Risk Mgt. of Commercial Property Insurance

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

Continuation of the Firm Remaining Competitive

Types of Commercial Property Coverage

- Those on Real Property -
  Property permanently attached to land & Property Ass.
Mobile Property ➞ goods exported (non real property) ➞ Transportation

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

- Commercial Property
- General Liability
- Crime
- Marine
- Business Auto
Commenced Package Policy (CPP) designed by JSO (1987)

Each section has its own declarative conditions applying to the peril(s) affected.

1990s JSO became a profit-making Co. providing services within the insurance industry. Because of antitrust concerns — JSO in 1989 announced it would no longer issue advisory rates.
So still provides data on losses experience, statistics on rate for comparable coverage - but the insurer is left to determine its own rates.

Building: Personal Property Form

Identify 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.
Peaks Covered ⇒ property component requires a cause-loss form

3 different ways for specifying Cause-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 activity
Fire Marks - Started in Phil: businesses paid fire stations a subscription fee - when a 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 intra in NY.
Legal definition of fire hinges on:

1. Friendly fire
2. Unfriendly or hostile fire

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

Importance of accurately reporting inventory:

- If inventory is understated, a claim may be settled on the basis of what was covered at the time of loss (lower insurance limits).
Business Income Coverage

The Builder's Personal Property form may be used to cover indirect (Consequential) loss:

1. Loss of Income
2. Continuing Expense
3. Extra Expense

Business Income from Dependent Proprietor

Major loss such as the 1994 Northridge Earthquake = destroy highway, interrupt supply chain. Need: Dependent Proprietor Business Income Form
Property Insurance Ratings

Rate = \frac{\text{Cost}}{\$100} \times \frac{\text{Exposed Value}}{\text{Value in the Exposure}}

Premium = \text{Rate} \times \# \text{hundreds}

2 Different methods for developing Rate

1. Class Rating
2. Schedule Rating

Class Rating — Combining comparable units into a group; then changing a class rate reflecting loss experience i.e., expense for the group.
If the Apt. owner has a $1 million structure, the Premium = \( \frac{4,000,000 \times .90}{100} \) = $9,000 per year
Schedule Rating = Analyze each property individually = used in rating commercial buildings

E.II. Base Rate

Charge

Construction:
Wooden frame $0.10
Deficient $0.20

Use Mattress Factory $0.20

Total $1.10

Credits: Fire Sprinkler 20% Credit $(0.22)

Scheduled Rate $0.88
Ocean Marine Ins.

Earliest form of insurance - used in Mediterranean shipping 2000 years before Christ.

Bottomry = transaction protecting an owner from financial loss of a ship that went down.

Shipowner secured a loan on vessel + paid a premium to cover loss + paid back premium. (Bottomry loan)

For runner of Ocean Marine Insurance.
Ocean Marine Insurance Ratings

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)
Extant of coverage offered in the Policy.
A loss exposure: Hull, Cargo, freight losses, liability

Hull - Value of Ship + equipment
Cargo - Value of goods shipped

Losses - 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.
Type of loss

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 goods thrown overboard to save the ship. Loss is shared on a proportionate basis with all participating owners, shippers.

Coverage is quite broad and encompasses a variety of losses – enemies, pirates, river, 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.

Traditionally, fire insurers cover fire marine insurers cover transportation risks.
Nationwide DEF I & II Inland Marine Insurance (1933)
Adopted from a NAIC Model bill in most State 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
4. Shipment
5. Property used to facilitate transportation such as bridges, pipelines, transmission towers/lines
⑤ Personal property easily moved
items of significant value
jewelry, fans, 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 & The
Jr.
Trucking Co. is protected.

Property used in transportation i
Communications - bridge, wharves,
dams, tunnels, traffic signals
TV & radio lines, towers
Electrical power lines, towers

Floater policies:

Person & Artick, Floater - covers
Valuable assets - cameras, jewelry,
fects, guns, stamps, coins
Blanket Floaters - Used when the property as a whole is valuable (e.g. Silverware)

Scheduled Floaters - Cover 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 and protect against habitual loss from an accident.

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

Auto Property Insurance
Coverage for property and liability loss focuses in this material is on property loss.
Distinctia — between Collision vs. Non Collision Coverage

→ The basimen must acquire Collision Coverage as part of the Commercial
   Insurance Package; Some amount of Comprehensive Coverage
   (loss other than Collision)

Definition: 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 purposes of this coverage, breakage of glass; loss caused by misk, falling objects, fire, theft or larceny, explosion, earthquake, 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.