

Insurance Coverage Definitions

Reference in-depth coverage definitions and related coverage forms for the following areas:

- [Property Coverages](#)
- [Time Element Coverages](#)
- [Property and Time Element Cause of Loss](#)
- [Inland Marine Coverages](#)
- [Crime Coverages](#)
- [Liability Coverages](#)
- [Commercial Auto Coverages](#)
- [Workers' Compensation Coverages](#)
- [Excess Liability Coverages](#)
- [Aviation Coverages](#)
- [Specialty Coverages](#)
- [Bonds](#)

PROPERTY COVERAGES

Property coverage provides first-party coverage on the insured's tangible assets from a variety of causes of loss. There are many forms and approaches starting with the general and moving to the specific. The range of options allows an agent to work with a customer to develop the approach that is right for them.

Property Coverage—Building and Personal Property Coverage Form

There are four types of property associated with every structure:

- The building or structure itself;
- The business personal property inside the building;
- The personal property of others in the building; and
- The improvements and betterments that have been made for the benefit of the current occupant.

All are covered under the Building and Personal Property Coverage Form. All can be provided with a specific limit or can be combined in various ways as blanket. A separate cause of loss form must be attached.

Automotive operations will normally use this form for most property coverage.

(Refer to ACORD 140) (Refer to PF&M 130.4-2)

Property Coverage—Building and Business Personal Property Coinsurance

Coinurance is a technique to encourage proper insurance to value. The commercial fire rating section in the ISO manuals contemplate a minimum of 80 percent coinsurance. Any higher coinsurance receives a credit and lower receives a debit. The insured must choose a coinsurance percentage; it is then indicated on the declarations page. Failure to carry sufficient limits to satisfy the coinsurance requirement will cause a penalty at the loss settlement time.

(Refer to PF&M Section 130.6-9)

Property Coverage—Building and Business Personal Property Alternatives to Coinsurance:

Insurance Coverage Definitions

Agreed value—suspends coinsurance but requires the insured submit annual signed statements of value indicating the 100 percent value of the property insured and then purchase either 90 percent or 100 percent of that value.

(ACORD 139) (Refer to PF&M Section 130.4-2)

Functional replacement cost—allows the insured to purchase the coverage necessary to rebuild or replace based on utilitarian needs. Examples include: replacing a three-story building that has two vacant stories with a one-story building or replacing wooden office furniture with cubicles.

(Refer to PF&M Section 130.6-29)

Peak season—allows the insured to increase business personal property values at peak times while keeping values lower at other times of the year. The insured picks the time period and the increased amount.

(Refer to PF&M Section 130.6-12)

Reporting forms—allows the insured to pay only for the business personal property needed while maintaining insurance to value. The insured schedules the maximum coverage needed for the year and pays a premium based on 75 percent of the value. He/She then reports the actual values periodically. At the end of the year the carrier calculates the premium difference. The insured will have the exact coverage needed for the time period.

(Refer to PF&M Section 130.6-11)

Property Coverage—Condominium Coverage Form

Unit Owners Coverage

Business personal property owned by a unit owner, and personal property of others in the care, custody or control of the insured, may be covered under this form in the same manner and with the same general options as are associated with the Building And Personal Property Coverage Form except that there are considerations given to the uniqueness of condominium bylaws and coverage requirements. Coverage is provided by ISO but other carriers offer similar forms.

If an automotive operation is a part of a commercial condominium they will need this coverage. Their bylaws should be reviewed carefully to confirm that coverage is adequate.

(Refer to ACORD 140) (Refer to PF&M Section 132.4-2)

Property Coverage—Commercial Output Policy

A commercial output policy is a property coverage part originally designed for the automobile manufacturer but now more appropriate for any large property exposure. The coverage is generally broader than the standard Property Coverage Form, with more flexibility. There are several built-in coverages but the deductibles tend to be higher. Most commercial output policies are unique to each company but the AAIS and the ISO both have developed forms to aid their members. A comparison of forms is necessary to determine the advantages and disadvantages. Particular attention must be paid to exclusions; property included and excluded, inland marine extensions, property at other locations, and any special limitations. The rating system is unique and a decision on whether the rate can be changed during the year is usually necessary.

Insurance Coverage Definitions

This coverage could be beneficial to many owners of larger properties.

(Refer to PF&M Section 190.1 and PF&M Section 191.1)

Property Coverage—Boiler and Machinery

This coverage has four separate parts:

- Damage from an accident to the items covered
- Damage to the insured's other property caused by an accident to the items covered
- Loss of income due to damage to the item and/or damage to the other insured property
- Damage to property of others and bodily injury to others caused by an accident to the items covered.

The items covered are boilers and other heating devices. In addition most machinery and equipment including electronic devices can be included. ISO has a Standard Boiler and Machinery Policy Form. The major writers of this coverage use their own forms but the structure is similar to the ISO version.

Both building owners and tenants, if heating with boilers, will want to consider this coverage in order to prevent coverage gaps.

(Refer to ACORD 155) (Refer to PF&M Section 231.1)

Property Coverage—Legal Liability

This form provides property coverage for direct physical loss or damage, including loss of use, to property of others in the insured's care, custody and control, for which the insured is legally liable. Coverage is not for the benefit of the insured but is for the benefit of the property owner. That owner must be the one who files a claim for damages. The coverage is provided with a standard ISO coverage form. The insured chooses basic, broad or special cause of loss. The determination of the cause of loss is made based on the wording of the agreement between the property owner and the insured. Since this is legal liability only, the only cause of loss that will actually be covered is that which is required by the contract, so purchasing a broader cause of loss than the contract states is a waste of money.

(Refer to ACORD 140) (Refer to PF&M Section 135.4-2)

Property Coverage—Additional Debris Removal

Whenever there is a building or business personal property loss, debris is created. The debris must be removed in order for the reconstruction to begin. Payment for debris removal in the Building and Personal Property Coverage Form is limited to 25 percent of the loss. An additional \$10,000 is provided as an enhancement to the basic form. This may not be sufficient for some insureds, so the option is available to buy additional limits. Limits are purchased on a per- location basis instead of the standard per- building basis. This allows insureds to consider their entire location and determine potential debris removal considerations.

Unusual construction or difficult-to-access places can contribute to an increase of debris removal expense.

Insurance Coverage Definitions

Automotive operations often have hazardous waste and special debris concerns that could add significantly to the debris removal cost so this coverage should be considered.

(Refer to ACORD 140) (Refer to PF&M Section 130.6-22)

Property Coverage—Ordinance or Law Coverage

The standard ISO Building and Personal Property Coverage Form excludes coverage for any costs that are associated with building law changes. There are three specific types:

- The first deals with laws that require a building to be torn down if more than a certain percentage is destroyed and it does not meet current codes. There is no coverage for the destruction of the undamaged portion of the building. Coverage A would pay for this.
- Second, there is no coverage for the demolition of the undamaged portion. Coverage B would pay for this.
- Third, there is no coverage to bring a building up to code in order to gain permits to build. Coverage C would pay for this.

Coverage may be purchased under an ISO form using CP 04 05. Some carriers offer this coverage in a slightly different manner.

Automotive operations may be subject to ordinances about particular businesses in certain areas of town that could result in their having to move following a sizable loss. A partial loss could quickly turn into a total loss with only the partial loss covered. In addition, since the public regularly enters the building there could be American with Disabilities Act considerations that could involve increased cost of construction should ANY loss occur.

(Refer to ACORD 140) (Refer to PF&M Section 130.6-8)

Property Coverage—Outdoor Trees, Shrubs and Plants Enhancement

The standard ISO Building and Personal Property Coverage Form considers outdoor trees, shrubs and plants as not covered property. This endorsement changes them to covered property but with a specific limit and some added exclusions. There is an option to include or exclude vehicle damage. The standard ISO Building and Personal Property Coverage Form does provide a limited amount of coverage for trees, shrubs and plants. If this is not sufficient to satisfy a property loss, endorsement CP 14 30 should be considered.

(Refer to ACORD 140) (Refer to PF&M Section 130.4-3)

Property Coverage—Replacement Cost

The standard valuation on an insurance policy is actual cash value. The actual cash value is replacement cost today less depreciation. This valuation basis indemnifies the insured and puts him/her in the same condition after the loss as before. However, since it is difficult to rebuild old for old, the alternative valuation of replacement cost is encouraged. Replacement cost coverage is available in most property forms, inland marine forms and some auto forms. It is an important tool but if the insured wants to have replacement cost valuation, he/she must also insure to replacement cost which can be a large increase of limits and premium.

Insurance Coverage Definitions

(Refer to ACORD 140) (Refer to PF&M Section 130.4-2)

Property Coverage—Utility Services - Direct Damage

The standard ISO cause of loss forms exclude loss due to utility service disruption of communication, power or water. This ISO endorsement returns the cause of loss to the policy. The disruption may be due to damage to off-site facilities or power lines as selected by the insured. This does not cover consequential loss due to spoilage.

Automotive operations cannot function without the utility services operating. If there are items that would be damaged by a sudden loss of water, power or communication, serious thought should be given to purchasing this coverage.

(Refer to ACORD 140) (Refer to PF&M Section 130.6-20)

TIME ELEMENT COVERAGES

Time Element forms provide coverage for the intangible economic losses that occur following a direct damage loss to tangible property. These are future-looking forms and coverage is based on the loss of anticipated economic benefits.

Time Element Coverage—Business Income with Extra Expense

Business income with extra expense provides coverage for the loss of income a business suffers after direct damage of covered property. In addition, extra expenses that the insured incurs to remain in operation above and beyond the amount necessary to reduce the business income are also covered.

Automotive operations will want this coverage since they will need to remain in operation after physical damage.

(Refer to ACORD 140) (Refer to PF&M Section 131.4-2)

Time Element Coverage—Business Income without Extra Expense

Business income with extra expense provides coverage for the loss of income a business suffers after direct damage of covered property. While there is coverage for expenses that are necessary to reduce the business income loss, there is no coverage for extra expenses incurred to just keep functioning.

Coverage can be purchased on a coinsurance basis or on a monthly limit of indemnity based on the needs of the risk.

Automotive operations may want to consider this option if they do not anticipate the need for any extra expense in order to remain in operation.

(Refer to ACORD 140) (Refer to PF&M Section 131.4-2)

Time Element Coverage—Business Income - Coinsurance

Coinsurance is a technique to encourage proper insurance to value. The higher the percentage chosen, the lower the rate applicable. The lowest rate is at 125 percent. The unusual percentage is used to

Insurance Coverage Definitions

encourage the insured to cover not just the business income but also extra expense that must be incurred beyond the business income loss. Business income coinsurance is based on time so the insured should base limits on the consecutive months that generate the highest income. As an example, retailers should consider using winter months not the summer months. Exterior contractors would use the summer months rather than the winter.

Time Element Coverage—Business Income - Alternatives to Coinsurance

Agreed value—suspends coinsurance but requires the insured submit annual signed statements showing the prior 12 months business income and the anticipated 12 months business income. The insured must then carry a limit of at least 50 percent of the anticipated 12 months business income.

(Refer to PF&M Section 131.6-4)

Maximum period of indemnity—suspends the coinsurance and will pay the business income for the 120 days following the date of loss. Coverage ceases after the 120th day even if the limits have not been exhausted.

(Refer to PF&M Section 131.6-10)

Monthly limit of indemnity—suspends the coinsurance and will pay the business income for 3, 4 or 6 months depending on the selection made. Each month 1/3, 1/4 or 1/6 of the business limit of liability may be available to pay for the business income loss of that month. If the percentage is not used the one month, it is not available to pay the next month. As an example, if an insured chose the 1/3 option with a \$60,000 limit there would be \$20,000 coverage available each month. If there is a loss and the first month the loss was \$10,000, it would be paid, the next month the loss was \$20,000 and it would be paid, the third month the loss was \$30,000—only \$20,000 would be paid. There would be no coverage available for the remaining time.

(Refer to PF&M 131.6-5)

Premium adjustment—suspends the coinsurance while making sure the insured only pays for the coverage purchased. It is similar to a personal property reporting option except that the full premium is paid up front and the insured is only given a refund, never an additional premium. The insured submits a statement of estimated business income at the beginning of the time period, chooses a coinsurance percentage and limit, and pays the appropriate premium. At the end of the period, the insured submits the statement of actual business income and the premium is recalculated and a return premium given.

(Refer to PF&M 131.6-7)

Time Element Coverage—Business Income from Dependent Properties

Covers loss sustained at scheduled dependent properties that causes suspension of operations at the insured property. Dependent properties could be a supplier of the insured or a customer of the insured or even the lead store at a shopping center that draws customers to the insured. Coverage is provided with an endorsement to the business income policy. It is not required that business income be purchased on the insured's premises in order to purchase business income from dependent properties.

(Refer to ACORD 140) (Refer to PF&M Section 131.6-3)

Time Element Coverage—Extra Expense Coverage Form

Insurance Coverage Definitions

Coverage is provided to pay for all monies that must be expended to get an insured back in business in the fastest way possible without regard to income to be generated by the return to business. These would include, but not be limited to, transportation fees when using next -day service rather than normal shipping schedules, any surcharge to put a rush on a purchase order, special set- up fees that may be charged for a manufacturing order, etc. When money can be used to re-open an operation (provided it is legal), then the expense will be paid under this form. The coverage is provided using the ISO standard Extra Expense Coverage Form.

This coverage should be considered if there would never be business income, but there could be considerable extra expense to insure that the operation is able to open – under any circumstance.

(Use ACORD 140) (Refer to PF&M Sections 131.4-2 and 131.6-1)

Time Element Coverage—Leasehold Interest

Covers the tenant who has a more favorable long-term lease than the prevailing rate in the area. The form pays for the difference between the prevailing rents levels and the current rent being paid following the cancellation of the lease due to direct damage to the building by a covered cause of loss. It covers a variety of upfront amortized costs in addition to the rental or lease difference. The coverage is a decreasing coverage based on the length of the lease.

The coverage is provided in a standard ISO property form. The insured can choose basic, broad or special cause of loss. It is important to review the insured's lease agreement to determine what would constitute a loss that would break the lease and therefore trigger the coverage. The lease should then dictate the cause of loss purchased.

Automotive operations with long-term leases should consider this coverage.

(Refer to ACORD 140) (Refer to PF&M Section 131.4-2)

Time Element Coverage—Ordinance or Law Increased Period of Restoration

There is no coverage in the Business Income Form for any delay due to ordinance or law considerations. This endorsement will extend to cover the additional time to rebuild and meet the current building codes. This includes the time to demolish the undamaged portion of the building. Coverage is provided using the ISO Time Element Endorsement Form to provide this coverage. Other carriers may provide the coverage through extensions.

If it is determined that ordinance or law coverage for the building and business personal property is needed, then this form must be purchased because of the increase of time needed to bring the building to code.

(Refer to ACORD 140) (Refer to PF&M Section 131.4-3)

Time Element Coverage—Utility Services

The standard ISO cause of loss forms exclude coverage for utility service disruption. Since disruption of electricity, water and communication can stop certain businesses from operating, this cause of loss is necessary. Coverage may include only the off-site location or may be expanded to include the power or communication lines.

Insurance Coverage Definitions

Automotive operations cannot operate without utilities. This coverage should be evaluated and the exposure to loss of utilities considered.

(Refer to ACORD 140) (Refer to PF&M Section 131.6-6)

PROPERTY AND TIME ELEMENT CAUSE OF LOSS

The ISO property policies are built form-by-form in order to provide maximum customization. Once the insured has selected the appropriate coverage forms, then the insured must choose the causes of loss he/she wishes to insure those coverages for. There are three primary options from which to choose. Earthquake and flood should also be considered.

Property and Time Element Cause of Loss—Basic

This form insures against fire, lightning, explosion, smoke, windstorm or hail, aircraft/vehicle, riot or civil commotion, vandalism, sprinkler leakage, sinkhole, and volcanic eruption.

(Refer to ACORD 140) (Refer to PF&M Section 130.6-1)

Property and Time Element Cause of Loss—Broad

This form insures against all of the basic cause of loss items plus falling objects, weight of ice, snow or sleet, water damage from plumbing fixtures and collapse due to any of the named items in basic and broad causes of loss.

(Refer to ACORD 140) (Refer to PF&M Section 130.6-1)

Property and Time Element Cause of Loss—Special

This form insures against risks of direct physical loss except as limited or excluded in the policy. This provides the broadest coverage of the three forms available.

(Refer to ACORD 140) (Refer to PF&M Section 130.6-1)

Property and Time Element Cause of Loss—Earthquake

Earth movement is excluded from all primary causes of loss forms. Coverage for earthquake damage may be provided in three different ways:

- The cause of loss may be included by using ISO Form CP 10 40.
- DIC policy may be purchased with earthquake as a covered cause of loss.
- A separate policy for earthquake only may be purchased from a nonstandard market.

The first two options are the most positive way to gain the coverage but the nonstandard market may be the only place to obtain this cause of loss in certain earthquake-prone areas and with certain types of

Insurance Coverage Definitions

properties. Deductibles that are a percentage of the limit of insurance are common ranging from 1 to 10 percent.

(Refer to ACORD 140) (Refer to PF&M Section 130.6-2)

Property and Time Element Cause of Loss—Flood

Covers buildings and their contents on either a replacement cost or an actual cash value basis against direct loss by flood. Coverage is available in the standard market through DIC forms or other coverage forms developed by individual carriers in selected areas. In areas declared eligible by federal insurance, federal flood insurance is written with the National Flood Insurance Program.

Any insured who is located in flood-prone areas should consider purchasing flood insurance through the federal program.

(Refer to ACORD 301, 303) (Refer to PF&M Sections 180.1 and 142.5)

INLAND MARINE COVERAGES

Inland marine traditionally has been less regulated than other types of insurance because of the uniqueness of the items covered. In order to be consistent in its treatment, insurance regulators adopted a Nationwide Marine Definition in 1933. While the basic definition has remained unchanged, amendments have been added over the years to recognize changes in technology and the economy. Inland marine coverage can be provided by standard ISO forms and by forms provided by various inland marine carriers. While there are many common forms, the beauty of inland marine is that it was developed to recognize and insure the unique. When "it has never been done before" and needs to be insured, the inland marine market comes into play.

(Refer to PF&M Section 140.1)

Inland Marine Coverage—Accounts Receivable

This coverage protects against loss resulting from an inability to collect accounts receivable due to the loss, damage or destruction of books or records of accounts. This coverage may be written using a standard ISO Inland Marine Form.

This coverage is very important to any automotive operations that carry accounts for customers.

(Refer to ACORD 145) (Refer to PF&M Section 141.2)

Inland Marine Coverage—Difference in Conditions (DIC)

This type of insurance is written to expand on other property coverages in place. Its purpose is to provide primary coverage against causes of loss normally excluded in standard property forms, such as flood, water damage and earthquake. It can also be used to expand a named perils contract to provide additional coverage comparable to risk of direct physical loss. There is no coinsurance but there is a coverage cap and normally high deductibles. There is no standard form to provide this coverage but generally it is offered through both inland marine and property markets. The keys to comparison are the limits, deductibles, exclusions, territory and method of capping.

Insurance Coverage Definitions

Automotive operations that are located in unusual buildings could have exposures that are not anticipated. The broad aspects of the DIC can prove helpful for the unforeseen. In addition, there are the added causes of loss of flood and earthquake that may be needed.

(Refer to PF&M Section 142.5)

Inland Marine Coverage—Electronic Data Processing

Covers loss to electronic data processing equipment and media owned, leased or used by the insured. Computerized production equipment may be insured as well as conventional 'computer' equipment. Coverage may include or exclude breakdown and power interruption. This coverage is available through the inland marine markets and coverage is not standardized. Comparisons must be made as to exclusions, on- and off-premises coverage and transit. Valuation basis is a consideration since most computer systems will not be replaced with like and quality due to changes in technology.

This coverage is vital for not only the office computers but also diagnostic equipment and sales persons' equipment.

(Refer to ACORD 148) (Refer to PF&M Section 142.6)

Inland Marine Coverage—Fine Arts

Insures specified works of art, including paintings, etchings, statuary, stained or etched glass windows, etc., against risk of direct physical loss. The key for comparison is the on-premises limit, off-premises limit and transit. The breakage exclusion is common but can be bought back for a significant surcharge.

Automotive operations with antique tools, special art pieces or other items that are considered art will need this coverage in order to prevent coverage gaps.

(Refer to PF&M 142.7)

Inland Marine Coverage—Goods In Transit

Covers product that is either owned by the insured or a customer of the insured while it is being transported. The product may be on the insured's vehicles or on others and coverage may be for legal liability or full coverage. Coverage is provided by inland marine carriers using their own developed forms. The coverage may be called motor truck cargo or transportation insurance but the policies should be similar. Key comparisons are causes of loss covered, restrictions on travel, warranties (particularly ones regarding locked car), enclosures and alarm systems.

Only the smallest operations should consider not have this coverage.

(Refer to ACORD 143, 193) (Refer to PF&M Sections 142.11 and 142.14)

Inland Marine Coverage—Signs

Covers neon, fluorescent, automatic or mechanical electric signs against a risk of direct physical loss or damage. This is offered using a standard ISO Inland Marine Form. If regular wooden sign coverage is needed, the Building and Personal Property Coverage Form must be used.

Insurance Coverage Definitions

Automotive operations often have significant signs and will need this coverage.

(Refer to ACORD 144) (Refer to PF&M Section 141.11)

Inland Marine Coverage—Valuable Papers And Records

The policy insures on a risk- of- direct- physical- loss basis, including misplacement or mysterious or unexplained disappearance of documents that have no duplicates. There is a standard ISO Inland Marine Form to provide this coverage. There is a limited amount of coverage provided in the ISO property forms and most other form extensions offered by a variety of carriers. This limited coverage is not as broad as the Inland Marine Form.

There can be many types of valuable paper in automotive operations. The exposure should be carefully considered especially if titles are held on customers' vehicles.

(Refer to ACORD 145) (Refer to PF&M Section 141.13)

CRIME COVERAGES

The need for crime coverages arose from exclusions found in commercial property forms. Most risks of physical loss of commercial property forms cover theft of merchandise and business personal property by other than the employee. Theft of money, computer fraud and employee dishonesty are not usually covered except in minimal amounts in Business Owners packages and similar products. Crime coverage forms fill in the gaps.

Crime Coverage—Computer Fraud

Covers money, securities, and property other than money and securities against theft directly related to the use of any computer to fraudulently cause a transfer of the insured's property to another person. The coverage is provided as a part of the ISO Commercial Crime Coverage Form.

Any automotive operation that regularly transfers funds through the computer should consider this coverage.

(Refer to ACORD 141) (Refer to PF&M Section 251.4-2)

Crime Coverage—Employee Dishonesty

This coverage is the only place where dishonest acts of the employee are covered. The coverage includes any items of the employer that the employee takes. Coverage may be provided using either a standard ISO form or a Surety Association Form.

Automotive operations provide multiple opportunities for employee dishonesty, starting with the ordering of supplies and parts, continuing with the cash register and ending at the back door as monies, services and items are disbursed. This coverage is a must.

(Refer to ACORD 141) (Refer to PF&M Section 251.4-2)

Insurance Coverage Definitions

Crime Coverage—Employee Dishonesty Including Customer's Property

This coverage is the only place where dishonest acts of the employee are covered. The coverage includes any items of the employer that the employee takes. Some businesses have employees who regularly operate at a client's premises. If so, they need coverage for dishonest acts of the employee at that client's premises – CR 04 01.

This coverage may be needed if employees operate on customer's premises for any reason especially if pick-up and delivery of vehicles is a service offered.

(Refer to ACORD 141) (Refer to PF&M Section 251.6-2)

Crime Coverage—Extortion

Covers loss of money, securities and other property resulting directly from extortion. Covered persons and covered territories are determined by the insured when they purchase the coverage. Coverage is available through a standard form through ISO but also may be purchased through specialty markets if the territories are particularly dangerous.

Automotive operations often have owners as part of their TV and radio commercials, who then can become local celebrities. This could make them a target for kidnap and extortion.

(Refer to ACORD 141) (Refer to PF&M Section 251.6-4)

Crime Coverage—Forgery Or Alteration

Covers when someone—not an employee or owner—forges a signature on a check or other monetary instrument in order to obtain money that belongs to the insured. Coverage may be provided using either a standard ISO form or a Surety Association form.

Automotive operations are very busy places with many people milling around. Even with the best of intentions, doors are left unlocked or ex-employees may enter with a key. There are many opportunities for checks to be taken and then forged. This protection could be very important.

(Refer to ACORD 141) (Refer to PF&M Section 251.4-2)

Crime Coverage—Lessees Of Safe Deposit Boxes

Covers the loss of securities or other property (NOT MONEY) that is in the insured's safety deposit boxes at a specific location. The loss of securities may be caused by theft, disappearance or destruction while the loss of property other than securities must be due to burglary, robbery or vandalism. The coverage is provided by ISO Endorsement CR 04 09.

Automotive operations that use safety deposit boxes, particularly for securities, should consider this coverage.

(Refer to ACORD 141) (Refer to PF&M Section 251.6-10)

Insurance Coverage Definitions

Crime Coverage—Theft, Disappearance and Destruction – Money and Securities

Covers money and securities inside the insured's premises or at a banking premise against theft, disappearance or destruction. Provision is made for similar coverage outside the premises when money and securities are in the custody of a messenger.

Automotive operations should consider this coverage since it is the broadest money crime coverage available.

(Refer to ACORD 141) (Refer to PF&M Section 251.4-2)

Crime Coverage—Robbery And Safe Burglary – Money and Securities

Covers money and securities inside the insured's premises or banking premises, while in a safe or vault, against robbery and safe burglary, and outside the premises while in the care of a messenger, against robbery. This is available using CR 04 07.

Automotive operations may want to consider this coverage as an alternative to the more expensive theft, disappearance and destruction coverage.

(Refer to ACORD 141) (Refer to PF&M Section 251.6-8)

Crime Coverage—Securities Deposited With Others

Covers **securities** while inside a custodian's premises, while being transported by a custodian, or while on deposit in a depository against loss caused by theft, disappearance or destruction. The custodian must be named and the depository must be specifically scheduled. Coverage is provided by showing a limit, a custodian and a depository on the dec page. Form CR 04 10 is used.

An automotive operation with securities that are kept outside the premises should consider this coverage.

(Refer to ACORD 141) (Refer to PF&M Section 251.6-11)

Crime Coverage—Premises Burglary (Other Than Money and Securities)

Covers property **other than money and securities**, inside the premises, against loss caused by robbery of a watchperson or burglary. This is covered using the ISO Standard Crime Form.

Any automotive operation that has purchased Business Personal Property Special Cause of Loss Form would not need to purchase this coverage, but if the special Cause Of Loss Form is not available, this coverage could provide some necessary coverage.

(Refer to ACORD 141) (Refer to PF&M Section 251.4-2)

Crime Coverage—Premises Theft (Other Than Money and Securities)

Covers for loss by theft, property **other than money and securities** that is inside the premises. This is covered using the ISO CR 04 05. Coverage could be accomplished by using the Special Cause of Loss Commercial Property Form.

Insurance Coverage Definitions

Automotive operations should consider this coverage when the Special Cause of Loss Form is not available.

(Refer to ACORD 141) (Refer to PF&M Section 251.6-6)

Crime Coverage—Robbery And Safe Burglary (Other Than Money and Securities)

Covers **property other than money** from actual or attempted robbery or safe burglary. Coverage inside the premises may be written to cover both robbery and safe burglary, or may be limited to either robbery or safe burglary. Coverage outside applies to robbery of **property other than money** in the care and custody of a messenger.

Automotive operations will need this coverage if the less broad theft coverage is not desired and the Special Cause of Loss Form was not purchased on the Business Personal Property Form.

(Refer to ACORD 141) (Refer to PF&M Section 251.4-2)

LIABILITY COVERAGES

Liability Coverages include not only general liability coverage but also the common liability coverages that are related to the premises or operations of a business.

Liability Coverage—Commercial General Liability-Occurrence Basis

This coverage will pay for damages that the insured becomes legally obligated to pay due to bodily injury, property damage or personal and advertising injury arising from the insured's premises, operations, completed operations and products. The occurrence basis means that only occurrences that happen during the policy period are covered. There is no reference as to when the claim must be presented.

Most will use the occurrence basis. They should never go without this coverage since slips and falls can happen so quickly. The severity can be low, but it can also be high since we cannot control how a person falls, what is damaged or how they will react to treatment.

(Refer to ACORD 126) (Refer to PF&M Section 270.4-2)

Liability Coverage—Commercial General Liability - Claims-Made Basis

This coverage will pay for damages that the insured becomes legally obligated to pay due to bodily injury, property damage or personal and advertising injury arising from the insured's premises, operations, completed operations and products. The claims-made basis means that only claims that are presented during the policy period are covered without consideration for when the occurrence happened (unless there is a retrospective date).

The claims -made form is used only if the coverage cannot be purchased on an occurrence basis.

(Refer to ACORD 126) (Refer to PF&M Section 270.4-2 and 270.3-1)

Insurance Coverage Definitions

Liability Coverage—Directors and Officers Liability

Insures corporate directors and officers against claims, usually by stockholders, alleging loss arising from mismanagement. Claims may also be made by other than stockholders against the corporation for mismanagement, which would also be covered. Outside Directorship Liability Policy Form is available, as supplementary protection, to assure sufficient limits for the exposure created when a company's director, officer or employee serves in an outside director position at its request. The coverage is not standard and may vary significantly between carriers, as well as by type of business, i.e., for-profit, not-for-profit, closely-held or publicly-traded.

Any operation with outside directors will need this coverage or risk losing the outside directors.

(Refer to PF&M Section 384.1)

Liability Coverage—Employee Benefits Liability

Covers the cost to employees that results from incorrect information provided regarding their employee benefits. This DOES NOT INCLUDE fiduciary responsibilities or any discrimination or harassment situations. A simple example is not providing the employee with the appropriate COBRA information following termination that result in the ex-employee losing benefits. Coverage is provided by most carriers on their own filed forms. Coverage is provided either with a separate coverage part or as an endorsement to the CGL. ISO has developed a form but it is not yet in wide usage. Key comparisons are the types of benefits covered, claims-made vs. occurrence and the employer contribution.

Any automotive operation that provides employee benefits should purchase this coverage.

(Refer to ACORD 126)

Liability Coverage—Employment-Related Practices

Covers lawsuits brought by employees (past, present or prospects), or governmental entities against the insured employer, alleging wrongful discharge, discrimination or certain types of harassment. ISO has developed an employment practices liability policy that can now be used as a standard of comparison. Companies have developed their own forms and they vary tremendously. Using the ISO standard should help agents advise insureds on the best direction to take.

Automotive operations have experienced many claims of harassment. It is often difficult to draw the line between innocent fun and malicious abuse. This coverage is important along with regular procedures and processes to help everyone understand what can and cannot be allowed.

(Refer to ACORD 188) (Refer to PF&M Section 369.4-2)

Liability Coverage—Owners And Contractors Protective Liability (OCP)

This liability coverage is designed to protect either a property/business owner or a general contractor for the potential liability exposure that results from the negligent act of a subcontractor or an independent contractor hired to perform work on the insured's behalf. The independent or subcontractor is the actual purchaser of the policy but the protection is for the insured who is either the property/business owner or a general contractor for whom the work is being done. Coverage is limited to a specific location and project. This coverage could be provided by attaching an additional insured endorsement to the contractor's

Insurance Coverage Definitions

policy but not as completely. The separate policy allows the project owner/general contractor to better control the policy and make sure the limits are not diluted by other claims against the subcontractor.

Any automotive operation that is having extensive works done on their premises may want to consider requesting a contractor obtain an OCP policy in their name rather than just requiring a certificate of insurance. The cost may be slightly higher, but the added protection may prove invaluable.

(Refer to ACORD 126) (Refer to PF&M Section 271.4-2)

Liability Coverage—Railroad Protective

This liability coverage is designed to protect a railroad, a general contractor or the project owner for the potential liability exposure that results from the negligent act of a subcontractor or an independent contractor hired to perform work on the insured's behalf while working on or around railroads. The independent or subcontractor is the actual purchaser of the policy but the protection is for the insured who is either the railroad, property/business owner or a general contractor for whom the work is being done. Coverage is limited to a specific location and project. The Commercial General Liability Policy Form excludes construction or demolition projects that are at or near railroad properties including railroad tracks, beds, trestles, tunnels and the like. This is a limited coverage liability policy to buy back coverage.

Automotive operations close to a railroad track MAY be required by the railroads to purchase this coverage.

(Refer to ACORD 126 and 801) (Refer to PF&M Section 272.4-2)

Liability Coverage—Special Events

Special events bring about many exposures not anticipated in a normal business. However, many businesses will participate in special events and may need special coverage during the event. In other cases, businesses may sponsor special events and therefore bring about unanticipated exposures that need to be addressed. Coverage for special events can be covered under a standard CGL policy. The insured may decide to purchase another policy to prevent dilution of their own limits in order to participate in the event. Coverage can be secured from the standard market or may need to be obtained from a specialty underwriter.

Automotive operations that sponsor special events should consider purchasing a special policy to protect the limits on their regular policy.

(Refer to ACORD 126)

COMMERCIAL AUTO COVERAGES

Provides all of the coverages that the insured should need if he/she owns, leases or hires vehicles. It also covers the insured for the non-owned usage of a vehicle when an employee or volunteer uses their vehicle on company business. The schedule allows the insured to sculpture the coverage as needed by the use of symbols. The policy can cover all owned, leased, hired and non-owned autos or can be more selective.

(Refer to ACORD 127, 129, and 163) (Refer to PF&M 220.1)

Insurance Coverage Definitions

Commercial Auto Coverage—Liability

Provides coverage for bodily injury and property damage to others who are damaged by an insured vehicle.

(Refer to ACORD 127, 129, and 163) (Refer to PF&M 220.4-2)

Commercial Auto Coverage—Physical Damage

Collision - provides coverage for covered vehicles that are damaged by an impact with another vehicle, object or animal.

Other than collision - provides coverage for damage to covered vehicles by any cause of loss other than collision and other items specifically excluded.

(Refer to ACORD 127, 129, and 163) (Refer to PF&M 220.4-2)

Commercial Auto Coverage—Uninsured Motorist

Provides coverage to the insured for bodily injury that they have suffered caused by an uninsured motorist. It does not respond if the motorist is underinsured. The limit should be equal to the limit of the bodily injury carried on the policy.

(Refer to ACORD 127, 129, and 163) (Refer to PF&M 220.4-2)

Commercial Auto Coverage—Underinsured Motorist

Provides excess coverage to the insured for bodily injury they have suffered caused by an underinsured motorist. It does not respond if the motorist is uninsured. The limit should be equal to the limit of the bodily injury carried on the policy.

(Refer to ACORD 127, 129, and 163) (Refer to PF&M 220.4-2)

Commercial Auto Coverage—Personal Injury Protection

Provides coverage necessary to meet the requirements of state -mandated "no-fault" coverages.

(Refer to ACORD 127, 129, and 163) (Refer to PF&M 220.4-2)

Commercial Auto Coverage—Hired Car

Provides coverage for the insured on any vehicle that is hired by the insured. Physical damage coverage may also be purchased. A car must be hired for less than six months in order to be considered hired and not leased. This coverage may be purchased with owned auto coverage or as a standalone.

(Refer to ACORD 127) (Refer to PF&M 220.4-2)

Insurance Coverage Definitions

Commercial Auto Coverage—Non-Ownership Automobile Liability

Provides coverage for the employer when an employee or a volunteer uses their vehicle on the employer's business and causes damages. Coverage may be extended to the employee, but only through a special endorsement.

(Refer to ACORD 127) (Refer to PF&M 220.4-2)

Commercial Auto Coverage—Garage Policy

The garage policy was developed to provide comprehensive liability coverage to protect both the general liability and automobile liability exposure using only one coverage form in order to prevent gaps and overlaps. The garage coverage form contains premises liability, products liability, and automobile liability coverage. It also includes physical damage protection to vehicles (owned either by the insured or his garage customers).

(Refer to ACORD 128) (Refer to PF&M 222.4-2)

Commercial Auto Coverage—Garagekeepers

Garagekeepers coverage provides coverage for loss or damage to customers' cars. The coverage may be provided on a legal liability basis or without regard to legal liability. It may be offered as direct coverage that is excess over insurance carried by customers or as direct coverage on a primary basis.

All automotive operations that work on customers' vehicles should carry this coverage.

(Refer to ACORD 128) (Refer to PF&M Section 220.6-4)

WORKERS' COMPENSATION COVERAGES

Workers Compensation coverages are standard because of state mandates but variances occur because each state establishes its own workers' compensation statute. In addition, there are federal laws that must be taken into consideration whenever a non-federal employer works in an area that is under the control of the federal authorities. The coverage is definitely not one-size-fits-all.

Workers' Compensation Coverage—Workers Compensation and Employers Liability

Part A covers all injuries and diseases that must be covered according to the individual state workers compensation statutes. All benefits are paid in accordance with the schedule provided by the states. Part B covers the liability that may be imposed beyond the state statutes subject to the exclusions and conditions of the policy. The National Council of Compensation Insurers provides a standard form that is a model for all member companies to use. Certain states have alternatives but all are fairly similar. Part A is mandatory and dictated by the states; however, Part B is more insurer-defined and should be compared by carrier, particularly the exclusions.

Automotive operations should always carry this coverage if they have any employees.

(Refer to ACORD 130) (Refer to PF&M Section 280.4-2)

Insurance Coverage Definitions

Workers' Compensation Coverage—Federal Employers' Liability Act (FELA)

Covers not only those employees who actually work for the U.S. federal government, but also those who work for or on railroads that cross interstate lines and may not normally be subject to state workers compensation coverages. Coverage is provided by an endorsement to the workers compensation policy.

Automotive operations with contracts to operate on or near the railroads or who work on or near federal bases may need to consider this coverage.

(Refer to ACORD 130) (Refer to PF&M Section 280.6-14)

Workers' Compensation Coverage—Longshore And Harbor Workers Coverage

Covers workers or maritime employees in positions such as longshoremen, harbor workers, shipbuilders, ship-breakers, ship repairers or other employees engaged in loading, unloading, repairing or building vessels. It also covers employees who work on navigable waters, adjoining piers, wharves, dry docks, terminals, building ways and marine railways. It does not cover masters, captains, or crews of vessels unless further endorsed to voluntarily cover those positions. Coverage is provided by an endorsement to the workers compensation policy. Automotive Operations that operate on the water, especially on navigable waters, such as rivers and oceans, may be required to purchase this coverage.

(Refer to PF&M Section 280.6-9)

Workers' Compensation Coverage—Stop Gap Or Employers Liability Coverage

There are gaps between the workers compensation policy and the CGL which can leave an insured uncovered. In most states the carriers attempt to correct these by use of the employers liability coverage. However, in monopolistic states, the workers compensation carrier is the state so the CGL carrier is the one who attempts to fill the gap. Coverage may be offered as a stand- alone policy or as an endorsement to the CGL policy. There is no standard policy so comparisons should be made based on the limits offered, exclusions and limitations.

If the automotive operation is located in any of the monopolistic states they should purchase stop- gap liability. All other workers compensation policies should include the employers liability as Part B of the policy.

(Refer to ACORD 130) (Refer to PF&M Section 280.6-27)

Workers' Compensation Coverage—Voluntary Compensation

Each state has a definition as to who must be covered and who is exempt under workers compensation. The employer then has the opportunity to include the exempt employees using the voluntary compensation endorsement.

Automotive operations should consider including all exempt employees by using this form in order to eliminate coverage gaps.

(Refer to PF&M Section 280.6-17)

Insurance Coverage Definitions

EXCESS LIABILITY COVERAGES

Excess liability provides coverage that supplements the limits of an insured's General Liability, Automobile Liability, and Employers Liability policies. An Excess policy's coverage is triggered when the limits of the underlying insurance have been exhausted, or when a claim develops that is not covered by an underlying policy and exceeds the self-insured retention.

Excess Liability Coverage—Excess Liability Policy

Covers only excess liability over scheduled policies. This policy is very similar to an umbrella but all terms and conditions are defined in the underlying coverages. This policy merely extends the limits. Coverage is provided by many carriers using their own forms. Key areas of comparison are exclusions and following form terms.

Automotive operations should carry either an umbrella or an excess policy. If unusual terms have been negotiated in the underlying policy, the excess liability could provide the most complete coverage; but if the underlying is standard, the umbrella may provide some gap coverage not available in the excess.

(Refer to ACORD 131) (Refer to PF&M Section 275.1)

Excess Liability Coverage—Umbrella Policy

An umbrella serves two purposes. First, it provides excess liability limit over the scheduled underlying policies. Second, it fills some gaps in the underlying coverage. There is no standard umbrella policy. Therefore, coverage comparison is a must. Key areas of comparison are exclusions, deductible, whether a follow-form is offered over unusual underlying exposures, limits, and defense cost (in or out of the limits).

Automotive operations should carry either an umbrella or an excess liability policy because of the potential for catastrophic loss due to the number of persons in the establishments who could be damaged.

(Refer to ACORD 131) (Refer to PF&M Section 275.1)

AVIATION COVERAGES

Aviation coverages are provided by specialty markets. These coverages are needed for any operation that utilizes aircraft in their business. The applications are extensive and coverage is unique and more closely associated to Ocean Marine than other types of coverage.

Aviation Coverage—Aircraft Policy

Aircraft policies are business auto policies for vehicles that fly. There are four coverages available:

- Liability for bodily injury or property damage to those hurt by the plane
- Passenger liability for bodily injury or property damage to those in the plane
- Medical Expense coverage for passengers and crew
- Hull coverage or physical damage coverage for the plane itself.

Insurance Coverage Definitions

Aircraft coverage is very specialized with a limited marketplace and few standardized forms. Automotive operations with multiple locations over a wide geographic area may find that a small airplane is more convenient than commercial airline flight.

(Refer to PF&M Section 331.4-2)

Aviation Coverage—Passenger Liability

Covers the bodily injury to passengers on an airplane. This is separate coverage from bodily injury to others and is written on a per seat/aggregate basis. All airplane coverage is written by nonadmitted carriers on forms developed by those carriers. Key comparisons are on the limits by coverage type and exclusions.

When an aircraft is owned, this coverage should be purchased to protect any passengers that may be on the plane.

(Refer to PF&M Section 331.4-2)

SPECIALTY COVERAGES

Specialty Coverages are unique coverages for particular types of insureds. The coverage forms used to provide the coverage are not standardized and are generally in the excess and surplus lines.

Specialty Coverage—Environmental Impairment Liability Policy

May be written to cover the pollution exposure associated with the insured's property and operations, including costs of cleanup and remedial (corrective) action at third-party demand or government order. The pollution exclusion in general liability insurance effectively eliminates coverage for damages for bodily injury, property damage and cleanup costs arising from most types of pollution release. Consequently, tailor-made protection for the pollution exposure of numerous insureds in this category is essential. There are specific policies for remediation operations or abatement contractors. Coverage can address lead-based products, asbestos or numerous other hazardous substances. Since the coverage varies by carrier, forms should be compared based on items covered, exclusions, definitions and defense limits in or out of the limit.

(See *The Insurance Marketplace* for additional details.)

Specialty Coverage—Fiduciary Liability Insurance

Pays, on behalf of the insured, legal liability arising from claims for alleged failure to prudently act within the meaning of the Pension Reform Act of 1974. "Insured" is variously defined as a trust or employee benefit plan, any trustee, officer or employee of the trust or employee benefit plan, employer who is sole sponsor of a plan and any other individual or organization designated as a fiduciary. Coverage is provided using nonstandard forms. The important information to be obtained in any form is that it conforms to current pension law.

When there is a pension plan, the trustees who administer the plan should purchase this coverage.

(Refer to PF&M Section 384.8)

Insurance Coverage Definitions

Specialty Coverage—International/Foreign Operations Insurance

Property and casualty insurance written on buildings, equipment and operations of companies in the United States do not, in general, extend to plants, distribution centers and operations developed in countries overseas and south of the border. Coverage can include property, liability, automobile, appropriate workers compensation and inland marine as examples. Many major insurance companies have facilities for providing international coverage or can assist in placement. Policies for property located and land operations conducted abroad are of two kinds. Nonadmitted insurance policies are written in the United States or a branch office of the company abroad in English. Protection may be applicable to more than one country and premiums and losses are paid in dollars. Admitted insurance policies are products of the insurance market of the country involved (with which the American underwriter may have a working agreement). They are written in the language of that country and premiums and losses are paid in the local currency. American firms that do not establish facilities abroad but do import or export products, nevertheless, require the international coverages for risk arising from use of certain of their products. Many major carriers have developed the international equivalent of the Business Owner Policy to cover these risks.

If there is an international exposure, this coverage should be considered.

Specialty Coverage—Rain or Weather Insurance

When someone sponsors a special event, there are often nonrefundable fees and other expenses that must be paid up -front. Rain or shine those expenses will exist and must be paid. Therefore, sponsors of such events need some hedge against the weather. Rain or weather insurance may be purchased from various specialty markets to cover a variety of expenses associated with a special event. The form specifies how much rain must occur and other condition for payment.

Operations that hold or sponsor events that require an outlay of fixed expense regardless of the outcome of the event should consider this insurance.

Specialty Coverage—Terrorism Insurance

Domestic terrorism is not excluded under any coverage form but foreign terrorism may be included or excluded using a variety of mandatory forms created by ISO and AAIS. Insureds must be aware of the status of coverage as it changes based on the federal legislation called T.R.I.A., the location of the premises and the appetite of the insurance marketplace.

(Refer to PF&M Section 310.6)

Specialty Coverage—Underground Storage Tank Liability -- UST

The U.S. Environmental Protection Agency (EPA), has made virtually any property owner or business operator who has an underground storage tank containing a petroleum product on their premises, legally required to show proof of financial responsibility should the contents of that underground storage tank cause any bodily injury or property damage, including corrective action costs, to a third party. These underground storage tanks include those designed for heating fuels as well as those fueling the insured's vehicles. Coverage may be provided using the ISO UST Policy Form that was designed with the approval of the EPA to meet those financial responsibility requirements. Other carriers have developed their own forms which should be compared carefully to be sure they meet or exceed the EPA standards.

Automotive operations with underground tanks must secure this coverage.

Insurance Coverage Definitions

(Refer to ACORD 126) (Refer to PF&M Section 276.4-2)

BONDS

There are many types of bonds offered by the surety market. They are separated into two primary categories—Contract and Non-contract. The Contract bonds (including bid, contract and payment bonds) are used when a contractual obligation is made regarding specific contracts. The non-contract bonds (including license, permit, and judicial bonds) relate to obligations and performances that must be met but are not due to a contract.

(Refer to ACORD 501) (Refer to PF&M Section 242.1)

Bonds—Bid Bonds

The bid process can be a long one. When it is complete the customer expects the contractor or supplier to deliver as promised. Many times a bid bond is required that obligates the surety to honor the bid bond by either issuing a contract bond if the contractor or supplier receives the contract or pay a penalty that will offset the cost of reopening the bid process.

Automotive operations may enter into contracts with governments for services and supplies when a bond is required.

(Refer to ACORD 501) (Refer to PF&M Section 242.6-2)

Bonds—Contract Bonds

Contracts are a way of doing business. One way to guarantee that a contract is performed is to require that a bond be posted for its successful performance. The bond provides a level of security beyond the signature on the contract. The purchaser of the services is assured that either the contract will be carried out or a Surety will compensate him.

Automotive operations may enter into contracts with governments for services and supplies when a bond is required.

(Refer to ACORD 501) (Refer to PF&M Section 242.6-2)

Bonds—License Bonds

Most municipalities and states require license bonds of many types of business in order to obtain permits or licenses. This coverage is available using Surety Association forms.

(Refer to ACORD 501) (Refer to PF&M Section 243.6-1)

Source: Rough Notes, Inc.