

LESSON 1.5a CAUSES OF LOSS FORMS

Today we will discuss three concepts. The first is to differentiate between covered cause of loss forms: Basic, Broad, and Special. The second is to explain the Additional Coverage of Collapse, and the third is to identify the three additional coverage extensions included in the Special Causes of Loss Form.

Please pause to consider the different types of losses that a business owner could face. What are some common perils, such as fire? When might a business choose to insure for every possible peril, as opposed to just a few?

Causes of Loss Forms

The Commercial Property Causes of Loss Forms combine with the Commercial Property Coverage Forms and Endorsements to complete the coverage portion of the Commercial Property Policy. The separate Causes of Loss Forms provide the named insured with the flexibility to select coverage that addresses the business's particular needs. The three Causes of Loss Forms are the Basic, the Broad, and the Special. The first two Causes of Loss Forms provide coverage on a named peril basis, while the Special Form provides coverage on an open peril basis.

Basic Form

Let's start with the Basic Form. This form provides coverage (with limitations) for direct physical loss of – or damage to – covered property from eleven named perils. These perils are fire, lightning, explosion, windstorm and hail, smoke, aircraft and vehicles, riot and civil commotion, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action. For the policy to pay, the insured must demonstrate the loss was caused by one of these perils described in the Causes of Loss Form. While there are some exclusions, those that are common to cause of loss forms will be discussed in another lesson.

There is one Additional Coverage that can be added to the Basic Causes of Loss Form, and it provides Limited Coverage For "Fungus," Wet Rot, Dry Rot, and Bacteria. Coverage is limited to a fifteen-thousand-dollar aggregate in a twelve-month period if the damage is a result of a covered cause of loss, other than fire or lightning.

Broad Form

The second type of Causes of Loss form is the Broad form. In addition to the eleven named perils in the Basic Form, three additional perils are included: damage caused by falling objects; weight of snow, ice, or sleet; and water damage from leakage of appliances. The Broad Form provides the same Additional Coverage – Limited Coverage For "Fungus", Wet

Rot, Dry Rot, and Bacteria which is found in the Basic Form. The Broad Form also includes Collapse as an Additional Coverage. Otherwise, the terms and conditions mirror the Basic Form.

Special Form

The Causes of Loss – Special Form is different from the Basic and the Broad forms and it is the form most commonly used because it provides the broadest coverage. The coverage is not limited to named perils.

Coverage is provided for direct physical loss to covered property at the described premises for all causes other than those otherwise excluded or limited by the policy language. For example, theft is not a named peril under either the Basic or the Broad forms, so theft is not covered by either. It is covered by the Special Form because it's not excluded. Remember, under the Basic and Broad forms, the insured has to prove the loss was caused by one of the named perils. Under the Special Form, the insurance company has to prove the exclusions and limitations exclude the loss in order to deny payment.

The Causes of Loss comparison chart on the screen lists the perils covered under the Basic, Broad, and Special forms. Note that the Special Form provides coverage beyond what is stated in the chart since it covers any loss unless it's excluded or limited. As you can see, the first eleven perils are covered by all three forms. The next four causes of loss are found on the Broad form, but not on the Basic form: damage caused by falling objects; weight of snow, ice, or sleet; water damage from leakage of appliances, and collapse. The Special Form covers everything covered on the Basic and the Broad form, and a lot more. While we specifically mentioned theft, the Special Form covers any direct physical loss – or all causes – unless there is an exclusion or limitation elsewhere in the policy.

Limitations

We will discuss the exclusions found in the Special Causes of Loss Form in another lesson. For now, let's focus on the policy limitations regarding special types of property. Some of these limitations are included because coverage is found on other special policies, such as a Boiler and Machinery or Inland Marine policy. So let's look at the seven limitations.

- 1) The first limitation is for damage to a steam boiler, pipes, engines, or turbines caused by any condition or event from inside the equipment.
- 2) The second limitation is similar – hot water boiler damage caused by a condition of the equipment.
- 3) Next is damage to the interior property resulting from rain, snow, sleet, ice, sand, or dust – unless there is exterior damage by a Covered Cause of Loss. For example, the

insured can't leave the windows open during a thunderstorm and hope to be covered for the damage. If the storm damages the roof, which causes rain to leak in the building and damage other property, the loss would be covered.

- 4) The next limitation is for theft, which is covered unless the property that is stolen is building materials and supplies not attached to the building or structure. These can be covered under a Commercial Inland Marine policy.
- 5) However, the next limitation states that if an inventory shortage is the only indication that a loss might have occurred due to theft, there will be no coverage. For coverage to apply, there would need to be signs of forcible entry into the building, a police report, or some other evidence.
- 6) Property transferred by unauthorized instructions is also not covered. This is an insured getting "tricked" into giving up their property. The final type of property loss that's not covered is vegetated roof damage caused by changes in weather, or disease, or frost or hail, or rain or snow, or ice or sleet. For example, a manufacturing plant that had a vegetated roof for growing herbs would not be compensated for the value of the vegetative roof in the event of a hailstorm.
- 7) Another limitation is for specific items such as animals, fragile articles, machinery, tools, and equipment off the insured's premises. These items are covered only if loss results from a "specified cause of loss" or "building glass breakage." Specified Causes of Loss are specific named perils identified by definition on the policy.

It is important to note that there are limitations on Theft. The special limit shown for each category is the total limit for loss or damage to all property in that category. The loss payment for furs and fur garments, jewelry, watches, patterns, dies, molds, and forms is two thousand five-hundred dollars. The limit for stamps, tickets, and lottery tickets is two-hundred and fifty dollars.

There's also a limitation on appliances or systems. Water damage due to a leaking appliance is covered, but there's no coverage to repair the defective system or appliance. For example, during the night a dishwasher at Larry's Grill leaked gallons of water onto the hardwood floors. The damage to the floors would be covered, but not the damaged dishwasher.

OK, let's look at some of the important policy definitions. Water damage means an accidental discharge or leakage of water or steam as the direct result of breaking apart or cracking of a plumbing, heating, air conditioning, or other system or appliance. But water damage does not include loss or damage otherwise excluded under the terms of the Water Exclusion, which we'll discuss in a different lesson.

Additional Coverage of Collapse

We mentioned earlier that Collapse was an additional coverage on the Broad Form. Well, it is as well on the Special Form. Because the peril of Collapse is so broad, it's excluded and then given back as an additional coverage so it can be specifically limited.

Coverage Extensions

In addition to the additional coverages that are included on the Broad Form, there are three coverage extensions included on the Special Causes of Loss Form. There's no additional premium for these coverage extensions.

- 1) The first coverage extension is Property in Transit. This extension covers the insured's business personal property only, while in transit, in a vehicle that the insured owns, leases, or operates. It does not apply to property in the care, custody, or control of the insured's salesperson, which can be insured separately. The maximum loss payment is five thousand dollars. For insurance to apply, damage must be caused by fire, lightning, explosion, windstorm, hail, riot, civil commotion, or vandalism, vehicle collision, or theft of an entire package by visible signs of forcible entry.
- 2) The next extension is Water Damage, Other Liquids, Powder, or Molten Material Damage. If the insured sustains a loss due to any covered water damage loss, the insurer will pay the cost to tear out and replace parts of the building to get to the area that caused the damage within the building. For example, if a leaking pipe inside a wall is the cause of the water damage, the insurance company will pay the cost to tear out and replace the wall in order to get to the leaking pipe.
- 3) Glass breakage is also included in the extended coverage. It includes temporary plate glass, boarding up, and removal of obstructions. For example - a tree is blown through the front window of Jim's store. The coverage extension would pay for the removal of the tree, as well as boarding up the window until it can be replaced.

We know that the information covered under Causes of Loss forms can be a little intimidating the first time you learn about it, but as you review this material it will become much more logical to you. As you complete the activities related to this lesson, remember that insureds have differing needs, and this is one way the insurance companies can offer them what they need at premiums that are most appropriate for their specific businesses.