

Risk Mgt. : Commercial Property Insurance

Focus: Protection of the Firm's
Assets : Cash Flow

Continuation of the Firm
Remaining Competitive

Type of Commercial Property Coverage

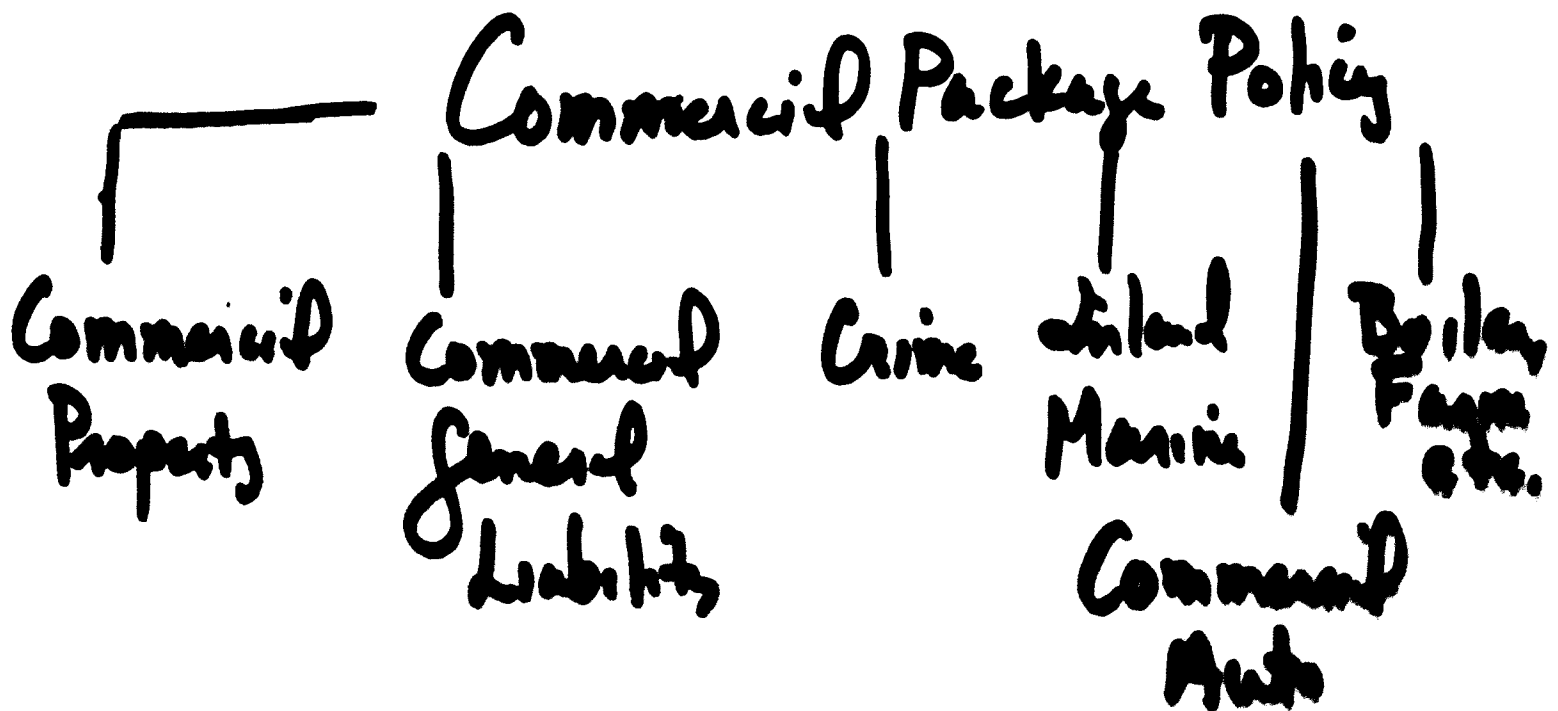
- Those on Real Property -

Property permanently attached to
land \equiv Property Ins.

Mobile Property \Rightarrow goods exported
(non real property) \equiv Transportation
insurance

Broader risks =

not only fire, lightning, windstorm
but also theft, loss of cargo due to
direct damage to transport vehicle,
terrorism loss



Commercial Package Policy (CPP)
designed by ISO (1987)

Each Section has its own declarations
& conditions applying to the perils
offered.

1990's ISO became a profit-making
Co. providing services within the
insurance industry. Because of
antitrust concerns - ISO in 1989
announced it would no longer issue
advisory rates

ISO still provides data on
losses & expense, statistics on rates
for comparable coverages - but the
insurer is left to determine its own
rates.

Building: Personal Property Form

Identifies covered property on declarations
page - Building at named locations

Also - the insured's business personal
property

Exclusions - items where loss may be
difficult to prove or the value of
items lost.

Perils Covered \Rightarrow property component requires
a Cause-of-Loss form

3 different ways for specifying Cause
of Loss

- ① Basic Form
- ② Broad Form
- ③ Special Form

Basic Form Includes:

Fire, lightning, explosion, windstorm/hail
Smoke, aircraft or vehicle striking the
building, riot or civil commotion
Vandalism, sprinkler leakage, sinkhole
collapse, volcanic action

Fire Marks - Started in Phil: business
paid fire stations a subscription fee -
mark went on the building - when a
fire occurred the fire station associated
with the fire mark would fight the
fire.

After the San Francisco Fire of 1906
⇒ Fire Insurance became widely
accepted ⇒ Standard Fire Policy
of 1943 intro in NY.

Legal definition of fire hinges on

① Friendly fire

② Unfriendly or Hostile fire

Also proximate cause of loss must be considered when deciding whether to pay a claim.

Importance of Accurately Reporting

Inventory \Rightarrow if inventory is

Underrated \Rightarrow claim may be settled on the basis of what was covered at the time of loss (lower insurance limits)

Business Income Coverage

The Building & Personal Property form may be used to cover indirect (Consequential) loss:

- ① loss of Income
- ② Continuing Expenses
- ③ Extra Expenses

Business Income from Dependent Properties

⇒ Major loss such as the 1994 Northridge Earthquake = destroy highways interrupt

Supply Chain. Need: Dependent Properties Business Income Form

Property Insurance Ratios

$$\text{Rate} = \text{Cost} / \$100 \text{ of Exposed Value}$$

$$\text{Premium} = \text{Rate} \times \# \text{ of hundreds of } \$ \text{ of Value in the exposure}$$

2 Different methods for developing rates

① Class Rating ② Schedule Rating

Class Rating — Combining comparable units into a group; then charging a class rate reflecting loss experience & expense for the group.

Property location	<u>State</u> Florida	<u>Territory</u> Dade City	
Size of Dwelling	1 or 2 Family	3 Family 4 Family	
Occupancy	Tenant	Owner Occupied	
Construction	Frame	Brick	
Fire Protection:	2-4 .75	5 .90	6 1.23

If the Apt. owner has a \$1 million Structure
 The Premium = $\frac{\$1,000,000}{100} \times .90 = \$9,000$
 per year

Schedule Rating = Analyze each property individually \Rightarrow used in rating Commercial buildings

E.D. Base Rate \$.60

Charge

Construction

Wooden floors \$.10

Deficient Iron \$.20

Use Mattress Factory .20

Total

1.10

Credits: Fire Sprinkler
20% Credit

(.22)

Scheduled Rate

\$.88

Ocean Marine Ins.

Earliest form of Insurance - used
in Mediterranean Shipping 2000 years
before Christ.

Bottomry \Rightarrow transaction protecting an
owner from financial loss if a ship
went down.

Shipowner secured a loan on vessel
+ paid a premium to cover loss
of ship & cargo (Bottomry loan)
forerunner of Ocean Marine
Insurance.

Ocean Marine Insurance Rating

Based on judgment of the Underwriters - involving the Assessment of the following factors:

Seaworthiness of the Ship
Experience / Ability of the crew / Captain

Potential for loss - fragile cargo is more highly rated

Route Scheduled to be traveled

Season of year
(Wartime shipments - Middle East)

Extent of Coverage Offered in the Policy.

4 loss exposures: Hull, Cargo,
freight loss: liability

Hull - value of ship + equipment

Cargo - value of goods shipped

loss of freight - loss of income to the

Shipowner for loss of cargo or
diverted passenger traffic

liability loss = loss to shipowner
if the ship is held legally responsible
for injury to others as a result
of a shipping/transportation
accident.

Types of losses

Particular Average loss - losses to the ship or cargo as a result of a direct damage accident

General Average loss - loss to property as a result of items thrown overboard to save the ship. Loss is shared on a proportionate basis with all participating: owner, shipper

Coverage is quite broad & encompasses a variety of losses -

Enemies, pirates, robbers, thieves -
all other perils

Inland Marine Insurance

Written usually on an "open-perils" basis → Coverage for risks of direct physical loss not specifically excluded in the policy

After loss - burden of proof rests with insurer to show an exclusion is applicable.

This insurance policy is unique to the U.S.

Tradition — Fire insurers cover fire
marine insurers cover transportation risks

Nationwide Defⁿ of Inland Marine Insurance (1933)

Adopted from a NAIC model bill in most States Amended 1953

5 types of property to be the Subject of Inland Marine Insurance

- ① Property for Export
- ② Imported property in transit
- ③ Domestic property in process of Shipment
- ④ Property used to facilitate transportation such as bridges, pipelines transmission towers/lines

⑤ Personal property easily moved
items of significant value
jewelry, furs, cameras,
musical instruments

Additional Inland Marine Coverage

Bailments: property belonging to
one party (Bailor) in the temporary
possession of another (the bailee)

e.g. parking garage, cleaners, restaurants

Shipping Cargo on Common Carriers -
Annual transit policy protects
the Shipper (bailor)

Motor Truck Cargo interests of The
Ins.
Trucking Co. is protected.

Property used in transportation:
Communication - bridges, wharves,
dams, tunnels, traffic signals
TV & radio lines / towers
electrical power lines Towers

Floaters policies

Person & Articles floaters - covers

Valuable assets - Cameras, jewelry,
furs, guns, stamps, coins

Blanket Floaters - used when the property as a whole is valuable (e.g. Silverware)

Scheduled floaters - covers an item of significant value

fine art

medical equipment

Traveling Vet Supplies

Violin

Aviation insurance

Covers: Airplanes, helicopters, hot air balloons, hang gliders, Space Satellites

Protect Against loss caused by
physical damage to plane?
protect against liability loss
from an accident

Aircraft Hull policy - provides
protection for damage due to
specific peril or may be written
on an open perils basis.

Auto Property Insurance

Coverage for Property's liability loss
focus in this material is on
property loss.

Distinction — between Collision vs. Non Collision Coverage

⇒ The business must acquire collision coverage as part of the Commercial Insurance Package ; Some amount of Comprehensive Coverage (loss other than collision)

Defⁿ Collision means the collision (violent striking) of an auto with another object (car, tree, even standing water)

Losses not Caused by Collision

Theft, Vandalism, fire
Windstorm

Clarifying Statement

⇒ For purpose of This coverage,
breakage of glass: loss Caused by
missile, falling objects, fire, theft
or larceny, explosion, earthquakes,
Windstorm, hail, water, flood,
malicious mischief or Vandalism, riot
or civil commotion, or colliding with
a bird or animal shall not be deemed
to be loss Caused by Collision.