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COMMERCIAL
PROPERTY

STUDY GUIDE

EXAM PREP AND ANSWER KEY

- **Knowledge Checks**
- **Check-Ins**
- **Self-Quizzes**
- **Sample Exam Questions**
- **Glossary of Terms**



THE NATIONAL ALLIANCE
for Insurance Education & Research

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STUDY GUIDE

EXAM PREP AND ANSWER KEY

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 Appendix 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: Commercial Property Coverage Forms and Endorsements

Part 1:

Common Policy Conditions (IL 00 17 11 98)

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. According to the Common Policy Conditions, any Named Insured is authorized to cancel the policy or make changes, with the consent of the insurer.

True

False

2. The insurance company is authorized to examine the insured's books and records even after the policy period has concluded.

True

False

3. The insurance company is required to conduct safety inspections and confirm that the insured is adhering to all laws, regulations, and codes.

True

False

4. Any return premiums will be divided evenly among all Named Insureds.

True

False

5. The rights and duties outlined in the insurance policy cannot be transferred to another party, except in the case of the death of an individual named insured.

True

False

Commercial Property Declarations (CP DS 00 10 00)

▶▶ Knowledge Check



Directions: Answer the following questions.

1. If the Named Insured has a building valued at \$1,000,000 and 80% is indicated on the Declarations for coinsurance, what is the minimum limit of insurance needed to avoid a coinsurance penalty?

2. The Named Insured from the scenario above has a \$600,000 limit of insurance and suffers a property loss with damage totaling \$100,000. If the building is valued at \$1,000,000 at the time of the loss and the policy has a \$10,000 deductible, how much will the Named Insured receive in the settlement?

Commercial Property Conditions

Check-In



Directions: Match each description to the corresponding Commercial Property Condition.

<p>A. Concealment, Misrepresentation Or Fraud</p>	<p>_____ A lawsuit cannot be brought against the insurer until all terms of the coverage part have been met and legal action must be brought within two years, subject to state provisions.</p>
<p>B. Control Of Property</p>	<p>_____ The policy will not pay more than the actual loss amount, no matter how many coverages apply.</p>
<p>C. Insurance Under Two Or More Coverages</p>	<p>_____ No person having custody of Covered Property (other than the insured) will benefit from this policy.</p>
<p>D. Legal Action Against Us</p>	<p>_____ Coverage only applies during the policy period and within the U.S., its territories and possessions, Puerto Rico, and Canada.</p>
<p>E. Liberalization</p>	<p>_____ This Coverage Part is void if the insured conceals or does not accurately represent information pertaining to the coverage or to a claim.</p>
<p>F. No Benefit To Bailee</p>	<p>_____ Other insurance covering the same property with the same terms, conditions, etc., will be paid on a pro-rata basis. Other insurance with different terms, conditions, etc., will be paid on an excess basis.</p>
<p>G. Other Insurance</p>	<p>_____ Newly insured policies will benefit from broadened coverage as long as no additional premium applies.</p>
<p>H. Policy Period And Territory</p>	<p>_____ The Named Insured can waive the rights of recovery (in writing) to anyone prior to a loss and to certain responsible parties after a loss.</p>
<p>I. Transfer Of Rights Of Recovery Against Others To Us</p>	<p>_____ Actions of others outside the control of the Named Insured will not affect the policy. A breach of conditions at one location will not impact coverage at unaffected locations.</p>

Commercial Property Coverage Forms

▶▶ Knowledge Check



Directions: Describe how and when a Named Insured can waive their rights of recovery against another party.

Part 1: Self-Quiz

1. List the five rights and duties of the first Named Insured.

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

2. What is the coinsurance formula that applies when an insufficient Limit of Insurance is carried?
- Amount carried/amount required X Loss = Recovery minus deductible equals settlement
 - Amount required/amount carried X Loss = Recovery minus deductible equals settlement
 - Amount carried/amount required X (Loss minus Deductible) = Recovery settlement
 - Amount required/amount carried X (Loss minus Deductible) = Recovery settlement
3. A Named Insured has a building valued at \$1,000,000 with an 80% coinsurance requirement. The Named Insured has a \$400,000 Limit of Insurance and suffers a property loss with damage totaling \$100,000. If the building is valued at \$1,000,000 at the time of the loss and the policy has a \$10,000 deductible, how much will the Named Insured receive in the settlement?
- \$25,000
 - \$40,000
 - \$50,000
 - \$90,000

Section 1: Commercial Property Coverage Forms and Endorsements

4. Which of the following statements are accurate regarding the rights of recovery? (Select all that apply).
- Rights of recovery can be transferred through verbal agreement.
 - Transfer of rights of recovery must always be waived in writing.
 - The Named Insured can only transfer rights of recovery to certain persons or entities both before and after a loss.
 - After a loss, the rights of recovery can only be waived against certain persons or entities.
5. Following a loss, the Named Insured can transfer the rights of recovery to which of the following persons or entities? (Select all that apply).
- Another insured
 - An immediate family member not named as an insured on the policy
 - A parent company or subsidiary of the Named Insured
 - A tenant of the Named Insured
 - A company contracted to work on the insured's property

Part 2:

The Building and Personal Property Coverage Form

Check-In



Directions: Which of the following would MOST LIKELY be considered as Building on an unendorsed Building And Personal Property Coverage Form? (Check all that apply).

- An incomplete building addition that is not covered by other insurance
- A furnace that is affixed to the roof of a building
- Building materials located 500 feet from the described premises
- Welding machinery that the insured intends to remove
- An indoor rug covering the entranceway to a building

Check-In



Directions: Indicate whether each of the following examples should be classified as Building or Your Business Personal Property (YBPP).

1. A conference table

Building

YBPP

2. A table and chairs kept outdoors on the back patio of the property

Building

YBPP

3. A washer and dryer

Building

YBPP

4. An industrial sewing machine that the insured intends to remove when they vacate the building

Building

YBPP

▶▶ Knowledge Check



Directions:

- a. Circle the correct item to indicate whether each of the following items are Covered Property or Property Not Covered.
- b. If it is Covered Property, state whether it is Building, Your Business Personal Property, or Personal Property of Others.
- c. If it is Property Not Covered, state which endorsement or coverage form (if any) could help the insured to buy back coverage.

1. An underground pipe

Covered Property

- Building
- Your Business Personal Property
- Personal Property of Others

Property Not Covered

2. A riding lawnmower

Covered Property

- Building
- Your Business Personal Property
- Personal Property of Others

Property Not Covered

3. A chair that has been purchased by a customer is in a delivery truck 50 feet from the building described in the Declarations.

Covered Property

- Building
- Your Business Personal Property
- Personal Property of Others

Property Not Covered

4. Store shelving that is not permanently installed

Covered Property

- Building
- Your Business Personal Property
- Personal Property of Others

Property Not Covered

Methods of Writing Commercial Property Insurance

▶▶ Knowledge Check



Directions: Read the scenario and answer the question that follows.

Eddie owns a spicy snack business. He owns two buildings where inventory fluctuates throughout the year. The buildings are valued at \$500,000 each and his business personal property is valued at \$500,000 total.

What advantages and disadvantages would Eddie face if he covered these items on a blanket basis?

Advantages:

Disadvantages:

▶▶ Knowledge Check



Directions: Read the following scenario and consider how the policy would respond.

A Named Insured has a Commercial Property Policy (CPP) written on a Value Reporting Form with a monthly reporting period on the Business Personal Property (BPP). The insured has a limit of \$500,000 on BPP. After four months, the Named Insured, who has never submitted a report, has a \$10,000 covered loss to BPP. How much of the covered loss will the Named Insured be able to collect?

Part 2: Self-Quiz

Directions: Indicate which of the following items are covered under Building or as Your Business Personal Property on the Building And Personal Property Coverage Form by placing an "X" in the appropriate box.

	Building	Your Business Personal Property
a. Fixtures, including outdoor fixtures		
b. Furniture		
c. Permanently installed machinery and equipment		
d. Fire extinguisher to service the building		
e. Use interest of tenants' improvements and betterments		

Directions: Indicate which of the following items are Covered Property or Property Not Covered on the Building And Personal Property Coverage Form by placing an "X" in the appropriate box.

	Covered Property	Property Not Covered
a. Retaining walls that are part of a building		
b. Paved surfaces such as a parking lot		
c. Underground pipes, flutes, or drains		
d. Building foundations, including those below the lowest basement floor		

Section 1: Commercial Property Coverage Forms and Endorsements

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

1. Jermaine owns an industrial laundry service, which he has insured on a Building And Personal Property Coverage Form. Jermaine wants to make sure that his owned washing machines and other permanently installed laundry equipment will be classified as Building Property. Which endorsement addresses this concern?
 - Additional Building Property
 - Additional Property Not Covered
 - Leased Property
 - Additional Covered Property

2. Fences are Property Not Covered under the Building And Personal Property Coverage form. Which of the following can be used to buy back coverage?
 - Additional Building Property
 - Additional Property Not Covered
 - Limited Coverage for Unmanned Aircraft (Scheduled And/Or Blanket Coverage)
 - Additional Covered Property

3. Which of the following describes Scheduled Coverage?
 - A specific limit to a building or personal property is applied at a single location.
 - Separate limits of insurance are applied to two or more individually listed properties.
 - One limit is applied to more than one type of property at a single location.
 - One limit is applied to one or more types of property at two or more locations.

4. Which of the following could be considered advantages of using Blanket Coverage? (Select all that apply.)
 - When more than one type of property is insured, insurance can be applied where it is needed.
 - Blanket Coverage suspends the coinsurance requirement.
 - The insured can opt to have different covered causes of loss for different types of covered property.
 - Blanket Coverage handles fluctuating values between locations or fire-rated divisions.

Section 1: Commercial Property Coverage Forms and Endorsements

5. Which endorsement allows the Named Insured to increase coverage for a specified number of days to reflect predictable (planned or expected) seasonal increases in business personal property insurance?
- Limitation On Loss Settlement – Blanket Insurance (Margin Clause)
 - Peak Season Limit of Insurance
 - Value Reporting Form
 - Inland Marine Coverage Forms
6. A Named Insured has a CPP written on a value reporting form with a monthly reporting period on the Business Personal Property (BPP). The Named Insured has been reporting on time but under-reporting their values on all their reports. In the June report, they should have reported \$400,000, but they actually reported \$200,000. A claim occurred in early August with a loss of \$100,000. Indicate which of the following is an accurate statement regarding how the insured will be paid at the time of loss:
- They will only be able to receive up to the amount reported on the last report of values.
 - They will be able to receive the full amount since the loss was less than the reported amount.
 - They will only be able to receive 50% of the loss amount.
 - They will only be able to receive 75% of the loss amount.

Part 3:

Additional Coverages

▶▶ Knowledge Check



Directions: Read the scenario and respond to the prompt that follows.

Your client, Debbie Owens, operates a mattress manufacturing facility in a remote, difficult-to-access location. Debbie is concerned about the cost of Debris Removal in the event of a loss.

Explain to Debbie how the Debris Removal Additional Coverage will respond in the event of a loss, as well as her option(s) for increasing her coverage through endorsement.

Coverage Extensions

▶▶ Knowledge Check



Directions: Read the scenario and respond to the prompts.

1. The Named Insured has a CPP with 80% coinsurance on a \$750,000 building. They purchase a warehouse valued at \$300,000. Describe the extent of the coverage (if any) for this newly acquired property under the BPPCF.

2. Describe any endorsements that might modify coverage for newly acquired property.

Exclusions and Limitations, Limits of Insurance, and Deductible

▶▶ Knowledge Check



Directions: Review the following scenario and explain if coverage applies.

Tom has put up a new outdoor sign for his business that is valued at \$5,000. It is completely damaged by a Covered Cause of Loss. How much will Tom receive for the loss, disregarding any deductibles? Are there any endorsements that would have benefited Tom in this scenario?

Part 3: Self-Quiz

Directions: Indicate whether the following items are an Additional Coverage or a Coverage Extension by placing an X in the appropriate box.

	Additional Coverage	Coverage Extension
a. Increased Cost Of Construction		
b. Outdoor Property		
c. Fire Department Service Charge		
d. Personal Effects And Property Of Others		
e. Non-owned Detached Trailers		
f. Electronic Data		

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

- The Named Insured has a CPP covering both the building and business personal property. The building has been damaged by a Covered Cause of Loss. The Named Insured moves some of the contents to prevent damage. Which of the following is an accurate statement?

 - Preservation Of Property is included as an Additional Coverage and provides coverage for only 24 hours following the loss.
 - Preservation Of Property is included as an Additional Coverage and provides coverage for 30 days after covered property is first moved.
 - Preservation Of Property is included as an Additional Coverage but only applies to the building, not business personal property.
 - Preservation Of Property is included as an Additional Coverage for temporary storage, but does not apply to transit.
- Which of the following endorsements can be used to raise the limits available for Additional Coverages and Coverage Extensions such as Fire Department Service Charge, Electronic Data, Valuable Papers and Records, and Non-owned Detached Trailers?

 - Additional Covered Property
 - Debris Removal Additional Insurance
 - Newly Acquired Or Constructed Property - Increased Limit
 - Higher Limits

Section 1: Commercial Property Coverage Forms and Endorsements

3. Which of the following statements is true regarding Personal Effects And Property Of Others? (Select all that apply).

- It is provided as an Additional Coverage.
- It is provided as a Coverage Extension.
- It will pay up to \$2,500 at each location for personal effects owned by the Named Insured and others involved in the business.
- It includes up to \$1,000 coverage at each location for the theft of personal effects.

4. The BPPCF states that the policy will not pay more than \$2,500 per sign, whether the sign is attached or not.

True

False

5. If more than one item of Covered Property is damaged and separate Limits of Insurance apply, losses are not combined in determining the application of the deductible, and separate deductibles apply for each Limit of Insurance.

True

False

6. Both the Deductibles By Location and Multiple Deductible Form endorsements enable an insured to have separate deductibles on different locations, but they differ in terms of how the deductible is applied in the event of a single occurrence at multiple locations.

True

False

Part 4:

Loss Conditions

Check-In



Directions: Select the best response for the following question. There is only one correct answer choice.

The Named Insured has a CPP with a building limit of \$1,000,000. The building has been vacant for three months. Which of the following is an accurate statement under the BPPCF?

- There is no coverage under the BPPCF after a building has been vacant for more than 60 days.
- There is coverage provided under the BPPCF up to 30 days but only for damage caused by the Covered Causes of Loss.
- There is coverage for fire, but the payment is reduced by 10%.
- There is no coverage after a building has been vacant for more than 60 consecutive days for certain Covered Causes of Loss and the payment on others is reduced by 15%.

▶▶ Knowledge Check



Directions: Read each of the following scenarios and identify the endorsement that would best meet the needs of the client described. Also state which Loss Condition the endorsement modifies.

1. The Named Insured owns an older building and wants to insure it for a limit that reflects the use of less costly materials in the event the building suffers a significant loss.

2. The Named Insured is a tenant responsible for insuring the building they occupy and wants to make sure that their Building Owner will be included in payments from the insurance company.

Optional Coverages

▶▶ Knowledge Check



Directions: Read each of the scenarios below and answer the questions that follow.

1. A client tells you that he wants the Agreed Value Optional Coverage because it “gets rid of coinsurance.” How would you explain to the client how Agreed Value actually works with respect to coinsurance? Is there anything else the client should know about this coverage?

2. A client tells you she is interested in Inflation Guard but is concerned about how it will impact her premiums. What would you say to the client to explain how Inflation Guard impacts premiums?

Part 4: Self-Quiz

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

- Which of the following are Duties In The Event Of Loss Or Damage, according to the BPPCF?
 - Notify the police of all losses, regardless of whether or not a law may have been broken.
 - Provide the insurer with a description of how, when, and where the loss or damage occurred.
 - Store all Your Business Personal Property in a secure storage facility or safe in order to prevent further damage.
 - Send a signed, sworn proof of loss within 60 days of the request from the insurer.
- The Valuation Condition automatically provides coverage on an Actual Cash Value basis except as otherwise provided. Which of the following statements accurately describes a situation in which an unendorsed BPPCF will pay on something other than a cash value basis?
 - All "stock" will be valued at the current market rate.
 - "Stock" that has been sold but not delivered will be valued at the selling price, less any discounts or expenses that would have been otherwise incurred.
 - Awnings, floor coverings, appliances, and outdoor equipment or furniture will be valued on a Replacement Cost basis.
 - Damage to awnings, floor coverings, appliances and outdoor equipment or furniture under \$2,500 will be valued on a Replacement Cost basis.
- Which endorsement modifies the Loss Payment Condition to add other persons or organizations to be included in the insurer's payment for loss or damage?
 - Loss Payable Provision
 - Manufacturers Consequential Loss Assumption
 - Functional Personal Property Valuation (Other Than Stock)
 - Functional Building Valuation
- Which of the following endorsements modifies the Valuation Condition and allows the Named Insured to replace business personal property with the most closely equivalent property available?
 - Market Value - Stock
 - Manufacturers Consequential Loss Assumption
 - Functional Personal Property Valuation (Other Than Stock)
 - Increased Cost Of Loss And Related Expenses For Green Upgrades

Section 1: Commercial Property Coverage Forms and Endorsements

5. Which of the following statements is true regarding the Agreed Value option in the BPPCF?
- Agreed Value suspends coinsurance with no additional premium charge.
 - Agreed Value removes coinsurance for an 5% additional premium charge.
 - Agreed Value suspends coinsurance for an additional 5% premium charge.
 - Agreed Value is triggered by an endorsement with a 10% additional premium charge.
6. Which of the following statements regarding Inflation Guard are true? (Select all that apply.)
- Inflation Guard automatically applies.
 - A percentage must be shown in the Declarations for this Optional Coverage to apply.
 - The Limit of Insurance increases quarterly.
 - The Limit of Insurance increases daily.
7. The Named Insured has coverage under their CPP for Building, Your Business Personal Property, and Personal Property of Others at a location described in the Declarations. Which of the following is an accurate statement?
- There is an Optional Coverage for extending Replacement Cost to the Personal Property of Others, only if the Replacement Cost Optional Coverage is shown in the Declarations.
 - If the Named Insured has Replacement Cost on Your Business Personal Property, the CPP will automatically extend Replacement Cost Coverage to the Personal Property of Others.
 - Replacement Cost to the Personal Property of Others can be added through endorsement.
 - Replacement Cost can only apply to Building and Your Business Personal Property.

Section 1: Commercial Property Coverage Forms and Endorsements

Section 2: Commercial Property Causes of Loss and Endorsements

Overview of the Causes Of Loss Forms

Check-In



Directions: Read the scenario below and indicate which of the Causes Of Loss forms would provide coverage for the peril described. (Select all that apply).

After a blizzard, the weight of the snow and ice causes significant damage to the roof of a commercial building.

- Basic Form
- Broad Form
- Special Form

Special Form—Exclusions

Check-In



Directions: Indicate whether each of the following statements are true or false.

1. Ordinance Or Law Coverage CP 04 05 09 17 only allows the Named Insured to buy back coverage for the increased cost of construction to bring a building up to code.

True

False

2. An earthquake causes power lines to collapse, sparking a fire. There would be no coverage under the Causes Of Loss - Special Form for damage resulting from that fire.

True

False

3. The Utility Services Exclusion applies to both direct damage and time element losses.

True

False

4. Because the Water exclusion applies to a broad range of water-related perils, coverage can typically only be bought back for certain individual exposures, such as flood or sewer/drain/sump discharge.

True

False

5. Coverage for "fungus," wet rot, dry rot, or bacteria that results from the water used to put out a fire is excluded under the Causes Of Loss - Special Form.

True

False

▶▶ Knowledge Check



Directions: Read the scenario and respond to the prompt.

Your client is considering adding Ordinance Or Law Coverage CP 04 05 to their Causes Of Loss – Special Form but they are confused regarding how the coverages apply. Explain what is paid for by each Coverage (A, B, and C).

Check-In



Directions: Which of the following are NOT COVERED because they are part of the Group 2 exclusions? (Select all that apply.)

- Damage caused by agricultural smudging or industrial operations
- A fire that ensues as a result of a steam apparatus explosion
- A pipe that burst due to freezing after the Named Insured drained it and shut off the water supply
- Stolen property that had been entrusted to an individual by the Named Insured
- Damage to personal property that was left out in the rain
- Fire damage to company property resulting from a disgruntled employee committing an act of arson

▶▶ Knowledge Check



Directions: Answer the following question.

A client's pipes froze and burst, causing significant damage to the building and personal property. What must the client have done for this damage to be covered under the Causes Of Loss - Special Form?

Special Form—Limitations

▶▶ Knowledge Check



Directions: For each of the following scenarios indicate whether coverage would apply (and if so, to what extent) under the Causes Of Loss – Special Form. Explain your answer, referencing any relevant Limitations.

1. A heavy rainstorm occurs overnight. The Named Insured discovers significant water damage to the interior of the building because a window was left open.

2. The outerwear department of a high-end store is robbed, and the thief makes off with over \$15,000 worth of fur coats.

3. An antique store employee trips and falls, knocking over a glass display case full of porcelain figurines. Both the display case and the figurines are broken as a result.

Special Form—Additional Coverages and Extensions

▶▶ Knowledge Check



Directions: Determine whether the Additional Coverage - Collapse would apply in the following scenario. Explain your answer.

A roof was constructed of defective material. During a heavy rainstorm, the roof collapsed abruptly due to the weight of the rain that had collected on it.

Section 2: Self-Quiz

Directions: Circle the correct item to indicate whether each of the following exclusions is a Group 1 (Concurrent Causation/Sequential Causation) exclusion or a Group 2 (Concurrent Causation) exclusion.

1. Earth Movement

Group 1

Group 2

2. Delay, Loss of Use, or Loss of Market

Group 1

Group 2

3. Seepage or Leakage of Water

Group 1

Group 2

4. Governmental Action

Group 1

Group 2

5. Utility Services

Group 1

Group 2

6. Collapse

Group 1

Group 2

Section 2: Commercial Property Causes of Loss and Endorsements

Directions: Match the exclusion to the relevant policy endorsement or coverage. (Note: some exclusions can be addressed by more than one endorsement, and some endorsements can address more than one exclusion. Not all endorsements or exclusions are included in this activity.)

A. 1.b. Earth Movement	_____ Equipment Breakdown Cause of Loss
B. 1.d. Nuclear Hazard	_____ Earthquake And Volcanic Eruption Endorsement With Percentage Deductible
C. 1.e. Utility Services	_____ Discharge From Sewer, Drain Or Sump (Not Flood Related)
D. 1.g. Water	_____ Spoilage Coverage
E. 2.e. Explosion of Steam Apparatus	_____ Radioactive Contamination

Directions: Answer the following questions. Some questions may have more than one correct answer. Select all that apply.

- A tornado tears through an office building, leveling 70% of the building. A city ordinance dictates that the remaining 30% of the building must be torn down and rebuilt. Which coverage part of the Ordinance Or Law Coverage CP 04 05 09 17 endorsement will pay for the cost of demolishing the remaining portion of the building and removing debris?

Coverage A
 Coverage B
 Coverage C
 Post-Loss Ordinance Or Law Option
- Gina's Golf Emporium is located at the bottom of a hill. A heavy rainstorm causes a mudslide, which carries rocks and other debris down the hill, causing significant damage to the exterior of Gina's Store. Is this damage covered on an unendorsed Causes Of Loss - Special Form?

Yes, because the Water exclusion contains an exception for waterborne material.
 Yes, because the Additional Coverage - Collapse provides coverage for damage from mudslide.
 No, because NFIP flood policies do not cover damage from mudslide.
 No, because the Water exclusion excludes mudslide and waterborne material coverage.

Section 2: Commercial Property Causes of Loss and Endorsements

3. Henry is a temporary, seasonal worker at an antique store. He obtains the codes to unlock the building and shares them with a friend who is not employed at the store. After hours, Henry and his friend break into the store and steal valuable items. Would this be covered on an unendorsed Causes Of Loss – Special Form?
- Yes, because the Special Form contains an Additional Coverage Extension for Dishonest or Criminal Acts by Specific Individuals.
 - Yes, because Henry is not a permanent employee and a non-employee also participated in the theft.
 - No, because the exclusion for Dishonest or Criminal Acts by Certain Individuals pertains to temporary employees, as well as acts of collusion.
 - No, because theft is excluded on the Causes Of Loss – Special Form.
4. LaShawn is taking inventory one day and discovers that significant amounts of his stock have gone missing, but there is no physical evidence of theft or break-in. Would the missing items be covered on an unendorsed Causes Of Loss – Special Form?
- Yes, because theft is not specifically excluded by the form.
 - Yes, but only up to a limit of \$2,500.
 - No, because theft is excluded by the Causes Of Loss – Special Form.
 - No, because there is a coverage limitation excluding missing property when there is a lack of physical evidence.
5. A jewelry store specializing in diamond engagement rings is broken into and \$50,000 worth of items are stolen. Is there coverage for these items on an unendorsed Causes Of Loss – Special Form?
- Yes, because theft is not specifically excluded by the form.
 - Yes, but only up to a limit of \$2,500.
 - No, because theft is excluded by the Causes Of Loss – Special Form.
 - No, because jewelry valued at over \$100 per item is excluded from coverage.
6. Which of the following would be paid for by the Additional Coverage – Limited Coverage For “Fungus”, Wet Rot, Dry Rot, and Bacteria? (Select all that apply.)
- Direct physical loss or damage to Covered Property, including the removal of the “fungus,” wet rot, dry rot, or bacteria.
 - The cost of removal for “fungus,” wet rot, dry rot, or bacteria caused by flood, on an unendorsed Causes Of Loss – Special Form.
 - The cost to tear out and replace any part of the building as needed to gain access.
 - The cost of testing performed after removal to ensure that the remediation was successful, if there is a reason to believe that “fungus,” wet rot, dry rot, or bacteria may be present.
 - The cost of additional testing and removal for a recurrence of “fungus,” wet rot, dry rot, and bacteria in the second year of the policy, after the \$15,000 aggregate limit was met during the first year of the policy.

Section 2: Commercial Property Causes of Loss and Endorsements

Section 3: Time Element Coverages and Endorsements

Part 1:

Business Income and Extra Expense Coverage

Check-In



Directions: Indicate whether the following statements are true or false regarding the “period of restoration.”

1. The “period of restoration” for Business Income begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the premises.

True

False

2. The “period of restoration” for Extra Expense coverage begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.

True

False

3. The “period of restoration” ends on the date when the property at the described location should be repaired, rebuilt, or replaced with like kind and quality and using reasonable speed.

True

False

4. The “period of restoration” ends 45 days after the insured’s “operations” resume at a new permanent location.

True

False

5. The policy expiration date ends the “period of restoration.”

True

False

Check-In



Directions: Match each example to the dependent property exposure it represents.

<p>A. Contributing Location</p>	<p>_____ The anchor tenant in the local mall where the Named Insured's store is located</p>
<p>B. Recipient Location</p>	<p>_____ A company that provides key components that are used in the Named Insured's manufacturing process</p>
<p>C. Manufacturing Location</p>	<p>_____ The company that purchases 75% of the Named Insured's products</p>
<p>D. Leader Location</p>	<p>_____ The company that produces and distributes items directly to the Named Insured's customers</p>

▶▶ Knowledge Check



Directions: Explain the terms business income and extra expense and describe how they differ.

1. Business Income:

2. Extra Expense:

3. Difference:

Covered Causes of Loss, Exclusions, and Limitations

Check-In



Directions: Which of the following Causes Of Loss – Special Form Special Exclusions for Business Income coverage can be addressed through endorsement or another coverage option? (Select all that apply.)

- Damage or destruction of “finished stock”
- Radio or television antennas
- Delay caused by strikers or other persons
- Suspension or cancellation of license, lease, or contract
- Any other consequential loss

▶▶ Knowledge Check



Directions: Your client owns a hotel that is insured on a Business Income (And Extra Expense) Coverage Form. The hotel is located in a coastal area where utility services are regularly interrupted by storms. The client tells you “I don’t need to add the Utility Services Time Element CP 15 45 09 17 endorsement to my Business Income policy because I already have a Utility Services – Direct Damage endorsement. How might you respond to this client?”

Additional Coverages, Coverage Extension, and Limits of Insurance

▶▶ Knowledge Check



Directions: Consider how you would advise the client in the following scenarios.

1. Your client is concerned that the Civil Authority Additional Coverage will not provide her with sufficient Business Income coverage. What endorsement(s) might you recommend to the client, and how would they modify her coverage?

2. Explain as you would to a client how a lack of coverage could occur with the Additional Coverage - Extended Business Income. What solution would you recommend to address this exposure?

Part 1: Self-Quiz

Directions: Answer the following questions. Some questions may have more than one correct answer. Select all that apply.

1. Which of the following best describes business income?
 - Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll
 - Net income (Net Profit after income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll
 - Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and all operating expenses incurred, excluding payroll
 - Net income (Net Profit or Loss after income taxes) that would have been earned or incurred and all continuing extra expenses, including payroll

2. Which of the following statements accurately describe when the “period of restoration” begins? (Select all that apply).
 - Business Income begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.
 - Business Income begins with the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.
 - Extra Expense begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.
 - Extra Expense begins with the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.

3. Which of the following endorsements is best suited to a Named Insured who wants separate Business Income limits for dependent properties (all local to the Named Insured)?
 - Business Income From Dependent Properties – Limited Form
 - Business Income From Dependent Properties – Broad Form
 - Business Income From Dependent Properties Limited International Coverage
 - Business Income From Recipient Or Contributing Locations – Limited Form

Section 3: Time Element Coverages and Endorsements

4. Very Large Paper Company is insured on an unendorsed Business Income (And Extra Expense) Coverage Form. They experience a loss of business due to an inventory shortage when their paper supplier is forced to temporarily shut down “operations” following a fire. Is this business income loss covered under their policy?
- Yes, the loss is covered because it resulted from a dependent property exposure.
 - Yes, the loss is covered because it resulted from a necessary “suspension” of “operations” due to a Covered Cause of Loss.
 - No, the loss is not covered because only recipient and leader locations receive automatic coverage under the Business Income (And Extra Expense) Coverage Form.
 - No, the loss is not automatically covered because coverage for dependent property exposures must be added through endorsement.
5. Which of the following statements is accurate regarding Business Income coverage using the Causes Of Loss – Special Form as it relates to “finished stock”?
- Business income losses due to damage to “finished stock” are covered because the storage of “finished stock” is considered to be part of “operations.”
 - Business income losses due to damage to “finished stock” are covered, but only up to a limit of \$2,500.
 - Business income coverage is excluded for loss or damage due to damage or destruction of “finished stock” because storage of finished goods, by definition, is not considered part of “operations.”
 - Business income losses are excluded for damage to “finished stock,” but extra expenses necessary to replace finished stock are covered because they are necessary to restore “operations.”
6. Which of the following are possible solutions to address the exposure created by the Causes Of Loss – Special Form special exclusion 3.b. Suspension, cancellation, or lapse of license, lease, or contract?
- Maximum Period Of Indemnity Optional Coverage
 - Extended Period Of Indemnity Optional Coverage
 - Expanded Limits On Loss Payment
 - Leasehold Interest Coverage Form

Section 3: Time Element Coverages and Endorsements

7. How many days are granted under the Additional Coverage - Extended Business Income?
- Up to 30 consecutive days after the date property (except "finished stock") is actually repaired, rebuilt, or replaced
 - Up to 30 consecutive days after the date property (except "finished stock") is actually repaired, rebuilt, or replaced and "operations" are resumed
 - Up to 60 consecutive days after the date property (except "finished stock") is actually repaired, rebuilt, or replaced AND operations are resumed
 - Up to 60 consecutive days after the date property (except "finished stock") is actually repaired, rebuilt, or replaced OR "operations" are resumed
8. Which of the following endorsements can be used to modify the Business Income (And Extra Expense) Additional Coverage - Civil Authority?
- Ordinance Or Law - Increased Period Of Restoration
 - Utility Services - Time Element
 - Civil Authority Changes
 - Business Income Changes - Beginning Of The Period Of Restoration

Directions: Indicate whether each of the following statements is true or false.

9. If you already have the Ordinance or Law Coverage endorsement applicable to the building, it is not necessary to endorse the policy to add time element coverage.

True

False

10. The Business Income (And Extra Expense) Coverage Form removes the Conditional Exclusions from the Causes Of Loss - Special Form for time element coverage.

True

False

11. The Additional Coverage - Civil Authority provides up to four continuous weeks of coverage after the "period of restoration" begins.

True

False

12. The insured must be in compliance with the coinsurance condition in order to receive the Business Income (And Extra Expense) Coverage Form Coverage Extension for Newly Acquired Locations.

True

False

Section 3: Time Element Coverages and Endorsements

13. Under the Business Income (And Extra Expense) Additional Coverage for Alterations and New Buildings, the “period of restoration” starts on the date on which “operations” would have begun had there been no loss.

True

False

Part 2:

Loss Conditions

▶▶ Knowledge Check



Directions: Respond to the following.

1. List the factors that are considered in Loss Determination for a Business Income loss.

2. Your client tells you that if his business closed temporarily due to a direct damage loss, he would only want to keep a select few employees on the payroll. As such, he does not want his entire payroll to be included in the Limit of Insurance. Which endorsement(s) might you recommend to this client? Explain your answer.

Additional Condition – Coinsurance

▶▶ Knowledge Check



Directions: Read the scenarios and answer the questions.

1. Dana anticipates that the sum of their net income and operating expenses over the next 12 months will be \$1,000,000. They estimate that in the event of a total loss, it would take six months to rebuild and reopen their business. Assuming that this information is accurate and this is not a seasonal business, which coinsurance percentage would be most appropriate for Dana?

2. Dana's agent, unsure of how to calculate coinsurance, incorrectly advises Dana to select 100% for their coinsurance percentage. Dana has a \$10,000 Business Income loss. Assuming that Dana carries a \$500,000 Limit of Insurance and that all of the information from question 1 remains the same, how much will Dana's policy pay?

Optional Coverages

Check-In



Directions: The Named Insured selects the Maximum Period Of Indemnity Optional Coverage with a limit of \$100,000. Which of the following statements is accurate?

- The policy will pay up to the Limit of Insurance for loss sustained and extra expenses during the 120 days following the beginning of the “period of restoration.”
- The policy will pay up to the limit of \$100,000 for loss sustained and extra expenses beginning at the date of loss.
- The policy will pay a maximum of 1/3 the Limit of Insurance for any 30-day period.
- Business Income Coverage can be extended for up to 730 days after normal “operations” have resumed.

▶▶ Knowledge Check



Directions: Read the scenario and answer the question that follows.

The Named Insured selects the Monthly Limit Of Indemnity Optional Coverage at a limit of \$160,000 with a monthly limit of 1/4 shown in the Declarations. In the first 30 days, the Named Insured sustains a Business Income loss of \$80,000.

How much will the policy pay for that 30-day period (assuming the Named Insured does not file a claim for Extra Expense)?

Business Income (Without Extra Expense) Coverage Form CP 00 32 10 12

Check-In



Directions: Which of the following statements accurately describes how extra expenses are paid under the Business Income (Without Extra Expense) Form?

- Extra Expense coverage can be added through endorsement only.
- Necessary expenses are paid up to a limit of \$2,500.
- Necessary expenses are paid only to the extent that they reduce business income losses.
- All necessary expenses are the sole responsibility of the insured.

Extra Expense Coverage Form CP 00 50 10 12

▶▶ Knowledge Check



Directions: Read the scenario and answer the question that follows.

The Named Insured has purchased an Extra Expense Coverage Form with a limit of \$100,000 and a percentage basis of 40%-80%-100% is indicated on the Declarations. A loss occurs, and the “period of restoration” is 50 days. Expenses are \$70,000 the first month and \$20,000 the second month.

How much will the Named Insured be paid for recovery?

Leasehold Interest Coverage Form CP 00 60 06 95

▶▶ Knowledge Check



Directions: Given the following scenario, indicate whether leasehold interest coverage would or would not be triggered and why.

Leslie's Cupcake Shop pre-paid rent to secure a high traffic spot in a strip mall. The owner of the strip mall has gone bankrupt and must cancel everyone's lease agreements and shut down the space. Will Leslie's Leasehold Interest coverage apply? Explain your answer.

Part 2: Self-Quiz

Directions: Answer the following questions. Some questions may have more than one correct answer. Select all that apply.

1. Which of the following are included in the Loss Determination for Business Income?
 - Net income after the direct physical loss or damage occurred
 - Net income before the direct physical loss or damage occurred
 - All operating expenses that result from direct physical loss, whether or not they are necessary to resume "operations"
 - Operating expenses, including payroll, necessary to resume "operations" with the same quality of service that existed just before the direct physical loss or damage are covered.

2. Which endorsement to the Business Income (And Extra Expense) form allows the insured to continue to pay employee salaries, regardless of whether such expenses are necessary to resume "operations?"
 - Payroll Limitation Or Exclusion
 - Discretionary Payroll Expense
 - Expanded Limits On Loss Payment
 - Business Income Expanded Payroll

3. Which of the following shows the amount required ("Should") portion of the coinsurance formula for Business Income?
 - Limit of Insurance
 - Limit of Insurance multiplied by the coinsurance percentage
 - (Net income + All Operating Expenses for the previous 12 months) multiplied by the coinsurance percentage
 - (Net Income + All Operating Expenses for 12 months in the future) multiplied by the coinsurance percentage

4. Selecting the coinsurance percentage is a four-step process. Which one of these steps is the first step of the process?
 - Divide the amount of money needed to pay for a loss by the Net Income, plus all operating expenses, for a 12-month period.
 - Determine the basis of measurement for coinsurance.
 - Select amount of money needed to pay for a loss.
 - Round down to the next available coinsurance option.

Section 3: Time Element Coverages and Endorsements

5. The Named Insured selects Maximum Period Of Indemnity Optional Coverage with a limit of \$100,000. Indicate which of the following is an accurate statement regarding how the policy will pay.
- Pays up to the Limit of Insurance for loss sustained and expenses during the 120 days following the beginning of the “period of restoration”
 - Pays up to the limit of \$100,000 for loss sustained and expenses beginning at the date of loss
 - Pays up to the Limit of Insurance for loss sustained and expenses for up to 730 days following the beginning of the “period of restoration,” depending on the number of days listed in the Schedule
 - Pays no more than a selected fraction of the Limit of Insurance during any 30-day period for loss sustained and expenses
6. Which of the following statements are accurate regarding Business Income Agreed Value Optional Coverage?
- The Business Income Agreed Value option requires completion of the Business Income Report/Worksheet.
 - The Business Income Agreed Value option removes the coinsurance condition as long as it is in effect.
 - The Business Income Agreed Value option suspends the coinsurance condition for 12 months.
 - The Business Income Agreed Value option is generally more expensive than the Maximum Limit Of Indemnity or Monthly Limit of Indemnity options.
7. Trina’s business is insured on a Business Income (Without Extra Expense) Coverage Form. A highly specialized piece of equipment that is essential to Trina’s business is destroyed by a Covered Cause of Loss. It will take three months to replace the equipment unless Trina pays a \$35,000 fee for expedited manufacturing and shipping. Which of the following statements accurately explains whether Trina’s policy will pay for this extra expense?
- Trina’s policy will pay the expediting fee because the equipment is essential to her resuming normal business “operations.”
 - Trina’s policy will pay the expediting fee because maintaining the equipment is considered a normal continuing expense.
 - Trina’s policy will only pay the expediting fee if it will be less than the loss of business income Trina would experience from three months without the equipment.
 - Trina’s policy will not pay the expediting fee under any circumstances because it is considered an Extra Expense.

Section 3: Time Element Coverages and Endorsements

8. The Named Insured has purchased an Extra Expense Coverage Form with a limit of \$100,000 indicated on the Declarations and a percentage basis of 35%-70%-100%. A loss occurs, and the "period of restoration" is 29 days, with expenses totaling \$50,000. How much will the policy pay?
- \$25,000
 - \$30,000
 - \$35,000
 - \$50,000
9. Which of the following endorsements allows the insured to customize the percentage limits used to determine recovery on the Extra Expense Coverage Form?
- Extra Expense Premium Adjustment
 - Expanded Limits On Loss Payment
 - Extra Expense From Dependent Properties
 - Time Element Recovery Limits
10. Which of the four covered leasehold interests refers to the additional rent the insured must pay to lease a comparable premises?
- Tenant's Lease Interest
 - Bonus Payments
 - Improvements and Betterments
 - Prepaid Rent
11. The Named Insured has purchased a Leasehold Coverage Form with all four coverages selected. The property the Named Insured was renting is destroyed by a fire and, subsequently, the lease is canceled and the Named Insured has to rent another location. Indicate which of the following statements are true in regard to the Leasehold Coverage Form.
- On the canceled lease, the Named Insured will be reimbursed the entire Bonus Payment that was paid to secure the leased premises.
 - The Named Insured's rent at a new location is higher. The difference between the old rent and new rent is covered.
 - On the canceled lease, the unamortized portion of the tenant's improvements and betterments will be covered.
 - Pre-paid rent at the damaged location will not be covered.

Section 3: Time Element Coverages and Endorsements

Answer Key

Section 1: Commercial Property Coverage Forms and Endorsements

Part 1:

Common Policy Conditions (IL 00 17 11 98)

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. According to the Common Policy Conditions, any Named Insured is authorized to cancel the policy or make changes, with the consent of the insurer.

True

False

Only the first Named Insured is authorized to cancel or change the policy, with the consent of the insurer.

2. The insurance company is authorized to examine the insured's books and records even after the policy period has concluded.

True

False

The insurance company may examine the books and records of the insured for up to three years after the end of the policy period.

3. The insurance company is required to conduct safety inspections and confirm that the insured is adhering to all laws, regulations, and codes.

True

False

The insurance company has the right to conduct inspections, as well as the right not to conduct inspections, as it sees fit. All inspections and surveys are conducted for insurability purposes only.

4. Any return premiums will be divided evenly among all Named Insureds.

True

False

Return premiums will be paid to the first Named Insured.

5. The rights and duties outlined in the insurance policy cannot be transferred to another party, except in the case of the death of an individual named insured.

True

False

The rights and duties of the insurance policy cannot be transferred without the consent of the insurance company. The only exception is the death of an individual named insured.

Commercial Property Declarations (CP DS 00 10 00)

▶▶ Knowledge Check



Directions: Answer the following questions.

1. If the Named Insured has a building valued at \$1,000,000 and 80% is indicated on the Declarations for coinsurance, what is the minimum limit of insurance needed to avoid a coinsurance penalty?

\$800,000 (\$1,000,000 x 80%)

2. The Named Insured from the scenario above has a \$600,000 limit of insurance and suffers a property loss with damage totaling \$100,000. If the building is valued at \$1,000,000 at the time of the loss and the policy has a \$10,000 deductible, how much will the Named Insured receive in the settlement?

\$65,000

[\$600,000 (did) / \$800,000 (should) = .75 x \$100,000 (loss amount) = \$75,000 minus \$10,000(deductible) = \$65,000 settlement]

Commercial Property Conditions

Check-In



Directions: Match each description to the corresponding Commercial Property Condition.

<p>A. Concealment, Misrepresentation Or Fraud</p>	<p><u>D.</u> A lawsuit cannot be brought against the insurer until all terms of the coverage part have been met and legal action must be brought within two years, subject to state provisions.</p>
<p>B. Control Of Property</p>	<p><u>C.</u> The policy will not pay more than the actual loss amount, no matter how many coverages apply.</p>
<p>C. Insurance Under Two Or More Coverages</p>	<p><u>F.</u> No person having custody of Covered Property (other than the insured) will benefit from this policy.</p>
<p>D. Legal Action Against Us</p>	<p><u>H.</u> Coverage only applies during the policy period and within the U.S., its territories and possessions, Puerto Rico, and Canada.</p>
<p>E. Liberalization</p>	<p><u>A.</u> This Coverage Part is void if the insured conceals or does not accurately represent information pertaining to the coverage or to a claim.</p>
<p>F. No Benefit To Bailee</p>	<p><u>G.</u> Other insurance covering the same property with the same terms, conditions, etc., will be paid on a pro-rata basis. Other insurance with different terms, conditions, etc., will be paid on an excess basis.</p>
<p>G. Other Insurance</p>	<p><u>E.</u> Newly insured policies will benefit from broadened coverage as long as no additional premium applies.</p>
<p>H. Policy Period And Territory</p>	<p><u>I.</u> The Named Insured can waive the rights of recovery (in writing) to anyone prior to a loss and to certain responsible parties after a loss.</p>
<p>I. Transfer of Rights Of Recovery Against Others To Us</p>	<p><u>B.</u> Actions of others outside the control of the Named Insured will not affect the policy. A breach of conditions at one location will not impact coverage at unaffected locations.</p>

Commercial Property Coverage Forms

▶▶ Knowledge Check



Directions: Describe how and when a Named Insured can waive their rights of recovery against another party.

The Named Insured must waive the rights of recovery against another party in writing, prior to a loss. After a loss, the Named Insured can only waive rights of recovery against another insured, a business owned by and controlled by the Named Insured, a business that owns and controls the Named Insured, or a tenant of the Named Insured, and it must be in writing.

Part 1: Self-Quiz

1. List the five rights and duties of the first Named Insured.
 - a. Authorized to cancel
 - b. Receive notice of cancellation
 - c. Make changes with insurer consent
 - d. Responsible for payment of all premiums
 - e. Payee for return premiums

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

2. What is the coinsurance formula that applies when an insufficient Limit of Insurance is carried?
 - Amount carried/amount required X Loss = Recovery minus deductible equals settlement
 - Amount required/amount carried X Loss = Recovery minus deductible equals settlement
 - Amount carried/amount required X (Loss minus Deductible) = Recovery settlement
 - Amount required/amount carried X (Loss minus Deductible) = Recovery settlement

See Commercial Property Coverage Part Declarations: Coinsurance for the coinsurance formula and examples.

3. A Named Insured has a building valued at \$1,000,000 with an 80% coinsurance requirement. The Named Insured has a \$400,000 Limit of Insurance and suffers a property loss with damage totaling \$100,000. If the building is valued at \$1,000,000 at the time of the loss and the policy has a \$10,000 deductible, how much will the Named Insured receive in the settlement?
 - \$25,000
 - \$40,000
 - \$50,000
 - \$90,000

[\$400,000 (did)/\$800,000 (should) = .5 x \$100,000 (loss amount) = \$50,000 minus \$10,000(deductible) = \$40,000 settlement]

Section 1: Commercial Property Coverage Forms and Endorsements

4. Which of the following statements are accurate regarding the rights of recovery? (Select all that apply).
- Rights of recovery can be transferred through verbal agreement.
 - Transfer of rights of recovery must always be waived in writing.
 - The Named Insured can only transfer rights of recovery to certain persons or entities both before and after a loss.
 - After a loss, the rights of recovery can only be waived against certain persons or entities.

To review, see Commercial Property Conditions: I. Transfer of Rights of Recovery Against Others.

5. Following a loss, the Named Insured can transfer the rights of recovery to which of the following persons or entities? (Select all that apply).
- Another insured
 - An immediate family member not named as an insured on the policy
 - A parent company or subsidiary of the Named Insured
 - A tenant of the Named Insured
 - A company contracted to work on the insured's property

To review, see Commercial Property Conditions: I. Transfer of Rights of Recovery Against Others.

Part 2:

The Building and Personal Property Coverage Form

Check-In



Directions: Which of the following would MOST LIKELY be considered as Building on an unendorsed Building And Personal Property Coverage Form? (Check all that apply).

- An incomplete building addition that is not covered by other insurance
- A furnace that is affixed to the roof of a building
- Building materials located 500 feet from the described premises
- Welding machinery that the insured intends to remove
- An indoor rug covering the entranceway to a building

Additions under construction not covered by other insurance are considered as Building.

Fixtures, such as a furnace, are considered part of the building

Floor coverings, such a rug, are business personal property used to service the building or structure or its premises and are also considered Building.

Check-In



Directions: Indicate whether each of the following examples should be classified as Building or Your Business Personal Property (YBPP).

1. A conference table

Building

YBPP

A conference table is furniture, and as such, would be classified as Your Business Personal Property.

2. A table and chairs kept outdoors on the back patio of the property

Building

YBPP

Outdoor furniture is classified as “Personal property owned by you that is used to maintain or service the building or structure or its premises” and is considered Building.

3. A washer and dryer

Building

YBPP

Appliances used for laundering are classified as “Personal property owned by you that is used to maintain or service the building or structure or its premises” and is considered Building.

4. An industrial sewing machine that the insured intends to remove when they vacate the building

Building

YBPP

Because the sewing machine is not permanently installed, it is classified as “machinery and equipment” under Your Business Personal Property.

▶▶ Knowledge Check



Directions:

- Circle the correct item to indicate whether each of the following items are Covered Property or Property Not Covered.
- If it is Covered Property, state whether it is Building, Your Business Personal Property, or Personal Property of Others.
- If it is Property Not Covered, state which endorsement or coverage form (if any) could help the insured to buy back coverage.

1. An underground pipe

Covered Property

- Building
- Your Business Personal Property
- Personal Property of Others

Property Not Covered

Additional Covered Property

Underground pipes, flues, or drains are considered Property Not Covered. Coverage could be purchased with the Additional Covered Property endorsement.

2. A riding lawnmower

Covered Property

- Building
- Your Business Personal Property
- Personal Property of Others

Property Not Covered

A riding lawnmower is considered as Building because it is business personal property used to service the premises.

3. A chair that has been purchased by a customer is in a delivery truck 50 feet from the building described in the Declarations.

Covered Property

- Building
- Your Business Personal Property
- Personal Property of Others

Property Not Covered

The chair is classified as Personal Property of Others, and it is covered because it is in a vehicle that is less than 100 feet from the described premises.

4. Store shelving that is not permanently installed

Covered Property

- Building
- Your Business Personal Property
- Personal Property of Others

Property Not Covered

The shelving is classified as Your Business Personal Property because it is a trade fixture that will be removed when the building is vacated.

Methods of Writing Commercial Property Insurance

▶▶ Knowledge Check



Directions: Read the scenario and answer the question that follows.

Eddie owns a spicy snack business. He owns two buildings where inventory fluctuates throughout the year. The buildings are valued at \$500,000 each and his business personal property is valued at \$500,000 total.

What advantages and disadvantages would Eddie face if he covered these items on a blanket basis?

Advantages:

He can use a single limit of \$1,500,000 to cover Building and Business Personal Property and can accommodate fluctuating Business Personal Property values.

Disadvantages:

He must have a 90%-100% coinsurance clause; rates are only good for one year; a statement of values must be obtained; the same cause of loss applies to all covered property; blanket coverage may not be available due to underwriting restrictions.

▶▶ Knowledge Check



Directions: Read the following scenario and consider how the policy would respond.

A Named Insured has a Commercial Property Policy (CPP) written on a Value Reporting Form with a monthly reporting period on the Business Personal Property (BPP). The insured has a limit of \$500,000 on BPP. After four months, the Named Insured, who has never submitted a report, has a \$10,000 covered loss to BPP. How much of the covered loss will the Named Insured be able to collect?

\$7500

Because this is the first late report, the Named Insured will only be able to collect 75% of the amount that would have been otherwise paid.

Part 2: Self-Quiz

Directions: Indicate which of the following items are covered under Building or as Your Business Personal Property on the Building And Personal Property Coverage Form by placing an "X" in the appropriate box.

	Building	Your Business Personal Property
a. Fixtures, including outdoor fixtures	X	
b. Furniture		X
c. Permanently installed machinery and equipment	X	
d. Fire extinguisher to service the building	X	
e. Use interest of tenants' improvements and betterments		X

Directions: Indicate which of the following items are Covered Property or Property Not Covered on the Building And Personal Property Coverage Form by placing an "X" in the appropriate box.

	Covered Property	Property Not Covered
a. Retaining walls that are part of a building	X	
b. Paved surfaces such as a parking lot		X
c. Underground pipes, flutes, or drains		X
d. Building foundations, including those below the lowest basement floor		X

Section 1: Commercial Property Coverage Forms and Endorsements

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

1. Jermaine owns an industrial laundry service, which he has insured on a Building And Personal Property Coverage Form. Jermaine wants to make sure that his owned washing machines and other permanently installed laundry equipment will be classified as Building Property. Which endorsement addresses this concern?

- Additional Building Property
- Additional Property Not Covered
- Leased Property
- Additional Covered Property

The Additional Building Property endorsement is used to clarify that certain items which might be in a gray area are covered under Building, for example permanently installed machinery and equipment, fixtures (including outdoor fixtures), etc.

2. Fences are Property Not Covered under the Building And Personal Property Coverage form. Which of the following can be used to buy back coverage?

- Additional Building Property
- Additional Property Not Covered
- Limited Coverage for Unmanned Aircraft (Scheduled And/Or Blanket Coverage)
- Additional Covered Property

Additional Covered Property expands the definition of Covered Property and can be used to buy back coverage for certain property that is included in Property Not Covered, including fences.

3. Which of the following describes scheduled coverage?

- A specific limit to a building or personal property is applied at a single location.
- Separate limits of insurance are applied to two or more individually listed properties.
- One limit is applied to more than one type of property at a single location.
- One limit is applied to one or more types of property at two or more locations.

To review, see [Methods of Writing Commercial Property Insurance: Scheduled Coverage](#).

Section 1: Commercial Property Coverage Forms and Endorsements

4. Which of the following could be considered advantages of using blanket coverage? (Select all that apply.)

- When more than one type of property is insured, insurance can be applied where it is needed.
- Blanket coverage suspends the coinsurance requirement.
- The insured can opt to have different covered causes of loss for different types of covered property.
- Blanket coverage handles fluctuating values between locations or fire-rated divisions.

To review, see the table “Advantages, Disadvantages, and Special Considerations” under Methods of Writing Commercial Property Insurance: Blanket Coverage.

5. Which endorsement allows the Named Insured to increase coverage for a specified number of days to reflect predictable (planned or expected) seasonal increases in business personal property insurance? (Select all that apply.)

- Limitation On Loss Settlement – Blanket Insurance (Margin Clause)
- Peak Season Limit of Insurance
- Value Reporting Form
- Inland Marine Coverage Forms

The Peak Season Limit of Insurance endorsement specifies on which dates the policy limits are increased and shows the additional amount needed during the peak season, not the total limit.

6. A Named Insured has a CPP written on a value reporting form with a monthly reporting period on the Business Personal Property (BPP). The Named Insured has been reporting on time but under-reporting their values on all their reports. In the June report, they should have reported \$400,000, but they actually reported \$200,000. A claim occurred in early August with a loss of \$100,000. Indicate which of the following is an accurate statement regarding how the insured will be paid at the time of loss:

- They will only be able to receive up to the amount reported on the last report of values.
- They will be able to receive the full amount since the loss was less than the reported amount.
- They will only be able to receive 50% of the loss amount.
- They will only be able to receive 75% of the loss amount.

See the Value Reporting Examples table. This scenario is an example of under-reported values.

Part 3:

Additional Coverages

▶▶ Knowledge Check



Directions: Read the scenario and respond to the prompt that follows.

Your client, Debbie Owens, operates a mattress manufacturing facility in a remote, difficult-to-access location. Debbie is concerned about the cost of Debris Removal in the event of a loss.

Explain to Debbie how the Debris Removal Additional Coverage will respond in the event of a loss, as well as her option(s) for increasing her coverage through endorsement.

As long as it was during the policy period and debris removal expenses are reported to the carrier within 180 days of the direct physical loss, the carrier will pay 25% of the amount the insured pays for the loss plus deductible amount, not to exceed the policy limit. If the policy limit of insurance is exhausted or the debris removal exceeds the limit, an additional \$25,000 will be provided by the policy. If no covered property has sustained physical loss or damage, the policy will pay a maximum of \$5,000 per location for debris removal of other property. You can increase the \$25,000 additional limit by adding the Debris Removal Additional Insurance CP 04 15 10 12 endorsement.

Coverage Extensions

▶▶ Knowledge Check



Directions: Read the scenario and answer the following question.

1. The Named Insured has a CPP with 80% coinsurance on a \$750,000 building. They purchase a warehouse valued at \$300,000. Describe the extent of the coverage (if any) for this newly acquired property under the BPPCF.

The BPPCF provides coverage for newly acquired property as a Coverage Extension up to \$250,000 but only for 30 days, until values are reported, or until the policy expires, whichever occurs first.

2. Describe any endorsements that might modify coverage for newly acquired property.

The Newly Acquired or Constructed Property - Increased Limit CP 04 25 10 90 endorsement allows the insured to replace the \$250,000 limit with a new limit shown on the Schedule.

Exclusions and Limitations, Limits of Insurance, and Deductible

▶▶ Knowledge Check



Directions: Review the following scenario and explain if coverage applies.

Tom has put up a new outdoor sign for his business that is valued at \$5,000. It is completely damaged by a Covered Cause of Loss. How much will Tom receive for the loss, disregarding any deductibles? Are there any endorsements that would have benefited Tom in this scenario?

He would receive a max of \$2,500 for outdoor signs. Tom could add the Outdoor Signs CP 14 40 06 07 endorsement to insure outdoor signs for additional limits over \$2,500.

Part 3: Self-Quiz

Directions: Indicate whether the following items are an Additional Coverage or a Coverage Extension by placing an "X" in the appropriate box.

	Additional Coverage	Coverage Extension
a. Increased Cost Of Construction	X	
b. Outdoor Property		X
c. Fire Department Service Charge	X	
d. Personal Effects And Property Of Others		X
e. Non-owned Detached Trailers		X
f. Electronic Data	X	

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

- The Named Insured has a CPP covering both the building and business personal property. The building has been damaged by a Covered Cause of Loss. The Named Insured moves some of the contents to prevent damage. Which of the following is an accurate statement?
 - Preservation Of Property is included as an Additional Coverage and provides coverage for only 24 hours following the loss.
 - Preservation Of Property is included as an Additional Coverage and provides coverage for 30 days after covered property is first moved.
 - Preservation Of Property is included as an Additional Coverage but only applies to the building, not business personal property.
 - Preservation Of Property is included as an Additional Coverage for temporary storage, but does not apply to transit.

To review this topic, see [Additional Coverages: b. Preservation of Property](#).

Section 1: Commercial Property Coverage Forms and Endorsements

2. Which of the following endorsements can be used to raise the limits available for Additional Coverages and Coverage Extensions such as Fire Department Service Charge, Electronic Data, Valuable Papers and Records, and Non-owned Detached Trailers?

- Additional Covered Property
- Debris Removal Additional Insurance
- Newly Acquired Or Constructed Property - Increased Limit
- Higher Limits

The Higher Limits endorsement can be used as an alternative to stating a higher limit in the Declarations. Amounts above the stated limit can be listed on a schedule and apply to various coverages. This endorsement does not change the way that the policy provides coverage.

3. Which of the following statements is true regarding Personal Effects And Property Of Others? (Select all that apply).

- It is provided as an Additional Coverage.
- It is provided as a Coverage Extension.
- It will pay up to \$2,500 at each location for personal effects owned by the Named Insured and others involved in the business.
- It includes up to \$1,000 coverage at each location for the theft of personal effects.

To review this topic, see Coverage Extensions: b. Personal Effects And Property Of Others.

4. The BPPCF states that the policy will not pay more than \$2,500 per sign, whether the sign is attached or not.

True

False

To review this topic, see Limits of Insurance.

5. If more than one item of Covered Property is damaged and separate Limits of Insurance apply, losses are not combined in determining the application of the deductible, and separate deductibles apply for each Limit of Insurance.

True

False

The deductible is applied only once.

Section 1: Commercial Property Coverage Forms and Endorsements

6. Both the Deductibles By Location and Multiple Deductible Form endorsements enable an insured to have separate deductibles on different locations, but they differ in terms of how the deductible is applied in the event of a single occurrence at multiple locations.

True

False

In the event of a single occurrence at multiple locations, the Deductibles By Location endorsement will apply a single, separate deductible at each location, while the Multiple Deductible Form endorsement will apply only the largest applicable deductible.

Part 4:

Loss Conditions

Check-In



Directions: Select the best response for the following question. There is only one correct answer choice.

The Named Insured has a CPP with a building limit of \$1,000,000. The building has been vacant for three months. Which of the following is an accurate statement under the BPPCF?

- There is no coverage under the BPPCF after a building has been vacant for more than 60 days.
- There is coverage provided under the BPPCF up to 30 days but only for damage caused by the Covered Causes of Loss.
- There is coverage for fire, but the payment is reduced by 10%.
- There is no coverage after a building has been vacant for more than 60 consecutive days for certain Covered Causes of Loss and the payment on others is reduced by 15%.

The Vacancy Condition excludes coverage for certain Covered Causes of Loss and reduces the payment by 15% for all other covered Causes of Loss.

▶▶ Knowledge Check



Directions: Read each of the following scenarios and identify the endorsement that would best meet the needs of the client described. Also state which Loss Condition the endorsement modifies.

1. The Named Insured owns an older building and wants to insure it for a limit that reflects the use of less costly materials in the event the building suffers a significant loss.

The Functional Building Valuation Endorsement—modifies the Valuation Condition

2. The Named Insured is a tenant responsible for insuring the building they occupy and wants to make sure that their Building Owner will be included in payments from the insurance company.

Loss Payable Provision—modifies the Loss Payment Condition

Optional Coverages

▶▶ Knowledge Check



Directions: Read each of the scenarios below and answer the questions that follow.

1. A client tells you that he wants the Agreed Value Optional Coverage because it “gets rid of coinsurance.” How would you explain to the client how Agreed Value actually works with respect to coinsurance? Is there anything else the client should know about this coverage?

Agreed Value does not remove the coinsurance requirement—it suspends it. There is an expiration date to the Agreed Value option, and if the date is not extended the coinsurance requirement will be reinstated.

The client should also know that there is an additional 5% premium for the Agreed Value Optional Coverage.

2. A client tells you she is interested in Inflation Guard but is concerned about how it will impact her premiums. What would you say to the client to explain how Inflation Guard impacts premiums?

The Limit of Insurance will increase daily, and premiums will be applied pro-rata. This means that if the client selects an 8% Inflation Guard option, her premium will only increase by 4% over the course of the year.

Part 4: Self-Quiz

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

1. Which of the following are Duties In The Event Of Loss Or Damage, according to the BPPCF? (Select all that apply.)
- Notify the police of all losses, regardless of whether or not a law may have been broken.
 - Provide the insurer with a description of how, when, and where the loss or damage occurred.
 - Store all Your Business Personal Property in a secure storage facility or safe in order to prevent further damage.
 - Send a signed, sworn proof of loss within 60 days of the request from the insurer.

To review this topic, see [Loss Conditions: 3. Duties In The Event Of Loss Or Damage](#).

2. The Valuation Condition automatically provides coverage on an Actual Cash Value basis except as otherwise provided. Which of the following statements accurately describes a situation in which an unendorsed BPPCF will pay on something other than a cash value basis?
- All “stock” will be valued at the current market rate.
 - “Stock” that has been sold but not delivered will be valued at the selling price, less any discounts or expenses that would have been otherwise incurred.
 - Awnings, floor coverings, appliances, and outdoor equipment or furniture will be valued on a Replacement Cost basis.
 - Damage to awnings, floor coverings, appliances and outdoor equipment or furniture under \$2,500 will be valued on a Replacement Cost basis.

To review this topic, see [Loss Conditions 7. Valuation](#).

Section 1: Commercial Property Coverage Forms and Endorsements

3. Which endorsement modifies the Loss Payment Condition to add other persons or organizations to be included in the insurer's payment for loss or damage?

- Loss Payable Provision
- Manufacturers Consequential Loss Assumption
- Functional Personal Property Valuation (Other Than Stock)
- Functional Building Valuation

The Loss Payable Provision endorsement is used for:

Loss Payees
Lender's Loss Payees
Contract Sellers
Building Owners

4. Which of the following endorsements modifies the Valuation Condition and allows the Named Insured to replace business personal property with the most closely equivalent property available?

- Market Value – Stock
- Manufacturers Consequential Loss Assumption
- Functional Personal Property Valuation (Other Than Stock)
- Increased Cost Of Loss And Related Expenses For Green Upgrades

The Functional Personal Property Valuation (Other Than Stock) endorsement allows the insured to replace personal property with the most closely equivalent property available. Coinsurance does not apply.

5. Which of the following statements is true regarding the Agreed Value option in the BPPCF?

- Agreed Value suspends coinsurance with no additional premium charge.
- Agreed Value removes coinsurance for an 5% additional premium charge.
- Agreed Value suspends coinsurance for an additional 5% premium charge.
- Agreed Value is triggered by an endorsement with a 10% additional premium charge.

To review this topic, see [Optional Coverages: Agreed Value](#).

6. Which of the following statements regarding Inflation Guard are true? (Select all that apply.)

- Inflation Guard automatically applies.
- A percentage must be shown in the Declarations for this Optional Coverage to apply.
- The Limit of Insurance increases quarterly.
- The Limit of Insurance increases daily.

To review this topic, see [Optional Coverages: Inflation Guard](#).

Section 1: Commercial Property Coverage Forms and Endorsements

7. The Named Insured has coverage under their CPP for Building, Your Business Personal Property, and Personal Property of Others at a location described in the Declarations. Which of the following is an accurate statement?
- There is an Optional Coverage for extending Replacement Cost to the Personal Property of Others, only if the Replacement Cost Optional Coverage is shown in the Declarations.
 - If the Named Insured has Replacement Cost on Your Business Personal Property, the CPP will automatically extend Replacement Cost Coverage to the Personal Property of Others.
 - Replacement Cost to the Personal Property of Others can be added through endorsement.
 - Replacement Cost can only apply to Building and Your Business Personal Property.

To review this topic, see [Optional Coverages: 3. Replacement Cost](#) and [4. Replacement Cost to Personal Property of Others](#).

Section 1: Commercial Property Coverage Forms and Endorsements

Section 2: Commercial Property Causes of Loss and Endorsements

Overview of the Causes Of Loss Forms

Check-In



Directions: Read the scenario below and indicate which of the Causes Of Loss forms would provide coverage for the peril described. (Select all that apply).

After a blizzard, the weight of the snow and ice causes significant damage to the roof of a commercial building.

- Basic Form
- Broad Form
- Special Form

Weight of Snow, Ice, or Sleet is a covered peril on the Causes Of Loss – Broad Form. It is also covered by the Causes Of Loss – Special Form because it is not specifically excluded.

Special Form—Exclusions

Check-In



Directions: Indicate whether each of the following statements are true or false.

1. Ordinance Or Law Coverage CP 04 05 09 17 only allows the Named Insured to buy back coverage for the increased cost of construction to bring a building up to code.

True

False

The Ordinance Or Law endorsement has coverage options for loss to the undamaged portion of the building (Coverage A), demolition and debris removal of the undamaged portion of the building (Coverage B), as well as coverage for increased construction costs (Coverage C).

2. An earthquake causes power lines to collapse, sparking a fire. There would be no coverage under the Causes Of Loss – Special Form for damage resulting from that fire.

True

False

There is an exception to the Earth Movement exclusion which provides coverage for fires resulting from earth movement.

3. The Utility Services Exclusion applies to both direct damage and time element losses.

True

False

4. Because the Water exclusion applies to a broad range of water-related perils, coverage can typically only be bought back for certain individual exposures, such as flood or sewer/drain/sump discharge.

True

False

5. Coverage for “fungus,” wet rot, dry rot, or bacteria that results from the water used to put out a fire is excluded under the Causes Of Loss – Special Form.

True

False

There is an exception to the exclusion for “Fungus,” Wet Rot, Dry Rot, and Bacteria for loss or damage resulting from fire or lightning.

▶▶ Knowledge Check



Directions: Read the scenario and respond to the prompt.

Your client is considering adding Ordinance Or Law Coverage CP 04 05 to their Causes Of Loss – Special Form, but they are confused regarding how the coverages apply. Explain what is paid for by each Coverage (A, B, and C).

Coverage A pays for Loss To The Undamaged Portion of the Building. Coverage B pays for Demolition Costs. Coverage C pays for Increased Cost of Construction.

Check-In



Directions: Which of the following are NOT COVERED because they are part of the Group 2 exclusions? (Select all that apply.)

- Damage caused by agricultural smudging or industrial operations
- A fire that ensues as a result of a steam apparatus explosion
- A pipe that burst due to freezing after the Named Insured drained it and shut off the water supply
- Stolen property that had been entrusted to an individual by the Named Insured
- Damage to personal property that was left out in the rain
- Fire damage to company property resulting from a disgruntled employee committing an act of arson

▶▶ Knowledge Check



Directions: Answer the following question.

A client's pipes froze and burst, causing significant damage to the building and personal property. What must the client have done for this damage to be covered under the Causes Of Loss – Special Form?

The client must have either made an effort to maintain the heat in the building, or if heat was not maintained, they must have drained the equipment and shut off the water supply.

Special Form—Limitations

▶▶ Knowledge Check



Directions: For each of the following scenarios indicate whether coverage would apply (and if so, to what extent) under the Causes Of Loss – Special Form. Explain your answer, referencing any relevant Limitations.

1. A heavy rainstorm occurs overnight. The Named Insured discovers significant water damage to the interior of the building because a window was left open.

Coverage does not apply. Limitation C.1.c. states that there is no coverage for loss or damage to the interior of a building or to personal property in the building or structure that is caused by rain, snow, sleet, ice, sand or dust, even if driven by wind.

2. The outerwear department of a high-end store is robbed, and the thief makes off with over \$15,000 worth of fur coats.

Coverage applies but is limited to \$2,500, according to Limitation 3.a.

3. An antique store employee trips and falls, knocking over a glass display case full of porcelain figurines. Both the display case and the figurines are broken as a result.

Coverage applies only to the glass display case. There is no coverage for the broken porcelain figurines, according to Limitation 2.b.

Special Form—Additional Coverages and Extensions

▶▶ Knowledge Check



Directions: Circle the correct item to indicate whether the Additional Coverage – Collapse would apply in the following scenario. Explain your answer.

A roof was constructed of defective material. During a heavy rainstorm, the roof collapsed abruptly due to the weight of the rain that had collected on it.

Yes, the Additional Coverage – Collapse applies in this situation because there is coverage for the weight of rain that collects on the roof.

Section 2: Self-Quiz

Directions: Indicate whether each of the following exclusions is a Group 1 (Concurrent Causation/Sequential Causation) exclusion or a Group 2 (Concurrent Causation) exclusion.

1. Earth Movement

Group 1

Group 2

2. Delay, Loss of Use, or Loss of Market

Group 1

Group 2

3. Seepage or Leakage of Water

Group 1

Group 2

4. Governmental Action

Group 1

Group 2

5. Utility Services

Group 1

Group 2

6. Collapse

Group 1

Group 2

Section 2: Commercial Property Causes of Loss and Endorsements

Directions: Match the exclusion to the relevant policy endorsement or coverage. (Note: some exclusions can be addressed by more than one endorsement, and some endorsements can address more than one exclusion. Not all endorsements or exclusions are included in this activity.)

A. 1.b. Earth Movement	<u>E.</u> Equipment Breakdown Cause of Loss
B. 1.d. Nuclear Hazard	<u>A.</u> Earthquake And Volcanic Eruption Endorsement With Percentage Deductible
C. 1.e. Utility Services	<u>D.</u> Discharge From Sewer, Drain Or Sump (Not Flood Related)
D. 1.g. Water	<u>C.</u> Spoilage Coverage
E. 2.e. Explosion of Steam Apparatus	<u>B.</u> Radioactive Contamination

Directions: Answer the following questions. Some questions may have more than one correct answer. Select all that apply.

7. A tornado tears through an office building, leveling 70% of the building. A city ordinance dictates that the remaining 30% of the building must be torn down and rebuilt. Which coverage part of the Ordinance Or Law Coverage CP 04 05 09 17 will pay for the cost of demolishing the remaining portion of the building and removing debris?
- Coverage A
 - Coverage B
 - Coverage C
 - Post-Loss Ordinance Or Law Option

Coverage B pays for demolition and debris removal of the undamaged portion of the building.

Section 2: Commercial Property Causes of Loss and Endorsements

8. Gina's Golf Emporium is located at the bottom of a hill. A heavy rainstorm causes a mudslide, which carries rocks and other debris down the hill, causing significant damage to the exterior of Gina's Store. Is this damage covered on an unendorsed Causes Of Loss – Special Form?
- Yes, because the Water exclusion contains an exception for waterborne material.
 - Yes, because the Additional Coverage – Collapse provides coverage for damage from mudslide.
 - No, because NFIP flood policies do not cover damage from mudslide.
 - No, because the Water exclusion excludes mudslide and waterborne material coverage.
9. Henry is a temporary, seasonal worker at an antique store. He obtains the codes to unlock the building and shares them with a friend who is not employed at the store. After hours, Henry and his friend break into the store and steal valuable items. Would this be covered on an unendorsed Causes Of Loss – Special Form?
- Yes, because the Special Form contains an Additional Coverage Extension for Dishonest or Criminal Acts by Specific Individuals.
 - Yes, because Henry is not a permanent employee and a non-employee also participated in the theft.
 - No, because the exclusion for Dishonest or Criminal Acts by Certain Individuals pertains to temporary employees, as well as acts of collusion.
 - No, because theft is excluded on the Causes Of Loss – Special Form.
10. LaShawn is taking inventory one day and discovers that significant amounts of his stock have gone missing, but there is no physical evidence of theft or break-in. Would the missing items be covered on an unendorsed Causes Of Loss – Special Form?
- Yes, because theft is not specifically excluded by the form.
 - Yes, but only up to a limit of \$2,500.
 - No, because theft is excluded by the Causes Of Loss – Special Form.
 - No, because there is a coverage limitation excluding missing property when there is a lack of physical evidence.
11. A jewelry store specializing in diamond engagement rings is broken into and \$50,000 worth of items are stolen. Is there coverage for these items on an unendorsed Causes Of Loss – Special Form?
- Yes, because theft is not specifically excluded by the form.
 - Yes, but only up to a limit of \$2,500.
 - No, because theft is excluded by the Causes Of Loss – Special Form.
 - No, because jewelry valued at over \$100 per item is excluded from coverage.

Section 2: Commercial Property Causes of Loss and Endorsements

12. Which of the following would be paid for by the Additional Coverage – Limited Coverage For “Fungus”, Wet Rot, Dry Rot, and Bacteria? (Select all that apply.)
- Direct physical loss or damage to Covered Property, including the removal of the “fungus,” wet rot, dry rot, or bacteria.
 - The cost of removal for “fungus,” wet rot, dry rot, or bacteria caused by flood, on an unendorsed Causes Of Loss – Special Form.
 - The cost to tear out and replace any part of the building as needed to gain access.
 - The cost of testing performed after removal to ensure that the remediation was successful, if there is a reason to believe that “fungus,” wet rot, dry rot, or bacteria may be present.
 - The cost of additional testing and removal for a recurrence of “fungus,” wet rot, dry rot, and bacteria in the second year of the policy, after the \$15,000 aggregate limit was met during the first year of the policy.

Section 3: Time Element Coverages and Endorsements

Part 1:

Business Income and Extra Expense Coverage

Check-In



Directions: Indicate whether the following statements are true or false regarding the “period of restoration.”

1. The “period of restoration” for Business Income begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the premises.

True

False

2. The “period of restoration” for Extra Expense coverage begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.

True

False

Extra Expense begins with the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.

3. The “period of restoration” ends on the date when the property at the described location should be repaired, rebuilt, or replaced with like kind and quality and using reasonable speed.

True

False

4. The “period of restoration” ends 45 days after the insured’s “operations” resume at a new permanent location.

True

False

The “period of restoration” ends on the date when the property at the described location should be repaired, rebuilt, or replaced with like kind and quality and using reasonable speed, or when the “operations” resume at a new permanent location.

5. The policy expiration date ends the “period of restoration.”

True

False

The expiration date of a policy has no effect on the “period of restoration. The “period of restoration” ends on the date when the property at the described location should be repaired, rebuilt, or replaced with like kind and quality and using reasonable speed, or when the “operations” resume at a new permanent location.

Check-In



Directions: Match each example to the dependent property exposure that it represents.

<p>A. Contributing Location</p>	<p><u> D. </u> The anchor tenant in the local mall where the Named Insured's store is located</p>
<p>B. Recipient Location</p>	<p><u> A. </u> A company that provides key components that are used in the Named Insured's manufacturing process</p>
<p>C. Manufacturing Location</p>	<p><u> B. </u> The company that purchases 75% of the Named Insured's products</p>
<p>D. Leader Location</p>	<p><u> C. </u> The company that produces and distributes items directly to the Named Insured's customers</p>

▶▶ Knowledge Check



Directions: Explain the terms business income and extra expense and describe how they differ.

1. Business Income:

Business income is comprised of Net Income (net profit or loss before income taxes) that would have been earned or incurred and continuing normal operating expenses incurred, including payroll.

2. Extra Expense:

Extra expense is defined as necessary expenses incurred during the “period of restoration” that would not have been incurred if there had been no direct physical loss or damage to property.

3. Difference:

Business income coverage replaces income and operating expenses that are lost as a result of a temporary shutdown due to a covered property loss. Extra expenses refer to those expenses that are necessary to avoid or minimize a “suspension” of “operations.”

Covered Causes of Loss, Exclusions, and Limitations

Check-In



Directions: Which of the following Causes Of Loss – Special Form Special Exclusions for Business Income coverage can be addressed through endorsement or another coverage option? (Select all that apply.)

- Damage or destruction of “finished stock”
- Radio or television antennas
- Delay caused by strikers or other persons
- Suspension or cancellation of license, lease, or contract
- Any other consequential loss

Damage or destruction of “finished stock:” Manufacturers Selling Price (Finished “Stock” Only) CP 99 30 06 95

Radio or television antennas: Radio Or Television Antennas – Business Income Or Extra Expense CP 15 50 10 12

Suspension/Cancellation of license, lease, or contract: Leasehold Interest Coverage Form CP 00 60 06 95, Extended Period of Indemnity Optional Coverage

▶▶ Knowledge Check



Directions: Your client owns a hotel that is insured on a Business Income (And Extra Expense) Coverage Form. The hotel is located in a coastal area where utility services are regularly interrupted by storms. The client tells you “I don’t need to add the Utility Services Time Element CP 15 45 09 17 endorsement to my Business Income policy because I already have a Utility Services – Direct Damage endorsement. How might you respond to this client?”

The Utility Services – Time Element endorsement adds coverage for lost business income due to “suspension” of “operations” resulting from an interruption of utility services caused by a direct damage loss. This is not covered by the Utility Services – Direct Damage endorsement. The Utility Services – Time Element endorsement also includes Wastewater Removal property as a covered utility. This is not included on the Direct Damage endorsement and may be an important coverage for a hotel.

Additional Coverages, Coverage Extension, and Limits of Insurance

▶▶ Knowledge Check



Directions: Consider how you would advise the client in the following scenarios.

1. Your client is concerned that the Civil Authority Additional Coverage will not provide her with sufficient Business Income coverage. What endorsement(s) might you recommend to the client, and how would they modify her coverage?

There are two endorsements a Named Insured can add to modify the Civil Authority Additional Coverage. Civil Authority Changes CP 15 32 06 07 can change the one-mile limitation and extend the four-week limitation. Business Income Changes – Beginning Of The Period Of Restoration CP 15 56 06 07 can reduce the Business Income waiting period to 24 hours or eliminate it altogether, which would also affect the Civil Authority Additional Coverage.

2. Explain as you would to a client how a lack of coverage could occur with the Additional Coverage – Extended Business Income. What solution would you recommend to address this exposure?

Extended Business Income coverage begins the date property (except “finished stock”) is actually repaired, rebuilt, or replaced and “operations” are resumed for Business Income. It ends on the earlier of either the date the Named Insured could restore, with a reasonable effort, the level of income that would have existed if there had been no direct physical loss or damage or 60 consecutive days after the date property (except for “finished stock” is actually repaired, rebuilt, or replaced and operations are resumed. If it takes longer than 60 days to return to levels of income prior to the loss, you would have lack of coverage. To account for this lack of coverage, the Extended Period of Indemnity option can be added in 30-day increments, up to 730 days.

Part 1: Self-Quiz

Directions: Answer the following questions. Some questions may have more than one correct answer.

1. Which of the following best describes business income?

- Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll
- Net income (Net Profit after income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll
- Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and all operating expenses incurred, excluding payroll
- Net income (Net Profit or Loss after income taxes) that would have been earned or incurred and all continuing extra expenses, including payroll

Business Income means the Net Income (the net profit or loss before income taxes) that would have been earned or incurred and continuing normal operating expenses incurred, including payroll.

2. Which of the following statements accurately describe when the “period of restoration” begins? (Select all that apply).

- Business Income begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.
- Business Income begins with the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.
- Extra Expense begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.
- Extra Expense begins with the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.

The “period of restoration” for Business Income Coverage begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.

The “period of restoration” for Extra Expense Coverage begins immediately after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.

Section 3: Time Element Coverages and Endorsements

3. Which of the following endorsements is best suited to a Named Insured who wants separate Business Income limits for dependent properties (all local to the Named Insured)?

- Business Income From Dependent Properties – Limited Form
- Business Income From Dependent Properties – Broad Form
- Business Income From Dependent Properties Limited International Coverage
- Business Income From Recipient or Contributing Locations – Limited Form

The Business Income From Dependent Properties – Limited Form endorsement is used to cover the insured's loss of income when a direct damage loss from a Covered Cause of Loss occurs at the premises of another business upon which the insured depends.

4. Very Large Paper Company is insured on an unendorsed Business Income (And Extra Expense) Coverage Form. They experience a loss of business due to an inventory shortage when their paper supplier is forced to temporarily shut down "operations" following a fire. Is this business income loss covered under their policy?

- Yes, the loss is covered because it resulted from a dependent property exposure.
- Yes, the loss is covered because it resulted from a necessary "suspension" of "operations" due to a Covered Cause of Loss.
- No, the loss is not covered because only recipient and leader locations receive automatic coverage under the Business Income (And Extra Expense) Coverage Form.
- No, the loss is not automatically covered because coverage for dependent property exposures must be added through endorsement.

5. Which of the following statements is accurate regarding Business Income coverage using the Causes Of Loss – Special Form as it relates to "finished stock"?

- Business income losses due to damage to "finished stock" are covered because the storage of "finished stock" is considered to be part of "operations."
- Business income losses due to damage to "finished stock" are covered, but only up to a limit of \$2,500.
- Business income coverage is excluded for loss or damage due to damage or destruction of "finished stock" because storage of finished goods, by definition, is not considered part of "operations."
- Business income losses are excluded for damage to "finished stock," but extra expenses necessary to replace finished stock are covered because they are necessary to restore "operations."

Section 3: Time Element Coverages and Endorsements

6. Which of the following are possible solutions to address the exposure created by the Causes Of Loss – Special Form special exclusion 3.b. Suspension, cancellation, or lapse of license, lease, or contract? (Select all that apply.)

- Maximum Period Of Indemnity Optional Coverage
- Extended Period Of Indemnity Optional Coverage
- Expanded Limits On Loss Payment
- Leasehold Interest Coverage Form

It is important to note that the cancellation of a contract may create a lack of coverage, resulting in the loss of future earnings after the “period of restoration.” The Extended Period Of Indemnity Optional Coverage can address those issues. Cancellation of a favorable lease due to a covered Cause of Loss could create a business income loss which is excluded by the Cause Of Loss – Special Form, but the Leasehold Interest Coverage Form can provide coverage for said loss.

7. How many days are granted under the Additional Coverage – Extended Business Income?

- Up to 30 consecutive days after the date property (except “finished stock”) is actually repaired, rebuilt, or replaced
- Up to 30 consecutive days after the date property (except “finished stock”) is actually repaired, rebuilt, or replaced and “operations” are resumed
- Up to 60 consecutive days after the date property (except “finished stock”) is actually repaired, rebuilt, or replaced AND operations are resumed
- Up to 60 consecutive days after the date property (except “finished stock”) is actually repaired, rebuilt, or replaced OR “operations” are resumed

Extended Business Income coverage begins when property (except “finished stock”) is actually repaired, rebuilt, or replaced and “operations” are resumed for Business Income.

Section 3: Time Element Coverages and Endorsements

8. Which of the following endorsements can be used to modify the Business Income (And Extra Expense) Additional Coverage – Civil Authority? (Select all that apply.)

- Ordinance Or Law – Increased Period Of Restoration
- Utility Services – Time Element
- Civil Authority Changes
- Business Income Changes – Beginning Of The Period Of Restoration

The Civil Authority Changes endorsement is used to change the one-mile limitation and to extend the four-week limitation.

The Business Income Changes – Beginning Of The Period Of Restoration endorsement allows the waiting period for Business Income to be reduced to 24 hours, or to be eliminated, which would also affect the Civil Authority Additional Coverage.

Directions: Indicate whether each of the following statements is true or false.

9. If you already have the Ordinance Or Law Coverage endorsement applicable to the building, it is not necessary to endorse the policy to add time element coverage.

True

False

The Ordinance Or Law – Increased Period Of Restoration (CP 15 31 09 17) endorsement addresses is needed to add time element coverage for Ordinance or Law.

10. The Business Income (And Extra Expense) Coverage Form removes the Conditional Exclusions from the Causes Of Loss – Special Form for time element coverage.

True

False

The Causes Of Loss – Special Form exclusions apply to Business Income (And Extra Expense).

11. The Additional Coverage – Civil Authority provides up to four continuous weeks of coverage after the “period of restoration” begins.

True

False

12. The insured must be in compliance with the coinsurance condition in order to receive the Business Income (And Extra Expense) Coverage Form Coverage Extension for Newly Acquired Locations.

True

False

The Coverage Extension applies if a coinsurance percentage of 50% or more is shown in the Declarations, even if the insured is not in compliance with the coinsurance provision.

Section 3: Time Element Coverages and Endorsements

13. Under the Business Income (And Extra Expense) Additional Coverage for Alterations and New Buildings, the “period of restoration” starts on the date on which “operations” would have begun had there been no loss.

True

False

Part 2:

Loss Conditions

▶▶ Knowledge Check



Directions: Answer the following questions.

1. List the factors that are considered in Loss Determination for a Business Income loss.

Net Income before the direct physical loss or damage occurred;

The likely Net Income if no loss or damage occurred (not including potential windfalls);

Operating expenses, including payroll, that are necessary to resume “operations” with the same quality of service that existed just before the direct physical loss or damage;

Other relevant sources of information, including the Named Insured’s financial records, accounting procedures, and other records.

2. Your client tells you that if his business closed temporarily due to a direct damage loss, he would only want to keep a select few employees on the payroll. As such, he does not want his entire payroll to be included in the Limit of Insurance. Which endorsement(s) might you recommend to this client? Explain your answer.

The Payroll Limitation Or Exclusion CP 15 10 10 12 endorsement would allow the client to limit the payroll component to specific persons.

Additional Condition – Coinsurance

▶▶ Knowledge Check



Directions: Read the scenarios and answer the questions.

1. Dana anticipates that the sum of their net income and operating expenses over the next 12 months will be \$1,000,000. They estimate that in the event of a total loss, it would take six months to rebuild and reopen their business. Assuming that this information is accurate and this is not a seasonal business, which coinsurance percentage would be most appropriate for Dana?

$$\underline{\$1,000,000 \times (6/12) = \$500,000}$$

$$\underline{\$500,000/\$1,000,000 = .50}$$

Dana should select the 50% coinsurance option.

2. Dana's agent, unsure of how to calculate coinsurance, incorrectly advises Dana to select 100% for their coinsurance percentage. Dana has a \$10,000 Business Income loss. Assuming that Dana carries a \$500,000 Limit of Insurance and that all of the information from question 1 remains the same, how much will Dana's policy pay?

Only 1/2 of the claim would be paid due to the coinsurance penalty, which is \$5,000.

$$\underline{\$1,000,000 \text{ (Net Income + Operating Expenses)} \times 100\% = \$1,000,000 \text{ (Amount Required/Should)}}$$

$$\underline{\$500,000 \text{ (Did)}/\$1,000,000 \text{ (Should)} = 0.5}$$

$$\underline{0.5 \times \$10,000 \text{ (Loss)} = \$5,000 \text{ loss settlement}}$$

Optional Coverages

Check-In



Directions: The Named Insured selects the Maximum Period Of Indemnity Optional Coverage with a limit of \$100,000. Which of the following statements is accurate?

- The policy will pay up to the Limit of Insurance for loss sustained and extra expenses during the 120 days following the beginning of the “period of restoration.”
- The policy will pay up to the limit of \$100,000 for loss sustained and extra expenses beginning at the date of loss.
- The policy will pay a maximum of 1/3 the Limit of Insurance for any 30-day period.
- Business Income Coverage can be extended for up to 730 days after normal “operations” have resumed.

The policy will not pay for any losses after 120 days or beyond the Limit of Insurance within the 120 days following the beginning of the “period of restoration” and coinsurance does not apply.

▶▶ Knowledge Check



Directions: Read the scenario and answer the question that follows.

The Named Insured selects the Monthly Limit Of Indemnity Optional Coverage at a limit of \$160,000 with a monthly limit of 1/4 shown in the Declarations. In the first 30 days, the Named Insured sustains a Business Income loss of \$80,000. How much will the policy pay for that 30-day period (assuming the Named Insured does not file a claim for Extra Expense)?

The policy will pay \$40,000. (\$160,000 x 1/4)

Business Income (Without Extra Expense) Coverage Form CP 00 32 10 12

Check-In



Directions: Which of the following statements accurately describes how extra expenses are paid under the Business Income (Without Extra Expense) Form?

- Extra Expense coverage can be added through endorsement only.
- Necessary expenses are paid up to a limit of \$2,500.
- Necessary expenses are paid only to the extent that they reduce business income losses.
- All necessary expenses are the sole responsibility of the insured.

Expenses are only covered if they are necessary to reduce the business income loss.

Extra Expense Coverage Form CP 00 50 10 12

▶▶ Knowledge Check



Directions: Read the scenario and answer the question that follows.

The Named Insured has purchased an Extra Expense Coverage Form with a limit of \$100,000 and a percentage basis of 40%-80%-100% is indicated on the Declarations. A loss occurs, and the “period of restoration” is 50 days. Expenses are \$70,000 the first month and \$20,00 the second month.

How much will the Named Insured be paid for recovery?

\$80,000. Because the “period of restoration” is 50 days, the second percentage (80%) is used. (\$100,000 Limit of Insurance x 80% = \$80,000).

Leasehold Interest Coverage Form CP 00 60 06 95

▶▶ Knowledge Check



Directions: Given the following scenario, indicate whether leasehold interest coverage would or would not be triggered and why.

Leslie's Cupcake Shop pre-paid rent to secure a high traffic spot in a strip mall. The owner of the strip mall has gone bankrupt and must cancel everyone's lease agreements and shut down the space. Will Leslie's Leasehold Interest coverage apply?

No, it will not. While rent was pre-paid, the reason for the cancellation of the lease is not from a direct physical loss from a Covered Cause of Loss.

Part 2: Self-Quiz

Directions: Answer the following questions. Some questions may have more than one correct answer. Select all that apply.

1. Which of the following are included in the Loss Determination for Business Income? (Select all that apply.)
- Net income after the direct physical loss or damage occurred
 - Net income before the direct physical loss or damage occurred
 - All operating expenses that result from direct physical loss, whether or not they are necessary to resume “operations”
 - Operating expenses, including payroll, necessary to resume “operations” with the same quality of service that existed just before the direct physical loss or damage are covered.

The amount of Business Income Loss is determined based on Net Income before the direct physical loss or damage occurred; the likely Net Income if no loss or damage occurred (not including potential windfalls); operating expenses, including payroll, that are necessary to resume “operations” with the same quality of service that existed just before the direct physical loss or damage; and other relevant sources of information, including the Named Insured’s financial records, accounting procedures, and other records.

2. Which endorsement to the Business Income (And Extra Expense) form allows the insured to continue to pay employee salaries, regardless of whether such expenses are necessary to resume “operations?”
- Payroll Limitation Or Exclusion
 - Discretionary Payroll Expense
 - Expanded Limits On Loss Payment
 - Business Income Expanded Payroll

The Discretionary Payroll Expense endorsement allows the insured to continue to pay their payroll expenses regardless of whether such expenses are necessary to resume “operations.”

3. Which of the following shows the amount required (“Should”) portion of the coinsurance formula for Business Income?
- Limit of Insurance
 - Limit of Insurance multiplied by the coinsurance percentage
 - (Net income + All Operating Expenses for the previous 12 months) multiplied by the coinsurance percentage
 - (Net Income + All Operating Expenses for 12 months in the future) multiplied by the coinsurance percentage

Section 3: Time Element Coverages and Endorsements

4. Selecting the coinsurance percentage is a four-step process. Which one of these steps is the first step of the process?
- Divide the amount of money needed to pay for a loss by the Net Income, plus all operating expenses, for a 12-month period.
 - Determine the basis of measurement for coinsurance.
 - Select amount of money needed to pay for a loss.
 - Round down to the next available coinsurance option.

See the Additional Condition – Coinsurance subsection to review the steps to calculating the coinsurance percentage.

5. The Named Insured selects Maximum Period of Indemnity Optional Coverage with a limit of \$100,000. Indicate which of the following is an accurate statement regarding how the policy will pay.
- Pays up to the Limit of Insurance for loss sustained and expenses during the 120 days following the beginning of the “period of restoration”
 - Pays up to the limit of \$100,000 for loss sustained and expenses beginning at the date of loss
 - Pays up to the Limit of Insurance for loss sustained and expenses for up to 730 days following the beginning of the “period of restoration,” depending on the number of days listed in the Schedule
 - Pays no more than a selected fraction of the Limit of Insurance during any 30-day period for loss sustained and expenses

Under the Maximum Period of Indemnity option, the maximum recovery for Business Income, including Extra Expense losses, is the lesser of the amount of Business Income and Extra Expense loss during the first 120 days following the beginning of the “period of restoration;” or the Limit of Insurance.

6. Which of the following statements are accurate regarding Business Income Agreed Value Optional Coverage? (Select all that apply).
- The Business Income Agreed Value option requires completion of the Business Income/Report Worksheet.
 - The Business Income Agreed Value option removes the coinsurance condition as long as it is in effect.
 - The Business Income Agreed Value option suspends the coinsurance condition for 12 months.
 - The Business Income Agreed Value option is generally more expensive than the Maximum Limit of Indemnity or Monthly Limit of Indemnity options.

See Optional Coverages – 3. Business Income Agreed Value to review the provisions of this Optional Coverage.

Section 3: Time Element Coverages and Endorsements

7. Trina's business is insured on a Business Income (Without Extra Expense) Coverage Form. A highly specialized piece of equipment that is essential to Trina's business is destroyed by a Covered Cause of Loss. It will take three months to replace the equipment unless Trina pays a \$35,000 fee for expedited manufacturing and shipping. Which of the following statements accurately explains whether Trina's policy will pay for this extra expense?

- Trina's policy will pay the expediting fee because the equipment is essential to her resuming normal business "operations."
- Trina's policy will pay the expediting fee because maintaining the equipment is considered a normal continuing expense.
- Trina's policy will only pay the expediting fee if it will be less than the loss of business income Trina would experience from three months without the equipment.
- Trina's policy will not pay the expediting fee under any circumstances because it is considered an Extra Expense.

Under the Business Income (Without Extra Expense) Coverage Form, expenses are only covered if they are necessary to reduce the business income loss. In this case, Trina's policy will only pay the expediting fee if it will be less than the loss of business income Trina would experience from three months without the equipment.

8. The Named Insured has purchased an Extra Expense Coverage Form with a limit of \$100,000 indicated on the Declarations and a percentage basis of 35%-70%-100%. A loss occurs, and the "period of restoration" is 29 days, with expenses totaling \$50,000. How much will the policy pay?

- \$25,000
- \$30,000
- \$35,000
- \$50,000

Because the "period of restoration" is fewer than 31 days, the first percentage will be used. 35% multiplied by the \$100,000 Limit is \$35,000. The total loss exceeds \$35,000, so \$15,000 will remain unpaid.

9. Which of the following endorsements allows the insured to customize the percentage limits used to determine recovery on the Extra Expense Coverage Form?

- Extra Expense Premium Adjustment
- Expanded Limits On Loss Payment
- Extra Expense From Dependent Properties
- Time Element Recovery Limits

The Expanded Limits On Loss Payment endorsement allows for customization of recovery in choosing the various percentages and the length of the "period of restoration" for those percentages.

Section 3: Time Element Coverages and Endorsements

10. Which of the four covered leasehold interests refers to the additional rent the insured must pay to lease a comparable premises?

- Tenant's Lease Interest
- Bonus Payments
- Improvements and Betterments
- Prepaid Rent

Tenant's Lease Interest refers to the additional rent the insured must pay to lease a comparable premises (meaning the difference between the rent paid at the original premises and the rental value of the new leased premises).

11. The Named Insured has purchased a Leasehold Coverage Form with all four coverages selected. The property the Named Insured was renting is destroyed by a fire and, subsequently, the lease is canceled and the Named Insured has to rent another location. Indicate which of the following statements are true in regard to the Leasehold Coverage Form. (Select all that apply.)

- On the canceled lease, the Named Insured will be reimbursed the entire Bonus Payment that was paid to secure the leased premises.
- The Named Insured's rent at a new location is higher. The difference between the old rent and new rent is covered.
- On the canceled lease, the unamortized portion of the tenant's improvements and betterments will be covered.
- Pre-paid rent at the damaged location will not be covered.

See Leasehold Interest Coverage Form – Insuring Agreement Covered Causes of Loss to review the requirements to trigger Leasehold Interest coverage.

Section 3: Time Element Coverages and Endorsements

Section 3: Time Element Coverages and Endorsements

Appendix

Preparing for the Final Exam

Keep in mind, the most important measure of your knowledge will be witnessed in your service to your organization. Think of an exam 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 is two hours long. You are required to earn a minimum of 140 out of 200 possible points. Questions appear in the order of presentation of the topics.

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

Study Techniques

Here are some techniques you can use to help you prepare for the Final Exam. Apply these same techniques to each section in this Learning Guide.

1. Review the Section Goal.
2. Re-read the Introduction.
3. Review each Learning Objective.
4. Change each head and subhead into a question. Then answer the question. For example, header: Risk Financing Plans
Question: What are some examples of risk financing plans?
5. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific learning objective.
6. Check your answers to each Check-In activity. Correct your original answers, if necessary.
7. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
8. Re-read the summary at the end of each section.
9. Check your answers for each section Self-Quiz. Correct your original answers, if necessary.
10. Review any comments, highlights, or notes you made in each section.

Preparing for the Final Exam

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

Sample Exam Questions

1. Tony recently purchased a new widget machine for his business. When it was installed, it was built into the floor. According to the Building and Personal Property Coverage Form, would this be considered part of the Building or Your Business Personal Property? Support your answer. (4 points)

Sample Answer:

Building. The Building and Personal Property Coverage Form defines the term Building to include permanently installed machinery or equipment.

2. Tony has another machine that packages the widgets that's extremely heavy but is not bolted to the floor. Is there a way Tony can modify his policy to cover it as a Building item? Explain your answer. (4 points)

Sample Answer:

Yes. The equipment can be added as Building item using the Additional Building Property endorsement.

Glossary of Terms

Section 1

Actual Cash Value (ACV) – replacement cost less an allowance for insurance depreciation, wear and tear, or obsolescence

Advance premium – initial premium paid to begin coverage on a policy

Agreed Value – a limit agreed upon by the underwriter and Named Insured that is deemed adequate, therefore, suspending the Coinsurance clause

Bailee – person or organization that has possession of the property of others, usually for storage, repair, or servicing

Bailment – situation in which property of one has been entrusted to another. A bailment can be for the benefit of either party or both. The degree of care owed by the bailee to the bailor differs according to who has the benefit of the bailment.

Coinsurance – a rating and underwriting concept that is designed to encourage an insured to purchase an amount of insurance nearly equal to or equal to the full value of the property being insured

Demand surge – increased costs of rebuilding following a disaster

Final premium – determined at the end of the policy year based on average reports of valued submitted by the insured

Inflation Guard – a feature that increases the amount of an insurance benefit by a fixed percentage automatically every year, to adjust for inflation

Insurable interest – the existence of potential financial loss, or having a legal or financial relationship in the value of the subject of insurance, on the part of the policy owner and/or beneficiary in the event of a payable Covered Cause of Loss

Named Insured – a person or entity specifically named and listed on an insurance policy
Declarations under the Named Insured section

Replacement Cost – cost to replace damaged property with like kind and quality without taking into account depreciation

Specific insurance – type of insurance where only one individual property is covered by the policy

Section 2

Agricultural smudging – also referred to as a smudge pot; an oil-burning device used to prevent frost on crops or provide heat

Collapse – the abrupt falling down or caving in or giving way of a building or structure. Loss of structural integrity, including separation of parts of the property or property in danger of falling down or caving in or any cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion as such condition relates to the aforementioned situations.

Flood – general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is the insured's property) from: overflow of inland or tidal waters, unusual and rapid accumulation or runoff of surface waters from any source, mudflow, or collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood

Named perils – only the perils named on this form are covered on a Commercial Property Policy. The perils are: fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, vandalism, riot or civil commotion, sprinkler leakage, sinkhole collapse and volcanic action.

National Flood Insurance Program (NFIP) – program created by the U.S. Congress to help mitigate future losses caused by flooding through community enforced building standards. Participation is voluntary and is based on a community's agreement to adopt and enforce, at a minimum, the Federal standards for building within a Special Flood Hazard Area.

Open perils – all perils are covered unless specifically excluded or limited by policy language

“perishable stock” – property maintained under controlled conditions for its preservation and susceptible to loss or damage if the controlled conditions change

Sinkhole collapse – damage caused by the sudden sinking or collapsing of land into an underground empty space typically caused by water on limestone or dolomite

“specified causes of loss” – fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, riot or civil commotion, vandalism, leakage from fire-extinguishing equipment, sinkhole collapse, volcanic action, falling objects, weight of snow, ice or sleet, water damage

Section 3

Dependent property – premises belonging to another business or organization on which the insured is dependent

Extended Period Of Indemnity – optional coverage that increases the time period for which the Additional Coverage – Extended Business Income will apply. Total number of days must be indicated on the Declarations, which will replace the “60 days” shown in the policy paragraph A.5.c.

Income statement – a report of the organization’s financial performance for a stated time period

“operations” (BIEE definition) – business activities occurring at the described premises (or tenantability of described premises if “Rental Value” applies)

“period of restoration” (BIEE definition) – period of time that begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises. The Period of restoration begins immediately after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises for Extra Expense coverage. It ends on the earlier of the date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality or the date when business is resumed at a new permanent location.

“pollutants” (BIEE definition) – any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalies, chemicals and waste.

“suspension” (BIEE definition) – slowdown or cessation of your business activities (or part or all of the described premises is rendered untenable if “rental Value” applies)

Tenantability – fit to be rented or in a condition suitable for a tenant

Time element – insurance coverage in which measurement of loss is tied to a period of time and protects an insured when business is interrupted as a result of direct physical loss to property from a covered cause of loss

Valued policy – declares the amount that will be paid in the case of a total loss of the property