

LESSON 1.2 COMMERCIAL PROPERTY VALUES

Today you will learn to identify the ways that commercial property insurance policies value properties as scheduled or blanket, and how to provide coverage for fluctuating business personal property values.

Let's begin with the ways of describing commercial property coverage. The first description that we can use is "specific," which means exactly what it says. It is a way of writing property insurance that covers one location, or one type of property, where a fixed amount of insurance applies to each insured item. For example, a commercial building is insured at a fixed amount of five-hundred thousand dollars.

Scheduled insurance is used for more than one location, and for different categories of property. A specific limit applies to each type of property that is scheduled, and at each location. When using a schedule method, each location is listed separately with a limit for each type of property at each location. In this example, the Declaration page lists the personal property values at each location as: Location 1: \$100,000, Location 2: \$200,000, and Location 3: \$150,000. It is important to note that the insurance professional helps the client keep the values on the property accurate over time. If the property values are not routinely updated, a client could end up being underinsured due to inflation, and risk having a coinsurance penalty in the event of a loss.

Blanket insurance is a different method of setting values where one limit of insurance applies to two or more types of property or different locations of property. The blanket limit on the policy is available to pay losses regardless of what type of property is covered or where. When using the blanket method, the Declaration page in the preceding example would show only one limit of insurance of four-hundred-fifty-thousand dollars for personal property. All of the property at the different locations is covered by the same limit. If the values shift from location to location, there's confidence that the blanket limit is enough to cover a loss at any one location, without fear of a coinsurance penalty.

Blanket insurance can also be used when there is uncertainty as to the values of the building and the personal property at one location. At some types of properties, it may be hard to tell which is which. Think of a large church or an office building. What is building property and what is personal property may be hard to determine. Blanketing the building and the personal property together can be used to combine the values into one limit so that no one type of property is underinsured, should there be a loss. Blanketing the building and business personal property is a common approach for larger risks where

there is confidence that the total values at the location are correct, including personal property, but breaking them down into building and personal property is much more difficult.

If the insured chooses to use blanket limits, a minimum of ninety percent coinsurance is required. In this example, using the schedule method, the building would be insured for one million dollars and the business personal property limit would be five hundred thousand dollars. Using the blanket method, the total limit of one million five hundred thousand dollars would apply to the building and the business personal property. Ninety percent coinsurance would be one million three hundred and fifty thousand dollars.

Another way to deal with fluctuating personal property values at a location is to use the Peak Season Endorsement (CP 12 30). This endorsement to the Commercial Property policy automatically increases the insured's business personal property limit for specified periods to adjust to seasonal changes in values. Please pause to consider the following questions: What types of businesses have definite peak seasons of sales? At what time of year? What types of businesses might have their inventories rise and fall dramatically during the year?

The Peak Season Endorsement allows the insured to avoid over-insuring during low value times of the year and to make sure that adequate limits are available during peak seasons. For example, many retail stores have much higher inventories of personal property during the holiday shopping season than during other times of year. Using the Peak Season Endorsement makes sure that inventories are adequately insured. Now it's very important to note that the beginning and ending dates of the increased limits are very specific and are shown on the endorsement.

Another method of dealing with fluctuating values of a business during the year is Value Reporting. This method is designed for businesses that have personal property values that may be higher or lower during the year, but the amounts of the fluctuation, and the times in which the fluctuations may occur, are hard to predict. Some businesses may go from full to the rafters with personal property to practically empty in a matter of weeks due to the seasonal nature of their business.

To use value reporting on a property insurance policy, a Value Reporting Form Endorsement is attached to the policy. Now, a limit should be shown on the policy that represents the maximum personal property values that the insured should have. The initial premium is determined based on seventy-five percent of the values shown on the Declarations. The endorsement requires the insured to submit reports to the insurance

company of their personal property values every month. Each report is due by the end of the month following the month being reported on. For example, an insured would report their average values for the month of March before the end of April. At the end of the policy year, after the last report is submitted, the insurance company will calculate the average values using all of the reports, then they will either charge the insured additional premium if the values were higher than the seventy-five percent used at the beginning of the policy, or return premium to them if the average values were less.

As long as the regular monthly reports are submitted, the insurance company will pay whatever the values of the personal property were at the time of the loss – subject to the original limit that was shown on the policy. If, however, the insured fails to submit timely reports, or files inaccurate reports, or fails to report at all, penalties will apply at the time of the loss.

We've discussed how property insurance policies can cover property using specific or scheduled values, and blanket values. Blanket insurance allows the insured to insure their property when they are uncertain as to the specific values of the personal property at a particular location, or the value of buildings across multiple locations, or if they are uncertain as to the values of the building and the personal property at a single location. We also discussed how businesses can deal with fluctuating values. The Seasonal Increase and Value Reporting endorsements are valuable tools in addressing these problems. As you work through the activities that accompany this lesson, you will become more familiar with these terms, endorsements, and concepts.