

CISR

INSURING
COMMERCIAL
PROPERTY

S T U D Y G U I D E



THE NATIONAL ALLIANCE
for Insurance Education & Research

© 2021 by The National Alliance for Insurance Education & Research

Published in the United States by

The National Alliance for Insurance Education & Research

P.O. Box 27027

Austin, Texas 78755-2027

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INSURING COMMERCIAL PROPERTY

S T U D Y G U I D E

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-In questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but *do not* mistake it for a comprehensive "short-cut" to preparing for the final exam.

Be sure to take a look at the section, "Resources," that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.



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Tools to Assess Your Knowledge

Check-Ins, Knowledge Checks,
and Self-Quizzes by Topic

Section 1: Fundamentals of Commercial Property Insurance

Commercial Property Exposed

Check-In

A tornado strikes a building causing damage to both the exterior and interior of the property. Would office furniture damaged in the loss would be considered real property or personal property?

- ☐ Real property
- ☐ Personal property



Knowledge Check

An office building owner who has a mortgage on the building with a local bank has four tenants leasing space in the building. Considering the building owner, the tenants, and the bank, describe the insurable interest (if any) each party has in the building.



Valuation of Commercial Property



Knowledge Check



Vanessa purchases a building in town that she will use to operate a flower shop. Vanessa calls her agent to discuss insuring the newly acquired building and asks, "What's the difference between replacement cost and actual cash value?" If you were her agent, what would you say to Vanessa to answer this question?

Coinsurance

Check-In



A business owner has a building that has a replacement cost value of \$1,000,000. He decides to insure it for \$600,000. Assuming an 80% coinsurance requirement, and a \$1,000 deductible, how much would the policy pay on a \$10,000 loss?

☐ \$7,000

☐ \$6,500

☐ \$7,500

☐ \$9,000



Knowledge Check



1. Brooklyn Medical Center has insured their building insured for \$400,000 with an 80% coinsurance clause. However, due to rapid inflation within the construction industry, the replacement cost for this building is now valued at \$1,000,000. A fire causes a \$100,000 loss to the building. Disregarding any deductible, how much will Brooklyn's insurance company pay?

- _ How can Brooklyn Medical Center avoid coinsurance penalties on potential future claims?

Methods of Writing Commercial Property Insurance

Check-In



Butler Properties owns three buildings that are leased to others for retail use. What is the term for coverage that covers all of the buildings under a single limit of insurance?

- ☐ Blanket Insurance
- ☐ Named Perils Coverage
- ☐ Specific Insurance
- ☐ Scheduled Insurance

▶▶ Knowledge Check



A business has three buildings it wants to insure for replacement cost.

Table: 1.1

	Replacement Cost Value	Stated/Insured Value
<i>Building #1</i>	\$500,000	\$450,000
<i>Building #2</i>	\$200,000	\$180,000
<i>Building #3</i>	\$400,000	\$360,000

1. If the buildings were written on a scheduled limits basis, how much would the business receive on a claim if building #1 burned to the ground?

2. If the buildings were written on a blanket limits basis for a combined insured value of \$990,000, how much would the business receive on a claim if building #2 burned to the ground?

3. If there was a Margin Clause endorsement with a 110% limit applicable on the blanket policy, with a combined insured value of \$990,000, how much would the insured receive if building #3 burned to the ground?

Fluctuating Values



Knowledge Check



Buddy's Toy Emporium maintains a consistent level of inventory of toys year-round, except for the months of September through December, when the inventory values double. What would be the best method of providing insurance coverage for the four months of increased inventory values?

Value Reporting Form Penalty Provisions



Knowledge Check



Calculate the amounts of loss paid by a policy written with a Value Reporting Form. Assume a \$100,000 limit on the Declarations page.

Under-reporting

Reported values: \$40,000
Actual values \$80,000
Loss amount: \$60,000
Amount of loss paid: _____

Excess reporting

Reported values: \$125,000
Loss: \$125,000
Amount of loss paid: _____

Failure to submit first report

Loss: \$80,000
Amount of loss paid: _____

Failure to submit subsequent reports

Last reported value: \$82,000
Loss: \$100,000
Amount of loss paid: _____

Components of the Commercial Package Policy (CPP)

Check-In



Which of the following best describes the structure of a Commercial Package Policy?

- ☐ Several different insurance policies built into a single contract
- ☐ A modular system of adding different insurance coverages into one policy
- ☐ A way of writing a single insurance contract, or multiple insurance contracts
- ☐ All of the above

Conditions

▶▶ Knowledge Check



An insurance agent decides they do not want to continue serving a commercial customer of theirs and asks the insurance company to cancel this customer's policy. How should the insurance company respond to this request?

▶▶ Knowledge Check



Lisa, a building owner, leases office space to her tenant, Marie, who accidentally starts a fire that spreads to other parts of the building. After the loss, Lisa sends a letter to Marie promising not to hold her responsible for the damage. Has Lisa, as the owner, violated the Commercial Property Conditions?

Section 1 Self-Quiz:

Directions: Match the term on the left to the correct definition or example on the right.

- | | |
|-----------------------------------|--|
| _____ Real property | A. Describes when parties have a financial stake in a property; includes owners, mortgageholders, and tenants |
| _____ Personal property | B. Financial consequences resulting in damage to or destruction of property (i.e., the cost of relocating after a fire destroys a building) |
| _____ Insurable interest | C. A valuation method that does not consider depreciation, but instead finds the cost (in current dollars) to replace property with an item of similar quality |
| _____ Direct losses | D. Property that is affixed to the land or real estate (i.e., building, structures, light fixtures, window blinds) |
| _____ Indirect losses | E. A valuation method which finds the cost to buy or rebuild property that serves the same purpose as the original property |
| _____ Actual cash value | F. Encompasses the value of all reported properties to determine one limit which is available to pay losses, regardless of what property or location has suffered the loss; may contain a Margin Clause |
| _____ Replacement cost | G. Actual damage to tangible property (i.e., a fire damaging a building) |
| _____ Functional replacement cost | H. A business owner selects a limit of insurance for each building and property type, individually, and this is the maximum that the insurance policy will pay out per location |
| _____ Specific insurance | I. The traditional valuation method for insurance companies that involves finding the cost to replace property and then subtracting the depreciation |
| _____ Scheduled insurance | J. Property that is not affixed to the real estate and/or can be physically moved (i.e., office supplies and furniture, or others' property in the custody, care, or control of a business) |
| _____ Blanket insurance | K. An exact limit applies to a building or personal property at a single location; the most that the insurer will pay to repair or replace it |

Section 1: Fundamentals of Commercial Property Insurance

Directions: Read each statement and select whether it is true or false.

1. The coinsurance formula is always used to determine loss payments, regardless of whether the insured was in compliance with the insurance-to-value requirement.

True

False

2. A business owner suffered a loss of \$10,000 to a building worth \$100,000 at the time of the loss. Her insurance policy had a 90% coinsurance clause, and she carried \$45,000. Using the coinsurance formula, the insured would receive a loss payment of \$5,000.

True

False

3. To maintain coverage based on an agreed value, the insured only needs to submit a Statement of Values once, at the time the policy is first opened.

True

False

4. One benefit of using agreed value is that it suspends the coinsurance clause.

True

False

5. A Peak Season endorsement (CP 12 30) automatically increases the insured's personal property limits for a specific period of time to ensure appropriate limits.

True

False

6. A Value Reporting Form endorsement (CP 13 10) is intended for insureds with personal property values that remain consistent with respect to time and amount.

True

False

7. A business owner has a policy with a Value Reporting Form endorsement. After experiencing a loss, he fails to submit his first report. The insurance company will now pay 75% of the amount that would have otherwise been paid.

True

False

8. After suffering a loss, a business owner with a Value Reporting Form endorsement under-reports the value of the location in which the loss occurred. The insurer will pay the claim, in full, up to the policy limit.

True

False

Section 1: Fundamentals of Commercial Property Insurance

Directions: For each of the following questions, **check all correct answers**.

1. Which of the following are common to all commercial property policies?
 - ☐ Declarations Page
 - ☐ Conditions Page
 - ☐ Value Reporting Form
 - ☐ Statement of Values

2. Which of the following are included among the rights and responsibilities of the first named insured?
 - ☐ The first named insured can designate a party responsible for making policy changes.
 - ☐ Only the first named insured can cancel or request changes to the policy.
 - ☐ The first named insured must be notified prior to cancellation of the policy by the insurer.
 - ☐ The first named insured has the right to declare another party responsible for paying policy premiums.
 - ☐ Only the first named insured can receive premium refunds upon cancellation of the policy or policy changes.

3. Which of the following are included among the nine Commercial Property Conditions?
 - ☐ The insurance company can void the contract if the insured commits Concealment, Misrepresentation, or Fraud with respect to coverage, the covered property, or a claim.
 - ☐ An act by a person not under the named insured's direction or control will not affect the insurance.
 - ☐ If there is coverage under two or more sections of the policy, the insured can receive multiple payments for the same loss.
 - ☐ To bring legal action against the insurance company, the insured must be in compliance with the policy conditions and the action must be brought within two years of the date of the loss.
 - ☐ If an insured's property is damaged while in the care of a bailee, the bailee is entitled to insurance benefits.

Section 2: Building and Personal Property Coverage Form

Types of Property Covered and Not Covered

Check-In

If no other insurance applies, which one of the following is covered under the unendorsed Building and Personal Property Coverage Form?



- ☐ Foundations below the surface of the ground
- ☐ Underground pipes, flues, or drains
- ☐ Bridges and roadways
- ☐ Additions that are in the process of being completed



Knowledge Check



Acme Physicians, Inc., is purchasing a Commercial Property Policy for their medical facility. Are the following items covered under the Building and Personal Property Coverage Form, and if so, how the items should be classified?

1. A lawn tractor used to maintain the premises

2. A leased MRI machine that Acme is contractually required to insure

3. The office manager's pet Labradoodle, which is brought into the office as a therapy dog for patients

Additional Coverages and Coverage Extensions

Check-In



For the following Additional Coverages, identify whether the amount payable is subject to the limit of property insurance shown on the Declarations page.

Directions: Circle the correct limit for the following Additional Coverages:

1. Debris Removal

**Subject to
the limit**

**Not Subject
to the limit**

2. Preservation of Property

**Subject to
the limit**

**Not Subject
to the limit**

3. Fire Department Service Charge

**Subject to
the limit**

**Not Subject
to the limit**

4. Pollutant Clean-Up and Removal

**Subject to
the limit**

**Not Subject
to the limit**

5. Increased Cost of Construction

**Subject to
the limit**

**Not Subject
to the limit**

6. Electronic Data

**Subject to
the limit**

**Not Subject
to the limit**

▶▶ Knowledge Check



Your insured had to temporarily move his personal property to another location for five days to avoid damage from an imminent wildfire. Under the “Preservation of Property” Additional Coverage of the Building and Personal Property Coverage Form, what causes of direct physical loss or damage will be covered at this temporary location?

Vacancy

▶▶ Knowledge Check



Your insured, Celebration Properties, owns a building that is zoned for restaurant and retail use. The prior tenant has gone out of business and canceled their lease on April 30th. Due to the lagging economy, Celebration Properties has been unable to find a new tenant to move into the building.

On July 5th, a fire destroys the building, resulting in \$300,000 of damages. Ignoring any deductibles or coinsurance, how much would the Commercial Property Policy pay?

The Rights of Mortgageholders



Knowledge Check



Hudson Logistics has a Commercial Property Policy with a \$950,000 replacement cost limit. The building is mortgaged through Samwell Lending, with \$650,000 currently owed in principal and accrued interest.

A fire has recently destroyed their building. The insurance company has sent a claims adjuster to inspect the premises, but the claim is ultimately denied, as Hudson didn't allow the adjuster on-site.

How will Samwell Lending be indemnified for their insurable interest?

Optional Coverages



Knowledge Check



Tabletop Gaming is a retail store that sells board games, comic books, and pop culture collectibles, including rare items. They have their business insured on a Building and Personal Property Coverage Form, with the Replacement Cost option selected. Explain to the policyholder how the Replacement Cost option would apply to their business personal property.

Section 2 Self-Quiz

Directions: Use the following terms to fill in the blanks. Terms may be used only once, and not all terms will be used.

Additional Coverages	valuation	covered	30
Coverage Extensions	60	commercial	business personal property
insured	violated	not covered	building

1. The Building and Personal Property Coverage Form (CP 00 10) is the most commonly used coverage form to insure _____ buildings and their contents.
2. According to the Building and Personal Property Coverage Form, the term, _____, refers to the structure on the described premises, as well as other elements, including additions and permanently installed machinery and equipment.
3. In addition to the building(s), the insured's _____ is covered while located in or on the building(s) described in the Declarations.
4. Autos held for sale are one example of property _____ under the Building and Personal Property Coverage form.
5. _____ increase the scope of the property that is already covered, as long as certain conditions are met.
6. _____ are limited amounts of coverage for specific types of indirect losses or expenses.
7. The Additional Coverage of Preservation of Property covers any direct physical loss or damage for up to _____ days if the property needs to be moved or stored in another location to prevent damage.
8. If a building has been vacant for more than _____ days, payments for covered losses will be reduced by 15%.

Section 2: Building and Personal Property Coverage Form

9. Insurance companies determine a property's financial worth in the event of a loss through the process of _____.
10. The Mortgageholders clause is designed to preserve the mortgageholder's rights, even if the named insured has _____ conditions of the insurance contract.

Directions: Read each statement and indicate whether it is true or false.

1. Personal property of others is never covered under the Building and Personal Property Coverage Form.

True

False

2. The Additional Coverage of Debris Removal will pay 25% of the cost to remove from the covered property debris that was created by a covered cause of loss.

True

False

3. Newly Acquired or Constructed Property is listed as Additional Coverage on the Building and Personal Property Coverage Form.

True

False

4. All Additional Coverages on the Building and Personal Property Form are subject to the limit of property insurance listed on the Declarations page.

True

False

5. For Coverage Extensions to be activated, the Declarations must show the presence of 80% or higher coinsurance or a Value Reporting Symbol.

True

False

6. Additional Coverage and Coverage Extension are terms that essentially mean the same thing.

True

False

7. Vacancy poses no additional risk to the insured or insurer.

True

False

Section 2: Building and Personal Property Coverage Form

8. In the event of a loss to property for which the policyholder has two mortgages, the lender on the second mortgage will be paid only after the lender on the first mortgage has been compensated.

True

False

9. Optional coverages are automatically activated unless policyholders choose to opt out of them.

True

False

Directions: List the four types of optional coverages that may be “activated” from the Declarations of the Building and Personal Property Form.

1. _____

2. _____

3. _____

4. _____

Section 3: Causes of Loss Forms

Types of Causes of Loss Forms



Knowledge Check



Directions: Explain the advantage of using the Causes of Loss – Special Form. How does the Special Form differ from the Basic and Broad Causes of Loss forms?

Open Perils Exclusions

Check-In



Directions: You recently issued a Commercial Property Policy for your new client, Vance Refrigeration. In reviewing the policy, Bob Vance asks you about the Ordinance or Law Coverage Endorsement. Match the coverage name to the correct type of coverage it provides.

Coverage A	_____ Covers the costs of demolition of the undamaged portion of the property
Coverage B	_____ Covers the increased cost of construction expenses to repair/replace the property to comply with building/zoning code ordinances.
Coverage C	_____ Covers the loss of value of the undamaged portion of the existing property

▶▶ Knowledge Check



College Park Furniture Outlet insures their building with a \$850,000 Replacement Cost. Their local ordinance states that if a building is damaged more than 50%, it must be torn down and rebuilt to comply with the most current building codes.

In the years since the building was originally constructed, the county has mandated that all commercial buildings located in that zip code be constructed with energy efficient insulation and automatic sprinkler systems.

A tornado has recently destroyed 60% of their building.

Directions: Identify three of their loss exposures that are attributable to Ordinance or Law.

1. _____
2. _____
3. _____

Special Form Exclusions

Check-In



Your insured has the Causes of Loss – Special Form insuring their warehouse building and its contents. Severe cold weather causes the water pipes to freeze and burst. Water seepage from the broken pipes causes significant damage. Under which situation might this loss be covered?

- ☐ If the insured turned the heat off in the building
- ☐ If the insured did their best to maintain heat in the building
- ☐ If the insured placed their business personal property on raised pallets
- ☐ Water damage is not a covered cause of loss.

Knowledge Check



Rose Grocery has a Commercial Property Policy endorsed with a Causes of Loss – Special Form.

Directions: Explain what coverage, if any, is available for the following claims. If coverage is excluded, name the exclusion that applies:

1. A recent storm caused a power outage throughout the neighborhood. \$8,000 worth of refrigerated inventory was spoiled.

2. Heavy rains caused the ground water to rise and enter the store, damaging the carpets and merchandise.

3. Rose caught one of his employees stealing wine. An investigation revealed that this employee was stealing one bottle of wine every week for the past several years.

4. During a storm, a chunk of hail damaged a window, allowing rain to enter the building, causing significant damage to the floors, furniture, and most of the inventory.

Additional Coverage – Collapse



Knowledge Check



Bogie's Piano Bar is insured on a Building and Personal Property Coverage Form endorsed with a Causes of Loss – Special Form. Bogie's building collapsed due to undetected termite damage.

Directions: Explain whether his policy will cover this loss.



Knowledge Check



Jack Torrance owns a boutique hotel insured on a Building and Personal Property Coverage Form endorsed with a Causes of Loss – Special Form.

After a recent hurricane, the hotel suffered minimal damages near some windows and doors. A few weeks after those repairs were completed, Jack noticed that mold was present near the windows that had been replaced.

Directions: Explain how the policy would respond to this claim.

Additional Coverage Extensions Included in the Special Causes of Loss Form



Knowledge Check



Jeff Smith owns Downtown Wine & Cheese, which is insured on an unendorsed Building and Personal Property Coverage Form with Causes of Loss – Special Form. Explain if there is coverage for the following claims:

1. One of their sales representatives sets up a booth at the weekly farmers' market. While en route, she is rear-ended by another vehicle, resulting in \$1,000 of damaged inventory.

2. A plumbing pipe behind the bar leaked, causing minor damage to the hardwood flooring. The cost to repair the plumbing system was \$800, but the plumber had to tear out sections of the wall and surrounding bar. The cost to repair the sections of the wall and the bar that had to be torn out was \$1,500.

3. An attempted robbery was thwarted after Jeff's security alarm went off, but not before the thieves shattered the front windows of the store. Due to the size of the windows, full repair/replacement is not possible for several weeks.

Section 3 Self-Quiz

Directions: Respond to each of the questions.

1. How does the Causes of Loss – Special Form differ from the Causes of Loss – Basic Form and Causes of Loss – Broad Form? Include the terms *named perils* and *open perils* in your answer.

2. After 70% of a building was damaged in a fire, local building codes required the property owner to demolish the building. What exposures does the owner now face under the Ordinance or Law exclusion?

Section 3: Causes of Loss Forms

Directions: For each scenario, write the letter of the Special Form exclusion that applies.

Exclusion A (Artificially generated currents)

Exclusion B (Delay, Loss of use, or Loss of Market)

Exclusion C (Smoke damage caused by industrial operations)

Exclusion D (Wear and Tear)

Exclusion E (Damage caused by steam engine explosion)

Exclusion F (Continuous seepage of water)

Exclusion G (Water damage from burst pipes)

Exclusion H (Losses caused by anyone entrusted with property)

Exclusion I (Voluntarily parting with property)

Exclusion J (Weather losses to personal property left outside)

Exclusion K (Collapse - except for coverage found in Additional Coverage for Collapse)

Exclusion L (Release or escape of pollutants)

- _____ 1. A building with a rodent infestation faces significant losses from mice chewing through wood frames and electrical cords.
- _____ 2. A building owner turns off the heat to save money while the building is closed for a winter holiday. The pipes freeze and burst, causing extensive water damage.
- _____ 3. An insured is tricked into signing over the title to a company vehicle.
- _____ 4. A restaurant's outdoor tables and chairs are damaged after being left outside during a hailstorm.
- _____ 5. A company faces significant losses after electrical equipment is damaged as a result of a power surge.
- _____ 6. A manufacturing company faces a loss in income when operations have to be shut down for over a week following a storm.
- _____ 7. A steam boiler explodes, causing significant damage to a production line.

Section 3: Causes of Loss Forms

Directions: State whether each loss would be covered by an Additional Coverage:

- Collapse
- Limited Coverage for Fungus, Wet Rot, Dry Rot, and Bacteria, or
- one of the three Coverage Extensions listed on the Causes of Loss – Special Form: Property in Transit; Water Damage, Other Liquids, Powder or Molten Material Damage; and Glass

1. Personal property left outside the building is damaged following a building collapse.

Covered

Not covered

2. It is determined that a building collapsed because it was constructed from defective materials.

Covered

Not covered

3. A building's roof collapses due to the weight of water from a torrential downpour.

Covered

Not covered

4. A business owner suspects that there may be mold present after a recent hurricane. She wants to pay an inspector to do initial mold testing.

Covered

Not covered

5. An insured files a claim for the cost of tearing out a portion of a building in order to gain access to mold that was caused by a covered cause of loss.

Covered

Not covered

6. A property owner has reason to believe there may still be fungus present following the completion of a recent removal and restoration, so testing needs to be performed.

Covered

Not covered

7. A shipment of product is damaged after a delivery truck (owned by the company) is involved in a vehicle collision.

Covered

Not covered

8. An insured's building has sustained water damage and he needs to tear out a portion of the building in order to access the source of the damage.

Covered

Not covered

9. After finding the source of the damage, the insured needs to replace the defective plumbing system.

Covered

Not covered

Section 4: Basics of Time Element Insurance

Basic Time Element Concepts



Knowledge Check



1. Ginger's Sweets holds a Commercial Property Policy and Time Element Policy through your agency. The kitchen and the front of the store were damaged in a fire, forcing the store to close while repairs are completed. The store will need to be closed through the winter holidays (one of the busiest seasons of the year), resulting in a significant loss of income. If Ginger submits a claim, will the Time Element Policy respond? Explain why or why not.

2. If Ginger is eligible to submit a claim, what responsibilities will Ginger have to ensure her claim is paid out properly?

Business Income (and Extra Expense) Coverage Form

Check-In



Directions: Match the term to the correct definition.

A. Business Income	_____ Begins 72 hours after a loss and ends when business operations are restored, restored at a new location, or after a reasonable time to complete repairs or replace the property
B. Extra Expenses	_____ Net income (net profit or loss) and continuing expenses, including payroll
C. Period of Restoration	_____ Expenses incurred during the period of restoration that would NOT have been incurred if there had been no direct physical loss or damage to the property



Knowledge Check



Bert's Bookbinding provides printing services to local schools and businesses. On July 5th, a portion of the building caught fire, forcing the business to shut down for three weeks, resulting in \$80,000 in lost revenue.

Although the building was repaired by July 27th, Bert was notified that a key piece of machinery would not be replaced until October. In order to expedite his reopening in time for the new school year, Bert paid an additional \$10,000 in order to secure a replacement for the machinery by August 5th. He then spent \$5,000 in an advertising blitz to notify all new and existing clients that they would be back open for business on August 9th.

Since many of Bert's clients had to go elsewhere for their printing needs, Bert still suffered \$100,000 in lost revenue during August and September.

Bert's Bookbinding has a Commercial Property Policy with a \$500,000 Time Element limit.

Directions: Explain how the Business Income (and Extra Expense) Coverage form might respond to Bert's losses.

Time Element Coverage Options



Knowledge Check



Nancy's Notions is written on a Business Income (and Extra Expense) Form with the Monthly Limit of Indemnity option. The amount of insurance is \$80,000 with a $\frac{1}{4}$ monthly limit.

Nancy had a loss and was out of business for several months. Her loss of profit and continuing expenses were as follows:

- 1st month - \$22,000
- 2nd month - \$25,000
- 3rd month - \$12,000
- 4th month - \$15,000
- 5th month - \$18,000

1. How much will Nancy's policy pay each month for this loss?

2. How much would her policy have paid if it had been written with the Maximum Period of Indemnity option?

Extra Expense Coverage Form (CP 00 50)



Knowledge Check



Renaissance Printers has recently suffered a covered wind loss that prompted a 28-day shutdown. During the shutdown, Renaissance incurred \$95,000 in extra expenses to continue his operations. The insured carried a \$200,000 Extra Expense limit with 40%-80%-100% shown on the Declarations page. How much did Renaissance's policy pay?

Dependent Properties



Knowledge Check



1. A plant that produces medication for a pharmaceutical company is shut down after damage from a hurricane. What type of dependent property is described here, and how might this loss impact the pharmaceutical company?

2. A stadium hosts home games for a popular local baseball team. After the games, fans flock to the bars and restaurants in the neighborhood. The stadium is badly damaged in a fire, and the team temporarily relocates to a different playing field across town. What type of dependent property is described here, and how might this loss impact the bars and restaurants in the area?

3. A caterer has an exclusive contract with a nearby art museum, and their primary source of income comes from events hosted at the museum. Unfortunately, the museum had to shut down for two months due to extensive tornado damage. What type of dependent property is described here, and how might this loss impact the caterer?

Section 4 Self-Quiz

Directions: Use the following terms to fill in the blanks. Terms may be used only once, and not all terms will be used.

72	suspend	extra expenses	covered cause of loss
Maximum Period	four	\$2,500	one
direct	leader	electronic data	period of restoration
\$5,000	120	described	60
Extended Period	coinsurance	contributor	reasonable
manufacturer	Monthly Limit	recipient	business income

- In order for a time element loss to be covered, the property must sustain _____ damage which occurs at the _____ premises, and the damage must be attributable to a(n) _____. Additionally, the business has to _____ operations and/or incur extra expenses and must suffer an actual financial loss during the _____.
- _____ are costs incurred during the period of restoration that would NOT have been incurred if there had been no direct physical loss or damage to the property.
- The term, _____, refers to the net income of a business (net profit or loss) and continuing expenses, including payroll.
- The period of restoration begins _____ hour(s) after a loss occurs and ends when business operations are restored, restored at a new location, or after a _____ amount of time to complete repairs or replace property.
- The Additional Coverage – Civil Authority will pay for up to _____ week(s) of business income loss to the insured when a business needs to be shut down due to a covered cause of loss occurring within _____ mile(s) of the insured's premises.

Section 4: Basics of Time Element Insurance

72	suspend	extra expenses	covered cause of loss
maximum period	four	\$2,500	one
direct	leader	electronic data	period of restoration
\$5,000	120	described	60
extended period	coinsurance	contributor	reasonable
manufacturer	monthly limit	recipient	business income

6. The Additional Coverage – Extended Business Income provides coverage for reduced income that can occur after a business has reopened. It is limited to _____ day(s) of coverage unless the _____ of indemnity option is selected.
7. Coverage for Business Income and Extra Expenses related to _____ is only provided through the Additional Coverage – Interruptions of Computer Operations and has a limit of _____ per year.
8. Under the _____ of indemnity coinsurance option, loss is covered only for a period of _____ day(s) or until the limit is exhausted, whichever comes first.
9. With the _____ of indemnity coinsurance option, the maximum amount an insured can receive in any 30-day period is a specified fraction of the Business Income limit shown on the Declarations page.
10. The Business Income Agreed Value option suspends the _____ condition as long as the insured carries a limit of insurance equal to or greater than the agreed value.
11. A(n) _____ accepts the products and services of a business.
12. A(n) _____ attracts customers to a business.
13. A(n) _____ delivers materials and/or services to a business.

Section 4: Basics of Time Element Insurance

14. A(n) _____ produces products for delivery to a business's customers.

Directions: Select whether the statement is True or False.

1. The Extended Period of Indemnity option can be added onto the no coinsurance option or the Maximum Period of Indemnity option.

True

False

2. A 72-hour waiting period applies to Extra Expense loss payments.

True

False

3. A small accounting firm has a policy that includes Extra Expense coverage. After suffering a covered cause of loss, the firm needs to reopen immediately in another location. The restoration period will take 45 days to complete. The firm will be covered for 80% of its total policy limit.

True

False

4. A dependent property for a business suffers loss that results in a temporary shutdown. This will more than likely result in a loss of income for the connected business.

True

False

5. The Ordinance or Law exclusion does not apply to dependent properties.

True

False

Section 5: Insuring Commercial Property

Section 5: Insuring Commercial Property

Types of Property Eligible as Commercial Inland Marine



Knowledge Check



Directions: List the types of property considered to be eligible for commercial inland marine coverage. How do these types of property differ from property written under a Commercial Property Policy?

Commercial Inland Marine Classes



Knowledge Check



Directions: Explain the difference between filed and non-filed commercial inland marine classes.

Reasons for Writing Commercial Inland Marine Insurance

Check-In



Directions: Match each exposure on the left to the correct example on the right by writing the corresponding letter on the line.

A. Transportation	_____ Treon runs an online store for his glass artwork that he ships to his customers across the country
B. Bailee	_____ A manufacturing company has constructed a dam to generate electricity for its factory
C. Specialized or unusual property	_____ Lucia owns a dry-cleaning business and also provides summer fur storage for her customers

▶▶ Knowledge Check



Cho owns an upholstery business in which she and her employees pick up furniture at customers' homes, reupholster the items in her facility, and then transport the furniture back to customers' homes.

Directions: Explain to Cho the exposure(s) her business faces, and why it might be advantageous for her coverage to be written using a commercial inland marine form rather than a commercial property form.

Conditions Unique to Inland Marine Coverages

Check-In



Directions: Write a “C” next to each statement that is correct, and an “I” next to each statement that is incorrect. If the statement is incorrect, explain why.

_____ 1. The front tire is stolen from a bicycle used by a courier service. The insurance company will pay for a new set of tires for the bicycle.

_____ 2. A country club receives an insurance settlement for a stolen golf cart. The golf cart is later recovered. The country club may choose to keep the settlement or to return the settlement and receive the recovered vehicle.

_____ 3. A long-haul trucker has a Motor Truck Cargo policy with a \$500,000 limit. After jack-knifing on the interstate, \$100,000 worth of general freight was destroyed. When the trucker is able to resume deliveries, the Motor Truck Cargo limit is reinstated to \$500,000.

▶▶ Knowledge Check



Gaston’s Tree Service owns a small backhoe that is insured on a Contractor’s Equipment Floater Policy for a scheduled amount of \$12,000. The backhoe was destroyed by a covered peril. At the time of the loss, the actual cash value of the backhoe was \$11,000 and the replacement cost is \$13,500. Disregarding any deductible, how much will the insurer pay for the loss to the backhoe?

Section 5 Self-Quiz

Directions: List the types of property eligible for inland marine coverage.

1. _____
2. _____
3. _____
4. _____
5. _____

Directions: Answer the following questions based on the information presented in the course.

1. Explain why non-filed classes of commercial inland marine are not subject to filing requirements from state regulatory authorities. When are non-filed commercial inland marine forms used?

2. Which of the following are advantages of using of commercial inland marine insurance? (Check all that apply.)

- ☐ Useful for insuring property that will remain in a single location owned by a business
- ☐ Flexible terms and conditions
- ☐ Ability to tailor the policy to best address the unique exposures of a particular business
- ☐ Can be used to cover all types of property in all situations.
- ☐ Provides options for insuring special and unique property, property in transit, and providing bailee coverage

Section 5: Insuring Commercial Property

3. Which of the following exclusions are NOT common to commercial inland marine policies? (Check all that apply)

- | | |
|---|---|
| ☐ Wear and Tear | ☐ Flood |
| ☐ Earthquake | ☐ Dishonest Acts |
| ☐ Nuclear Action | ☐ Inventory Shortage |
| ☐ War | |

Directions: Use the following terms to fill in the blanks. Terms may be used only once, and not all terms will be used.

open	named	cash value	actual
commercial	repair	floaters	replacement
insurance-to-value	policy	agreed	stated

- Commercial inland marine forms are referred to as _____ because they provide coverage wherever the insured property is located.
- Most commercial inland marine policies are written with _____ perils coverage.
- Nearly all inland marine policies contain a coinsurance or _____ provision.
- Though most commercial inland marine policies are written on a(n) _____ cash value basis, _____ cost coverage is available as an option on a number of forms.
- Some inland marine forms will restrict valuation to a(n) _____ amount, meaning that the policy will pay the lesser of the amount stated next to the insured item, the actual _____, or the cost to _____ the item.
- Occasionally, commercial inland marine policies are written on a(n) _____ value basis, which takes on the same meaning as it does in property insurance.

Answer Key

Section 1: Fundamentals of Commercial Property Insurance

Section 1: Fundamentals of Commercial Property Insurance

Commercial Property Exposed

Check-In

A tornado strikes a building causing damage to both the exterior and interior of the property. Would office furniture damaged in the loss would be considered real property or personal property?

- ☐ Real property
- ☒ Personal property



Knowledge Check

An office building owner who has a mortgage on the building with a local bank has four tenants leasing space in the building. Considering the building owner, the tenants, and the bank, describe the insurable interest (if any) each party has in the building.



Sample Answer:

The building owner has an insurable interest in the entire building. The bank has an interest in the remainder of their loan on the property. The tenants have insurable interest in the space they occupy.

Valuation of Commercial Property



Knowledge Check



Vanessa purchases a building in town that she will use to operate a flower shop. Vanessa calls her agent to discuss insuring the newly acquired building and asks, “What’s the difference between replacement cost and actual cash value?” If you were her agent, what would you say to Vanessa to answer this question?

Sample Answer:

Actual cash value = replacement cost minus depreciation

Coinsurance

Check-In



A business owner has a building that has a replacement cost value of \$1,000,000. He decides to insure it for \$600,000. Assuming an 80% coinsurance requirement, and a \$1,000 deductible, how much would the policy pay on a \$10,000 loss?

☐ \$7,000

☒ \$6,500

☐ \$7,500

☐ \$9,000

▶▶ Knowledge Check



1. Brooklyn Medical Center has insured their building insured for \$400,000 with an 80% coinsurance clause. However, due to rapid inflation within the construction industry, the replacement cost for this building is now valued at \$1,000,000. A fire causes a \$100,000 loss to the building. Disregarding any deductible, how much will Brooklyn's insurance company pay?

Sample Answer:

The carrier will pay only \$50,000 because: \$400,000 (DID) / \$800,000 (SHOULD) = 0.50; 50% of \$100,000 = \$50,000

2. How can Brooklyn Medical Center avoid coinsurance penalties on potential future claims?

Sample Answer:

Short of increasing the coverage limit for the building, another option would be to use the Agreed Value provision. Brooklyn Medical would have to submit a Statement of Values to the carrier. If the carrier agrees to those values, then coinsurance would be suspended for one year.

Methods of Writing Commercial Property Insurance

Check-In



Butler Properties owns three buildings that are leased to others for retail use. What is the term for coverage that covers all of the buildings under a single limit of insurance?

- ☒ Blanket Insurance
- ☐ Named Perils Coverage
- ☐ Specific Insurance
- ☐ Scheduled Insurance

Knowledge Check



A business has three buildings it wants to insure for replacement cost.

Table: 1.2

	Replacement Cost Value	Stated/Insured Value
<i>Building #1</i>	\$500,000	\$450,000
<i>Building #2</i>	\$200,000	\$180,000
<i>Building #3</i>	\$400,000	\$360,000

1. If the buildings were written on a scheduled limits basis, how much would the business receive on a claim if building #1 burned to the ground?

\$450,000 (The amount scheduled on the policy)

2. If the buildings were written on a blanket limits basis for a combined insured value of \$990,000, how much would the business receive on a claim if building #2 burned to the ground?

\$200,000 (The replacement cost of the building)

3. If there was a Margin Clause endorsement with a 110% limit applicable on the blanket policy, with a combined insured value of \$990,000, how much would the insured receive if building #3 burned to the ground?

\$396,000 (The stated value as reported by the insured x 110%)

Fluctuating Values

Knowledge Check



Buddy's Toy Emporium maintains a consistent level of inventory of toys year-round, except for the months of September through December, when the inventory values double. What would be the best method of providing insurance coverage for the four months of increased inventory values?

Endorse with a Peak Season Limit of Insurance (CP 12 30)

Value Reporting Form Penalty Provisions



Knowledge Check



Calculate the amounts of loss paid by a policy written with a Value Reporting Form. Assume a \$100,000 limit on the Declarations page.

Under-reporting

Reported values:	\$40,000
Actual values	\$80,000
Loss amount:	\$60,000

Amount of loss paid: \$30,000

Excess reporting

Reported values:	\$125,000
Loss:	\$125,000

Amount of loss paid: \$100,000

Failure to submit first report

Loss:	\$80,000
-------	----------

Amount of loss paid: \$60,000

Failure to submit subsequent reports

Last reported value:	\$82,000
Loss:	\$100,000

Amount of loss paid: \$82,000

Components of the Commercial Package Policy (CPP)

Check-In

Which of the following best describes the structure of a Commercial Package Policy?

- ☐ Several different insurance policies built into a single contract
- ☐ A modular system of adding different insurance coverages into one policy
- ☐ A way of writing a single insurance contract, or multiple insurance contracts
- ☒ All of the above



Conditions

▶▶ Knowledge Check

An insurance agent decides they do not want to continue serving a commercial customer of theirs and asks the insurance company to cancel this customer's policy. How should the insurance company respond to this request?



Sample Answer:

The insurance agent should know that only the first named insured can request a cancellation of the policy.

▶▶ Knowledge Check

Lisa, a building owner, leases office space to her tenant, Marie, who accidentally starts a fire that spreads to other parts of the building. After the loss, Lisa sends a letter to Marie promising not to hold her responsible for the damage. Has Lisa, as the owner, violated the Commercial Property Conditions?



No, the insured may waive their rights against another party, after the loss, if that party is a tenant of the insured.

Section 1 Self-Quiz:

Directions: Match the term on the left to the correct definition or example on the right.

- | | |
|--|--|
| <u> D </u> Real property | A. Describes when parties have a financial stake in a property; includes owners, mortgageholders, and tenants |
| <u> J </u> Personal property | B. Financial consequences resulting in damage to or destruction of property (i.e., the cost of relocating after a fire destroys a building) |
| <u> A </u> Insurable interest | C. A valuation method that does not consider depreciation, but instead finds the cost (in current dollars) to replace property with an item of similar quality |
| <u> C </u> Direct losses | D. Property that is affixed to the land or real estate (i.e., building, structures, light fixtures, window blinds) |
| <u> B </u> Indirect losses | E. A valuation method which finds the cost to buy or rebuild property that serves the same purpose as the original property |
| <u> I </u> Actual cash value | F. Encompasses the value of all reported properties to determine one limit which is available to pay losses, regardless of what property or location has suffered the loss; may contain a Margin Clause |
| <u> C </u> Replacement cost | G. Actual damage to tangible property (i.e., a fire damaging a building) |
| <u> E </u> Functional replacement cost | H. A business owner selects a limit of insurance for each building and property type, individually, and this is the maximum that the insurance policy will pay out per location |
| <u> K </u> Specific insurance | I. The traditional valuation method for insurance companies that involves finding the cost to replace property and then subtracting the depreciation |
| <u> H </u> Scheduled insurance | J. Property that is not affixed to the real estate and/or can be physically moved (i.e., office supplies and furniture, or others' property in the custody, care, or control of a business) |
| <u> F </u> Blanket insurance | K. An exact limit applies to a building or personal property at a single location; the most that the insurer will pay to repair or replace it |

Section 1: Fundamentals of Commercial Property Insurance

Directions: Read each statement and select whether it is true or false.

1. The coinsurance formula is always used to determine loss payments, regardless of whether the insured was in compliance with the insurance-to-value requirement.

True

False

2. A business owner suffered a loss of \$10,000 to a building worth \$100,000 at the time of the loss. Her insurance policy had a 90% coinsurance clause, and she carried \$45,000. Using the coinsurance formula, the insured would receive a loss payment of \$5,000.

True

False

3. To maintain coverage based on an agreed value, the insured only needs to submit a Statement of Values once, at the time the policy is first opened.

True

False

4. One benefit of using agreed value is that it suspends the coinsurance clause.

True

False

5. A Peak Season endorsement (CP 12 30) automatically increases the insured's personal property limits for a specific period of time to ensure appropriate limits.

True

False

6. A Value Reporting Form endorsement (CP 13 10) is intended for insureds with personal property values that remain consistent with respect to time and amount.

True

False

7. A business owner has a policy with a Value Reporting Form endorsement. After experiencing a loss, he fails to submit his first report. The insurance company will now pay 75% of the amount that would have otherwise been paid.

True

False

8. After suffering a loss, a business owner with a Value Reporting Form endorsement under-reports the value of the location in which the loss occurred. The insurer will pay the claim, in full, up to the policy limit.

True

False

Section 1: Fundamentals of Commercial Property Insurance

Directions: For each of the following questions, **check all correct answers**.

1. Which of the following are common to all commercial property policies?
 - ☒ Declarations Page
 - ☒ Conditions Page
 - ☐ Value Reporting Form
 - ☐ Statement of Values
2. Which of the following are included among the rights and responsibilities of the first named insured?
 - ☐ The first named insured can designate a party responsible for making policy changes.
 - ☒ Only the first named insured can cancel or request changes to the policy.
 - ☒ The first named insured must be notified prior to cancellation of the policy by the insurer.
 - ☐ The first named insured has the right to declare another party responsible for paying policy premiums.
 - ☒ Only the first named insured can receive premium refunds upon cancellation of the policy or policy changes.
3. Which of the following are included among the nine Commercial Property Conditions?
 - ☒ The insurance company can void the contract if the insured commits Concealment, Misrepresentation, or Fraud with respect to coverage, the covered property, or a claim.
 - ☒ An act by a person not under the named insured's direction or control will not affect the insurance.
 - ☐ If there is coverage under two or more sections of the policy, the insured can receive multiple payments for the same loss.
 - ☒ To bring legal action against the insurance company, the insured must be in compliance with the policy conditions and the action must be brought within two years of the date of the loss.
 - ☐ If an insured's property is damaged while in the care of a bailee, the bailee is entitled to insurance benefits.

Section 2: Building and Personal Property Coverage Form

Section 2: Building and Personal Property Coverage Form

Types of Property Covered and Not Covered

Check-In

If no other insurance applies, which one of the following is covered under the unendorsed Building and Personal Property Coverage Form?



- ☐ Foundations below the surface of the ground
- ☐ Underground pipes, flues, or drains
- ☐ Bridges and roadways
- ☒ Additions that are in the process of being completed



Knowledge Check



Acme Physicians, Inc., is purchasing a Commercial Property Policy for their medical facility. Are the following items covered under the Building and Personal Property Coverage Form, and if so, how the items should be classified?

1. A lawn tractor used to maintain the premises

Sample Answer:

Covered as Building—equipment used to service/maintain premises

2. A leased MRI machine that Acme is contractually required to insure

Sample Answer:

Covered as Business Personal Property

3. The office manager's pet Labradoodle, which is brought into the office as a therapy dog for patients

Sample Answer:

Not covered—animals are not covered unless they are boarded or considered to be “stock”

Additional Coverages and Coverage Extensions

Check-In



For the following Additional Coverages, identify whether the amount payable is subject to the limit of property insurance shown on the Declarations page.

Directions: Circle the correct limit for the following Additional Coverages:

1. Debris Removal

**Subject to
the limit**

**Not Subject
to the limit**

2. Preservation of Property

**Subject to
the limit**

**Not Subject
to the limit**

3. Fire Department Service Charge

**Subject to
the limit**

**Not Subject
to the limit**

4. Pollutant Clean-Up and Removal

**Subject to
the limit**

**Not Subject
to the limit**

5. Increased Cost of Construction

**Subject to
the limit**

**Not Subject
to the limit**

6. Electronic Data

**Subject to
the limit**

**Not Subject
to the limit**

▶▶ Knowledge Check



Your insured had to temporarily move his personal property to another location for five days to avoid damage from an imminent wildfire. Under the “Preservation of Property” Additional Coverage of the Building and Personal Property Coverage Form, what causes of direct physical loss or damage will be covered at this temporary location?

Sample Answer:

Any cause of loss.

Vacancy

▶▶ Knowledge Check



Your insured, Celebration Properties, owns a building that is zoned for restaurant and retail use. The prior tenant has gone out of business and canceled their lease on April 30th. Due to the lagging economy, Celebration Properties has been unable to find a new tenant to move into the building.

On July 5th, a fire destroys the building, resulting in \$300,000 of damages. Ignoring any deductibles or coinsurance, how much would the Commercial Property Policy pay?

Sample Answer:

Loss payment is reduced by 15%

85% x \$300,000 = \$255,000 amount paid

The Rights of Mortgageholders



Knowledge Check



Hudson Logistics has a Commercial Property Policy with a \$950,000 replacement cost limit. The building is mortgaged through Samwell Lending, with \$650,000 currently owed in principal and accrued interest.

A fire has recently destroyed their building. The insurance company has sent a claims adjuster to inspect the premises, but the claim is ultimately denied, as Hudson didn't allow the adjuster on-site.

How will Samwell Lending be indemnified for their insurable interest?

Sample Answer:

The policy will pay \$650,000 to Samwell Lending for their amount of insurable interest in the building.

Optional Coverages



Knowledge Check



Tabletop Gaming is a retail store that sells board games, comic books, and pop culture collectibles, including rare items. They have their business insured on a Building and Personal Property Coverage Form, with the Replacement Cost option selected. Explain to the policyholder how the Replacement Cost option would apply to their business personal property.

Sample Answer:

The Replacement Cost option does not automatically apply to their stock, although they may choose this by specifically selecting the Replacement Cost option for their stock on the Declarations page. However, it will not apply to any item that is a rare collectible.

Section 2 Self-Quiz

Directions: Use the following terms to fill in the blanks. Terms may be used only once, and not all terms will be used.

Additional Coverages	valuation	covered	30
Coverage Extensions	60	commercial	business personal property
insured	violated	not covered	building

1. The Building and Personal Property Coverage Form (CP 00 10) is the most commonly used coverage form to insure commercial buildings and their contents.
2. According to the Building and Personal Property Coverage Form, the term, building, refers to the structure on the described premises, as well as other elements including additions and permanently installed machinery and equipment.
3. In addition to building(s), the insured's business personal property is covered while located in or on the building described in the Declarations.
4. Autos held for sale are one example of property not covered under the Building and Personal Property Coverage form.
5. Coverage Extensions increase the scope of the property that is already covered, as long as certain conditions are met.
6. Additional Coverages are limited amounts of coverage for specific types of indirect losses or expenses.
7. The Additional Coverage of Preservation of Property will cover any direct physical loss or damage for up to 30 days if property needs to be moved or stored in another location to prevent damage.
8. If a building has been vacant for more than 60 days, payments for covered losses will be reduced by 15%.

Section 2: Building and Personal Property Coverage Form

9. Insurance companies determine a property's financial worth in the event of a loss through the process of valuation.
10. The Mortgageholders clause is designed to preserve the mortgageholder's rights, even if the named insured has violated conditions of the insurance contract.

Directions: Read each statement and indicate whether it is true or false.

1. Personal property of others is never covered under the Building and Personal Property Coverage Form.
- True **False**
2. The Additional Coverage of Debris Removal will pay 25% of the cost to remove from the covered property debris that was created by a covered cause of loss.
- True** False
3. Newly Acquired or Constructed Property is listed as Additional Coverage on the Building and Personal Property Coverage Form.
- True **False**
4. All Additional Coverages on the Building and Personal Property Form are subject to the limit of property insurance listed on the Declarations page.
- True **False**
5. For Coverage Extensions to be activated, the Declarations must show the presence of 80% or higher coinsurance or a Value Reporting Symbol.
- True** False
6. Additional Coverage and Coverage Extension are terms that essentially mean the same thing.
- True **False**
7. Vacancy poses no additional risk to the insured or insurer.
- True **False**
8. In the event of a loss to property for which the policyholder has two mortgages, the lender on the second mortgage will be paid only after the lender on the first mortgage has been compensated.
- True** False

Section 2: Building and Personal Property Coverage Form

9. Optional coverages are automatically activated unless policyholders choose to opt out of them.

True

False

Directions: List the four types of optional coverages that may be “activated” from the Declarations of the Building and Personal Property Form.

1. Agreed Value
2. Inflation Guard
3. Replacement Cost
4. Replacement Cost of Personal Property of Others

Section 3: Causes of Loss Forms

Types of Causes of Loss Forms

▶▶ Knowledge Check



Directions: Explain the advantage of using the Causes of Loss – Special Form. How does the Special Form differ from the Basic and Broad Causes of Loss forms?

Sample Answer:

With the Special Form, the insurer must prove that a loss is specifically excluded in order to deny a claim. This differs from the Basic and Broad forms, because those forms require the insured to prove that a covered cause of loss has occurred.

Open Perils Exclusions

Check-In



Directions: You recently issued a Commercial Property Policy for your new client, Vance Refrigeration. In reviewing the policy, Bob Vance asks you about the Ordinance or Law Coverage Endorsement. Match the coverage name to the correct type of coverage it provides.

Coverage A	<u> B </u> Covers the costs of demolition of the undamaged portion of the property
Coverage B	<u> C </u> Covers the increased cost of construction expenses to repair/replace the property to comply with building/zoning code ordinances.
Coverage C	<u> A </u> Covers the loss of value of the undamaged portion of the existing property

Knowledge Check



College Park Furniture Outlet insures their building with a \$850,000 Replacement Cost. Their local ordinance states that if a building is damaged more than 50%, it must be torn down and rebuilt to comply with the most current building codes.

In the years since the building was originally constructed, the county has mandated that all commercial buildings located in that zip code be constructed with energy efficient insulation and automatic sprinkler systems.

A tornado has recently destroyed 60% of their building.

Directions: Identify three of their loss exposures that are attributable to Ordinance or Law.

Sample Answer:

1. The value of the undamaged part of the building, because it is no longer useable;
2. The cost to demolish the building; and
3. The increased cost to rebuild the structure to satisfy current codes.

Special Form Exclusions

Check-In



Your insured has the Causes of Loss – Special Form insuring their warehouse building and its contents. Severe cold weather causes the water pipes to freeze and burst. Water seepage from the broken pipes causes significant damage. Under which situation might this loss be covered?

- ☐ If the insured turned the heat off in the building
- ☒ If the insured did their best to maintain heat in the building
- ☐ If the insured placed their business personal property on raised pallets
- ☐ Water damage is not a covered cause of loss.

▶▶ Knowledge Check



Rose Grocery has a Commercial Property Policy endorsed with a Causes of Loss – Special Form.

Directions: Explain what coverage, if any, is available for the following claims. If coverage is excluded, name the exclusion that applies:

1. A recent storm caused a power outage throughout the neighborhood. \$8,000 worth of refrigerated inventory was spoiled.

No coverage for loss of utility services (Exclusion E)

2. Heavy rains caused the ground water to rise and enter the store, damaging the carpets and merchandise.

No coverage for flood or rising surface water (Exclusion G)

3. Rose caught one of his employees stealing wine. An investigation revealed that this employee was stealing one bottle of wine every week for the past several years.

No coverage for dishonest or criminal acts by insureds or employees (Exclusion H)

4. During a storm, a chunk of hail damaged a window, allowing rain to enter the building causing significant damage to the floors, furniture, and most of the inventory.

This loss would be covered since the building was first damaged by the wind or hail, allowing the rain to enter.

Additional Coverage – Collapse



Knowledge Check



Bogie's Piano Bar is insured on a Building and Personal Property Coverage Form endorsed with a Causes of Loss – Special Form. Bogie's building collapsed due to undetected termite damage.

Directions: Explain whether his policy will cover this loss.

Sample Answer:

This loss is covered.

There is Additional Coverage for Collapse caused by hidden insect damage.



Knowledge Check



Jack Torrance owns a boutique hotel insured on a Building and Personal Property Coverage Form endorsed with a Causes of Loss – Special Form.

After a recent hurricane, the hotel suffered minimal damages near some windows and doors. A few weeks after those repairs were completed, Jack noticed that mold was present near the windows that had been replaced.

Directions: Explain how the policy would respond to this claim.

Sample Answer:

The policy will pay up to \$15,000 to cover the direct physical loss or damage to the building caused by fungus, including the cost of removing the fungus; the cost to tear out and replace any part of the building or other property as needed to gain access to the fungus; and the cost of testing performed after the removal, repair, replacement, or restoration of the damaged property is completed.

Additional Coverage Extensions Included in the Special Causes of Loss Form



Knowledge Check



Jeff Smith owns Downtown Wine & Cheese, which is insured on an unendorsed Building and Personal Property Coverage Form with Causes of Loss – Special Form. Explain if there is coverage for the following claims:

1. One of their sales representatives sets up a booth at the weekly farmer's market. While en route, she was rear-ended by another vehicle, resulting in \$1,000 worth of damaged inventory.

Sample Answer:

Not covered, as the Property in Transit Coverage Extension does not apply to property in the care, custody, or control of a salesperson.

2. A plumbing pipe behind the bar leaked, causing minor damage to the hardwood flooring. The cost to repair the plumbing system was \$800, but the plumber had to tear out sections of the wall and surrounding bar. The cost to repair the sections of the wall and the bar that had to be torn out was \$1,500.

Sample Answer:

The \$1,500 cost to repair the wall and the bar would be covered. The cost to repair the plumbing is not covered.

3. An attempted robbery was thwarted after Jeff's security alarm went off, but not before the thieves shattered the front windows of the store. Due to the size of the windows, full repair/replacement is not possible for several weeks.

Sample Answer:

The cost for any temporary window coverings is covered.

Section 3 Self-Quiz

Directions: Respond to each of the questions.

1. How does the Causes of Loss – Special Form differ from the Causes of Loss – Basic Form and Causes of Loss – Broad Form? Include the terms *named perils* and *open perils* in your answer.

Sample Answer:

The Causes of Loss – Special Form is an open perils form, which means that a loss will be covered unless the insurer can prove an exclusion applies. The Basic and Broad Forms are named perils forms, meaning that the insured must prove that a loss occurred as a result of a named peril in order for it to be covered.

2. After 70% of a building was damaged in a fire, local building codes required the property owner to demolish the building. What exposures does the owner now face under the Ordinance or Law exclusion?

Sample Answer:

The owner now faces three exposures: the value of the undamaged part of the building, the cost to demolish the building, and the increased cost of rebuilding the structure to meet current safety codes.

Section 3: Causes of Loss Forms

Directions: For each scenario, write the letter of the Special Form exclusion that applies.

Exclusion A (Artificially generated currents)

Exclusion B (Delay, Loss of use, or Loss of Market)

Exclusion C (Smoke damage caused by industrial operations)

Exclusion D (Wear and Tear)

Exclusion E (Damage caused by steam engine explosion)

Exclusion F (Continuous seepage of water)

Exclusion G (Water damage from burst pipes)

Exclusion H (Losses caused by anyone entrusted with property)

Exclusion I (Voluntarily parting with property)

Exclusion J (Weather losses to personal property left outside)

Exclusion K (Collapse - except for coverage found in Additional Coverage for Collapse)

Exclusion L (Release or escape of pollutants)

- D 1. A building with a rodent infestation faces significant losses from mice chewing through wood frames and electrical cords.
- G 2. A building owner turns off the heat to save money while the building is closed for a winter holiday. The pipes freeze and burst, causing extensive water damage.
- I 3. An insured is tricked into signing over the title to a company vehicle.
- J 4. A restaurant's outdoor tables and chairs are damaged after being left outside during a hailstorm.
- A 5. A company faces significant losses after electrical equipment is damaged as a result of a power surge.
- B 6. A manufacturing company faces a loss in income when operations have to be shut down for over a week following a storm.
- E 7. A steam boiler explodes, causing significant damage to a production line.

Section 3: Causes of Loss Forms

Directions: State whether each loss would be covered by an Additional Coverage:

- Collapse
- Limited Coverage for Fungus, Wet Rot, Dry Rot, and Bacteria, or
- one of the three Coverage Extensions listed on the Causes of Loss – Special Form: Property in Transit; Water Damage, Other Liquids, Powder or Molten Material Damage; and Glass

1. Personal property left outside the building is damaged following a building collapse.

Covered

Not covered

Personal property is only covered if it is inside the building.

2. It is determined that a building collapsed because it was constructed from defective materials.

Covered

Not covered

Defective materials or building methods are a covered cause of loss.

3. A building's roof collapses due to the weight of water from a torrential downpour.

Covered

Not covered

Weight of rainwater is a covered cause of loss.

4. A business owner suspects that there may be mold present after a recent hurricane. She wants to pay an inspector to do initial mold testing.

Covered

Not covered

Testing is only covered after removal and restoration have been performed.

5. An insured files a claim for the cost of tearing out a portion of a building in order to gain access to mold that was caused by a covered cause of loss.

Covered

Not covered

The cost to tear out and replace part of the building to gain access to the fungus or mold is covered.

Section 3: Causes of Loss Forms

6. A property owner has reason to believe there may still be fungus present following the completion of a recent removal and restoration, so testing needs to be performed.

Covered

Not covered

Testing is covered after removal of fungus if the insured has reason to believe there is still fungus present.

7. A shipment of product is damaged after a delivery truck (owned by the company) is involved in a vehicle collision.

Covered

Not covered

The property was being transported by a delivery driver and not a salesperson, and vehicle collision is a covered cause of loss for property in transit.

8. An insured's building has sustained water damage and he needs to tear out a portion of the building in order to access the source of the damage.

Covered

Not covered

The cost to tear out and replace parts of the building to access the source of water damage is covered.

9. After finding the source of the damage, the insured needs to replace the defective system.

Covered

Not covered

Replacing a system that has caused water damage is not a covered cause of loss.

Section 4: Basics of Time Element Insurance

Section 4: Basics of Time Element Insurance

Basic Time Element Concepts



Knowledge Check



1. Ginger's Sweets holds a Commercial Property Policy and Time Element Policy through your agency. The kitchen and the front of the store were damaged in a fire, forcing the store close while repairs are completed. The store will need to be closed through the winter holidays (one of the busiest seasons of the year), resulting in a significant loss of income. If Ginger submits a claim, will the Time Element Policy respond? Explain why or why not.

Sample Answer:

The Time Element Policy will respond to Ginger's claim because the property sustained direct damage (at the described premises), and the damage is attributable to a covered cause of loss. The business had to suspend operations during the period of restoration and suffered a financial loss as a result.

2. If Ginger is eligible to submit a claim, what responsibilities will Ginger have to ensure her claim is paid out properly?

Sample Answer:

Ginger would need to provide past income records and future projections to show what the shop would have earned if it no loss had occurred. She would also be responsible for ensuring that the shop is repaired within a reasonable timeframe.

Business Income (and Extra Expense) Coverage Form

Check-In



Directions: Match the term to the correct definition.

A. Business Income	<u> C </u> Begins 72 hours after a loss and ends when business operations are restored, restored at a new location, or after a reasonable time to complete repairs or replace the property
B. Extra Expenses	<u> A </u> Net income (net profit or loss) and continuing expenses, including payroll
C. Period of Restoration	<u> B </u> Expenses incurred during the period of restoration that would NOT have been incurred if there had been no direct physical loss or damage to the property



Knowledge Check



Bert's Bookbinding provides printing services to local schools and businesses. On July 5th, a portion of the building caught fire, forcing the business to shut down for three weeks, resulting in \$80,000 in lost revenue.

Although the building was repaired by July 27th, Bert was notified that a key piece of machinery would not be replaced until October. In order to expedite his reopening in time for the new school year, Bert paid an additional \$10,000 in order to secure a replacement for the machinery by August 5th. He then spent \$5,000 in an advertising blitz to notify all new and existing clients that they would be back open for business on August 9th.

Since many of Bert's clients had to go elsewhere for their printing needs, Bert still suffered \$100,000 in lost revenue during August and September.

Bert's Bookbinding has a Commercial Property Policy with a \$500,000 Time Element limit.

Directions: Explain how the Business Income (and Extra Expense) Coverage form might respond to Bert's losses.

Sample Answer:

The period of restoration for this claim would be July 8th through August 9th. Of the \$80,000 in business income loss sustained, the policy will indemnify Bert for the amount lost during the period of restoration.

The \$10,000 in expediting costs and \$5,000 in advertising would be considered Extra Expense coverage and is not subject to any time deductibles.

The Additional Coverage - Extended Business Income will cover Bert's business income losses (\$100,000) for up to 60 days while Bert works to bring operations back to normal operating levels.

Time Element Coverage Options



Knowledge Check



Nancy's Notions is written on a Business Income (and Extra Expense) Form with the Monthly Limit of Indemnity option. The amount of insurance is \$80,000 with a $\frac{1}{4}$ monthly limit.

Nancy had a loss and was out of business for several months. Her loss of profit and continuing expenses were as follows:

- 1st month – \$22,000
- 2nd month – \$25,000
- 3rd month – \$12,000
- 4th month – \$15,000
- 5th month – \$18,000

1. How much will Nancy's policy pay each month for this loss?

1st month – \$20,000 max is $\frac{1}{4}$ of limit of insurance

2nd month – \$20,000 same reason

3rd month – \$12,000 under $\frac{1}{4}$

4th month – \$15,000 under $\frac{1}{4}$

5th month – \$13,000 all of the remaining limit

2. How much would her policy have paid if it had been written with the Maximum Period of Indemnity option?

\$74,000 – 120 days of coverage will cover all loss for 1st three months

Extra Expense Coverage Form (CP 00 50)



Knowledge Check



Renaissance Printers has recently suffered a covered wind loss that prompted a 28-day shutdown. During the shutdown, Renaissance incurred \$95,000 in extra expenses to continue his operations. The insured carried a \$200,000 Extra Expense limit with 40%-80%-100% shown on the Declarations page. How much did Renaissance's policy pay?

Sample Answer:

The first 30 days will provide up to 40% of the coverage limit available (\$200,000). \$80,000 is payable towards this claim.

Dependent Properties



Knowledge Check



1. A plant that produces medication for a pharmaceutical company is shut down after damage from a hurricane. What type of dependent property is described here, and how might this loss impact the pharmaceutical company?

Sample Answer:

Manufacturer. The decreased inventory would negatively impact the pharmaceutical company's income.

2. A stadium hosts home games for a popular local baseball team. After the games, fans flock to the bars and restaurants in the neighborhood. The stadium is badly damaged in a fire, and the team temporarily relocates to a different playing field across town. What type of dependent property is described here, and how might this loss impact the bars and restaurants in the area?

Sample Answer:

Leader. The bars and restaurants would suffer a loss of business income because a lack of games in the area would result in a reduction in customers and revenue.

3. A caterer has an exclusive contract with a nearby art museum, and their primary source of income comes from events hosted at the museum. Unfortunately, the museum had to shut down for two months due to extensive tornado damage. What type of dependent property is described here, and how might this loss impact the caterer?

Sample Answer:

Recipient. The caterer would suffer a loss of income while their main customer is unable to host events.

Section 4 Self-Quiz

Directions: Use the following terms to fill in the blanks. Terms may be used only once, and not all terms will be used.

72	suspend	extra expenses	covered cause of loss
Maximum Period	four	\$2,500	one
direct	leader	electronic data	period of restoration
\$5,000	120	described	60
Extended Period	coinsurance	contributor	reasonable
manufacturer	Monthly Limit	recipient	business income

1. In order for a time element loss to be covered, the property must sustain direct damage which occurs at the described premises, and the damage must be attributable to a(n) covered cause of loss. Additionally, the business has to suspend operations and/or incur extra expenses and must suffer an actual financial loss during the period of restoration.
2. Extra expenses are costs incurred during the period of restoration that would NOT have been incurred if there had been no direct physical loss or damage to the property.
3. The term, business income, refers to the net income of a business (net profit or loss) and continuing expenses, including payroll.
4. The period of restoration begins 72 hour(s) after a loss occurs and ends when business operations are restored, restored at a new location, or after a(n) reasonable amount of time to complete repairs or replace property.
5. The Additional Coverage – Civil Authority will pay for up to four week(s) of business income loss to the insured when a business needs to be shut down due to a covered cause of loss occurring within one mile(s) of the insured's premises.
6. The Additional Coverage – Extended Business Income provides coverage for reduced income that can occur after a business has reopened. It is limited to 60 day(s) of coverage unless the Extended Period of Indemnity option is selected.

Section 4: Basics of Time Element Insurance

72	suspend	extra expenses	covered cause of loss
maximum period	four	\$2,500	one
direct	leader	electronic data	period of restoration
\$5,000	120	described	60
extended period	coinsurance	contributor	reasonable
manufacturer	monthly limit	recipient	business income

7. Coverage for Business Income and Extra Expenses related to electronic data is only provided through the Additional Coverage – Interruptions of Computer Operations and has a limit of \$2,500 per year.
8. Under the Maximum Period of Indemnity coinsurance option, loss is covered only for a period of 120 day(s) or until the limit is exhausted, whichever comes first.
9. With the Monthly Limit of Indemnity coinsurance option, the maximum amount an insured can receive in any 30-day period is a specified fraction of the Business Income limit shown on the Declarations page.
10. The Business Income Agreed Value option suspends the coinsurance condition as long as the insured carries a limit of insurance equal to or greater than the agreed value.
11. A(n) recipient accepts the products and services of a business.
12. A (n) leader attracts customers to a business.
13. A(n) contributor delivers materials and/or services to a business.
14. A(n) manufacturer produces products for delivery to a business's customers.

Section 4: Basics of Time Element Insurance

Directions: Select whether the statement is True or False.

1. The Extended Period of Indemnity option can be added onto the no coinsurance option or the Maximum Period of Indemnity option.

True

False

2. A 72-hour waiting period applies to Extra Expense loss payments.

True

False

3. A small accounting firm has a policy that includes Extra Expense coverage. After suffering a covered cause of loss, the firm needs to reopen immediately in another location. The restoration period will take 45 days to complete. The firm will be covered for 80% of its total policy limit.

True

False

4. A dependent property for a business suffers loss that results in a temporary shutdown. This will more than likely result in a loss of income for the connected business.

True

False

5. The Ordinance or Law exclusion does not apply to dependent properties.

True

False

Section 5: Insuring Commercial Property

Section 5: Insuring Commercial Property

Types of Property Eligible as Commercial Inland Marine



Knowledge Check



Directions: List the types of property considered to be eligible for commercial inland marine coverage. How do these types of property differ from property written under a Commercial Property Policy?

Sample Answer:

Imports, exports, domestic shipments, bridges, tunnels, and other instruments of transportation and communication, and commercial property floaters are considered eligible for commercial inland marine coverage.

These property types differ from those written under commercial property insurance because they do not remain in a fixed location.

Commercial Inland Marine Classes



Knowledge Check



Directions: Explain the difference between filed and non-filed commercial inland marine classes.

Sample Answer:

The rules, rates, and forms for filed classes of commercial inland marine must receive approval from state regulatory authorities, and they carry relatively similar risks and exposures. Non-filed classes' rules, rates, and forms are not subject to approval from state regulatory authorities. Non-filed classes can address unique or specific exposures on an individual basis. Because exposures can vary, it is difficult to provide uniform rules, rates, and coverage, so it is important to check each carrier's inland marine manual when writing non-filed classes.

Reasons for Writing Commercial Inland Marine Insurance

Check-In



Directions: Match each exposure on the left to the correct example on the right by writing the corresponding letter on the line.

A. Transportation B. Bailee C. Specialized or unusual property	<u> A </u> Treon runs an online store for his glass artwork that he ships to his customers across the country
	<u> C </u> A manufacturing company has constructed a dam to generate electricity for its factory
	<u> B </u> Lucia owns a dry-cleaning business and also provides summer fur storage for her customers

▶▶ Knowledge Check



Cho owns an upholstery business in which she and her employees pick up furniture at customers' homes, reupholster the items in her facility, and then transport the furniture back to customers' homes.

Directions: Explain to Cho the exposure(s) her business faces, and why it might be advantageous for her coverage to be written using a commercial inland marine form rather than a commercial property form.

Sample Answer:

Cho faces a transportation exposure because she will be responsible for transporting furniture from and to clients' homes. She also has a bailee exposure as she will have the property of others in her custody, care, and control while transporting and re-upholstering the furniture. Cho will need coverage from the moment she picks up the furniture until it is returned to the client. It would be advantageous for Cho's coverage to be written using a commercial inland marine form because it will provide her with the flexibility to insure her business in multiple locations and provide coverage beyond the \$2,500 limit for personal property of others that is available with a commercial property form.

Conditions Unique to Inland Marine Coverages

Check-In



Directions: Write a “C” next to each statement that is correct, and an “I” next to each statement that is incorrect. If the statement is incorrect, explain why.

- I 1. The front tire is stolen from a bicycle used by a courier service. The insurance company will pay for a new set of tires for the bicycle.

The insurance company will pay only to replace the stolen tire.

- C 2. A country club receives an insurance settlement for a stolen golf cart. The golf cart is later recovered. The country club may choose to keep the settlement or to return the settlement and receive the recovered vehicle.

- C 3. A long-haul trucker has a Motor Truck Cargo policy with a \$500,000 limit. After jack-knifing on the interstate, \$100,000 worth of general freight was destroyed. When the trucker is able to resume deliveries, the Motor Truck Cargo limit is reinstated to \$500,000.

▶▶ Knowledge Check



Gaston’s Tree Service owns a small backhoe that is insured on a Contractor’s Equipment Floater Policy for a scheduled amount of \$12,000. The backhoe was destroyed by a covered peril. At the time of the loss, the actual cash value of the backhoe was \$11,000 and the replacement cost is \$13,500. Disregarding any deductible, how much will the insurer pay for the loss to the backhoe?

Sample Answer:

The policy will pay the lesser of the scheduled amount, the actual cash value, or the cost to repair. Since repair is not an option for this piece of equipment, the policy will pay \$11,000.

Section 5 Self-Quiz

Directions: List the types of property eligible for inland marine coverage.

1. Imports
2. Exports
3. Domestic Shipments
4. Bridges, Tunnels, and Other Instruments of Transportation and Communication
5. Commercial Property Floaters

Directions: Answer the following questions based on the information presented in the course.

1. Explain why non-filed classes of commercial inland marine are not subject to filing requirements from state regulatory authorities. When are non-filed commercial inland marine forms used?

Sample Answer:

Non-filed classes are not subject to filing requirements from state regulatory authorities because they have greater variance of risks and exposures which makes it difficult to determine uniform coverages and pricing. They are used in instances where it is necessary to address specific exposures on an individual risk basis.

2. Which of the following are advantages of using of commercial inland marine insurance? (Check all that apply.)
 - ☐ Useful for insuring property that will remain in a single location owned by a business
 - ☒ Flexible terms and conditions
 - ☒ Ability to tailor the policy to best address the unique exposures of a particular business
 - ☐ Can be used to cover all types of property in all situations.
 - ☒ Provides options for insuring special and unique property, property in transit, and providing bailee coverage

3. Which of the following exclusions are NOT common to commercial inland marine policies? (Check all that apply)

- | | |
|--|---|
| ☐ Wear and Tear | ☒ Flood |
| ☒ Earthquake | ☐ Dishonest Acts |
| ☐ Nuclear Action | ☐ Inventory Shortage |
| ☐ War | |

Directions: Use the following terms to fill in the blanks. Terms may be used only once, and not all terms will be used.

open	named	cash value	actual
commercial	repair	floaters	replacement
insurance-to-value	policy	agreed	stated

- Commercial inland marine forms are referred to as floaters because they provide coverage wherever the insured property is located.
- Most commercial inland marine policies are written with open perils coverage.
- Nearly all inland marine policies contain a coinsurance or insurance-to-value provision.
- Though most commercial inland marine policies are written on an actual cash value basis, replacement cost coverage is available as an option on a number of forms.
- Some inland marine forms will restrict valuation to a stated amount, meaning that the policy will pay the lesser of the amount stated next to the insured item, the actual cash value, or the cost to repair the item.
- Occasionally, commercial inland marine policies are written on a(n) agreed value basis, which takes on the same meaning as it does in property insurance.

Appendix

Appendix

Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is one hour long. The test itself is composed of 50 multiple-choice questions that ask you to demonstrate what you know. Each question is worth two points. To pass, you are required to earn a minimum of 70 out of 100 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your learning guide.

1. Review the Section Goal.
2. Review each Learning Objective.
3. Change each header and subhead into a question. Then answer the question. For example,
Header: Characteristics of Whole Life Insurance
Question: What are some characteristics of Whole life insurance?
4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.
5. Check your answers to each Check-In. Correct your original answers, if necessary.
6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
7. Re-read the summary at the end of each section.
8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.
9. Review any comments, highlights, or notes you made in each section.

10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.
11. Make flash cards to help you review important vocabulary.

Sample Test Question

1. A granite reception desk owned by Douglas Automotive was destroyed in a fire. At the time of purchase, the desk cost \$10,000, and has since depreciated by \$2,000. The replacement cost today is \$11,500. What is the actual cash value of this item?
 - A. \$11,500
 - B. \$10,000
 - C. \$8,000
 - D. \$9,500
2. Which of the following describes that is sometimes known as an Open Perils Causes of Loss Form?
 - A. Causes of Loss – Basic Form
 - B. Causes of Loss – Broad Form
 - C. Causes of Loss – Special Form
 - D. Causes of Loss – Earthquake Form

Sample 1: The correct answer is D, \$9,500

Sample 2: The correct answer is C, Causes of Loss – Special Form

Glossary of Terms

actual cash value (ACV) – the amount equal to the replacement cost, minus depreciation of damaged or stolen property at the time of loss

agreed value – an “upfront agreement” between the insured and the insurance company on the fixed value of property

agreed value provision – an insurance provision through which the insurer agrees to waive the coinsurance requirement; insurers will require a Statement of Values—signed by the policyholder—as a condition for activating or including an Agreed Value provision in a policy

bailee – the party to whom personal property is delivered and entrusted (without transfer of ownership) for a specific purpose

blanket insurance – a property insurance policy with a single limit that covers more than one type of property at the same location; the same kind of property at multiple locations; or multiple kinds of property at two or more locations

building – includes the building structure, along with any completed additions, fixtures, permanently installed equipment, as well as any personal property used to maintain the premises

business income – the net income (net profit or loss before taxes) that would have been earned or incurred, plus continuing normal operating expenses (including payroll)

business personal property – includes furniture and fixtures, equipment, stock, the cost of labor, and any improvements or betterments

causes of loss forms – policy forms which define the covered perils to which insurance applies; three types of Causes of Loss forms apply to commercial property insurance: the Basic Form, the Broad Form, and the Special Form

coinsurance clause – a property insurance provision that penalizes the insured’s loss recovery if the limit of insurance purchased by the insured is not equal to or greater than a specified percentage (commonly 80 percent) of the value of the insured property

concurrent causation – when a loss is caused by two perils

current causation exclusions – holds that if a loss is caused by two perils, one of which is clearly excluded and one of which is not excluded, the policy must pay for the loss caused by the peril that is not excluded

conditions – policy terms which outline the provisions that control how a policy operates

coverage territory – the geographical area within which insurance coverage applies

Declarations – the front page (or pages) of a policy that specifies the named insured, address, policy period, location of premises, policy limits, and other key information that varies from insured to insured; also known as the information page; often informally referred to as the “Dec” or “Dec page”

deductible – an amount the insurer will deduct from the loss before paying a claim up to its policy limits

depreciation – an accounting method of allocating the cost of a tangible or physical asset over its useful life or life expectancy; represents how much of an asset's value has been used up

dependent properties – other enterprises upon which the insured business depends in order to remain operational at normal levels; four classifications include: contributors, recipients, manufacturers, and leaders

direct loss – loss incurred due to direct physical damage to property, as opposed to time element or other indirect losses

endorsements – policy provisions that modify the basic policy to either add, delete, or exclude certain types of coverage

extra expense – the additional costs, in excess of normal operating expenses, that an organization incurs in order to continue operations while its property is being repaired or replaced after having been damaged by a covered cause of loss

first named insured – the person or entity listed first on the policy Declarations page as an insured; this primary or first named insured is granted certain rights and responsibilities that do not apply to the policy's other named insureds

functional replacement cost – the cost of acquiring another item of property that will perform the same function with equal efficiency, even if it is not identical to the property being replaced

indemnity – when the insured is protected from loss by the insurer; to indemnify is to “make whole again”

indirect loss – loss resulting from the inability to use damaged property

inflation guard – a provision that gradually and continuously increases the limit of insurance by a specified percentage over a specified time period

insurable interest – an interest the insured has in the value of the subject of insurance, including any legal or financial relationship; usually results from property rights, contract rights, and potential legal liability

insurance-to-value requirement – a required amount of insurance equal to a specific percentage of a property's value

Margin Clause – a commercial property insurance provision stating that the most the insured can collect for a loss at a given location is a specified percentage of the values reported for that location on the insured's Statement of Values

named perils – a property insurance term referring to policies that provide coverage only for loss caused by perils specifically listed as covered

open perils – a property insurance term referring to policies that insure against loss to covered property from all causes except those that are specifically excluded

period of restoration – the period of time after direct physical loss to a covered property that ends when the property should be repaired or replaced at a reasonable speed, or when the business is resumed at a new location

personal property – all tangible property not classified as real property

personal property of others – property of others in the insured's care, custody, or control

provisional premium – a premium "deposit" an insured makes when using a Value Reporting Form endorsement; an advance premium based on 75% of the policy limit

real property – land and most things attached to the land, such as buildings and vegetation, which are subject to titled ownership

replacement cost – the amount of money a business must currently spend to replace an item of property with one of same or higher value

scheduled insurance – a property insurance policy that itemizes separate limits which apply to each type of covered property interest (building, personal property, business income, etc.) at each covered location

specific insurance – separate property insurance policies with a limit that applies to one location

Statement of Values – a list of insured property that includes the value of each item expressed either in terms of its replacement cost or actual cash value; submission at the beginning of the policy term is required in order to obtain coverage based on agreed value

stock – merchandise held in storage or for sale; raw materials and in-process finished goods, including supplies used in their packing or shipping

tenant's improvements and betterments – permanent additions or changes made to a building by a lessee at his or her own expense that may not legally be removed

use interest – the insurable interest that a tenant has in the improvements and betterments they have installed at their own expense, but which they do not own

valuation – an estimation of an item of property's worth; the amount of money the policyholder will receive from the insurance provider if a covered hazard event occurs

Value Reporting Form endorsement – intended for insureds whose personal property values fluctuate in both time and amount