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The following questions and answers come from the December 5, 2012 “The Remarkable NEW 2012 ISO Commercial Property Changes” webinar. This document was last updated on December 11, 2012.

“The Remarkable NEW 2012 ISO Commercial Property Changes” Webinar Q&A

Below is Q&A that came from the December 5, 2012 “The Remarkable NEW 2012 ISO Commercial Property Changes” webinar. The webinar was recorded and can be found here:

<https://vimeo.com/bigivirtualuniversity/review/55303705/d8da02b40f>

For additional questions about insuring the lease exposure (or other topics), please use our “Ask an Expert” service:

<http://www.independentagent.com/Education/VU/AskAnExpert/default.aspx>

If you have any questions about this document, please contact Bill Wilson, CPCU, ARM, AIM, AAM at bill.wilson@iiaba.net. For education, consulting or expert witness work, contact John Eubank, CPCU, ARM at insspeak1@bellsouth.net.

If you would like to be notified by developments on the issues presented in this webinar or advised of future webinars, please consider signing up for our Virtual University’s free, bi-weekly email newsletter:

<http://www.independentagent.com/Education/VU/Pages/VU-point/VU-point.aspx>

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Effective Date of Changes

Q: “Regarding the BPP in Described Structures slide, I didn't catch if this ISO change is in effect now, or intended to be in the future? Also, the coverage Radius slide with BPP covered within 100 ft. of described premises or the building effective now?”

A: The policy currently covers BPP in described buildings or in the open or a vehicle within 100 ft. of the premises. The changes to this that were discussed are not effective in most of the country until April 1, 2013. You can check with your local ISO office (www.iso.com) to determine if the effective date is different in your state. In addition, consider that some carriers will adopt these changes immediately, others not for some time, and others not at all. The printing date on the forms themselves is October 2012 (10/12)...since the effective date can vary by state and carrier, we refer to these changes as the “2012” changes since that is the date on the forms.

CP 10 34 Exclusionary Endorsement for Losses Due to Processing Operations

Q: “CP 10 34. Does this mean if my insured owns a building, rents that building out to a restaurant, and that restaurant subsequently has fire in their fryers, my insureds building is not covered?”

A: No the exclusion only applies, e.g., to a claim for the grease buildup in the vent hood or the general area. The processing byproduct has to cause the loss, not just be a hazard that contributes to the loss.

Q: “The endorsement CP1034 - is this exclusion going to affect coverage if a fire is the cause of loss that was a result of the byproduct? I am concerned about the tenant restaurant exposure.”

A: Yes. The exclusion only applies to the damage caused by the actual residue and there is a specific exception for fire and explosion:

“This exclusion does not apply to loss or damage by fire or explosion that results from the release of a by-product of the production or processing operation.”

Q: “On the Processing Operations slide, if for example the fat residue caused a fire that burned the building down, would there be coverage?”

A: Yes, the endorsement makes a specific exception for fire. In addition, the exclusion only applies if the residue CAUSES a loss. In other words, if a claim is made to clean a bunch of residue off the vent hood, walls, etc., that's not covered.

Q: “Is the endorsement limited to ‘illegal operations’ of tenants, or is it general? We are concerned that life science tenants may have byproducts of certain chemical and biological exposures. Would this be excluded?”

A: No, it's not just illegal activities. The actual endorsement might give you a better idea of the potential scope of the exclusion. If you have specific examples, we would consider writing an article just on this endorsement for publication in the free Virtual University email newsletter.

Q: “Does CP 10 34 apply ONLY rental properties and not to owner occupied?”

A: The CP 10 34 is mandatory only on tenant occupied rental properties and should be attached to both the landlord's and tenant's policies. At least that is our current understanding of how this endorsement is supposed to be used. Underwriters may have the discretion to modify this rule. If we learn anything different, we'll include a notice of that in an upcoming issue of the Virtual University *VUpoint* email newsletter.

Q: “How can we cover the restaurants/processing legal operation?”

A: ISO currently has no option to cover this excluded exposure.

Q: “With the new CP 10 34 Meth Lab exclusion, if a tenant is operating a meth lab and blows up a building, there is no coverage? Are you aware of how/where an owner will be able to purchase this coverage?”

A: The endorsement will cover a meth lab explosion, just not the normal cost to clean up the residue once the operation is discovered. This is from the endorsement:

“This exclusion does not apply to loss or damage by fire or explosion that results from the release of a by-product of the production or processing operation.”

Here is a VU article about meth labs:

<http://www.independentagent.com/Education/VU/Insurance/Commercial-Lines/Property/Exclusions/FacultyMethLabs.aspx>

Coverage for Entrusted Property

Q: “Does theft coverage have to be included on the policy to be included for entrusted property in the Entrusted Property endorsement?”

A: There isn't an entrusted property endorsement. The change is being made to the CP 10 30 Special Causes of Loss form. Unlike the named perils causes of loss forms, it excludes damage to entrusted property. The new policy will largely cover damage to entrusted except for theft losses.

Q: “Your point on the ‘entrusted property’ made me think about an issue we saw recently. How would you properly cover an insured's funds/taxes when he entrusts his bank account to a firm who handles his payroll and tax payments?”

A: Due to the lack of direct damage, this does not appear to be covered by standard ISO forms that we're aware of. It's more of a crime exposure but the ISO forms don't really address this situation either. Most likely, if coverage is to be found, it could be under one of the many cyber policies in the marketplace. You might talk to your carriers about products they may have for this exposure or whether they consider it an uninsurable business risk.

Q: “I am really concerned about the entrusted property exclusion as we have several clients that own rental properties. How do we fix this mess until our companies adopt the new form or change their form that they followed ISO's form to write?”

A: We have had at least 2-3 claim denials for vandalism by tenants reported to us via our Virtual University “Ask an Expert” forum. When we advised the agent of what ISO is doing in this filing and why, the insurers backed off their claim denials and paid them. Feel free to use that part of the webinar handout if this happens or use our AAE service if you are a Big “I” member:

<http://www.independentagent.com/Education/VU/AskanExpert/default.aspx>

CP 10 65 “Flood” Endorsement

Q: “Does the property policy ever include flood coverage? We didn't think that it did and are confused what endorsement CP 10 65 gives.”

A: The CP 10 65 *does* provide water damage coverage that includes flooding.

Q: “If flood is excluded will CP 10 65 extend coverage for BI as result of a flood?”

A: Yes, as long as the endorsement is used to endorse the business income form.

Q: “So the Flood Coverage endorsement CP1065 can be added to the property and it covers like the NFIP policy would?”

A: The flood endorsement covers whatever the endorsement says it covers. It is not identical to the NFIP policy but similar in scope and application. Pay special attention at what point coverage attaches. For more details, you might want to review this form in Rough Notes' PF&M manual which is part of our Virtual Risk Consultant product:

<http://www.independentagent.com/Products/non-insurance/VRC/Pages/home.aspx>

Webinar Recommendation?

Q: “What are the most underused but most recommended endorsements?”

A: Now that would make a good webinar...and it would take more time and space than we have here. But let's start with off premises power failure, a major source of E&O claims following weather-related disasters, and additional debris removal coverage.

Coverage for Off Premises Water Line Break

Q: “If you have a condo association that owns their own water/sewer system and there is off premises wear and tear, would there be coverage if the unit owner sued the association?”

A: The coverage doesn't apply to a private system off the premises. It also seems likely that a private system would be entirely on the premises.

Application of W/H Deductibles

Q: “In the event of a claim for a condo association containing multiple buildings and there is a 2% deductible, does that apply to only the damaged building value or the entire blanket limit? I'm referring to the Condo Owners Assessment portion regarding the wind/hail deductibles being applied to the building value as opposed to the claim amount.”

A: From one of the presenters....

You need to look at the specific percentage deductible form. There are two general types, one where the percentage is based upon the limit insured in the policy, and the second one where the percent is applied separately to each building or business personal property subject to a maximum deductible.

As an example, we have a condo association that has 30 buildings, each worth \$1,000,000 on a replacement cost basis. The totaled insured limit is \$30,000,000. If the policy contains a 2% wind hail deductible per occurrence, the loss would be handled 2% of \$30,000,000 or \$600,000. Deductible amount wind/hail damage spread over all the buildings in the occurrence totals \$2,000,000. The deductible is \$600,000, amount of loss \$2,000,000, thus the amount that is paid by the insurer is \$1,400,000.

Now, same facts, only the percentage deductible applies per building and has a maximum deductible. Building value \$30,000,000 times 2% equals \$600,000 maximum deductible any one occurrence. However, the deductible applies separately per building. Same \$2,000,000 loss for the occurrence. After reviewing the estimate by building, Building 1 has \$10,000 damage, Building 2 has \$50,000 damage, Building 3 no damage, and so on. Each building has a value of \$1,000,000. The loss is adjusted by taking 2% of each building, which in our example is \$1,000,000 times 2% equals \$20,000 the deductible amount for the individual building. On the 1st building, with \$10,000 damage, \$20,000 deductible. The loss is below the deductible, so nothing is paid. Building #2 \$50,000 damage and a deductible of \$20,000. \$30,000 would be paid. Building 3 has no loss so nothing is paid, and so on and so on until all the damaged property at each building has been adjusted. However, the deductible amount is limited to the max of \$600,000.

OT: Business Income Endorsement Inquiry

Q: “Is there a BI endorsement for a Property Management entity that manages a property that has a loss that they do not own? The owner will receive BI, but the management company has no coverage to pay for their fees.”

A: We are not aware of any standard ISO endorsement for this. By contract, the property management company might require that payment of the fees continue after loss. In that case, the fees would be a business income item for the property being managed. The only alternative we're aware of is a manuscript form.

Vegetated Roofs

Q: “Regarding Vegetated Roofs, can coverage be purchased for the excluded perils?”

A: ISO has no option in the new program to purchase coverage for the excluded perils.

Q: “**Vegetative Roof - what about collapse...weight of ice or snow?**”

A: This should be covered as long as the “collapse” meets the provisions in the Cause of Loss form Additional Coverage – Collapse. There is no additional exclusion in the vegetative roof coverage that we’re aware of for this.

Business Personal Property (BPP) in Structures and Within 100 Ft. of Premises

Q: “**Re: BPP in structures, define premises...the edge of the property line or the structure itself?**”

A: Premises is whatever the declarations page identifies as the premises. Usually it’s an address. So if the address is 1014 Main Street, then it will be whatever premises and grounds legally constitute that address. If it’s 1014 Main Street, #403 and “#403” is an office on the 4th floor, then that’s the premises. Here is a VU article written under prior form editions:

<http://www.independentagent.com/Education/VU/Insurance/Commercial-Lines/Property/Other/FacultyAddress.aspx>

Q: “**If the premises is 2 acres and a 4 story building sits in the middle of it, the premises extension would be 100 ft. of the edge of the 2 acres premises right?**”

A: Probably. The “premises” is whatever is described on the Declarations page. If only an address is provided, then the premises is whatever property that address legally applies to.

Q: “**Now I am also confused about the storage unit limitation if BPP extends to 100 ft. of premises. Is this limitation for ‘pods’ as well since they are storage units or is this referring to mini storage units?**”

A: For BPP on the premises, it must be in a *described* building or structure, or in the open or in a vehicle within 100 ft. of the premises. Our Technical Affairs Committee made the point to ISO that property in pods, if not described, would not be covered but if the property was in the open (and at greater risk), it would be covered. So ISO has now added an exception to extend coverage to BPP in pods.

Q: “**I was a little confused about covering property outside the building. Apparently you have to ‘describe’ the building on the declarations page even if you are not covering the physical structure?**”

A: That’s what the CP 00 10 says. In my old ISO field inspection days, I looked at a facility in Memphis with well over 200 buildings or fire divisions. Many of them were originally barracks for WWII German POWs. The buildings were almost worthless and, on the statement of values, were shown with no values and, thus, no premiums for building coverage. However, it was necessary to describe them in the statement of values in order to get coverage for the contents. In contrast, ISO’s BOP only requires the description of the PREMISES for coverage.

Debris Removal

Q: “**So on the debris removal you said that this does not apply until the debris removal expense is exceeded, is that correct?**”

A: The extra amount of debris removal expense applies if the amount provided automatically by the policy is exhausted.

Coverage Checklists

Q: “**Where can we get this coverage checklist you are referring to?**”

A: The Virtual Risk Consultant product marketed by our E&O department includes coverage checklists:

<http://www.independentagent.com/Products/non-insurance/VRC/Pages/home.aspx>

If you just want to see a very simple sample checklist, here is one from our Virtual University library:

<https://rms.iiaba.net/Content/Prevention-Tools/Coverage-Checklist/Commercial%20Lines%20Coverage%20Checklist.pdf>

We get lots of requests for all kinds of checklists, from coverage to risk management to E&O. Look for a comprehensive listing of checklists we have available on the Virtual University in the next couple of weeks.

Ordinance or Law Compliance

Q: “With the ordinance or law exclusion change to add ‘compliance with,’ does that include voluntary compliance with an ordinance or law or just forced compliance?”

A: Our consensus opinion is that this refers to mandated/forced compliance, not voluntary compliance.

CP 04 04 Endorsement

Q: “Is there a charge for the CP 04 04 endorsement that extends coverage for property like a laptop computer temporarily away from premises?”

A: We shot a quick email to ISO and got this response:

“This is a new, optional coverage subject to additional premium. The applicable rates are 10% of the underlying rates by peril, with the exception of 20% for special form coverage which includes theft. The rates are multiplied by the off premises limit of insurance, in hundreds.”

So, the short, non-nerdy answer is, yes, there is a charge.

Liberalization

Q: “Does the liberalization clause on this policy extend the expansions to policyholders placed with former pure ISO editions of this form? What about the folks who have endorsements on the existing ISO form that have now been broadened?”

A: Here’s an example of a common Liberalization clause:

Liberalization

If we adopt any revision that would **broaden** the coverage under this policy without additional premium within 45 days prior to or during the Policy Period shown in the Declarations, the broadened coverage will immediately apply to this policy.

Since this filing both broadens and restricts coverage, any liberalization clause wouldn’t matter anyway. We mentioned early in the webinar that ISO usually broadens and restricts coverage in order to get a revenue-neutral overall change. Combining policy language and premium/loss cost changes in the same filing is the kiss of death to getting a filing through an insurance department. Another reason for both broadening and restricting coverage is that any Liberalization clause that might apply to a policy form usually will not be triggered.

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