures.

6. Valuation

Loss or damage to covered property is valued at its actual cash value at the time of loss. The coverage form does not define actual cash value, but court decisions state that it is replacement cost new minus accumulated depreciation.

Example: Patrick's Construction work on a house was almost finished when a tornado destroyed it. Patrick reported the loss but there were some delays in providing all of the information needed for loss settlement that he could not control. By the time the information was received, the housing market was in free fall, and the price of building materials had plummeted. The actual cash value at the time of the loss was $1,500,000, but it was determined to be $1,250,000 when the loss was finally settled. The Fair Insurance Company was obligated to pay the $1,500,000 actual cash value as of the time of the loss.

F. ADDITIONAL CONDITIONS

These two additional conditions are extremely important. Mistakes in either can be extremely costly.

1. Mortgage holders

Mortgage holder is not defined, but this coverage form states that trustees are considered mortgage holders. The insurance company pays for covered loss or damage

to buildings or structures to each listed mortgage holder in the order of precedence and as its respective interest appears. The mortgage holder must prove its interest at the time of loss.

The mortgage holder retains the right to receive loss payments even when foreclosure proceedings or similar actions are being taken against the insured. However, it loses those rights after the foreclosure is complete because the named insured no longer has any interest in the property. Instead, the bank is the owner, and its policy should respond.

If the insured's claim is denied because of its actions or because it failed to comply with any of the policy's terms and conditions, the mortgage holder retains the right to receive loss payments but only if it has done all of the following, as applicable:

- Paid any premium due when the insurance company notified it that the named insured had not done so
- Submitted a signed, sworn proof of loss within 60 days after the insurance company notified it that the named insured had not done so
- Notified the insurance company of any change it knows of in ownership, occupancy, or substantial change in risk

Once the mortgage holder takes such intervening action, the coverage form's terms apply to the mortgage holder because it assumed the named insured's position.

If the insurance company pays the mortgage holder for a covered loss or damage but refuses to pay the named insured because of its actions or because it did not comply with the terms and conditions of the coverage form:

- The mortgage holder's rights under the mortgage transfer to the insurance company to the extent of the amount paid.
- The mortgage holder's right to recover the full amount of its claim is not impaired.

The insurance company has the option to pay off the entire mortgage, including accrued interest. If it does so, it owns the mortgage, and the insured must pay the remaining mortgage debt to the insurance company.

Example: The Findlay Industrial Park is being built on a very attractive piece of property in a suburban community. ACME Insurance is providing the builders risk policy. The occupancy on the application was an office building but it changed to a foundry. A fire erupts when testing is taking place. ACME denies the loss because of the increase in hazard.

However, ABC Mortgage, the mortgage holder, had also been kept in the dark about the occupancy change and therefore its claim will be honored but in doing so it must give up the mortgage on the desirable property.
Of course, ABC can await default by Findlay due to the lack of coverage and take over the property.

If the insurance company cancels the policy for non-payment of premium, it must give at least ten days prior written notice to the mortgage holder before the cancellation takes effect. It must give at least 30 days written notice to the mortgage holder for any other reason.

If the insurance company decides not to renew the policy, it must give at least ten days written notice to the mortgage holder prior to the expiration date.

2. Need for Adequate Insurance

Builders risk coverage is unusual in that the building under construction must be insured to its full, completed value. The rating approach recognizes that the initial value is low and increases over the term of the construction project. The premium charged is adequate only if the estimated final limit is accurate. The limit is to be the anticipated completed value of the building or structure. Like other commercial property coverage forms and policies, this coverage form imposes a penalty if the limits are not adequate. The insurance company does not pay a greater portion of any loss than the proportion that the limit of insurance bears to the what would have been the completed value of the insured building or structure.

Example: The original contract construction cost of the Turners' new home was $300,000. Bountiful Builders began construction, and the Turners began peppering with suggestions and add-ons that added to the project's cost. Bountiful willingly complied with the requests. The Turners arranged the builders risk coverage, and the $300,000 limit reflected the original construction cost. They never informed their agent of all the changes and additions that were being made. Construction was almost finished when a violent windstorm caused $100,000 in insured damage. The Turners were very surprised and bitterly disappointed when presented with the following calculations:

Building limit

$300,000

Completed value after requested changes

$450,000

Fraction from insured limit divided by required limit

$300,000 ÷ $450,000 = .667

Amount of loss

$100,000

Loss amount multiplied by fraction determined above

($100,000 X .667) = $66,667

The Turner's total recovery was $66,667 before applying the $1,000 deductible that applied. As a result, the insurance company paid $65,667, and the Turners were responsible for $34,333.

3. Restriction of Additional Coverage–Collapse

Editor's note: This very important restriction of coverage should be part of a Causes of Loss Form, not part of the coverage form.

Additional Coverage–Collapse in CP 10 20–Causes of Loss–Broad Form and CP 10 30–Causes of Loss–Special Form is amended to exclude coverage for any collapse that occurs during or after construction when the collapse results from using defective materials or construction methods.

Example: The stairway that leads to the second story of Patricia's new dwelling collapses, resulting in $25,000 in damages. Build It Right or Else Insurance Company denies the claim because the contractor did not use the fasteners the architectural firm specified. Patricia must pay the damage and then attempt to recover from the contractor.

An endorsement is available to remove this major restriction of coverage and provide coverage.

4. When Coverage Ceases

Builders risk insurance is designed to cover a building or structure under construction until construction is complete. This condition provides the exact time when the insurance this coverage form provides ends. Coverage ends immediately when any one of the following takes place:

- The policy expires or is cancelled.

Example: Restaurante Extraordinaire is built with meticulous attention to detail. It has the finest building materials and employs custom craftsmen to do the finish work. The builders risk coverage on the building runs from 03/03/2021 to 03/03/2022. The meticulous attention to detail causes the work to fall behind schedule, and the new projected completion date is 06/01/2021. Unless the coverage provided is renewed or extended, it ends on 03/03/2022.

- The purchaser accepts the building or structure.
- The named insured's financial interest in the project ends.
- The named insured abandons the project and does not intend to return and complete it.
- Ninety days after construction ends or 60 days after the building is put to its intended use or is occupied to any extent. The insurance company can change this, but it must be in writing. However, changing this one item does not also change the previous four items.

Example: Restaurante Extraordinaire asked permission to begin occupying the kitchen once it was complete but while the work was being completed on the rest of the building. The insurance company granted permission in writing. However, the coverage still ends on the expiration date of 3/3/2022.

G. DEFINITIONS

This coverage form has only one definition.

Pollutants

This term refers to any solid, liquid, gaseous, or thermal irritant or contaminant. It includes smoke, vapor, soot, fumes, acids, alkalis, chemicals, and waste. Waste includes materials to be recycled, reconditioned, or reclaimed.

Ethics in Property & Casualty Insurance (Part 1)

Learning Objectives

By the end of this module, learners will be able to:

- Define ethics in the context of property & casualty insurance.
- Explain fiduciary duty and conflicts of interest.

- Recognize common ethical dilemmas in P&C sales and claims.
- Apply ethical principles to real-world scenarios.
- Understand Georgia's expectations for ethical conduct in insurance practice.

Section 1 – What Do We Mean by "Ethics"?

Ethics is one of those words that everyone recognizes but few pause to define. At its core, ethics refers to the principles of right and wrong that guide human behavior. It is not simply about following rules or avoiding punishment; it is about making choices that reflect integrity, fairness, and respect for others. In the world of property and casualty (P&C) insurance, ethics plays a particularly vital role. Insurance is not a tangible product—it is a promise. Clients pay premiums today in exchange for the assurance that, should disaster strike tomorrow, their insurer will be there to help them recover. That promise is built on trust, and trust can only be sustained when professionals act ethically.

In this section, we will explore what ethics means in the insurance context, why it goes beyond mere compliance with the law, and how professional codes of conduct and public trust shape the expectations of producers and insurers alike.

Moral vs. Legal Obligations

One of the most important distinctions to make at the outset is between what is legal and what is ethical. The law provides a baseline: it sets minimum standards of behavior that society requires. But ethics asks a deeper question: *What is the right thing to do?*

- **Not everything legal is ethical.**
  For example, a producer might technically comply with disclosure requirements by burying critical information in fine print. Legally, they may have fulfilled their duty. Ethically, however, they have failed the client by obscuring information that should have been explained clearly. The client may later feel misled, even if no law was broken.
- **Ethics fills the gaps where the law is silent.**
  Laws cannot anticipate every possible situation. Consider a scenario where a producer knows a client is about to purchase coverage that is ill-suited to their needs. The law may not explicitly forbid the sale, but ethics demands that the producer intervene, explain the mismatch, and recommend a better option—even if it means losing a commission.
- **The spirit vs. the letter of the law.**
  Ethical professionals recognize that compliance is not just about checking boxes. It

is about honoring the spirit of regulations, which are designed to protect consumers and ensure fairness. Acting ethically means asking, “Would this decision stand up to scrutiny if my client, my peers, or the public knew all the details?”

This distinction between moral and legal obligations is crucial in insurance because the stakes are so high. Clients depend on producers to guide them through complex products that they often do not fully understand. Exploiting that imbalance of knowledge may be legal in some cases, but it is never ethical.

Professional Codes of Conduct

Recognizing the importance of ethics, many insurers, regulators, and professional associations have developed formal codes of conduct. These codes serve as roadmaps for ethical decision-making and reinforce the idea that professionalism requires more than technical competence.

- **Industry-wide standards.**
  Organizations such as the National Association of Insurance Commissioners (NAIC) and state insurance departments establish rules and guidelines that producers must follow. While these often carry the force of law, they also articulate ethical expectations, such as honesty, transparency, and fairness.
- **Company-specific codes.**
  Many insurers publish their own codes of ethics for employees and producers. These documents typically emphasize values like integrity, respect, and accountability. They may include practical examples of ethical dilemmas and guidance on how to resolve them.
- **Professional associations.**
  Groups like the Chartered Property Casualty Underwriters (CPCU) Society or the National Association of Insurance and Financial Advisors (NAIFA) promote ethical standards among their members. By joining such organizations, professionals commit to upholding higher standards than the law alone requires.
- **Why codes matter.**
  Codes of conduct provide clarity in ambiguous situations. They also create a shared culture of accountability. When everyone in an organization understands and commits to the same ethical principles, it becomes easier to resist pressures that might otherwise lead to questionable behavior.

Importantly, codes of conduct are not meant to replace personal judgment. They are tools to guide decision-making, but ultimately, each professional must internalize ethical principles and apply them consistently.

Public Trust: The Foundation of Insurance

Perhaps the most compelling reason to prioritize ethics in insurance is the role of public trust. Insurance is not like buying a car or a piece of furniture. When clients purchase a policy, they are buying a promise that may not be tested for years—or may never be tested at all. This unique dynamic makes trust the lifeblood of the industry.

- **Insurance as a promise.**
  A policyholder pays premiums faithfully, often without ever filing a claim. They trust that if disaster strikes, the insurer will honor its commitment. If producers or insurers act unethically—by denying valid claims, misrepresenting coverage, or prioritizing profits over people—that trust is shattered.
- **The ripple effect of ethical lapses.**
  When one producer or company behaves unethically, it damages the reputation of the entire industry. Clients may become skeptical of all insurers, assuming that everyone is out to take advantage of them. This erosion of confidence makes it harder for ethical professionals to build relationships and serve clients effectively.
- **Trust as a competitive advantage.**
  On the positive side, ethical behavior builds loyalty. Clients who feel respected and well-served are more likely to stay with their insurer, recommend them to others, and view insurance as a valuable safety net rather than a necessary evil. In this way, ethics is not just a moral obligation—it is also good business.
- **The social contract.**
  Beyond individual transactions, insurance plays a vital role in society. It enables people to recover from losses, businesses to take risks, and communities to rebuild after disasters. For this system to function, the public must believe that insurers will keep their promises. Ethical conduct is therefore not optional; it is essential to the stability of the entire economy.

Building an Ethical Mindset

Understanding the importance of ethics is one thing; practicing it consistently is another. For insurance professionals, cultivating an ethical mindset requires ongoing effort.

- **Education and training.**
  Many states require continuing education in ethics as part of license renewal. These

courses help producers stay current on regulations and reinforce the importance of ethical decision-making.

- **Self-reflection.**
  Professionals should regularly ask themselves: "Am I acting in the best interest of my client? Would I be comfortable if my actions were made public? Am I upholding the trust placed in me?"
- **Organizational culture.**
  Companies must foster environments where ethical behavior is rewarded and unethical behavior is not tolerated. This includes providing safe channels for reporting concerns and ensuring that sales goals do not create perverse incentives.
- **Leading by example.**
  Senior professionals and managers set the tone. When leaders demonstrate integrity, it encourages others to do the same. Conversely, when leaders cut corners, it signals that ethics are negotiable.

Conclusion

Ethics in P&C insurance is not a box to check or a hurdle to clear—it is the foundation of professional practice. While the law sets minimum standards, true professionalism requires going beyond compliance to embrace honesty, transparency, and fairness. Professional codes of conduct provide guidance, but the ultimate responsibility lies with each individual to act with integrity. Most importantly, ethical behavior sustains public trust, without which the insurance industry cannot function.

In the end, ethics is about more than avoiding misconduct. It is about honoring the promise at the heart of insurance: to be there for clients when they need it most. By prioritizing ethics, producers not only protect their clients but also strengthen the reputation and resilience of the entire industry.

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

Section 2 – Ethical Dilemmas in Practice

Understanding ethics in theory is one thing; applying it in the day-to-day world of P&C insurance is another. Producers often face situations where the "right" choice is not immediately obvious, or where competing pressures—such as sales goals, client demands, and company policies—pull them in different directions. These moments are where ethics is tested most.

Common Ethical Dilemmas for Producers

- **Disclosure vs. Sales Pressure**
  A producer may be tempted to gloss over exclusions in a policy to close a sale quickly. While this might boost short-term revenue, it risks long-term damage if the client later discovers they were misled.
- **Client Needs vs. Commission Incentives**
  Some products pay higher commissions than others. An ethical producer must resist the temptation to recommend a product based on personal financial gain rather than the client's best interest.
- **Confidentiality vs. Company Demands**
  Producers often learn sensitive details about clients' finances, health, or personal lives. Sharing this information improperly—even with colleagues—can breach trust, even if it is not technically illegal.
- **Claims Advocacy vs. Company Loyalty**
  When a client's claim is denied, the producer may feel torn between supporting the client and maintaining a good relationship with the insurer. Ethical practice requires advocating for fairness, even if it creates tension.

Case Study Examples

- **The Underinsured Homeowner**
  A client insists on purchasing the cheapest homeowners policy, even though the producer knows it won't cover replacement costs in the event of a fire. The ethical choice is to explain the risks clearly, document the conversation, and encourage the client to make an informed decision—even if it means losing the sale.
- **The "Preferred Carrier" Push**
  A company pressures its agents to place business with a particular carrier due to a partnership agreement. An ethical producer must weigh whether that carrier truly offers the best coverage for the client, rather than blindly following company directives.
- **The Claim Delay**
  A producer learns that a client's claim is being delayed due to internal inefficiencies. While it may be easier to stay silent, the ethical path is to escalate the issue and advocate for timely resolution.

Tools for Ethical Decision-Making

When faced with dilemmas, producers can use structured approaches to guide their choices:

1. **The Transparency Test** – Would I be comfortable if this decision were made public?
2. **The Client Test** – Am I acting in the best interest of the client, even if it costs me personally?
3. **The Long-Term Test** – Will this decision build or erode trust over time?
4. **The Code Test** – Does this align with my company's or association's code of ethics?

By asking these questions, producers can slow down, reflect, and avoid impulsive decisions that may later prove damaging.

Why Ethical Choices Matter

Every ethical decision has ripple effects. A single lapse can harm a client financially, damage a producer's reputation, and weaken public trust in the industry. Conversely, consistent ethical behavior builds credibility, strengthens client relationships, and contributes to a healthier insurance marketplace overall.

Section 3 – Building an Ethical Culture in Agencies

Ethics is not just an individual responsibility; it is also a collective one. The culture of an agency or insurance company has a profound impact on how producers behave. Even the most principled professional can struggle to act ethically if they are surrounded by conflicting incentives, unclear expectations, or a lack of support.

The Role of Leadership

- **Tone at the top.**
  Leaders set the standard. When managers and executives demonstrate integrity in their decisions, it signals to employees that ethics is a priority. Conversely, when leaders cut corners, employees may feel pressured to do the same.
- **Clear expectations.**
  Agencies should articulate their ethical standards in writing and reinforce them regularly. This includes codes of conduct, training programs, and open discussions about ethical challenges.
- **Accountability.**
  Leaders must hold themselves and others accountable. If unethical behavior is ignored or excused, it undermines the entire culture.

Training and Reinforcement

- **Ongoing education.**
  Ethics training should not be a one-time event. Regular workshops, case studies, and scenario-based discussions help keep ethical principles top of mind.
- **Practical application.**
  Training should focus on real-world dilemmas producers are likely to face. This makes the lessons more relevant and easier to apply.
- **Encouraging dialogue.**
  Agencies should create safe spaces for employees to raise concerns, ask questions, and seek guidance without fear of retaliation.

Aligning Incentives

- **Sales goals vs. client needs.**
  Compensation structures should reward long-term client satisfaction, not just short-term sales. Otherwise, producers may feel pressured to prioritize volume over value.
- **Recognition of ethical behavior.**
  Agencies can reinforce positive behavior by celebrating employees who demonstrate integrity, even when it comes at a personal cost.

The Ripple Effect of Culture

A strong ethical culture benefits everyone:

- Clients receive honest, transparent service.
- Producers feel supported in doing the right thing.
- Agencies build reputations that attract both customers and talent.

In short, culture is the soil in which ethical behavior grows—or withers. Agencies that invest in cultivating integrity reap long-term rewards.

Section 4 – The Role of Ethics in Long-Term Client Relationships

While ethics is often discussed in terms of avoiding misconduct, its true power lies in building lasting trust. In insurance, where relationships often span years or decades, ethical behavior is the foundation of client loyalty.

Trust as a Business Asset

- **Retention.**
  Clients who feel respected and well-served are far less likely to shop around for new coverage. Ethical behavior reduces churn and strengthens retention.
- **Referrals.**
  Satisfied clients become advocates. They recommend their producer to friends, family, and colleagues, creating organic growth.
- **Reputation.**
  In an industry where word of mouth is powerful, a reputation for integrity is invaluable. One unethical act can undo years of goodwill, but consistent ethical behavior builds a brand that clients trust.

Ethics in Everyday Interactions

- **Clarity in communication.**
  Explaining coverage in plain language, highlighting exclusions, and ensuring clients truly understand their policies.
- **Proactive service.**
  Reaching out to clients when their needs change, rather than waiting for them to discover gaps in coverage.
- **Claims advocacy.**
  Standing by clients during stressful times, ensuring they receive fair treatment and timely resolution.

Ethics as a Long-Term Investment

Ethical behavior may not always maximize short-term profits, but it pays dividends over time. Producers who consistently put clients first build relationships that endure. These relationships, in turn, create stability for agencies and strengthen the industry as a whole.

Closing Thoughts

Ethics in P&C insurance is not an abstract concept—it is the daily practice of honoring promises, protecting clients, and upholding public trust. From understanding the difference between legal and moral obligations, to navigating real-world dilemmas, to building ethical cultures and long-term relationships, ethics is the thread that ties the profession together.

Ultimately, insurance is about people helping people in times of need. By committing to ethical behavior, producers and agencies ensure that this promise remains strong, credible, and worthy of the trust placed in them.

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

Section 5 – The Ethics Toolkit: Practical Guides for Daily Use

Ethics can feel abstract until you have tools to apply it in the moment. This section provides practical resources that producers, managers, and staff can use to stay grounded in ethical principles, even under pressure.

Quick Ethics Checklist for Producers

Before finalizing a sale, recommendation, or claim interaction, ask yourself:

1. **Clarity** – Have I explained the product in plain language, including exclusions and limitations?
2. **Transparency** – Would the client feel fully informed if they reviewed this conversation later?
3. **Client First** – Am I recommending what best serves the client's needs, not my own incentives?
4. **Documentation** – Have I recorded the discussion and rationale clearly in case of future review?
5. **Public Test** – Would I be comfortable if this decision were reported in the news or shared publicly?

If the answer to any of these is "no," pause and reconsider.

Red Flag Indicators of Unethical Behavior

Watch for these warning signs in yourself, colleagues, or organizational practices:

- Overemphasis on **sales quotas** without equal focus on client satisfaction.
- Pressure to **push a preferred carrier** regardless of suitability.
- **Withholding or burying information** in fine print rather than explaining it.
- Rationalizations like "everyone does it" or "it's technically legal."
- Lack of **documentation** or reluctance to put explanations in writing.
- A culture where **raising concerns** is discouraged or punished.

Spotting these early helps prevent small lapses from becoming systemic problems.

Decision-Making Framework: The "Four Lenses"

When faced with a dilemma, evaluate your options through these four perspectives:

1. **Legal Lens** – Is it compliant with laws and regulations?
2. **Ethical Lens** – Is it honest, fair, and respectful of the client's trust?
3. **Professional Lens** – Does it align with industry codes of conduct and company values?
4. **Reputation Lens** – How would this decision affect my credibility and the agency's reputation?

If an action fails under any lens, it's a signal to stop and seek alternatives.

Practical Tools for Agencies

- **Ethics Hotline or Ombudsman** – A confidential way for staff to raise concerns.
- **Scenario-Based Training** – Regular role-plays of common dilemmas to practice responses.
- **Ethics Champions** – Designated team members who model and reinforce ethical behavior.
- **Balanced Scorecards** – Performance metrics that weigh client satisfaction and compliance alongside sales.

Daily Habits for Ethical Practice

- Begin each client interaction with the mindset: *"How can I protect this person's best interests?"*
- Take time to **listen actively** before recommending solutions.
- Keep **policies and procedures visible**—don't rely on memory alone.
- Encourage **peer accountability**: check in with colleagues if you see questionable practices.
- End each day with a quick reflection: *"Did I act with integrity in every interaction today?"*

Final Wrap-Up

With this toolkit, ethics becomes more than a concept—it becomes a **daily practice**. By using checklists, spotting red flags, applying decision frameworks, and reinforcing ethical

culture, producers and agencies can consistently uphold the trust that clients place in them.

Ethics is not just about avoiding mistakes; it's about building a reputation for reliability, fairness, and care. In an industry built on promises, these tools help ensure that every promise made is a promise kept.

A Training Manual for Producers and Staff

Section 1 – What Do We Mean by "Ethics"?

Learning Objectives

- Define ethics and distinguish it from compliance with the law.
- Explain why ethical behavior is essential in insurance.
- Recognize the role of professional codes of conduct and public trust.

Content Summary

Ethics refers to principles of right and wrong that guide professional behavior. In P&C insurance, ethics goes beyond legal compliance. A producer may follow the law yet still act unethically by misleading a client, concealing information, or prioritizing personal gain. Professional codes of conduct and the need for public trust reinforce why ethics is foundational to the industry.

Key Takeaways

- **Legal ≠ Ethical**: The law sets minimum standards; ethics demands more.
- **Codes of Conduct**: Industry and company codes provide guidance but require personal judgment.
- **Public Trust**: Insurance is a promise; ethical lapses erode confidence in the entire system.

Discussion Questions

1. Can you think of a situation where something was legal but not ethical?
2. Why is public trust more critical in insurance than in many other industries?
3. How might you explain the difference between "letter of the law" and "spirit of the law" to a new producer?

Section 2 – Ethical Dilemmas in Practice

Learning Objectives

- Identify common ethical dilemmas faced by producers.
- Apply structured approaches to resolve ethical conflicts.
- Understand the consequences of ethical lapses.

Content Summary

Producers often face gray areas: disclosure vs. sales pressure, client needs vs. commission incentives, confidentiality vs. company demands. Case studies illustrate how ethical choices protect clients and reputations. Decision-making frameworks help professionals navigate these dilemmas.

Key Takeaways

- **Dilemmas are common**: Sales pressure, disclosure, and claims advocacy often create conflicts.
- **Frameworks help**: Tests like the Transparency Test or Client Test guide decisions.
- **Ripple effects**: One lapse can harm clients, reputations, and industry trust.

Discussion Questions

1. Which ethical dilemma do you think is most common in your role?
2. How would you apply the "Transparency Test" in a client meeting?
3. What are the long-term consequences of prioritizing commission over client needs?

Section 3 – Building an Ethical Culture in Agencies

Learning Objectives

- Understand the role of leadership in shaping ethical culture.
- Recognize how training, incentives, and accountability reinforce ethics.
- Identify practices that foster open dialogue and trust.

Content Summary

Ethics is not just individual—it's cultural. Leaders set the tone, training reinforces expectations, and incentives must align with client needs. Agencies that reward integrity and create safe spaces for dialogue build stronger, more resilient teams.

Key Takeaways

- **Tone at the top**: Leaders model integrity.
- **Training matters**: Ongoing, scenario-based training keeps ethics relevant.
- **Incentives shape behavior**: Rewarding client satisfaction prevents misaligned priorities.

Discussion Questions

1. How can leaders demonstrate ethical behavior in daily operations?
2. What role does training play in preventing ethical lapses?
3. How might sales incentives unintentionally encourage unethical behavior?

Section 4 – The Role of Ethics in Long-Term Client Relationships

Learning Objectives

- Explain how ethics builds client loyalty and referrals.
- Identify ethical practices in everyday client interactions.
- Recognize ethics as a long-term investment in reputation.

Content Summary

Ethics is not just about avoiding misconduct—it's about building trust. Clear communication, proactive service, and claims advocacy strengthen relationships. Ethical behavior creates retention, referrals, and reputational advantages.

Key Takeaways

- **Trust = Retention**: Clients stay loyal when they feel respected.
- **Ethics in action**: Clarity, proactivity, and advocacy are daily practices.
- **Long-term payoff**: Ethical behavior builds reputations that sustain growth.

Discussion Questions

1. How does ethical behavior influence client retention?
2. What are examples of proactive service that demonstrate ethics?
3. Why is reputation considered a business asset in insurance?

Section 5 – The Ethics Toolkit: Practical Guides for Daily Use

Learning Objectives

- Apply checklists and frameworks to real-time decisions.
- Recognize red flags that signal unethical practices.
- Develop daily habits that reinforce integrity.

Content Summary

This toolkit provides practical resources: a quick ethics checklist, red-flag indicators, a four-lens decision framework, and daily habits. Agencies can also implement hotlines, ethics champions, and balanced scorecards to reinforce culture.

Key Takeaways

- **Checklists guide action**: Clarity, transparency, client first, documentation, public test.
- **Red flags warn early**: Sales pressure, withheld information, rationalizations.
- **Frameworks clarify choices**: Legal, ethical, professional, and reputation lenses.

Discussion Questions

1. Which checklist item do you find most useful in your daily work?
2. What red flags have you observed in past roles or organizations?
3. How could you apply the "Four Lenses" framework to a claims dispute?

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

Managing Conflicts of Interest

Producers cannot eliminate all conflicts, but they can manage them responsibly. Best practices include:

1. **Full Disclosure:** Always inform clients of any personal or financial interest that could influence recommendations.
2. **Client Choice:** Provide multiple options and let clients decide, rather than steering them toward a single solution.
3. **Documentation:** Record disclosures and client decisions in writing.
4. **Agency Policies:** Agencies should establish clear guidelines on gifts, referrals, and commissions.
5. **Ethical Culture:** Encourage open discussion of conflicts so producers feel supported in making transparent choices.

The Broader Perspective

Conflicts of interest are not unique to insurance—they exist in law, medicine, finance, and countless other professions. What sets ethical professionals apart is how they handle them. In insurance, where products are complex and trust is paramount, managing conflicts with transparency and integrity is essential.

By acknowledging conflicts, disclosing them, and prioritizing client needs, producers demonstrate professionalism and strengthen the foundation of public trust. Conversely, ignoring or concealing conflicts risks not only regulatory penalties but also the erosion of the very relationships that sustain the business.

Conclusion

Conflicts of interest are an inevitable part of professional life, but they need not undermine ethical practice. In P&C insurance, producers face conflicts when commissions, relationships, or incentives tempt them to prioritize personal gain over client needs.

The key is transparency. By disclosing conflicts, documenting decisions, and consistently putting clients first, producers honor their fiduciary duty and preserve the trust that defines the profession.

Ultimately, managing conflicts of interest is not just about compliance—it is about integrity. And in an industry built on promises, integrity is the most valuable asset a producer can have.

Section 4 – Common Ethical Dilemmas in Property & Casualty Insurance

Ethical challenges in property and casualty (P&C) insurance rarely present themselves as black-and-white choices. More often, they emerge in **gray areas** where competing obligations, pressures, and interpretations collide. Producers may find themselves torn between loyalty to clients, obligations to insurers, and the realities of business.

This section explores three common dilemmas—claims handling, underinsurance, and advertising—and demonstrates how ethical reasoning frameworks can help producers navigate these situations with integrity.

Claims Handling: Advocate or Neutral Party?

The Dilemma:
When an insurer denies coverage, should a producer advocate for the client, or should they remain neutral to preserve their relationship with the carrier?

- **Client Expectation:** Clients often assume their producer will fight for them, especially in stressful claim situations.
- **Carrier Relationship:** Producers also rely on insurers for appointments, commissions, and future business. Advocating too aggressively may strain these relationships.

Ethical Reasoning Frameworks Applied:

- **Utilitarian Approach:** Which action produces the greatest good for the greatest number? Advocating for the client may restore coverage and prevent financial hardship, benefiting the client and reinforcing public trust. However, if advocacy undermines the producer's relationship with the carrier, it could reduce their ability to serve other clients in the future.
- **Duty-Based Ethics (Deontology):** The producer has a duty to act in the client's best interest. This suggests advocacy is not optional—it is a professional obligation, regardless of consequences.
- **Virtue Ethics:** A virtuous producer demonstrates courage, fairness, and loyalty. Standing by the client in a moment of need reflects integrity and compassion, even if it creates tension with the insurer.

Best Practice:
Producers should advocate for clients when claims are denied, ensuring fairness and transparency. At the same time, they should maintain professionalism with carriers, framing advocacy as part of their fiduciary duty rather than hostility.

Underinsurance: Saving Premium vs. Adequate Protection

The Dilemma:
A client insists on underinsuring their property to save on premiums. The producer knows this exposes the client to significant risk if a loss occurs.

- **Client Autonomy:** Clients have the right to make their own financial decisions.
- **Producer Responsibility:** Producers have a duty to ensure clients understand the risks of underinsurance.

Ethical Reasoning Frameworks Applied:

- **Utilitarian Approach:** Allowing underinsurance may save the client money in the short term, but the long-term harm of inadequate coverage outweighs the benefit. The greater good is served by ensuring adequate protection.

- **Duty-Based Ethics:** The producer's duty is to provide clear, accurate advice. Allowing underinsurance without strong warnings would be a breach of that duty.
- **Virtue Ethics:** A virtuous producer demonstrates honesty and prudence. They would counsel the client firmly, even if it risks losing the sale.

Best Practice:
Producers should clearly explain the consequences of underinsurance, document the discussion, and encourage adequate coverage. If the client insists, the producer should record the decision in writing to protect both parties.

Advertising: Highlighting Benefits vs. Minimizing Exclusions

The Dilemma:
Marketing materials often emphasize the benefits of policies while downplaying exclusions. Is this ethical?

- **Marketing Pressure:** Agencies want to attract clients with appealing messages.
- **Client Expectation:** Clients expect honesty and transparency, not half-truths.

Ethical Reasoning Frameworks Applied:

- **Utilitarian Approach:** Misleading advertising may generate short-term sales, but the long-term harm of disappointed or misled clients outweighs the benefit.
- **Duty-Based Ethics:** Producers have a duty to disclose material information. Minimizing exclusions violates this duty, even if technically compliant with regulations.
- **Virtue Ethics:** A virtuous producer values honesty and fairness. Ethical advertising should balance benefits with clear explanations of limitations.

Best Practice:
Advertising should be accurate, balanced, and transparent. Highlighting benefits is acceptable, but exclusions must also be communicated clearly—either in the ad itself or in follow-up conversations.

Using Ethical Frameworks in Practice

Ethical reasoning frameworks provide structured ways to analyze dilemmas:

- **Utilitarianism:** Focuses on outcomes—what action produces the greatest good?
- **Duty-Based Ethics:** Focuses on obligations—what duties must be upheld regardless of outcome?

- **Virtue Ethics:** Focuses on character—what would a person of integrity, fairness, and honesty do?

By applying these frameworks, producers can slow down, reflect, and make decisions that align with both professional standards and personal integrity.

Why Gray Areas Matter

Gray areas are where ethics is tested most. Laws and regulations provide clear boundaries, but many dilemmas fall between those lines. Producers who navigate these situations ethically:

- Build stronger client relationships.
- Protect themselves and their agencies from reputational harm.
- Contribute to a culture of trust that sustains the insurance industry.

Conclusion

Common ethical dilemmas in P&C insurance—claims handling, underinsurance, and advertising—illustrate the challenges of balancing competing interests. By applying ethical reasoning frameworks, producers can move beyond gut instinct and make principled decisions.

Ultimately, ethical practice is not about avoiding dilemmas but about facing them with clarity, courage, and integrity. In doing so, producers honor their fiduciary duty, protect their clients, and strengthen the trust that underpins the entire insurance profession.

Section 5 – Georgia's Ethical Expectations

Ethics in insurance is not just a matter of professional pride—it is a matter of law. In Georgia, the Department of Insurance (DOI) has made it clear that ethical practice is a condition of licensure. Producers are not only expected to know the rules but to live by them in every client interaction. This section explores Georgia's specific ethical expectations, the statutes that govern producer conduct, and the enforcement actions that demonstrate the state's commitment to protecting consumers.

Ethics Continuing Education: A Condition of Licensure

Every licensed producer in Georgia must complete **three hours of ethics continuing education (CE)** during each renewal cycle. This requirement underscores a simple truth: ethics is not optional. It is woven into the very fabric of professional licensing.

- **Why CE Matters:**
  Continuing education ensures producers remain current on evolving laws, regulations, and ethical standards. It reinforces the idea that ethics is not a one-time lesson but an ongoing practice.
- **Practical Impact:**
  Producers who neglect their ethics CE risk more than a lapse in knowledge—they risk their license. The DOI treats ethics CE as a baseline requirement, signaling that ethical competence is as important as technical knowledge of products and markets.
- **Message to Producers:**
  By mandating ethics CE, Georgia communicates that professionalism is measured not only by sales performance but by integrity, transparency, and accountability.

Georgia Statutory Prohibitions

Georgia statutes outline specific behaviors that are prohibited for producers. These prohibitions are designed to protect consumers, ensure fairness, and maintain public trust in the insurance system.

1. Misrepresentation of Policy Terms

- **Definition:** Producers may not misrepresent the benefits, advantages, conditions, or terms of any insurance policy.
- **Why It Matters:** Misrepresentation—whether intentional or careless—misleads clients and undermines informed decision-making.
- **Example:** A producer who tells a client that flood damage is covered under a standard homeowner's policy is misrepresenting terms. Even if unintentional, the result could be catastrophic for the client.

2. Rebating or Offering Inducements

- **Definition:** Producers may not offer rebates, discounts, or inducements not allowed by law to entice clients to purchase coverage.
- **Why It Matters:** Rebating creates unfair competition and can distort the marketplace. It also undermines the principle that insurance should be purchased based on need, not perks.
- **Example:** A producer who offers a gift card or cash rebate for purchasing a policy is violating Georgia law.

3. Unfair Discrimination

- **Definition:** Producers may not engage in unfair discrimination in underwriting or claims. This means treating clients differently based on factors not permitted by law, such as race, gender, or other protected characteristics.
- **Why It Matters:** Insurance is built on fairness and risk assessment. Discrimination erodes trust and violates both ethical and legal standards.
- **Example:** Denying claims or charging higher premiums based on non-risk-related personal characteristics is prohibited.

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Enforcement Actions: Lessons from the DOI

The Georgia DOI actively enforces these ethical standards. Disciplinary actions serve as reminders that violations carry real consequences.

- **Misleading Advertising:** Producers have been disciplined for creating ads that exaggerate benefits or conceal exclusions. Even if technically accurate, advertising that misleads consumers violates ethical and legal standards.
- **Failure to Disclose Exclusions:** Producers who fail to highlight key exclusions—such as flood or earthquake coverage—have faced sanctions. Clients must be fully informed to make sound decisions.
- **Mishandling Client Funds:** Perhaps the most serious violation, mishandling premiums or commingling funds with personal accounts has led to fines, suspensions, and license revocations. These cases highlight the fiduciary duty producers owe to clients.

Key Lesson: Enforcement actions are not theoretical—they are real, public, and consequential. They demonstrate that Georgia is committed to holding producers accountable for ethical lapses.

Applying Georgia's Ethical Standards in Practice

For producers, the challenge is not just knowing the rules but applying them consistently. Here are practical steps to align with Georgia's expectations:

1. **Be Transparent:** Always explain policy terms, benefits, and exclusions in plain language.

2. **Avoid Shortcuts:** Never offer rebates, inducements, or perks outside what the law allows.
3. **Treat Clients Fairly:** Ensure underwriting and claims decisions are based on legitimate risk factors, not personal biases.
4. **Handle Funds Properly:** Use trust accounts, remit premiums promptly, and never commingle client funds with personal or business accounts.
5. **Stay Current:** Complete ethics CE early in the renewal cycle and use it as an opportunity to refresh your ethical decision-making skills.

The Broader Impact of Georgia's Standards

Georgia's ethical expectations are not just about compliance—they are about protecting the public and strengthening the insurance industry. By enforcing strict standards, the DOI:

- **Protects Consumers:** Clients can trust that producers are acting in their best interest.
- **Levels the Playing Field:** Ethical producers are not disadvantaged by competitors who cut corners.
- **Builds Public Trust:** A transparent, fair insurance marketplace benefits everyone, from individual policyholders to the broader economy.

Conclusion

In Georgia, ethics is not an abstract concept—it is a condition of licensure, a statutory requirement, and a professional obligation. Producers must complete ethics CE, avoid misrepresentation, steer clear of rebating, and ensure fairness in underwriting and claims.

The DOI's enforcement actions make it clear: ethical lapses will not be tolerated. Misleading advertising, failure to disclose exclusions, and mishandling client funds are not just mistakes—they are violations that carry serious consequences.

For producers, the path forward is clear. By embracing Georgia's ethical expectations, they not only protect their licenses but also honor the trust clients place in them. In an industry built on promises, that trust is the most valuable asset of all.

Section 6 – Best Practices for Ethical P&C Practice

Ethical practice in property and casualty (P&C) insurance is not just about avoiding violations—it is about building habits that consistently align with professional duty and public trust. While laws and codes of conduct provide the framework, producers

strengthen compliance and credibility by adopting **daily best practices**. These practices create a culture of integrity, reduce the risk of ethical lapses, and reinforce the promise at the heart of insurance: to protect clients when they need it most.

Adopting a Personal Code of Ethics

Every producer operates under state regulations and company codes, but the most effective professionals also adopt a **personal code of ethics**.

- **Why it matters:** A personal code serves as a compass when rules are unclear or when pressures tempt shortcuts.
- **What it looks like:** It might include commitments such as: "I will always put client needs first," "I will disclose all material information," and "I will avoid conflicts of interest."
- **Practical impact:** By internalizing these principles, producers can respond quickly and confidently to dilemmas without second-guessing.

Documenting All Client Interactions

Documentation is both a compliance requirement and an ethical safeguard.

- **Why it matters:** Clear records protect both the client and the producer. If disputes arise, documentation demonstrates transparency and accountability.
- **Best practice:** Record key conversations, recommendations, disclosures, and client decisions. Use client files or CRM systems to ensure notes are consistent and accessible.
- **Example:** If a client insists on underinsuring property, documenting the discussion and the producer's warnings ensures the client's choice is informed and defensible.

Disclosing Conflicts of Interest

Conflicts of interest are inevitable, but concealment is never acceptable.

- **Why it matters:** Clients deserve to know when a producer has a personal or financial interest that could influence recommendations.
- **Best practice:** Disclose conflicts openly and provide alternatives. For example, if referring a client to a family-owned repair shop, say: "This shop is owned by my brother, but here are two other options as well."
- **Result:** Transparency preserves trust and allows clients to make informed choices.

The Public Test: “Would I Be Comfortable if This Decision Were Public?”

This simple question is one of the most powerful tools for ethical decision-making.

- **Why it matters:** It forces producers to step outside their immediate interests and consider how their actions would appear to clients, regulators, or the public.
- **Application:** Before finalizing a recommendation, ask: “Would I be comfortable if this decision were reported in the news or reviewed by the DOI?” If the answer is no, reconsider.

Daily Ethical Decision-Making Checklist

Producers can use this quick checklist to stay grounded in best practices:

1. **Client First:** Am I acting in the client’s best interest?
2. **Transparency:** Have I disclosed all material terms, exclusions, and costs?
3. **Conflicts:** Have I disclosed any personal or financial interests?
4. **Documentation:** Have I recorded this interaction clearly and accurately?
5. **Public Test:** Would I be comfortable if this decision were made public?

Conclusion

Ethics in P&C insurance is not a one-time choice—it is a daily practice. By adopting a personal code of ethics, documenting interactions, disclosing conflicts, and applying the public test, producers create habits that safeguard clients, protect their licenses, and strengthen the industry’s reputation. The daily checklist provides a practical tool to ensure that every decision reflects integrity.

In the end, ethical best practices are not just about compliance—they are about building trust, and trust is the most valuable asset any producer can hold.

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Ethics in Property & Casualty Insurance (Part 2)

Learning Objectives

By the end of this module, learners will be able to:

- Analyze real-world ethical dilemmas in P&C practice.
- Apply structured decision-making frameworks to resolve ethical conflicts.

- Recognize how Georgia regulators enforce ethical standards.
- Evaluate case studies of ethical failures and successes.
- Commit to best practices that integrate ethics into daily operations.

Section 1 – Why Scenario-Based Ethics Matters

Ethics training in property and casualty (P&C) insurance is most effective when it moves beyond abstract principles and into the realm of **real-world decision making**. While earlier discussions of fiduciary duty and conflicts of interest establish the foundation, the real test of ethics comes when producers face **gray areas**—situations where the law is silent, guidance is ambiguous, and judgment under pressure determines the outcome.

Scenario-based ethics training equips producers to anticipate these dilemmas, weigh competing obligations, and respond with integrity. By practicing with realistic examples, producers learn not only what the rules say but how to apply them in the messy, nuanced situations they encounter daily.

Why Scenarios Matter More Than Rules Alone

Rules and statutes are essential, but they cannot anticipate every situation. Producers often face choices where multiple options are technically legal, yet only one aligns with ethical best practice. Scenario-based training bridges this gap by:

- **Making ethics practical:** Instead of memorizing prohibitions, producers learn how to apply principles in context.
- **Building decision-making skills:** Scenarios simulate the pressure of real client interactions, where quick judgment is required.
- **Revealing gray areas:** Producers see how ethical dilemmas often involve competing values, not simple right vs. wrong.
- **Encouraging reflection:** By analyzing outcomes, producers develop habits of self-questioning and accountability.

Example Dilemma 1: Broader Coverage vs. Cheaper Premiums

The Scenario:
A client asks for the cheapest possible auto policy. You know that a slightly higher premium policy offers broader coverage and would better protect them in the event of an accident.

The Ethical Tension:

- **Client Autonomy:** Clients have the right to choose based on their budget.

- **Producer Responsibility:** Producers have a duty to recommend coverage that adequately protects the client.

Framework Application:

- **Utilitarianism:** The broader policy produces greater long-term benefit by reducing the risk of catastrophic loss.
- **Duty-Based Ethics:** The producer has a duty to disclose the risks of the cheaper policy and recommend the more suitable option.
- **Virtue Ethics:** A virtuous producer demonstrates honesty and prudence, ensuring the client understands the trade-offs.

Best Practice:
Explain both options clearly, highlight the risks of the cheaper policy, and document the client's decision. If the client insists on the cheaper option, ensure they are making an informed choice.

Example Dilemma 2: Underinsuring Property to Save Money

The Scenario:
A homeowner insists on insuring their property for less than its replacement cost to save on premiums.

The Ethical Tension:

- **Client's Financial Pressure:** The client may be struggling to afford coverage.
- **Producer's Duty:** Allowing underinsurance exposes the client to devastating losses.

Framework Application:

- **Utilitarianism:** Adequate coverage prevents greater harm in the long run.
- **Duty-Based Ethics:** The producer must disclose the consequences of underinsurance and recommend full coverage.
- **Virtue Ethics:** Integrity requires the producer to counsel the client firmly, even if it risks losing the sale.

Best Practice:
Educate the client about coinsurance penalties and the risks of underinsurance. Document the conversation. If the client still insists, record their decision in writing to protect both parties.

Example Dilemma 3: Sales Quotas vs. Suitability

The Scenario:
Your agency owner pressures you to meet aggressive sales quotas, even if it means recommending policies that are not the best fit for clients.

The Ethical Tension:

- **Employer Pressure:** Producers may fear job loss or reduced income if they fail to meet quotas.
- **Client Loyalty:** Producers have a fiduciary duty to prioritize client needs over agency goals.

Framework Application:

- **Utilitarianism:** Short-term sales may benefit the agency, but long-term harm to clients and reputational damage outweigh the gains.
- **Duty-Based Ethics:** The producer's duty to the client overrides pressure from the employer.
- **Virtue Ethics:** Courage and integrity require resisting unethical pressure, even at personal cost.

Best Practice:
Stand firm in recommending suitable policies. If pressure persists, escalate concerns to compliance officers or regulators. Document your decisions to demonstrate adherence to ethical standards.

How Scenario-Based Training Builds Ethical Muscles

Working through scenarios like these develops critical skills:

- **Anticipation:** Producers learn to recognize ethical dilemmas before they escalate.
- **Analysis:** Frameworks provide structured ways to evaluate competing interests.
- **Confidence:** Practicing responses builds confidence to act ethically under pressure.
- **Resilience:** Producers learn to withstand external pressures—whether from clients, employers, or market forces.

Practical Tools for Scenario-Based Ethics

To make scenario-based training effective, producers can use tools such as:

- **Role-plays:** Simulating client conversations to practice disclosures and recommendations.
- **Case studies:** Reviewing real-world enforcement actions to see how ethical lapses occur.
- **Decision checklists:** Applying quick tests like, "Would I be comfortable if this decision were public?"
- **Peer discussions:** Sharing perspectives to see how others would handle the same dilemma.

The Broader Impact of Scenario-Based Ethics

Scenario-based ethics training benefits not only individual producers but also the industry as a whole:

- **For Clients:** They receive advice that is transparent, suitable, and trustworthy.
- **For Producers:** They gain confidence, reduce regulatory risk, and build stronger reputations.
- **For Agencies:** They foster cultures of integrity that attract both clients and talent.
- **For the Industry:** They strengthen public trust in insurance as a system built on fairness and reliability.

Conclusion

Ethics in P&C insurance is not tested in classrooms or compliance manuals—it is tested in the real-world scenarios producers face every day. Whether deciding between broader coverage and cheaper premiums, counseling clients who want to underinsure, or resisting pressure to prioritize quotas over suitability, producers must rely on judgment, courage, and integrity.

Scenario-based ethics training prepares producers for these moments. By practicing with realistic dilemmas, applying ethical frameworks, and reflecting on outcomes, producers develop the habits and resilience needed to act ethically under pressure.

Ultimately, scenario-based ethics matters because it transforms abstract principles into lived practice. It equips producers not just to know the rules but to embody the values of honesty, loyalty, and fairness that sustain client trust and uphold the promise of insurance.

Section 2 – Ethical Decision-Making Frameworks

Ethical decision-making in property and casualty (P&C) insurance is rarely simple. Producers often face situations where the law provides little guidance, where multiple options are technically permissible, or where competing pressures make the "right" choice less obvious. In these moments, having structured frameworks for ethical reasoning is invaluable.

Frameworks provide a disciplined way to analyze dilemmas, weigh competing values, and arrive at decisions that uphold both professional duty and public trust. This section introduces four widely used approaches—the Duty-Based Approach, the Utilitarian Approach, the Virtue Approach, and the Transparency Test—and demonstrates how they can be applied to real-world P&C scenarios.

The Duty-Based Approach

Core Idea

The duty-based approach, also known as deontological ethics, focuses on **obligations and rules**. It asks: *What duties apply in this situation? What rules must I follow, regardless of the outcome?*

For insurance producers, duties are defined by:

- State statutes and regulations.
- Fiduciary obligations to clients.
- Professional codes of conduct.

Application in P&C

- **Disclosure Duties:** Producers must disclose all material facts, such as policy exclusions or underwriting requirements.
- **Fiduciary Duties:** Producers must handle client funds properly and avoid conflicts of interest.
- **Regulatory Duties:** Producers must comply with licensing requirements, CE obligations, and anti-discrimination laws.

Example

A client asks you to "leave off" a teenage driver from an auto application to reduce the premium.

- **Duty-Based Analysis:** The producer has a clear duty to disclose all drivers. Omitting the driver would be misrepresentation, violating both law and professional duty.

Strengths

- Provides clarity in situations where rules are explicit.
- Reinforces compliance and consistency.

Limitations

- Can feel rigid in gray areas where duties conflict or are unclear.
- May not account for broader consequences beyond the immediate rule.

The Utilitarian Approach

Core Idea

The utilitarian approach focuses on **outcomes**. It asks: *What decision produces the greatest good for the greatest number?*

This framework emphasizes consequences, weighing benefits and harms to determine the most ethical choice.

Application in P&C

- **Claims Handling:** Advocating for a client may create tension with a carrier, but the broader good of protecting the client outweighs the inconvenience.
- **Underinsurance:** Allowing a client to underinsure may save them money now, but the long-term harm of inadequate coverage outweighs the short-term benefit.
- **Advertising:** Misleading ads may generate sales, but the harm of disappointed clients and reputational damage outweighs the gain.

Example

Returning to the “leave off the driver” scenario:

- **Utilitarian Analysis:** Misrepresentation may save the client money in the short term, but if discovered, it could void coverage, harm the client financially, and damage the producer’s reputation. The broader harm outweighs the benefit.

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Strengths

- Encourages consideration of long-term and widespread consequences.
- Flexible in complex situations where rules are silent.

Limitations

- Can justify questionable actions if they appear to maximize overall benefit.
- Requires predicting outcomes, which may be uncertain.

The Virtue Approach

Core Idea

The virtue approach focuses on **character and integrity**. It asks: *What would a person of honesty, fairness, and integrity do in this situation?*

Rather than focusing on rules or outcomes, this approach emphasizes the moral qualities of the decision-maker.

Application in P&C

- **Honesty:** Always providing accurate information, even when inconvenient.
- **Courage:** Standing up to employer pressure to prioritize client needs.
- **Fairness:** Treating all clients equitably, regardless of personal biases.

Example

In the "leave off the driver" scenario:

- **Virtue Analysis:** A producer of integrity would refuse to misrepresent the application. Honesty is the only sustainable path, even if it risks losing the client.

Strengths

- Encourages producers to cultivate habits of integrity and professionalism.
- Provides guidance in ambiguous situations where rules and outcomes are unclear.

Limitations

- Relies on personal judgment, which may vary between individuals.
- May not provide concrete answers in highly complex dilemmas.

The Transparency Test

Core Idea

The transparency test is a practical, everyday tool. It asks: *Would I be comfortable if this decision were made public? Would I want my client, my peers, or a regulator to know what I did?*

This test emphasizes accountability and perception, recognizing that ethics is not only about what is right but also about what appears right.

Application in P&C

- **Premium Handling:** Would you be comfortable if your method of handling client funds were audited?
- **Advertising:** Would you be comfortable if your ad were reviewed by the DOI or published in the local newspaper?
- **Recommendations:** Would you be comfortable if your client's family knew why you recommended a particular policy?

Example

In the "leave off the driver" scenario:

- **Transparency Analysis:** If this decision were made public, the producer would be seen as dishonest and untrustworthy. The reputational damage would far outweigh any short-term benefit.

Strengths

- Simple and intuitive.
- Encourages accountability and self-reflection.

Limitations

- Relies on perception, which may vary.
- May not provide sufficient depth for complex dilemmas.

Practicing Frameworks with P&C Scenarios

To internalize these frameworks, producers should practice applying them to realistic scenarios. Here are a few examples:

Scenario 1: Underinsuring to Save Premium

A client insists on insuring their home for less than replacement cost.

- **Duty-Based:** Disclose the risks and recommend full coverage.
- **Utilitarian:** Adequate coverage prevents greater harm in the long run.

- **Virtue:** A producer of integrity counsels the client firmly, even if it risks losing the sale.
- **Transparency:** Would you be comfortable if regulators reviewed your handling of this case?

Scenario 2: Sales Quotas vs. Suitability

Your agency owner pressures you to meet quotas by recommending higher-premium policies.

- **Duty-Based:** Duty to recommend suitable coverage overrides employer pressure.
- **Utilitarian:** Short-term sales gains are outweighed by long-term harm to clients and reputation.
- **Virtue:** Courage and honesty require resisting pressure.
- **Transparency:** Would you be comfortable if clients knew you were pressured to sell them unsuitable policies?

Scenario 3: Misleading Advertising

An ad highlights benefits but minimizes exclusions.

- **Duty-Based:** Duty to disclose material information prohibits misleading ads.
- **Utilitarian:** Misleading ads may generate sales but harm clients and the industry.
- **Virtue:** Honesty requires balanced communication.
- **Transparency:** Would you be comfortable if the ad were reviewed by the DOI?

Integrating Frameworks into Daily Practice

Frameworks are most effective when they become part of daily habits. Producers can integrate them by:

- **Asking the Right Questions:** Which duties apply? What are the consequences? What would a person of integrity do? Would I be comfortable if this were public?
- **Using Checklists:** Incorporate frameworks into daily decision-making checklists.
- **Role-Playing Scenarios:** Practice applying frameworks in training sessions.
- **Reflecting on Outcomes:** After difficult decisions, reflect on how frameworks guided the choice and what could be improved.

Conclusion

Ethical decision-making in P&C insurance requires more than compliance with rules. It requires structured reasoning, reflection, and integrity. The Duty-Based Approach emphasizes obligations, the Utilitarian Approach emphasizes outcomes, the Virtue Approach emphasizes character, and the Transparency Test emphasizes accountability.

By practicing these frameworks with realistic scenarios—such as whether to omit a driver from an application, allow underinsurance, or prioritize quotas—producers develop the skills and confidence to act ethically under pressure.

Ultimately, these frameworks are not just tools for avoiding violations. They are guides for building trust, protecting clients, and sustaining the credibility of the insurance industry. When producers consistently apply them, they transform ethics from an abstract concept into a daily practice that strengthens both their profession and the promises they make to clients.

Section 3 – Case Studies of Ethical Failures

Ethics in property and casualty (P&C) insurance is not just a theoretical concept—it is tested daily in real-world situations. When producers, agencies, or adjusters fail to uphold ethical standards, the consequences ripple outward: clients suffer financial harm, regulators impose penalties, and public trust in the industry erodes.

This section reviews three case studies—two from Georgia and one national example—that illustrate how ethical failures occur, what consequences follow, and what lessons producers can learn to avoid repeating these mistakes.

Case 1: Misrepresentation of Homeowners Coverage in Georgia

The Situation:
A Georgia producer sold a homeowners policy to a client, assuring them that the policy covered flood damage. In reality, the standard homeowners policy excluded flood losses, which require separate coverage through the National Flood Insurance Program (NFIP) or a private flood policy. When the client's home was damaged in a flood, the claim was denied.

The Violation:

- The producer **misrepresented policy terms**, a direct violation of Georgia insurance statutes.
- The misrepresentation was not only unethical but also illegal, as it deprived the client of the opportunity to make an informed decision.

The Consequences:

- The Georgia Department of Insurance (DOI) investigated the complaint.
- The producer was fined and had their license suspended.
- The client suffered significant financial loss, as no coverage was available for the flood damage.

Lesson Learned:

- **Accuracy is non-negotiable.** Producers must never exaggerate or misstate coverage. Even unintentional misrepresentations can have devastating consequences for clients.
- **Disclosure is essential.** Producers should clearly explain exclusions and limitations, especially for perils like flood or earthquake that are commonly misunderstood.
- **Documentation protects everyone.** Written disclosures and signed acknowledgments help ensure clients understand what is and is not covered.

This case underscores the fiduciary duty producers owe to clients: to provide accurate, transparent information. Misrepresentation—whether deliberate or careless—destroys trust and invites regulatory action.

Case 2: Illegal Rebates in Auto Insurance

The Situation:
A regional agency sought to grow its auto insurance book quickly. To attract clients, the agency offered illegal rebates—cash back and gift cards—for purchasing policies. While clients were initially pleased with the perks, competitors filed complaints, and regulators soon took notice.

The Violation:

- Georgia law, like most states, prohibits **rebating** or offering inducements not specified in the policy.
- Rebating creates unfair competition and undermines the principle that insurance should be purchased based on need, not perks.

The Consequences:

- Regulators imposed significant penalties on the agency.
- The agency was required to provide restitution to affected clients.

- The agency's reputation suffered, and several carriers terminated appointments.

Lesson Learned:

- **Shortcuts backfire.** Rebating may seem like a quick way to win business, but it violates both ethical and legal standards.
- **Fair competition matters.** Agencies that play by the rules should not be disadvantaged by competitors who cut corners.
- **Focus on value, not gimmicks.** Producers should win clients through expertise, service, and trust—not illegal inducements.

This case illustrates how unethical practices can undermine not only individual agencies but also the integrity of the marketplace. By enforcing anti-rebating laws, regulators protect both consumers and honest competitors.

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

Case 3: Claims Adjuster Delays for Financial Targets

The Situation:
At a national insurer, a claims adjuster was instructed to delay payments on certain claims to help the company meet quarterly financial targets. By postponing payouts, the insurer temporarily improved its cash flow and financial appearance. However, policyholders waiting for settlements experienced unnecessary hardship.

The Violation:

- Deliberately delaying claims payments violated the insurer's duty of **good faith and fair dealing**.
- It also constituted an **unfair claims practice**, subject to regulatory scrutiny.

The Consequences:

- State regulators launched a market conduct examination.
- The insurer faced substantial fines and was required to implement corrective measures.
- The company's reputation was damaged, leading to negative media coverage and loss of consumer trust.

Lesson Learned:

- **Claims are promises.** Insurance is fundamentally a promise to pay valid claims promptly. Delaying payments for financial gain betrays that promise.
- **Culture matters.** When leadership prioritizes short-term financial metrics over ethical obligations, employees may feel pressured to act unethically.
- **Regulators are vigilant.** Market conduct exams and fines demonstrate that regulators will hold insurers accountable for systemic ethical failures.

This case highlights the importance of ethical culture at every level of an organization. Producers, adjusters, and executives alike must remember that clients depend on timely claims payments to recover from losses.

Common Themes Across Cases

Though the details differ, these cases share common threads:

- **Misrepresentation, inducements, and delays** all stem from prioritizing short-term gain over long-term trust.
- **Regulatory enforcement** is consistent and severe, with fines, suspensions, and reputational damage.
- **Clients suffer most** when ethical standards are ignored, whether through denied claims, unfair competition, or delayed settlements.

Lessons for Producers and Agencies

From these failures, producers and agencies can draw several practical lessons:

1. **Tell the Truth, Always.** Misrepresentation—whether in sales, advertising, or claims—is never acceptable.
2. **Avoid Shortcuts.** Rebates, inducements, or other gimmicks may seem attractive but carry heavy risks.
3. **Honor the Promise.** Claims must be handled promptly and fairly; anything less undermines the foundation of insurance.
4. **Document and Disclose.** Clear communication and written records protect both clients and producers.
5. **Build an Ethical Culture.** Leadership must set the tone, ensuring that employees feel supported in doing the right thing.

The Broader Impact of Ethical Failures

Ethical failures do more than harm individual clients or agencies—they erode public trust in the entire insurance industry. When consumers hear stories of denied claims, illegal rebates, or delayed payments, they may assume all insurers are untrustworthy. This skepticism makes it harder for ethical producers to build relationships and serve clients effectively.

Conversely, when producers learn from these failures and commit to ethical best practices, they strengthen not only their own reputations but also the credibility of the industry as a whole.

Conclusion

Case studies of ethical failures provide powerful reminders of what is at stake in P&C insurance. The Georgia producer who misrepresented coverage, the agency that offered illegal rebates, and the claims adjuster who delayed payments all illustrate how ethical lapses can harm clients, invite regulatory penalties, and damage reputations.

The lessons are clear: accuracy, fairness, transparency, and integrity are non-negotiable. Producers and agencies that internalize these lessons will not only avoid the pitfalls of ethical failure but also build lasting trust with clients and regulators alike.

In an industry built on promises, ethical practice is the only sustainable path forward.

Section 4 – Case Studies of Ethical Success

When discussing ethics in property and casualty (P&C) insurance, much attention is often given to failures—misrepresentation, rebating, mishandling funds, or unfair claims practices. These cautionary tales are important, but they tell only half the story. Equally powerful are the examples of professionals and agencies who chose the ethical path, even when it was difficult or costly in the short term.

These stories demonstrate that ethical choices are not only the right thing to do but also the smart thing to do. They strengthen reputations, build client loyalty, and create long-term success. Below are three case studies of ethical success that highlight best practices in action.

Case 1: The Producer Who Refused an Unsuitable Sale

The Situation:
A commercial client approached a producer seeking liability coverage for a new business venture. The client was eager to minimize costs and requested a policy that was cheaper but excluded several key risks inherent to their operations. The producer knew that selling

the cheaper policy would generate a commission and satisfy the client's immediate request. However, it would leave the client dangerously exposed.

The Ethical Choice:
The producer refused to sell the unsuitable policy. Instead, they explained the risks of inadequate coverage, provided examples of potential losses, and recommended a more comprehensive policy—even though it was more expensive and the client initially resisted.

The Outcome:

- The client ultimately agreed to purchase the broader coverage after understanding the risks.
- The producer earned the client's respect for prioritizing protection over profit.
- The client later experienced a claim that would not have been covered under the cheaper policy, validating the producer's recommendation.

Lesson Learned:

- **Suitability is paramount.** Producers must recommend coverage that truly meets client needs, even if it means losing a sale.
- **Education builds trust.** By explaining risks clearly, producers empower clients to make informed decisions.
- **Integrity pays off.** The producer's reputation for honesty led to referrals and long-term loyalty.

Case 2: The Adjuster Who Advocated for Fair Settlements

The Situation:
A claims adjuster at a regional insurer was handling a series of property claims after a severe storm. Internal management pressured adjusters to minimize payouts to protect the company's quarterly financial results. The adjuster faced a dilemma: follow the pressure to underpay claims or advocate for fair settlements that reflected the true losses.

The Ethical Choice:
The adjuster chose to advocate for policyholders. They documented damages thoroughly, pushed back against internal directives, and ensured that clients received the compensation they were entitled to under their policies.

The Outcome:

- Policyholders received fair settlements, allowing them to rebuild and recover.

- The insurer initially resisted but later recognized that fair claims handling reduced complaints and regulatory scrutiny.
- The adjuster's courage was noted by peers and eventually led to a promotion into a leadership role.

Lesson Learned:

- **Claims are promises.** Adjusters must honor the insurer's obligation to pay valid claims promptly and fairly.
- **Courage matters.** Standing up to internal pressure demonstrates integrity and leadership.
- **Fairness strengthens reputation.** Insurers that handle claims ethically build trust and reduce regulatory risk.

Case 3: The Agency That Embraced Transparency

The Situation:
A mid-sized agency recognized that clients often felt confused about policy exclusions, commissions, and referral arrangements. Rather than waiting for regulators to mandate disclosures, the agency implemented a **transparent disclosure policy**. They committed to explaining exclusions in plain language, disclosing commission structures when relevant, and clarifying any referral relationships.

The Ethical Choice:
The agency went beyond minimum legal requirements, embedding transparency into every client interaction. Producers were trained to highlight not only what policies covered but also what they did not. Clients were given written summaries of key exclusions and encouraged to ask questions.

The Outcome:

- Clients expressed appreciation for the honesty and clarity.
- The agency saw increased client retention and referrals, as transparency built loyalty.
- Regulators praised the agency's proactive approach, citing it as a model for others.

Lesson Learned:

- **Transparency builds loyalty.** Clients value honesty and reward it with long-term relationships.

- **Proactivity pays off.** Going beyond compliance demonstrates leadership and foresight.
- **Culture of integrity.** Embedding transparency into agency culture ensures consistency across all producers.

Common Themes Across Success Stories

These cases highlight several common themes:

- **Integrity over profit.** Ethical professionals prioritize client needs, even when it costs them in the short term.
- **Courage under pressure.** Whether resisting client demands or internal directives, ethical choices often require standing firm.
- **Transparency as strategy.** Clear communication about coverage, costs, and conflicts builds trust and loyalty.
- **Long-term rewards.** Ethical choices may sacrifice immediate gain but lead to stronger reputations, client retention, and regulatory goodwill.

The Broader Impact of Ethical Success

Ethical success stories are not just feel-good anecdotes—they demonstrate how ethics strengthens the entire insurance ecosystem:

- **For Clients:** They receive fair treatment, suitable coverage, and honest advice.
- **For Producers and Adjusters:** They build reputations as trusted professionals, leading to referrals and career advancement.
- **For Agencies and Insurers:** They reduce regulatory risk, enhance brand reputation, and foster client loyalty.
- **For the Industry:** They reinforce public trust, showing that insurance is a reliable safety net rather than a source of frustration.

Conclusion

Not all stories in insurance ethics are failures. The producer who refused to sell unsuitable coverage, the adjuster who advocated for fair settlements, and the agency that embraced transparency all demonstrate that ethical choices are both possible and profitable.

These case studies show that ethics is not just about avoiding penalties—it is about building trust, strengthening reputations, and ensuring long-term success. In an industry

built on promises, ethical success stories remind us that doing the right thing is not only morally sound but also the most sustainable business strategy.

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Section 5 – Georgia Enforcement & Market Conduct

Ethics in property and casualty (P&C) insurance is not left to chance in Georgia. The Georgia Department of Insurance (DOI) actively enforces ethical standards through **market conduct examinations, complaint investigations, and disciplinary actions**. These enforcement mechanisms ensure that producers, agencies, and insurers uphold their fiduciary duties and maintain public trust.

This section explains how complaints trigger investigations, highlights common violations, outlines penalties, and reviews recent DOI bulletins that emphasize the importance of ethics in both claims and sales practices.

How Complaints Trigger Investigations

The enforcement process often begins with a **consumer complaint**. Policyholders who feel misled, mistreated, or ignored can file complaints directly with the Georgia DOI.

- **Complaint Intake:** The DOI reviews each complaint to determine whether it alleges a potential violation of insurance law or ethical standards.
- **Preliminary Review:** If the complaint suggests misconduct—such as misrepresentation, mishandling funds, or unfair claims practices—the DOI opens an investigation.
- **Investigation Process:** Investigators may request documents, interview the producer or agency, and review client files.
- **Resolution:** If violations are found, the DOI may impose penalties ranging from fines to license suspension or revocation.

Key Point: Even a single complaint can trigger scrutiny. Producers must treat every client interaction as if it could be reviewed by regulators.

Market Conduct Examinations

Beyond individual complaints, the DOI conducts **market conduct exams** to evaluate whether insurers and agencies are complying with laws and ethical standards on a systemic level.

- **Scope:** Exams may review claims handling, sales practices, advertising, and premium handling.
- **Purpose:** The goal is to identify patterns of misconduct, not just isolated incidents.
- **Outcome:** Findings can lead to corrective action plans, fines, or broader regulatory reforms.

Market conduct exams remind producers that regulators are not only reactive but also proactive in monitoring ethical compliance.

Common Violations in Georgia

The Georgia DOI has identified several recurring violations that undermine ethical practice:

1. **Misrepresentation of Policy Terms**
    - Producers exaggerating benefits or failing to disclose exclusions.
    - Example: Telling a client that flood damage is covered under a standard homeowners policy.
2. **Failure to Disclose Material Information**
    - Omitting key details about deductibles, limitations, or underwriting requirements.
    - Clients cannot make informed decisions without full disclosure.
3. **Mishandling Client Funds**
    - Commingling premiums with personal or business accounts.
    - Delaying remittance of funds to insurers.
    - These actions violate fiduciary duty and create serious regulatory risk.
4. **Unfair Claims Practices**

- Delaying or denying valid claims without justification.
- Failing to communicate promptly with policyholders.

Key Point: These violations are not just technical errors—they are breaches of trust that harm clients and damage the industry's reputation.

Penalties for Violations

The Georgia DOI has broad authority to impose penalties for ethical and regulatory violations. These penalties are designed both to punish misconduct and to deter future violations.

- **Fines:** Monetary penalties can range from hundreds to tens of thousands of dollars, depending on the severity of the violation.
- **License Suspension:** Producers may lose the ability to sell insurance for a defined period.
- **License Revocation:** In severe cases, licenses are permanently revoked, ending a producer's career in the industry.
- **Restitution:** Agencies or producers may be required to reimburse clients for financial harm caused by misconduct.

Key Point: Penalties are not hypothetical. The DOI regularly publishes enforcement actions, making them public record. This transparency reinforces accountability and serves as a warning to others.

Recent DOI Bulletins on Ethics

The Georgia DOI periodically issues **bulletins** to clarify expectations and highlight areas of concern. Recent bulletins have emphasized:

- **Ethics in Claims Handling:** Reminding insurers and adjusters that claims must be processed promptly, fairly, and in good faith. Delays or unjustified denials are unacceptable.
- **Ethics in Sales Practices:** Warning producers against misleading advertising, failure to disclose exclusions, and high-pressure sales tactics.
- **Premium Handling:** Reinforcing the requirement to remit premiums promptly and maintain separate trust accounts.

These bulletins serve as both guidance and warning. They highlight the DOI's priorities and give producers a roadmap for compliance.

Lessons for Producers

From enforcement actions and bulletins, producers can draw several practical lessons:

1. **Communicate Clearly:** Always explain policy terms, exclusions, and costs in plain language.

2. **Handle Funds Properly:** Use trust accounts, remit premiums promptly, and never commingle funds.
3. **Document Everything:** Keep detailed records of disclosures, recommendations, and client decisions.
4. **Stay Current:** Review DOI bulletins regularly to stay informed about evolving expectations.
5. **Prioritize Clients:** Remember that ethical practice is not just about avoiding penalties—it is about honoring the promise of insurance.

The Broader Impact of Enforcement

Georgia's enforcement efforts serve a larger purpose: protecting consumers and sustaining public trust in insurance.

- **For Clients:** Enforcement ensures they receive fair treatment and accurate information.
- **For Producers:** It levels the playing field, ensuring that ethical professionals are not undercut by unethical competitors.
- **For the Industry:** It reinforces the credibility of insurance as a system built on fairness and reliability.

Conclusion

The Georgia Department of Insurance enforces ethics through complaints, market conduct exams, and disciplinary actions. Common violations—misrepresentation, failure to disclose, mishandling funds—are met with fines, suspensions, or revocations. Recent bulletins emphasize the importance of ethics in both claims and sales, reminding producers that compliance is not optional.

For producers, the message is clear: ethical practice is the only sustainable path. By communicating transparently, handling funds properly, and staying current with regulatory guidance, producers not only protect their licenses but also strengthen the trust that sustains the insurance industry in Georgia.

Section 6 – Best Practices for Ethical Culture

Ethics in property and casualty (P&C) insurance is not just an individual responsibility—it is an **organizational commitment**. While producers and adjusters make daily decisions that affect clients, the culture of an agency or insurer shapes how those decisions are made. A strong ethical culture provides the foundation for consistent, principled behavior across

the organization. Without it, even well-intentioned individuals may feel pressured to cut corners or prioritize short-term gains over long-term trust.

This section explores best practices agencies can adopt to foster an ethical culture that supports both compliance and integrity.

Establishing Written Codes of Conduct

A written **code of conduct** is the cornerstone of an ethical culture. It sets clear expectations for behavior, provides guidance in ambiguous situations, and communicates the organization's values to employees, clients, and regulators.

- **Clarity:** A code should outline specific standards, such as prohibitions against misrepresentation, rebating, or mishandling funds.
- **Accessibility:** It should be distributed to all staff, included in onboarding, and revisited regularly.
- **Practicality:** Real-world examples and scenarios make the code more than a formality—it becomes a living document that guides daily practice.

When employees know exactly what is expected, they are more likely to act consistently and confidently.

Training Staff on Ethical Scenarios

Training is where principles become practice. Agencies should go beyond compliance checklists and provide **scenario-based training** that mirrors the dilemmas producers and adjusters face.

- **Role-Plays:** Simulating client conversations helps staff practice disclosures and recommendations.
- **Case Studies:** Reviewing past enforcement actions or success stories reinforces lessons.
- **Frameworks:** Teaching staff to apply duty-based, utilitarian, and virtue ethics frameworks equips them to analyze dilemmas systematically.

Regular training ensures that ethics is not a one-time topic but an ongoing conversation.

Encouraging Open Discussion of Dilemmas

An ethical culture thrives when employees feel safe to raise questions and concerns. Agencies should create an environment where discussing dilemmas is encouraged, not punished.

- **Open Door Policies:** Leaders should welcome questions about ethical gray areas.
- **Ethics Committees or Champions:** Designated individuals can provide guidance and model best practices.
- **Anonymous Reporting Channels:** Employees should have a way to report concerns without fear of retaliation.

When staff know they can speak up, small issues can be addressed before they become major violations.

Rewarding Ethical Behavior, Not Just Sales

Too often, agencies reward only sales performance, unintentionally encouraging employees to prioritize volume over suitability. A healthier approach is to **recognize and reward ethical behavior**.

- **Balanced Metrics:** Performance evaluations should weigh client satisfaction, compliance, and ethical conduct alongside sales.
- **Recognition Programs:** Highlighting employees who demonstrate integrity reinforces the message that ethics matters.
- **Long-Term Perspective:** Rewarding retention and client loyalty encourages producers to build trust, not just close deals.

By aligning incentives with ethical values, agencies ensure that doing the right thing is not only expected but celebrated.

Conclusion

Ethics in P&C insurance is not just about individual choices—it is about the culture that shapes those choices. Agencies that establish written codes of conduct, train staff on real-world scenarios, encourage open discussion, and reward ethical behavior create an environment where integrity thrives.

Such cultures protect clients, strengthen reputations, and reduce regulatory risk. Most importantly, they ensure that the promises at the heart of insurance—fair coverage, honest advice, and timely claims—are consistently honored. In the long run, an ethical culture is not just good compliance; it is good business.

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Market Conduct & Consumer Protection

🎯 Learning Objectives

By the end of this module, learners will be able to:

- Define “market conduct” and explain its role in insurance regulation.
- Identify Georgia’s consumer protection statutes and regulations.
- Recognize prohibited sales, advertising, and servicing practices.
- Understand how the Georgia DOI enforces market conduct standards.
- Apply best practices for transparency, disclosure, and consumer advocacy.

Section 1 – What is Market Conduct?

Insurance regulation has two primary pillars: **solvency regulation** and **market conduct regulation.** Solvency regulation ensures that insurers remain financially sound and capable of paying claims. Market conduct regulation, by contrast, focuses on how insurers and producers behave in the marketplace—how they advertise, sell, underwrite, and service policies.

In Georgia, the Department of Insurance (DOI) is responsible for monitoring market conduct. Its goal is to ensure that consumers are treated fairly, that insurance products are marketed honestly, and that claims are handled promptly and equitably. Market conduct is not just about compliance with rules; it is about maintaining public trust in the insurance system.

This section introduces the concept of market conduct, explains the areas monitored by the Georgia DOI, and highlights why it matters for consumer confidence and the integrity of the insurance profession.

⚖️ Defining Market Conduct

Market conduct refers to the **behavior of insurers and producers in their interactions with consumers and the public. It encompasses every stage of the insurance transaction:**

- How policies are advertised and marketed.
- How producers explain coverage and exclusions.
- How underwriting decisions are made.
- How claims are investigated and paid.
- How complaints are resolved.

Good market conduct ensures that consumers receive accurate information, fair treatment, and timely service. Poor market conduct—such as misleading advertising, unfair claims practices, or failure to disclose exclusions—erodes trust and invites regulatory enforcement.

🏛️ The Role of the Georgia Department of Insurance

The Georgia DOI enforces market conduct standards through:

- **Examinations:** Periodic reviews of insurer practices.
- **Investigations:** Inquiries into consumer complaints or suspected violations.
- **Bulletins and Guidance:** Clarifications of regulatory expectations.
- **Disciplinary Actions:** Fines, license suspensions, or revocations for violations.

The DOI's oversight ensures that insurers and producers operate with integrity, transparency, and accountability. For producers, this means that compliance is not optional—it is a professional obligation.

🛒 Sales Practices

Why It Matters

Sales practices are the foundation of consumer trust. Producers are often the first point of contact for consumers, and their conduct shapes perceptions of the entire industry.

Regulatory Focus

- **Suitability:** Ensuring that products sold are appropriate for the client's needs.
- **Disclosure:** Explaining coverage, exclusions, and limitations in plain language.
- **No Misrepresentation:** Avoiding false or misleading statements to secure sales.
- **Documentation:** Retaining records of discussions and client decisions.

Example

A Georgia producer selling a commercial property policy must disclose coinsurance clauses and exclusions for flood or earthquake. Failure to do so could result in a DOI complaint and disciplinary action.

📣 Advertising and Marketing

Why It Matters

Insurance advertising influences consumer decisions. Misleading or deceptive marketing undermines confidence in the industry.

Regulatory Focus

- **Accuracy:** Advertisements must reflect actual policy terms.
- **No False Promises:** Producers cannot guarantee returns or claim coverage that does not exist.
- **Clarity:** Marketing materials must be understandable to the average consumer.
- **Compliance Review:** Insurers must submit certain advertisements to the DOI for approval.

Example

An insurer advertising "comprehensive cyber coverage" must ensure that exclusions and sublimits are disclosed. Overstating coverage could be deemed deceptive marketing.

📂 Claims Handling

Why It Matters

Claims handling is the ultimate test of the insurance promise. Consumers purchase insurance for peace of mind that claims will be paid fairly and promptly.

Regulatory Focus

- **Timeliness:** Acknowledging and investigating claims within statutory deadlines.
- **Fairness:** Avoiding unreasonable delays or denials.
- **Transparency:** Explaining claim decisions clearly and providing documentation.
- **Good Faith:** Acting in the best interests of policyholders.

Example

After a tornado damages a Georgia business, the insurer must acknowledge the claim promptly, investigate fairly, and pay covered losses without unnecessary delay. Failure to do so could result in DOI penalties for unfair claims practices.

📞 Complaint Resolution

Why It Matters

Consumers who feel mistreated must have a way to seek redress. Complaint resolution is a key measure of market conduct.

Regulatory Focus

- **Internal Processes:** Insurers must maintain systems to log, track, and resolve complaints.
- **DOI Oversight:** The DOI investigates complaints filed by consumers and may require corrective action.
- **Transparency:** Insurers must provide clear responses to consumer concerns.

Example

A Georgia homeowner files a complaint with the DOI after a claim denial. The DOI investigates and determines whether the insurer acted fairly and in compliance with state law.

🧾 Producer Conduct

Why It Matters

Producers are licensed professionals with fiduciary responsibilities. Their conduct directly impacts consumer trust and regulatory compliance.

Regulatory Focus

- **Licensing:** Producers must maintain active licenses and meet continuing education requirements.
- **Ethics:** Producers must prioritize client needs over commissions.
- **Disclosure:** Producers must explain exclusions, limitations, and optional coverages.
- **Documentation:** Producers must retain records of sales discussions and client decisions.

Example

A producer who issues a falsified certificate of insurance to help a contractor secure a job violates market conduct standards. The DOI may impose fines and suspend the producer's license.

🌍 Why Market Conduct Matters for Consumer Trust

Market conduct regulation is not just about rules—it is about trust. Consumers purchase insurance on the promise that coverage will be there when needed. If insurers or producers mislead, delay, or mistreat consumers, the entire system suffers.

Benefits of Strong Market Conduct

- **For Consumers:** Confidence that they will be treated fairly.
- **For Insurers:** A level playing field where honest practices are rewarded.
- **For Producers:** Professional credibility and reduced risk of complaints.
- **For Regulators:** Assurance that the insurance market functions effectively.

The Trust Equation

- **Solvency + Market Conduct = Consumer Confidence.**
  Solvency ensures insurers can pay claims. Market conduct ensures they will do so fairly. Together, they sustain public trust in the insurance system.

🛠️ Best Practices for Producers

To align with Georgia's market conduct expectations, producers should:

1. **Conduct Suitability Assessments:** Match products to client needs.
2. **Explain Exclusions Clearly:** Use plain language and written summaries.
3. **Document Everything:** Retain records of disclosures and client decisions.
4. **Avoid Misrepresentation:** Be transparent in sales and advertising.
5. **Respond Promptly:** Address client concerns and complaints quickly.

📝 Conclusion

Market conduct refers to the behavior of insurers and producers in the marketplace—how they advertise, sell, underwrite, and service policies. While solvency regulation ensures insurers can pay claims, market conduct regulation ensures consumers are treated fairly.

In Georgia, the DOI monitors sales practices, advertising and marketing, claims handling, complaint resolution, and producer conduct. These standards protect consumers, promote fairness, and sustain trust in the insurance system.

For producers, market conduct is not just a regulatory requirement—it is a professional responsibility. By embracing transparency, documenting disclosures, and prioritizing client

needs, producers strengthen both their own credibility and the resilience of Georgia's insurance marketplace.

Test Your Understanding with Multiple-Choice Q&A & Recall Checks

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

Section 2 – Georgia's Consumer Protection Framework

Insurance is built on trust. Consumers purchase policies with the expectation that insurers and producers will act fairly, disclose terms honestly, and deliver on the promise of coverage when losses occur. To safeguard this trust, Georgia law establishes a comprehensive **consumer protection framework** that prohibits unfair trade practices in insurance.

This framework is enforced by the **Georgia Department of Insurance (DOI)** and is grounded in statutes that regulate how insurers and producers advertise, sell, and service policies. The goal is to ensure that consumers are treated fairly and that the insurance marketplace operates with integrity.

This section reviews the key statutes and rules that shape Georgia's consumer protection framework: the **Unfair Trade Practices Act**, the **Unfair Claims Settlement Practices Act**, advertising rules, and prohibitions on rebating and inducements. It concludes with a case example of a Georgia agency fined for false advertising.

⚖️ The Unfair Trade Practices Act (O.C.G.A. § 33-6-4)

Purpose

The **Unfair Trade Practices Act** is Georgia's primary statute prohibiting deceptive or unfair practices in the insurance industry. It applies to both insurers and producers and sets clear boundaries for acceptable conduct.

Prohibited Practices

- **Misrepresentation:** Producers and insurers cannot misrepresent policy terms, benefits, or conditions.
- **False Advertising:** Marketing materials must accurately reflect coverage and cannot exaggerate benefits.
- **Unfair Discrimination:** Insurers cannot unfairly discriminate between individuals of the same class and equal expectation of life in rates, benefits, or terms.

- **Defamation:** Insurers and producers cannot make false or malicious statements about competitors.
- **Boycott, Coercion, or Intimidation:** Practices that restrict fair competition are prohibited.

Example

A producer who tells a client that a homeowners policy covers flood damage—when it does not—is guilty of misrepresentation under the Act. Similarly, an insurer that charges different rates to two businesses with identical risk profiles, without actuarial justification, may be guilty of unfair discrimination.

Compliance Note

The DOI enforces the Act through investigations, fines, and disciplinary actions. Producers must ensure that all sales and marketing practices are transparent, accurate, and fair.

 The Unfair Claims Settlement Practices Act (O.C.G.A. § 33-6-34)

Purpose

While covered in detail in Module 4, the **Unfair Claims Settlement Practices Act** is reinforced here because it is central to consumer protection. The Act establishes standards for how insurers must handle claims.

Prohibited Practices

- **Failing to Acknowledge Claims Promptly:** Insurers must acknowledge receipt of claims within statutory timelines.
- **Unreasonable Delays:** Insurers cannot delay investigations or payments without cause.
- **Inadequate Explanations:** Denials must be explained clearly and in writing.
- **Failure to Pay Settlements:** Once liability is established, insurers must pay promptly.

Example

If a Georgia business files a property claim after a fire and the insurer delays payment for months without justification, the DOI may investigate for unfair claims practices.

Compliance Note

Producers should remind clients that claims handling is regulated and that they have the right to file complaints with the DOI if they believe claims are mishandled.

📣 Advertising Rules

Why It Matters

Advertising is often the first interaction consumers have with insurance products. Misleading or exaggerated claims can distort consumer expectations and erode trust.

Regulatory Standards

- **Accuracy:** Advertisements must reflect actual policy terms.
- **Clarity:** Marketing materials must be understandable to the average consumer.
- **No Misleading Terms:** Producers must avoid vague or deceptive phrases such as "full coverage" or "guaranteed protection."
- **Disclosure:** Limitations and exclusions must be disclosed clearly.

Example

An agency advertising "comprehensive auto coverage" must clarify that flood, wear and tear, or mechanical breakdown are excluded unless specifically endorsed.

Compliance Note

The DOI reviews advertising practices and may require corrective action if materials are misleading. Producers should submit questionable materials for compliance review before use.

🎁 Rebating and Inducements

Why It Matters

Rebating and inducements distort the insurance marketplace by offering consumers benefits outside the terms of the policy. Georgia law prohibits these practices to ensure fair competition and consumer protection.

Prohibited Practices

- **Rebating:** Returning part of the premium or offering any valuable consideration not specified in the policy.

- **Inducements:** Offering gifts, prizes, or other incentives to secure business.
- **Unequal Treatment:** Providing benefits to some clients but not others in the same class.

Example

A producer who offers a $100 gift card to clients who purchase a homeowners policy is engaging in rebating. Similarly, an agency that promises "free coverage upgrades" not included in the policy violates the law.

Compliance Note

The DOI enforces strict penalties for rebating and inducements. Producers must compete on the merits of their service and the quality of coverage, not on unauthorized incentives.

📚 Case Example: False Advertising by a Georgia Agency

The Situation:
A Georgia insurance agency ran advertisements claiming "guaranteed coverage for all risks." The phrase suggested that policies provided unlimited protection, regardless of exclusions or limitations.

The Investigation:
Consumers who purchased policies discovered that exclusions applied, including flood and earthquake. Complaints were filed with the DOI, which launched an investigation.

The Enforcement Action:

- The DOI determined that the advertisements constituted **false advertising** under the Unfair Trade Practices Act.
- The agency was fined and required to withdraw the misleading advertisements.
- The agency was also required to implement compliance training for its producers.

The Lesson:

- Producers must avoid vague or misleading terms such as "full coverage" or "all risks."
- Advertising must reflect actual policy terms and limitations.
- The DOI actively enforces advertising rules to protect consumers.

🌍 The Broader Importance of Georgia's Consumer Protection Framework

Georgia's consumer protection framework serves multiple purposes:

- **For Consumers:** Provides confidence that they will be treated fairly and honestly.
- **For Producers:** Establishes clear standards of conduct and reduces the risk of complaints.
- **For Insurers:** Promotes a level playing field and protects the industry's reputation.
- **For Regulators:** Ensures accountability and maintains public trust in the insurance system.

By prohibiting unfair trade practices, regulating advertising, and banning rebating, Georgia law ensures that the insurance marketplace operates with integrity.

🛠️ Best Practices for Producers

To comply with Georgia's consumer protection framework, producers should:

1. **Explain Coverage Clearly:** Avoid vague terms and disclose exclusions in plain language.
2. **Avoid Misrepresentation:** Ensure all sales and marketing materials are accurate.
3. **Document Disclosures:** Retain records of client discussions and decisions.
4. **Avoid Rebating:** Compete on service and expertise, not unauthorized incentives.
5. **Stay Informed:** Monitor DOI bulletins and updates to remain current on regulatory expectations.

📝 Conclusion

Georgia law prohibits unfair trade practices in insurance to protect consumers and maintain trust in the marketplace. Key statutes include:

- The **Unfair Trade Practices Act (O.C.G.A. § 33-6-4):** Prohibits misrepresentation, false advertising, and unfair discrimination.
- The **Unfair Claims Settlement Practices Act (O.C.G.A. § 33-6-34):** Establishes standards for fair claims handling.

- **Advertising Rules:** Require accuracy and prohibit misleading terms like "full coverage."
- **Rebating and Inducements:** Ban unauthorized gifts or incentives.

The case of the Georgia agency fined for advertising "guaranteed coverage for all risks" illustrates the consequences of violating these rules.

Ultimately, Georgia's consumer protection framework ensures that insurers and producers act with fairness, transparency, and accountability. For producers, compliance is not just about avoiding penalties—it is about upholding the integrity of the insurance profession and strengthening consumer trust in Georgia's insurance marketplace.

Section 3 – Prohibited Practices

Market conduct regulation is designed to protect consumers and ensure that insurers and producers operate with fairness, honesty, and transparency. While most professionals in Georgia's insurance industry act with integrity, violations do occur. These violations undermine consumer trust, distort competition, and invite regulatory enforcement by the **Georgia Department of Insurance (DOI).**

This section reviews the most common prohibited practices in Georgia insurance: **misrepresentation, twisting and churning, failure to disclose, unfair discrimination, and improper use of certificates of insurance.** Each practice is explained with Georgia-specific enforcement examples to illustrate the consequences of noncompliance.

📝 Misrepresentation

Definition

Misrepresentation occurs when an insurer or producer exaggerates policy benefits, minimizes exclusions, or otherwise provides false or misleading information to a consumer. Misrepresentation can be intentional or negligent, but in either case, it violates Georgia's **Unfair Trade Practices Act (O.C.G.A. § 33-6-4).**

Examples of Misrepresentation

- Claiming that a homeowners policy covers flood damage when it does not.
- Suggesting that a life insurance policy has guaranteed returns when it does not.
- Minimizing the impact of coinsurance clauses or deductibles.

Georgia Enforcement Example

A Georgia producer marketed a commercial property policy as "all-risk coverage" without disclosing exclusions for flood and earthquake. After a flood loss, the client filed a complaint with the DOI. The investigation found that the producer had misrepresented the scope of coverage. The DOI imposed fines and required the agency to implement compliance training.

The Lesson

Producers must explain coverage accurately, disclose exclusions clearly, and avoid exaggerating benefits. Misrepresentation not only violates the law but also exposes producers to errors-and-omissions liability.

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🔄 Twisting and Churning

Definition

Twisting refers to inducing a policyholder to replace an existing policy with a new one through misrepresentation, often to the client's detriment. **Churning** occurs when a producer replaces a policy unnecessarily to generate additional commissions, even if the new policy offers no real benefit.

Both practices are prohibited under Georgia law because they prioritize producer compensation over client interests.

Examples

- Convincing a client to replace a life insurance policy with a new one by overstating the benefits of the replacement.
- Repeatedly replacing annuities to generate surrender charges and new commissions.

Georgia Enforcement Example

A Georgia life insurance producer persuaded multiple clients to replace existing policies with new ones, claiming the new policies had "better returns." In reality, the replacements triggered surrender charges and higher premiums. The DOI investigated and found evidence of twisting. The producer's license was suspended, and restitution was ordered for affected clients.

The Lesson

Producers must evaluate whether replacements are in the client's best interest. Any recommendation to replace a policy must be supported by documented analysis and full disclosure of costs and benefits.

📄 Failure to Disclose

Definition

Failure to disclose occurs when producers omit key policy limitations, exclusions, or conditions. Even if the omission is not intentional, it can mislead consumers and result in uncovered losses.

Georgia law requires producers to act with transparency and to provide clients with the information necessary to make informed decisions.

Examples

- Failing to disclose that business interruption coverage under a property policy requires physical damage to trigger.
- Omitting the fact that cyber liability is excluded under a CGL policy.
- Not explaining coinsurance penalties in commercial property policies.

Georgia Enforcement Example

A Georgia small business purchased a property policy without being told about the coinsurance clause. After a fire, the claim payout was reduced due to underinsurance. The client filed a complaint, and the DOI determined that the producer had failed to disclose the coinsurance requirement. The agency was fined, and the producer was required to complete remedial training.

The Lesson

Producers must disclose all material terms, including exclusions, limitations, and conditions. Documentation of disclosures protects both the client and the producer.

⚖️ Unfair Discrimination

Definition

Unfair discrimination occurs when insurers or producers charge different rates or provide different terms to individuals or businesses of the same class and equal expectation of risk, without actuarial justification.

Georgia law prohibits unfair discrimination in underwriting, rating, and claims handling.

Examples

- Charging higher premiums to businesses in certain neighborhoods without actuarial support.
- Offering better terms to clients based on personal relationships rather than risk factors.
- Denying coverage to applicants based on race, religion, or other protected characteristics.

Georgia Enforcement Example

A Georgia insurer was investigated after complaints that minority-owned businesses were consistently charged higher premiums for commercial auto coverage. The DOI's market conduct examination revealed that the rating differentials were not actuarially justified. The insurer was fined, required to refund overcharged premiums, and ordered to revise its underwriting guidelines.

The Lesson

All underwriting and rating decisions must be based on legitimate, risk-related factors. Producers should ensure that clients are treated consistently and fairly.

📜 Improper Use of Certificates of Insurance

Definition

Certificates of insurance (COIs) provide evidence of coverage to third parties, such as contractors, lenders, or clients. Improper use occurs when producers or agencies issue COIs that misstate coverage, suggest coverage that does not exist, or alter terms to secure contracts.

Georgia law prohibits falsifying or misrepresenting COIs, and the DOI has made enforcement in this area a priority.

Examples

- Issuing a COI that lists higher liability limits than the policy actually provides.
- Suggesting that a COI grants coverage when it does not.
- Altering a COI to meet contract requirements without securing the necessary endorsements.

Georgia Enforcement Example

A Georgia contractor submitted a COI to a project owner showing general liability and workers' compensation coverage. In reality, the workers' compensation policy had lapsed. The DOI investigated and found that the producer knowingly issued a false COI. The producer was fined, had their license suspended, and the agency was required to implement compliance controls.

The Lesson

COIs must accurately reflect the underlying policy. Producers should never alter or falsify certificates to satisfy contractual requirements. Doing so exposes both the producer and the client to regulatory penalties and liability.

🌍 The Broader Impact of Prohibited Practices

Prohibited practices harm more than individual clients—they undermine the credibility of the entire insurance industry.

- **For Consumers:** Misrepresentation, twisting, and nondisclosure erode trust and leave clients financially vulnerable.
- **For Producers:** Violations result in fines, license suspension, and reputational damage.
- **For Insurers:** Improper practices distort competition and invite regulatory scrutiny.
- **For Regulators:** Enforcement actions consume resources and highlight systemic weaknesses.

By understanding and avoiding prohibited practices, producers and insurers contribute to a fair, transparent, and trustworthy marketplace.

🛠️ Best Practices for Producers

To avoid prohibited practices, producers should:

1. **Be Transparent:** Explain coverage, exclusions, and limitations in plain language.
2. **Document Everything:** Retain records of disclosures, client decisions, and COIs issued.
3. **Evaluate Replacements Carefully:** Ensure that policy replacements are in the client's best interest.
4. **Apply Standards Consistently:** Avoid unfair discrimination by relying on actuarial data.
5. **Verify Certificates:** Ensure COIs accurately reflect the underlying policy.

📝 Conclusion

Georgia law prohibits unfair trade practices in insurance, including **misrepresentation, twisting and churning, failure to disclose, unfair discrimination, and improper use of certificates of insurance.** Each of these practices undermines consumer trust and invites regulatory enforcement.

The Georgia DOI actively investigates and penalizes violations, as illustrated by enforcement examples ranging from misrepresented property policies to falsified certificates of insurance.

For producers, the message is clear: compliance is not optional. By avoiding prohibited practices, documenting disclosures, and prioritizing client interests, producers uphold the integrity of the insurance profession and strengthen consumer trust in Georgia's marketplace.

Section 4 – DOI Enforcement Tools

The Georgia Department of Insurance (DOI) is charged with protecting consumers and ensuring that the insurance marketplace operates fairly. While most insurers and producers act with integrity, violations of market conduct standards do occur. To address these, the DOI has a range of enforcement tools at its disposal. These tools are designed not only to punish misconduct but also to deter future violations and reinforce consumer trust in the insurance system.

This section reviews the primary enforcement mechanisms used by the Georgia DOI: **market conduct examinations, complaint investigations, administrative hearings, and**

disciplinary actions. It also highlights a 2021 enforcement example involving rebating violations.

📊 Market Conduct Examinations

Purpose

Market conduct examinations are systematic reviews of an insurer's or producer's practices. They are designed to ensure compliance with Georgia law and DOI regulations.

Scope

Examinations may cover:

- **Sales Practices:** Whether products are marketed and sold fairly.
- **Advertising:** Whether materials are accurate and not misleading.
- **Claims Handling:** Whether claims are processed promptly and fairly.
- **Complaint Resolution:** Whether consumer complaints are addressed appropriately.

Process

- **Selection:** Examinations may be routine or triggered by consumer complaints, patterns of misconduct, or DOI concerns.
- **Review:** Examiners review records, interview staff, and analyze procedures.
- **Findings:** A report is issued identifying violations and recommending corrective action.

Example

A Georgia insurer was subject to a market conduct exam after repeated complaints about delayed claims payments. The exam revealed systemic issues in claims handling, leading to fines and mandated process improvements.

📞 Complaint Investigations

Purpose

Consumer complaints are one of the DOI's most important enforcement triggers. When consumers believe they have been misled, mistreated, or unfairly denied coverage, they can file complaints with the DOI.

Process

- **Filing:** Consumers submit complaints online, by mail, or by phone.
- **Investigation:** The DOI requests information from the insurer or producer.
- **Resolution:** The DOI determines whether the complaint is valid and whether corrective action is required.

Impact

Complaint investigations often reveal broader patterns of misconduct. A single complaint may lead to a targeted investigation, while multiple complaints may trigger a market conduct exam.

Example

A Georgia homeowner filed a complaint after a claim denial. The DOI investigation revealed that the insurer had failed to provide a written explanation for the denial, violating the **Unfair Claims Settlement Practices Act.** The insurer was fined and required to revise its claims procedures.

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⚖️ Administrative Hearings

Purpose

When violations are serious or disputed, the DOI may initiate an administrative hearing. These hearings provide due process for insurers and producers while allowing the DOI to enforce compliance.

Process

- **Notice:** The DOI issues a formal notice of charges.
- **Hearing:** Evidence is presented before an administrative law judge (ALJ).
- **Decision:** The ALJ issues findings and recommendations.
- **Appeal:** Parties may appeal decisions to higher courts.

Importance

Administrative hearings ensure fairness and transparency. They allow producers and insurers to present their side while giving the DOI authority to enforce laws.

Example

A Georgia producer accused of twisting policies requested a hearing to contest the charges. The ALJ upheld the DOI's findings, resulting in license suspension and restitution to affected clients.

🚫 Disciplinary Actions

Purpose

Disciplinary actions are the DOI's ultimate enforcement tool. They are used to penalize violations and deter future misconduct.

Types of Disciplinary Actions

- **Fines:** Monetary penalties for violations of statutes or regulations.
- **License Suspension:** Temporary removal of a producer's or insurer's authority to operate.
- **License Revocation:** Permanent removal of authority to operate in Georgia.
- **Corrective Orders:** Requirements to change practices, implement training, or provide restitution.

Example: 2021 Rebating Violations

In 2021, the Georgia DOI disciplined multiple producers for **rebating violations.** Producers had offered small gifts and incentives—such as gift cards and promotional items—to secure business. While these gifts seemed minor, they constituted unlawful inducements under Georgia law.

- **Enforcement Action:** The DOI imposed fines, issued warnings, and required compliance training.
- **Lesson:** Even small gifts can be considered unlawful inducements. Producers must compete on service and expertise, not unauthorized incentives.

🌎 The Broader Impact of DOI Enforcement

DOI enforcement tools serve multiple purposes:

- **For Consumers:** They provide assurance that misconduct will be addressed and that the marketplace is fair.
- **For Producers:** They establish clear boundaries and consequences, encouraging ethical behavior.

- **For Insurers:** They promote consistent standards and protect the industry's reputation.
- **For Regulators:** They reinforce accountability and maintain public trust.

By using examinations, investigations, hearings, and disciplinary actions, the DOI ensures that Georgia's insurance marketplace operates with integrity.

🛠️ Best Practices for Producers

To avoid enforcement actions, producers should:

1. **Understand the Rules:** Stay informed about Georgia's statutes and DOI regulations.
2. **Avoid Prohibited Practices:** Do not engage in misrepresentation, rebating, or unfair discrimination.
3. **Document Disclosures:** Maintain records of client discussions and decisions.
4. **Respond Promptly:** Cooperate fully with DOI inquiries and complaint investigations.
5. **Prioritize Ethics:** Place client needs above commissions and avoid shortcuts.

📝 Conclusion

The Georgia DOI enforces market conduct through a range of tools: **market conduct exams, complaint investigations, administrative hearings, and disciplinary actions.** These mechanisms ensure that insurers and producers operate fairly, transparently, and in compliance with the law.

The 2021 rebating enforcement example underscores that even small gifts can constitute unlawful inducements. For producers, the lesson is clear: compliance is not optional. By adhering to Georgia's rules, documenting disclosures, and prioritizing ethical conduct, producers protect their clients, their licenses, and the credibility of Georgia's insurance marketplace.

Section 5 – Case Studies

Case studies provide some of the clearest lessons in market conduct. While statutes and regulations establish the rules, it is real-world examples that demonstrate how violations occur and how the Georgia Department of Insurance (DOI) responds. These cases illustrate the consequences of misrepresentation, failure to respond to consumer complaints, and misuse of certificates of insurance.

This section reviews three case studies: **a producer misrepresenting homeowners coverage, an insurer failing to respond to consumer complaints, and a producer issuing misleading certificates of insurance.**

🏠 Case 1: Misrepresentation of Homeowners Coverage

The Situation:
A Georgia producer marketed a homeowners policy to a family in Macon. During the sales presentation, the producer assured the clients that the policy provided "comprehensive coverage for all risks," including flood damage. In reality, the policy excluded flood, which requires separate coverage through the National Flood Insurance Program (NFIP) or a private market endorsement.

The Incident:
Months later, heavy rains caused flooding that damaged the family's basement and personal property. When the claim was filed, the insurer denied coverage, citing the flood exclusion. The family, feeling misled, filed a complaint with the DOI.

The Enforcement Action:
The DOI investigated and determined that the producer had misrepresented the scope of coverage. Even though the misrepresentation may not have been intentional, the producer failed to disclose a critical exclusion.

- The producer was fined under the **Unfair Trade Practices Act (O.C.G.A. § 33-6-4).**
- The agency was required to implement compliance training for all staff.
- The producer's record was flagged for future monitoring.

The Lesson:

- Producers must explain exclusions clearly, especially for high-risk perils like flood and earthquake.
- Using vague terms such as "comprehensive" or "all-risk" without clarification can constitute misrepresentation.
- Documentation of disclosures protects both the client and the producer.

📞 Case 2: Insurer Fails to Respond to Consumer Complaints

The Situation:
A regional insurer in Georgia began receiving multiple consumer complaints regarding delayed claims payments and poor communication. Policyholders alleged that their claims were ignored for weeks or months without acknowledgment.

The Incident:
Despite repeated notices from the DOI, the insurer failed to respond adequately to consumer complaints. The lack of responsiveness suggested systemic issues in the company's claims handling and customer service practices.

The Enforcement Action:
The DOI initiated a **market conduct examination** to review the insurer's practices. Examiners found:

- Failure to acknowledge claims within statutory deadlines.
- Lack of written explanations for claim denials.
- Inadequate systems for logging and resolving consumer complaints.

As a result:

- The insurer was fined for violations of the **Unfair Claims Settlement Practices Act (O.C.G.A. § 33-6-34).**
- The company was ordered to overhaul its complaint-handling procedures.
- The DOI required quarterly compliance reports for two years.

The Lesson:

- Insurers must respond promptly to consumer complaints and DOI inquiries.
- Failure to address complaints can escalate into a full market conduct exam.
- Strong complaint resolution systems are essential for compliance and consumer trust.

📜 Case 3: Misleading Certificates of Insurance

The Situation:
A Georgia producer issued certificates of insurance (COIs) for a contractor bidding on a large construction project. The COIs listed liability limits higher than those actually provided by the underlying policy. The contractor submitted the COIs to secure the contract.

The Incident:
When a claim arose on the project, the project owner discovered that the contractor's actual coverage was lower than stated on the COI. The discrepancy led to disputes, financial losses, and a complaint to the DOI.

The Enforcement Action:
The DOI investigated and found that the producer had knowingly altered the COIs to meet contract requirements.

- The producer's license was suspended for one year.
- The agency was fined and required to implement compliance controls for issuing COIs.
- The contractor faced reputational harm and lost future business opportunities.

The Lesson:

- Certificates of insurance must accurately reflect the underlying policy.
- Producers cannot alter COIs to satisfy contractual requirements.
- Misuse of COIs is a serious violation that can result in license suspension or revocation.

🌍 Common Themes Across Case Studies

Although the details differ, these case studies share important themes:

- **Transparency Is Essential:** Misrepresentation, whether by exaggeration or omission, undermines consumer trust.
- **Responsiveness Matters:** Ignoring consumer complaints invites regulatory scrutiny and market conduct exams.
- **Documentation Protects:** Accurate records of disclosures, claims, and COIs are critical for compliance.
- **DOI Enforcement Is Active:** The Georgia DOI investigates complaints, conducts exams, and imposes penalties to protect consumers.

🛠️ Best Practices for Producers and Insurers

To avoid the pitfalls illustrated in these case studies, producers and insurers should:

1. **Explain Coverage Clearly:** Avoid vague terms like "comprehensive" or "all-risk."
2. **Disclose Exclusions:** Highlight limitations such as flood or earthquake exclusions.
3. **Respond Promptly:** Address consumer complaints quickly and thoroughly.
4. **Verify Certificates:** Ensure COIs accurately reflect policy terms.

5. **Document Everything:** Retain records of disclosures, complaints, and certificates.

📝 Conclusion

Case studies illustrate the real-world consequences of market conduct violations. A Georgia producer misrepresented homeowners coverage and was fined. An insurer failed to respond to consumer complaints, triggering a market conduct exam and corrective orders. Another producer issued misleading certificates of insurance and faced license suspension.

The lessons are clear: **transparency, responsiveness, and accuracy are essential.** Producers and insurers who prioritize these values not only comply with Georgia law but also strengthen consumer trust and the credibility of the insurance marketplace.

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Section 6 – Best Practices for Producers

Producers are the face of the insurance industry. Their conduct directly shapes consumer trust and determines whether the marketplace operates fairly. While Georgia law sets minimum standards, professionalism requires going beyond compliance to embrace best practices that protect clients, reduce disputes, and uphold the credibility of the insurance profession.

This section highlights five best practices for producers: **using clear, accurate advertising; documenting disclosures and client decisions; avoiding unnecessary replacements; verifying certificates of insurance; and responding promptly to consumer complaints.**

📣 Always Use Clear, Accurate Advertising

Advertising is often the first point of contact between consumers and insurance products. Misleading or exaggerated claims can distort expectations and invite DOI enforcement.

- **Best Practice:** Use plain language and avoid vague terms like “full coverage” or “guaranteed protection.”
- **Georgia Note:** Under the **Unfair Trade Practices Act (O.C.G.A. § 33-6-4),** false or misleading advertising is prohibited.
- **Practical Tip:** Submit marketing materials for compliance review when in doubt, and ensure that all advertisements reflect actual policy terms and exclusions.

🗂️ Document All Disclosures and Client Decisions

Documentation is the producer's strongest defense against complaints and regulatory scrutiny.

- **Best Practice:** Record every disclosure about exclusions, limitations, and optional coverages. Retain signed applications, declination forms, and written summaries of discussions.
- **Georgia Note:** DOI investigators often review producer files during complaint investigations. Lack of documentation can result in penalties.
- **Practical Tip:** Use standardized disclosure checklists to ensure consistency across all client interactions.

🔄 Avoid Unnecessary Replacements

Replacing policies without clear benefit to the client—known as twisting or churning—is prohibited and undermines consumer trust.

- **Best Practice:** Recommend replacements only when they provide demonstrable advantages, such as lower premiums, broader coverage, or improved terms.
- **Georgia Note:** The DOI disciplines producers who replace policies unnecessarily to generate commissions.
- **Practical Tip:** Document the rationale for any replacement, including a side-by-side comparison of old and new policies.

📜 Verify Certificates of Insurance Are Accurate

Certificates of insurance (COIs) are widely used in business transactions, but they must accurately reflect the underlying policy.

- **Best Practice:** Never alter a COI to meet contractual requirements unless the policy has been properly endorsed.
- **Georgia Note:** The DOI has suspended licenses for producers who issued misleading COIs.
- **Practical Tip:** Retain copies of all COIs issued and cross-check them against the actual policy before release.

📞 Respond Promptly to Consumer Complaints

Consumer complaints are a key measure of market conduct. Ignoring them can escalate into DOI investigations or market conduct exams.

- **Best Practice:** Acknowledge complaints quickly, investigate thoroughly, and provide clear, written responses.
- **Georgia Note:** Under the **Unfair Claims Settlement Practices Act (O.C.G.A. § 33-6-34),** insurers and producers must handle complaints and claims fairly and promptly.
- **Practical Tip:** Establish internal procedures for logging, tracking, and resolving complaints within defined timelines.

📝 Conclusion

Best practices for producers are not optional—they are essential to maintaining compliance, professionalism, and consumer trust. By using clear advertising, documenting disclosures, avoiding unnecessary replacements, verifying certificates, and responding promptly to complaints, producers protect their clients, their licenses, and the integrity of Georgia's insurance marketplace.

These practices go beyond regulatory requirements. They embody the ethical responsibility of producers to act in the best interests of consumers and to strengthen the credibility of the insurance profession in Georgia.

Section 7 – Ethical Dimensions

Ethical market conduct goes beyond compliance with Georgia's statutes and DOI regulations. It is about the mindset and values that guide producers in their daily interactions with clients. At its core, ethical practice means **prioritizing consumer understanding and fairness over sales quotas or short-term gains.**

Producers should continually ask themselves: *Am I treating this client the way I would want my own family treated?* This simple question reframes the sales process from a transactional exchange to a relationship built on trust. It encourages producers to recommend coverage that genuinely meets client needs, explain exclusions in plain language, and avoid unnecessary replacements that benefit the producer more than the consumer.

Transparency is central to ethical conduct. Clients deserve to know what their policies cover, what they exclude, and what options are available. By documenting disclosures and respecting client decisions, producers demonstrate accountability and integrity.

Fairness also requires resisting practices that may be technically legal but ethically questionable, such as pressuring clients into products they do not fully understand. Ethical producers recognize that their reputation and the credibility of Georgia's insurance marketplace depend on honesty, clarity, and client advocacy.

Capstone & Review

Learning Objectives

By the end of this module, learners will be able to:

- Integrate knowledge from all prior modules into a cohesive compliance framework.
- Apply Georgia P&C regulatory requirements to real-world scenarios.
- Demonstrate mastery of ethics, claims handling, consumer protection, and product fundamentals.
- Prepare for the final exam through scenario-based review exercises.

Section 1 – Course Recap

This course has explored the essential dimensions of Georgia's insurance regulatory environment, professional ethics, claims handling, and the evolving landscape of personal, commercial, and emerging risks. It has also emphasized the importance of market conduct and consumer protection. Together, these themes form the foundation of professional practice for producers and insurers in Georgia.

This recap reviews the major topics covered: **regulatory framework, ethics, claims handling, personal lines, catastrophe risk, commercial lines, emerging risks, and market conduct.**

Regulatory Framework

The Georgia Department of Insurance (DOI) serves as the primary regulator of the state's insurance marketplace. Its authority extends to licensing producers, approving policy forms, monitoring solvency, and enforcing market conduct standards.

- **Licensing and CE Requirements:** Producers must complete pre-licensing education, pass state exams, and maintain continuing education (CE) credits to

keep their licenses active. Georgia requires producers to complete CE hours every two years, including ethics training.

- **License Renewal:** Renewal requires timely CE completion, fee payment, and compliance with DOI rules. Failure to renew can result in suspension or revocation.
- **DOI Authority:** The DOI enforces statutes, investigates complaints, and conducts market conduct examinations to ensure fairness and solvency.

The regulatory framework ensures that producers remain qualified, insurers remain solvent, and consumers are protected.

Ethics

Ethics is the cornerstone of professional practice. Beyond compliance, producers have a fiduciary duty to act in the best interests of their clients.

- **Fiduciary Duty:** Producers must place client needs above personal gain, ensuring recommendations are suitable and transparent.
- **Conflicts of Interest:** Producers must disclose potential conflicts, such as compensation structures that could influence recommendations.
- **Scenario-Based Dilemmas:** Ethical challenges often arise in gray areas—such as whether to replace a policy, how to disclose exclusions, or how to handle client misunderstandings.

The guiding principle is simple: *treat clients as you would want your own family treated*. Ethical practice builds trust, reduces complaints, and strengthens the credibility of Georgia's insurance marketplace.

Claims Handling

Claims handling is the ultimate test of the insurance promise. Georgia enforces standards through the **Unfair Claims Settlement Practices Act (UCSPA, O.C.G.A. § 33-6-34).**

- **Compliance:** Insurers must acknowledge claims promptly, investigate fairly, and pay covered losses without unreasonable delay.
- **Best Practices:** Producers should advise clients to document losses thoroughly, maintain communication with adjusters, and understand policy conditions.
- **Timeliness:** Delays in claims handling are a common source of DOI complaints.
- **Documentation:** Written explanations for denials and clear communication are essential.

For producers, supporting clients during the claims process is part of their professional duty and a key component of ethical market conduct.

Personal Lines

Personal lines insurance—auto and homeowners—represents the most common consumer interaction with insurance. Compliance and transparency are critical.

- **Auto Insurance:** Georgia law requires minimum liability limits. Producers must explain optional coverages such as uninsured motorist and medical payments.
- **Homeowners Insurance:** Standard policies exclude flood and earthquake, requiring separate coverage. Endorsements can expand coverage for valuables, water backup, or identity theft.
- **Exclusions and Endorsements:** Producers must explain exclusions clearly and document client decisions regarding optional endorsements.

Personal lines are often where misrepresentation or misunderstanding occurs, making producer education and disclosure essential.

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Catastrophe Risk

Georgia faces significant catastrophe exposures, including hurricanes, tornadoes, and floods.

- **Hurricanes:** Coastal counties are vulnerable to wind and storm surge. Insurers may impose separate hurricane deductibles.
- **Tornadoes:** Inland areas face tornado risk, particularly in spring and summer.
- **Floods:** Flooding is excluded from standard homeowners policies, requiring NFIP or private flood coverage.

Producers must educate clients about these risks, explain exclusions, and recommend appropriate coverage. Failure to do so can result in uncovered losses and DOI complaints.

Commercial Lines

Commercial insurance protects businesses from property, liability, and employee-related risks.

- **Businessowners Policies (BOPs):** Provide bundled coverage for small businesses, including property, liability, and business interruption.

- **Commercial General Liability (CGL):** Covers premises liability, products liability, and completed operations.
- **Workers' Compensation:** Required for employers with three or more employees, providing statutory benefits for workplace injuries.
- **Underwriting:** Insurers evaluate industry, size, data sensitivity, and claims history. Producers must disclose risks fully to avoid misrepresentation.

Commercial lines require producers to balance compliance with practical advice, ensuring businesses are adequately protected.

Emerging Risks

Cyber liability has emerged as one of the most significant risks of the digital age.

- **Cyber Liability Coverage:** Provides first-party coverage (forensics, notification, credit monitoring, business interruption) and third-party coverage (liability to customers, vendors, regulators).
- **Data Breach Laws:** Georgia's **Personal Identity Protection Act** requires businesses to notify consumers of breaches. Federal laws such as HIPAA and GLBA may also apply.
- **Producer Role:** Producers must explain that standard P&C policies exclude cyber risks, making standalone or endorsement coverage essential.

Emerging risks highlight the need for producers to stay informed and adapt to evolving exposures.

Market Conduct

Market conduct regulation ensures that insurers and producers treat consumers fairly.

- **Consumer Protection:** Georgia law prohibits unfair trade practices, including misrepresentation, false advertising, and unfair discrimination.
- **Prohibited Practices:** Twisting, churning, failure to disclose, and misuse of certificates of insurance are common violations.
- **DOI Enforcement:** The DOI enforces compliance through market conduct exams, complaint investigations, administrative hearings, and disciplinary actions.

Market conduct is about more than compliance—it is about maintaining consumer trust and the integrity of the insurance marketplace.

Integrating the Themes

The themes of this course are interconnected:

- **Regulation** establishes the framework.
- **Ethics** guides professional behavior.
- **Claims Handling** demonstrates the insurance promise in action.
- **Personal and Commercial Lines** provide the foundation of coverage.
- **Catastrophe and Emerging Risks** highlight the need for adaptation.
- **Market Conduct** ensures fairness and consumer protection.

Together, they form a comprehensive picture of professional practice in Georgia's insurance industry.

Conclusion

This course has reviewed the essential elements of Georgia insurance practice: the regulatory framework, ethical responsibilities, claims handling standards, personal and commercial lines, catastrophe exposures, emerging risks, and market conduct.

For producers, the lessons are clear:

- Stay informed about Georgia's laws and DOI regulations.
- Prioritize ethics and transparency in every client interaction.
- Support clients through the claims process with timeliness and documentation.
- Explain exclusions and endorsements clearly in personal and commercial lines.
- Educate clients about catastrophe and emerging risks.
- Avoid prohibited practices and embrace best practices for market conduct.

By mastering these themes, producers not only comply with Georgia law but also uphold the integrity of the insurance profession. Ultimately, the goal is to protect consumers, strengthen trust, and ensure that the insurance marketplace serves the needs of Georgia's families, businesses, and communities.

Section 2 – Integrated Case Study

Case studies are one of the most effective ways to integrate knowledge across multiple areas of insurance practice. They allow learners to apply regulatory principles, ethical

standards, and technical coverage knowledge to real-world scenarios. This integrated case study presents a comprehensive situation involving both personal and commercial lines, catastrophe risk, emerging cyber exposures, and market conduct obligations.

The exercise challenges learners to identify **compliance failures, ethical lapses, and best practices** that should have been followed. By working through the scenario, learners will see how seemingly small oversights can compound into major financial and reputational consequences for both clients and producers.

Scenario Overview

A Georgia producer manages a portfolio of both personal and commercial clients. One of these clients is a small business owner who also owns a home. The producer has placed multiple policies for this client:

- **Homeowners Policy:** Standard HO-3 form, but with the standard exclusion for flood damage. No separate flood policy was purchased.
- **Commercial Auto Policy:** Covers a small fleet of delivery vans, but the client failed to disclose several drivers with poor driving records. The producer did not verify or press for full disclosure.
- **Businessowners Policy (BOP):** Provides property and liability coverage for the business, but the producer did not include business interruption coverage.
- **Cyber Liability Coverage:** None. Despite handling sensitive customer data, the producer did not recommend or explain cyber liability options.

A **hurricane strikes coastal Georgia**, causing widespread damage. The client's home is flooded, the business property is damaged, operations are interrupted for months, and hackers exploit the chaos to breach customer data.

The client turns to the producer for help, only to discover that several losses are not covered or are subject to disputes. The DOI receives a complaint, triggering an investigation.

Homeowners Policy with Flood Exclusions

What Happened

The hurricane caused storm surge and flooding that damaged the client's home. The homeowners policy excluded flood damage, leaving the client without coverage for the loss.

Compliance Failures

- **Failure to Disclose Exclusions:** The producer did not adequately explain that standard homeowners policies exclude flood.
- **Failure to Offer NFIP or Private Flood Coverage:** Georgia producers are expected to inform clients in flood-prone areas about the availability of flood insurance.

Ethical Lapses

- Using vague terms like "comprehensive coverage" without clarifying exclusions misled the client.
- The producer prioritized closing the sale over ensuring the client understood the risk.

Best Practices

- Always disclose exclusions in plain language.
- Document that flood coverage was offered and whether the client accepted or declined.
- Use real-world examples (e.g., "If a hurricane causes storm surge, this policy will not respond unless you purchase flood coverage").

Commercial Auto Policy with Undisclosed Drivers

What Happened

The business's delivery vans were damaged in the hurricane, and one was involved in an accident during evacuation. The insurer discovered that several drivers with poor records had not been disclosed on the application.

Compliance Failures

- **Material Misrepresentation:** The application omitted drivers, which is a material fact in underwriting.
- **Producer Oversight:** The producer failed to verify the completeness of the driver list.

Ethical Lapses

- Allowing the client to omit drivers to secure lower premiums compromised integrity.
- The producer failed to act as a fiduciary, prioritizing accuracy over convenience.

Best Practices

- Require clients to provide full driver rosters and verify through motor vehicle records (MVRs).
- Document disclosures and explain that omitting drivers can void coverage.
- Educate clients that honesty in applications protects them from denied claims.

BOP Missing Business Interruption Coverage

What Happened

The hurricane damaged the business property, forcing closure for three months. The BOP covered property damage but did not include business interruption coverage. The client lost significant income during downtime.

Compliance Failures

- **Failure to Offer Optional Coverage:** The producer did not recommend or explain business interruption coverage, a standard BOP option.
- **Failure to Document Client Decision:** There was no record of whether the client declined the coverage.

Ethical Lapses

- The producer assumed the client would not want to pay for additional coverage, rather than presenting the option transparently.
- The producer prioritized affordability over adequacy of coverage without client input.

Best Practices

- Always explain optional coverages like business interruption.
- Document whether the client accepts or declines.
- Use scenarios to illustrate the importance of coverage (e.g., “If a hurricane shuts down your business for months, this coverage replaces lost income”).

No Cyber Liability Coverage

What Happened

During the hurricane recovery, hackers exploited the business’s weakened systems to breach customer data. Sensitive information was stolen, triggering notification obligations

under Georgia's **Personal Identity Protection Act** and potential liability under federal laws. The business had no cyber liability coverage.

Compliance Failures

- **Failure to Address Emerging Risks:** The producer did not recommend cyber liability coverage despite the client handling sensitive data.
- **Failure to Disclose Exclusions:** The producer did not explain that standard BOP and CGL policies exclude cyber risks.

Ethical Lapses

- Assuming a small business "didn't need" cyber coverage ignored the reality of modern exposures.
- The producer failed to prioritize client understanding over sales quotas.

Best Practices

- Offer cyber liability coverage to all commercial clients, regardless of size.
- Explain that standard policies exclude cyber risks.
- Highlight the value-added services (IT forensics, PR support, legal counsel) included in many cyber policies.

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

Compliance Failures Across the Scenario

The case reveals multiple compliance failures:

- Misrepresentation and failure to disclose exclusions (homeowners, BOP, cyber).
- Material misrepresentation in underwriting (commercial auto).
- Failure to offer optional coverages (business interruption, cyber).
- Failure to document client decisions.

Each of these failures violates Georgia's consumer protection framework and exposes the producer to DOI enforcement.

Ethical Lapses Across the Scenario

Ethical lapses compounded the compliance failures:

- Using vague or misleading terms like "comprehensive coverage."

- Allowing omissions in applications to secure lower premiums.
- Assuming clients would not want optional coverages without presenting them.
- Prioritizing sales and convenience over transparency and client advocacy.

These lapses undermine the fiduciary duty producers owe to clients and erode consumer trust.

Best Practices That Should Have Been Followed

To prevent these failures, the producer should have:

1. **Explained Exclusions Clearly:** Especially for flood and cyber risks.
2. **Offered Optional Coverages:** Business interruption and cyber liability should have been presented as standard recommendations.
3. **Verified Applications:** Ensured all drivers were disclosed on the commercial auto policy.
4. **Documented Decisions:** Retained signed forms or written acknowledgments of coverage offers and rejections.
5. **Educated Clients:** Used real-world scenarios to illustrate the importance of coverage.
6. **Prioritized Ethics:** Placed client needs above sales quotas or assumptions.

Exercise for Learners

Instructions: Review the scenario and answer the following questions.

1. **Identify Compliance Failures:** Which Georgia statutes or DOI rules were violated in each policy placement?
2. **Spot Ethical Lapses:** How did the producer's actions fall short of fiduciary duty and professional ethics?
3. **Recommend Best Practices:** What steps should the producer have taken to ensure compliance and protect the client?
4. **Apply to Your Practice:** How would you handle a similar client situation in your own work?

Learners should provide written responses, citing specific statutes (e.g., O.C.G.A. § 33-6-4 for misrepresentation, O.C.G.A. § 33-6-34 for claims handling) and ethical principles.

Conclusion

This integrated case study demonstrates how multiple small oversights can combine into catastrophic consequences. A Georgia producer failed to disclose exclusions, verify applications, offer optional coverages, and recommend emerging risk protections. When a hurricane struck, the client faced uncovered flood losses, denied auto claims, lost income without business interruption coverage, and liability from a cyber breach.

The lessons are clear: **compliance, ethics, and best practices are inseparable.** Producers must disclose exclusions, offer optional coverages, verify applications, document decisions, and educate clients. By doing so, they protect consumers, uphold Georgia law, and strengthen the credibility of the insurance profession.

Section 3 – Ethics in Action

Ethics in insurance is not an abstract concept—it is lived out in the daily decisions producers, adjusters, and insurers make. While statutes and DOI regulations establish minimum standards, ethical practice requires professionals to go further, asking not only *"Is this legal?"* but also *"Is this right?"*

This section revisits ethics by presenting three dilemmas:

1. A producer pressured to replace a policy unnecessarily.
2. An adjuster asked to undervalue a claim.
3. A client requesting to omit a driver from an auto application.

For each dilemma, learners will apply three ethical frameworks—**duty-based ethics, utilitarian ethics, and virtue ethics**—to explore how decisions should be made in practice.

Dilemma 1: A Producer Pressured to Replace a Policy Unnecessarily

The Situation

A Georgia producer is pressured by a manager to replace an existing life insurance policy with a new one. The client's current policy is suitable and meets their needs. The replacement would generate new commissions but would subject the client to surrender charges and higher premiums.

Duty-Based Ethics

Duty-based ethics (deontology) emphasizes adherence to rules and obligations.

- The producer has a fiduciary duty to act in the client's best interest.

- Georgia law prohibits **twisting**—inducing a replacement through misrepresentation or without benefit to the client.
- From a duty-based perspective, the producer must refuse to replace the policy unnecessarily, regardless of pressure from management.

Utilitarian Ethics

Utilitarianism focuses on outcomes and the greatest good for the greatest number.

- Replacing the policy benefits the producer and agency financially but harms the client through higher costs.
- The harm to the client outweighs the limited benefit to the producer.
- The utilitarian resolution is to maintain the existing policy, protecting the client's financial well-being.

Virtue Ethics

Virtue ethics emphasizes character and moral integrity.

- An ethical producer demonstrates honesty, fairness, and courage.
- Resisting pressure to replace the policy reflects integrity and commitment to client advocacy.
- The virtuous path is to prioritize the client's needs, even if it means disappointing a manager or losing commission.

Lesson

Unnecessary replacements violate duty, harm clients, and undermine professional integrity. Ethical producers must resist such pressure and document their rationale for maintaining the existing policy.

Dilemma 2: An Adjuster Asked to Undervalue a Claim

The Situation

A claims adjuster in Georgia is instructed by a supervisor to undervalue a homeowner's claim after storm damage. The insurer hopes to reduce payouts and improve short-term financial results. The adjuster knows the claim is valid and that the policyholder is entitled to full payment.

Duty-Based Ethics

- The adjuster's duty is to honor the contract and comply with the **Unfair Claims Settlement Practices Act (O.C.G.A. § 33-6-34).**
- Undervaluing a claim violates both legal obligations and professional duty.
- From a duty-based perspective, the adjuster must refuse to undervalue the claim and report the directive if necessary.

Utilitarian Ethics

- Undervaluing the claim benefits the insurer in the short term but harms the policyholder financially.
- It also risks regulatory penalties, reputational damage, and loss of consumer trust.
- The broader harm to consumers and the marketplace outweighs the short-term benefit.
- The utilitarian resolution is to pay the claim fairly and promptly.

Virtue Ethics

- A virtuous adjuster demonstrates fairness, honesty, and compassion.
- Undervaluing a claim would reflect greed and dishonesty.
- The virtuous path is to honor the claim fully, treating the policyholder as one would want their own family treated.

Lesson

Undervaluing claims violates duty, harms consumers, and erodes trust. Ethical adjusters must uphold fairness, even when pressured by supervisors.

Dilemma 3: A Client Requests to Omit a Driver from an Auto Application

The Situation

A client applying for a commercial auto policy asks the producer to omit a driver with a poor record. The client fears higher premiums or denial of coverage. The producer knows that omitting the driver constitutes a material misrepresentation.

Duty-Based Ethics

- Producers have a duty to disclose all material facts accurately.
- Omitting a driver violates Georgia law and could void coverage.

- From a duty-based perspective, the producer must refuse the client's request and explain the consequences of misrepresentation.

Utilitarian Ethics

- Omitting the driver may save the client money in the short term but creates significant risk.
- If an accident occurs, the insurer may rescind coverage, leaving the business liable for catastrophic losses.
- The harm to the client, injured parties, and the marketplace outweighs the short-term savings.
- The utilitarian resolution is to disclose the driver fully, ensuring valid coverage.

Virtue Ethics

- A virtuous producer demonstrates honesty, courage, and accountability.
- Agreeing to omit the driver would reflect dishonesty and a lack of integrity.
- The virtuous path is to explain the importance of full disclosure and encourage the client to adopt risk management practices, such as driver training.

Lesson

Omitting drivers from applications is misrepresentation. Ethical producers must insist on full disclosure, even if it means higher premiums or difficult conversations.

Integrating the Frameworks

Each framework—duty-based, utilitarian, and virtue ethics—offers a different lens, but they converge on the same conclusions:

- **Duty-Based Ethics:** Focuses on obligations and compliance with law.
- **Utilitarian Ethics:** Weighs outcomes and seeks the greatest good.
- **Virtue Ethics:** Emphasizes character and moral integrity.

In all three dilemmas, the ethical resolution is to act with honesty, transparency, and fairness, even when pressured by managers, clients, or financial incentives.

Practical Guidance for Learners

To apply these frameworks in practice, learners should:

1. **Pause and Reflect:** When faced with pressure, ask: “What is my duty? Who benefits? What would a virtuous professional do?”
2. **Document Decisions:** Record the rationale for ethical choices, especially when refusing pressure from managers or clients.
3. **Seek Support:** Consult compliance officers, supervisors, or DOI guidance when in doubt.
4. **Educate Clients:** Explain why full disclosure and fair practices protect them in the long run.
5. **Model Integrity:** Demonstrate ethical behavior consistently, reinforcing trust in the profession.

Conclusion

Ethics in action means applying principles to real-world dilemmas. In Georgia, producers and adjusters face pressures to replace policies unnecessarily, undervalue claims, or omit material facts. By applying duty-based, utilitarian, and virtue ethics frameworks, the correct path becomes clear:

- **Duty-Based:** Follow the law and professional obligations.
- **Utilitarian:** Protect the greatest good by avoiding harm.
- **Virtue:** Act with honesty, fairness, and integrity.

The convergence of these frameworks reinforces a simple truth: ethical practice is not only legally required but also essential to consumer trust and professional credibility. By embracing these principles, producers and adjusters strengthen Georgia’s insurance marketplace and ensure that clients are treated with the fairness and respect they deserve.

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

Section 4 – Georgia Compliance Drill

This section provides a rapid-fire review of key Georgia statutes and rules that every producer must know. While earlier modules explored these topics in depth, this drill is designed as a concise yet comprehensive refresher. Think of it as a compliance “checklist in action”—a way to ensure that the fundamentals are top of mind when serving clients and maintaining your license.

We will review: **continuing education (CE) requirements, the Unfair Claims Settlement Practices Act (UCSPA), auto minimum limits, uninsured/underinsured motorist**

(UM/UIM) rejection documentation, cancellation and nonrenewal notice rules, and the workers' compensation threshold.

CE Requirements (24 Hours, 3 Ethics)

Rule

- Georgia producers must complete **24 hours of continuing education (CE)** every two years.
- At least **3 of those hours must be in ethics.**
- CE must be completed before license renewal; failure to comply can result in suspension or fines.

Compliance Drill

- **Question:** How many CE hours must a Georgia producer complete in ethics?
- **Answer:** 3 hours.
- **Best Practice:** Schedule CE courses early in the renewal cycle and retain certificates of completion.

UCSPA Prohibited Practices

Rule

The **Unfair Claims Settlement Practices Act (UCSPA, O.C.G.A. § 33-6-34)** prohibits insurers from engaging in unfair or deceptive claims practices.

Prohibited Practices

- Failing to acknowledge claims promptly.
- Refusing to pay claims without conducting a reasonable investigation.
- Failing to provide written explanations for claim denials.
- Delaying payment of claims without cause.
- Offering substantially less than the amount ultimately recovered in litigation.

Compliance Drill

- **Question:** What law governs unfair claims practices in Georgia?
- **Answer:** The UCSPA (O.C.G.A. § 33-6-34).

- **Best Practice:** Producers should advise clients to document claims thoroughly and remind insurers of their obligations under UCSPA if delays occur.

Auto Minimum Limits (25/50/25)

Rule

Georgia law requires all drivers to carry minimum liability limits of:

- **$25,000** for bodily injury per person.
- **$50,000** for bodily injury per accident.
- **$25,000** for property damage per accident.

Compliance Drill

- **Question:** What are Georgia's minimum auto liability limits?
- **Answer:** 25/50/25.
- **Best Practice:** Producers should recommend higher limits to protect clients from catastrophic losses. Minimum limits often leave drivers underinsured in serious accidents.

UM/UIM Rejection Documentation

Rule

Uninsured/underinsured motorist (UM/UIM) coverage must be offered with every auto policy in Georgia. Clients may reject UM/UIM coverage, but the rejection must be:

- **In writing.**
- **Signed by the insured.**
- **Retained by the insurer as proof.**

Compliance Drill

- **Question:** How must UM/UIM rejection be documented?
- **Answer:** In writing, signed by the insured, and retained by the insurer.
- **Best Practice:** Producers should explain the importance of UM/UIM coverage and document rejections carefully. Failure to document can result in disputes and liability for the producer.

Cancellation and Nonrenewal Notice Rules

Rule

Georgia law establishes strict notice requirements for cancellation and nonrenewal of policies.

- **Personal Auto Policies:**
    - At least **10 days' notice** for cancellation due to nonpayment of premium.
    - At least **30 days' notice** for cancellation for other reasons.
- **Homeowners Policies:**
    - At least **30 days' notice** for cancellation or nonrenewal.
- **Commercial Policies:**
- Notice requirements vary, but generally **30 days' notice** is required.

Compliance Drill

- **Question:** How many days' notice must be given for cancellation of a personal auto policy for nonpayment?
- **Answer:** 10 days.
- **Best Practice:** Producers should advise clients to keep contact information current and review cancellation notices immediately.

Workers' Compensation Threshold (3+ Employees)

Rule

Georgia law requires employers with **three or more employees** to carry workers' compensation insurance.

Key Points

- Coverage is mandatory; employers cannot opt out.
- Workers' compensation provides medical benefits, wage replacement, and rehabilitation for injured employees.
- Failure to secure coverage can result in fines, stop-work orders, and liability for uncovered claims.

Compliance Drill

- **Question:** At what threshold must Georgia employers carry workers' compensation insurance?
- **Answer:** Three or more employees.
- **Best Practice:** Producers should verify employee counts carefully and advise clients of their obligations.

Case Example: Compliance in Action

The Situation:
A Georgia small business owner with four employees failed to purchase workers' compensation coverage, believing it was optional. An employee was injured on the job, and the employer faced significant medical bills and fines.

The Lesson:

- Producers must educate clients on mandatory coverage thresholds.
- Failure to advise clients properly can result in uncovered claims and DOI complaints.

🌎 Why This Drill Matters

This rapid-fire review reinforces the essentials of Georgia compliance:

- **CE Requirements:** 24 hours every two years, including 3 ethics.
- **UCSPA:** Prohibits unfair claims practices.
- **Auto Minimum Limits:** 25/50/25.
- **UM/UIM Rejection:** Must be documented in writing.
- **Cancellation/Nonrenewal:** Strict notice rules apply.
- **Workers' Comp:** Required for employers with 3+ employees.

For producers, mastery of these rules is not optional—it is the foundation of professional practice. Compliance protects clients, prevents regulatory action, and strengthens consumer trust in Georgia's insurance marketplace.

Conclusion

The Georgia compliance drill highlights the statutes and rules that producers must know cold. By reviewing CE requirements, UCSPA prohibited practices, auto minimum limits, UM/UIM rejection documentation, cancellation and nonrenewal notice rules, and the

workers' compensation threshold, producers can ensure they are prepared for both client interactions and DOI oversight.

The key takeaway: **compliance is not just about avoiding penalties—it is about protecting consumers and upholding the integrity of the insurance profession.**

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

Section 5 – Best Practices Toolkit

Compliance in Georgia's insurance marketplace is not just about knowing the rules—it's about applying them consistently in daily practice. Producers and insurers who rely solely on memory or informal processes risk overlooking critical requirements, leading to regulatory violations, dissatisfied clients, and potential DOI enforcement.

To help learners put compliance into action, this section provides a **Best Practices Toolkit**: a set of practical tools designed to reinforce ethical conduct, regulatory compliance, and client advocacy. The toolkit includes a **CE tracking log, disclosure checklist, claims handling checklist, catastrophe preparedness guide, and cyber risk questionnaire.**

CE Tracking Log

Purpose

Georgia requires producers to complete **24 hours of continuing education (CE) every two years**, including **3 hours of ethics.** A CE tracking log helps producers stay on top of requirements and avoid last-minute lapses.

Key Elements

- **Course Title and Provider:** Record the name and provider of each CE course.
- **Date Completed:** Track when the course was taken.
- **Hours Earned:** Note total hours and ethics hours separately.
- **Running Total:** Maintain a cumulative tally toward the 24-hour requirement.
- **Renewal Deadline:** Highlight the license renewal date to ensure CE is completed in advance.

Best Practice

Review the log quarterly. Producers who wait until the last month to complete CE often face scheduling conflicts or technical issues. A proactive log ensures compliance and reduces stress.

Disclosure Checklist

Purpose

Misrepresentation and failure to disclose are among the most common violations investigated by the Georgia DOI. A disclosure checklist ensures that producers consistently explain exclusions, limitations, and optional coverages.

Key Elements

- **Policy Exclusions:** Flood, earthquake, cyber, and other common exclusions.
- **Optional Coverages:** UM/UIM, business interruption, endorsements for valuables.
- **Coinsurance Clauses:** Explanation of penalties for underinsurance.
- **Client Acknowledgment:** Signed confirmation that disclosures were explained.

Best Practice

Use the checklist during every client meeting. Document whether optional coverages were accepted or declined. Retain signed forms in the client file. This protects both the client and the producer in the event of a dispute.

Claims Handling Checklist

Purpose

Claims handling is the ultimate test of the insurance promise. Georgia's **Unfair Claims Settlement Practices Act (UCSPA)** prohibits delays, inadequate investigations, and failure to provide written explanations. A claims handling checklist ensures compliance and fairness.

Key Elements

- **Acknowledgment:** Confirm claim receipt within statutory deadlines.
- **Investigation:** Document steps taken to investigate promptly and thoroughly.
- **Communication:** Provide regular updates to the client.
- **Written Explanation:** Supply clear, written reasons for any denial.
- **Timely Payment:** Ensure covered claims are paid without unreasonable delay.

Best Practice

Producers should encourage clients to keep their own claim file with correspondence, receipts, and photos. This supports transparency and strengthens the client's position if disputes arise.

Catastrophe Preparedness Guide

Purpose

Georgia faces significant catastrophe risks, including hurricanes, tornadoes, and floods. A catastrophe preparedness guide helps clients understand exposures, prepare in advance, and recover more quickly.

Key Elements

- **Coverage Review:** Confirm that clients understand exclusions (e.g., flood not covered under homeowners).
- **Emergency Contacts:** Provide insurer claim hotlines and DOI complaint resources.
- **Documentation:** Encourage clients to maintain updated home inventories and photos of property.
- **Preparedness Steps:** Secure property, back up data, and maintain emergency supplies.
- **Recovery Plan:** Outline steps for filing claims, securing temporary housing, and documenting losses.

Best Practice

Review catastrophe preparedness with clients annually, especially before hurricane season. Producers who proactively educate clients reduce disputes and strengthen trust.

Cyber Risk Questionnaire

Purpose

Cyber liability is one of the fastest-growing exposures. Many small businesses mistakenly believe they are not targets, yet Georgia's **Personal Identity Protection Act** requires notification of breaches. A cyber risk questionnaire helps producers assess exposures and recommend coverage.

Key Elements

- **Data Sensitivity:** Does the business handle health, financial, or personal data?
- **Systems:** Are firewalls, encryption, and multi-factor authentication in place?

- **Employee Training:** Are staff trained to recognize phishing and social engineering?
- **Incident Response:** Does the business have a plan for responding to breaches?
- **Coverage:** Has cyber liability coverage been offered and explained?

Best Practice

Use the questionnaire during commercial client reviews. Document responses and coverage recommendations. This demonstrates due diligence and protects the producer from errors-and-omissions claims.

Case Example: Toolkit in Action

The Situation:
A Georgia small business owner suffered a ransomware attack, a flood loss at home, and a workers' compensation claim. The producer had used the toolkit:

- The **CE log** ensured the producer's license was active.
- The **disclosure checklist** documented that flood coverage was offered but declined.
- The **claims checklist** guided the producer in supporting the workers' comp claim.
- The **catastrophe guide** helped the client document flood damage.
- The **cyber questionnaire** showed that cyber coverage was offered but declined.

The Outcome:
The DOI investigated but found no violations. The producer's documentation demonstrated compliance and transparency.

The Lesson:
Using structured tools protects both clients and producers.

Why a Toolkit Matters

The Best Practices Toolkit is more than paperwork—it is a framework for professionalism.

- **For Clients:** Provides clarity, transparency, and preparedness.
- **For Producers:** Reduces compliance risk and protects against complaints.
- **For Regulators:** Demonstrates accountability and adherence to Georgia law.
- **For the Industry:** Strengthens trust in the insurance marketplace.

Conclusion

Compliance is not just about knowing the law—it is about applying it consistently. The **Best Practices Toolkit** equips producers with practical tools: a CE tracking log, disclosure checklist, claims handling checklist, catastrophe preparedness guide, and cyber risk questionnaire.

By integrating these tools into daily practice, producers ensure compliance with Georgia statutes, protect clients from uncovered losses, and uphold the integrity of the insurance profession. The toolkit transforms abstract rules into actionable steps, reinforcing the principle that ethical, transparent, and client-centered conduct is the foundation of market conduct in Georgia.

Section 6 – Final Exam Preparation

Completing this course is only the first step. To demonstrate mastery of Georgia's insurance laws, ethics, and compliance standards, learners must successfully pass the final exam. Preparation is key—not only to achieve a passing score but also to reinforce the knowledge and skills that will guide professional practice.

This section provides practical tips for exam success: **reviewing key statutes, focusing on ethics scenarios, understanding Georgia-specific requirements, and practicing with sample questions.**

Review Key Statutes

The exam will test knowledge of Georgia's core insurance statutes. Learners should be able to recognize both the letter of the law and its practical application.

- **Unfair Trade Practices Act (O.C.G.A. § 33-6-4):** Prohibits misrepresentation, false advertising, and unfair discrimination.
- **Unfair Claims Settlement Practices Act (O.C.G.A. § 33-6-34):** Establishes standards for fair claims handling.
- **Personal Identity Protection Act:** Governs data breach notification obligations.
- **Workers' Compensation Law:** Requires coverage for employers with three or more employees.

Study Tip: Create flashcards with statute names on one side and prohibited practices or requirements on the other. This reinforces recall under exam conditions.

Focus on Ethics Scenarios

Ethics is a recurring theme throughout the exam. Learners should be prepared to analyze scenarios involving conflicts of interest, misrepresentation, or pressure to cut corners.

- **Fiduciary Duty:** Producers must place client needs above commissions.
- **Conflicts of Interest:** Disclose compensation structures or incentives that may influence recommendations.
- **Scenario-Based Dilemmas:** Be ready to apply duty-based, utilitarian, and virtue ethics frameworks to real-world situations.

Study Tip: Practice by asking, *"What would I do if this were my own family member?"* This mindset helps identify the ethical path quickly.

Understand Georgia-Specific Requirements

Georgia has unique compliance rules that often appear on exams. Learners should memorize key thresholds and timelines.

- **CE Requirements:** 24 hours every two years, including 3 ethics.
- **Auto Minimum Limits:** 25/50/25 for liability coverage.
- **UM/UIM Coverage:** Rejection must be documented in writing and signed by the insured.
- **Cancellation/Nonrenewal Notices:** 10 days for nonpayment of auto premiums, 30 days for other reasons.
- **Workers' Comp Threshold:** Required for employers with 3 or more employees.

Study Tip: Build a "Georgia Quick Facts" sheet with these numbers and review it daily in the week before the exam.

CLICK HERE TO TEST YOUR UNDERSTANDING OF THE PREVIOUS TOPICS

THAT'S IT! You finished the course

When you finish enjoying the ebook and feel ready to take the Final Exam, click the following link: https://www.classmarker.com/online-test/start/?quiz=qg66920a73e06fe5

You must correctly answer at least 70% of the multiple-choice questions to earn 12-hours CE (includes 3 hours Ethics).

Then "Mix & Match" any of the other 12-hours CE courses to complete your biennial CE requirements.

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