

Commercial Property Coverage Outline

Property Insurance is any type of insurance that indemnifies an insured party who suffers a financial loss because property has been damaged or destroyed. Property is considered to be any item that has a value. Property can be classified as real property or personal property. Real property is land and the attachments to the land, such as buildings. Personal Property is all property that is not real property. The Building and Personal Property coverage form is the form used to insure almost all types of commercial property. The insuring agreement in the Building and Personal Property coverage form promises to pay for direct physical loss or damage to covered property at the premises described in the policy when caused by or resulting from a covered cause of loss. The following is a brief outline of coverages and how they are used within the Commercial Building And Personal Property coverage form.

Buildings and Business Personal Property

Coverage for the building includes the building and structures, completed additions to covered buildings, outdoor fixtures, permanently installed fixtures, machinery and equipment. The building material used to maintain and service the insured's premises is also insured. Business Personal Property owned by the insured and used in the insured's business is covered for direct loss or damage. The coverage includes furniture and fixtures, stock, and several other similar business property items when not specifically excluded from coverage. The policy is also designed to protect the insured against loss or damage to the personal property of others while in the insured's care, custody or control.

Coverage Extensions and Additional Coverages

In addition to the limits stated in the Building and Personal Property coverage form, the policy has a coverage extensions section and an additional coverages section. The coverage extensions section provides limited coverage for newly acquired or constructed property, property of others, certain outdoor property, and the cost to research and reconstruct information on destroyed records. When coverage is placed on the all risk form, two additional extensions are added for property in transit and coverage for certain repair costs related to damage caused by water. The two additional extensions are covered by certain perils only. The additional coverage section provides coverage for indirect losses that result from a direct loss. The coverage applies to removal of debris, preservation of property, fire department service charges and pollutant cleanup and removal. The coverage extensions and the additional coverages have limitations and are subject to certain conditions.

Limit of Insurance

The most the insurer will pay for loss or damage in any one occurrence is the limit of insurance stated in the policy declarations.

Deductible

The standard deductible is \$250. However, other deductible amounts are available and the deductible applies only once per loss.

Causes of Loss

The term peril is used when discussing losses. A peril is a cause of loss. Basic property insurance policies are written to cover the perils of fire, lightning, explosion, windstorm, hail, smoke, aircraft or vehicle damage, riot or civil commotion, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action. Other property insurance policies, often referred to as the broad

form policy, add coverages for water damage, weight of snow, ice or sleet, breakage of glass and coverage for falling objects. The broadest coverage is the special form, which is best known as the all risk form. All risk covers all causes of loss, except those specifically excluded from coverage. It is possible for a commercial property policy to have more than one cause of loss form.

Replacement Cost and Actual Cash Value

Property can be valued in several different ways. Insurance companies commonly use two approaches to determine value, which also determines how a loss will be paid; the replacement cost method and the actual cash value method. Insurers consider replacement cost of a property item to be the cost to replace it with new property of like kind. Actual cash value is replacement cost, minus the accumulated depreciation for age and condition.

Agreed Value

When the agreed value option is used the coinsurance requirement is removed and the insurer agrees to cover losses for its agreed value. As an example, the insured has property insured for \$100,000 and the agreed value is also \$100,000, if a loss occurs, any loss up to \$100,000 is covered at 100%. When this option is used the insured and the insurance company agree on the value of the property before the policy is issued. This option is usually assigned to one-of-a-kind property.

Coinsurance

Most building and business personal property policies have a coinsurance clause which requires the insured to carry insurance equal to at least a specified percentage of the actual cash value of the property. If a loss occurs, and it is determined that the amount of insurance carried is less than the amount required, a penalty could be placed on the insured.

Inflation Guard

An insured can insure a building for its full value at the beginning of the policy year, but, at the end of the year, it might not be covered for its full value. This problem can be corrected by adding inflation guard coverage. With inflation guard, the policy limit increases gradually during the policy term so that the total increase amounts to the desired percentage increase at the end of the policy term.

Earthquake Coverage

This endorsement extends your cause of loss to include damage that results directly from an earthquake. Coverage is provided for replacement of buildings only. All earthquake shocks that occur within a 168 hour period (one week) are considered to be a single occurrence. A separate deductible applies and is determined by the value of the insured property.