

# Introduction to the Commercial Policy

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## Commercial Overview

The Commercial Policy is a named peril policy that covers eligible commercial properties such as:

- 5+ habitational units
- Retail Mercantile
- Manufacturing Risks
- Office Buildings
- Buildings that are in the course of construction
- Farms, wineries, and ranches (not including coverage for crops and livestock)

**This chapter will go over the Commercial Policy, including perils and coverages. It will highlight availability to customize the coverages and perils based on customer need and affordability along with additional options.**

**By the end of this chapter, learners will:**

- 1 Have an understanding of the Commercial Policy and types of structures it covers.**
- 2 Be able to recall the named and optional perils covered in the Commercial Policy.**
- 3 Learn to interpret coinsurance and know how to it applies to a loss.**
- 4 Summarize the requirements of the special risk contained in the Commercial Policy.**

# Product Overview

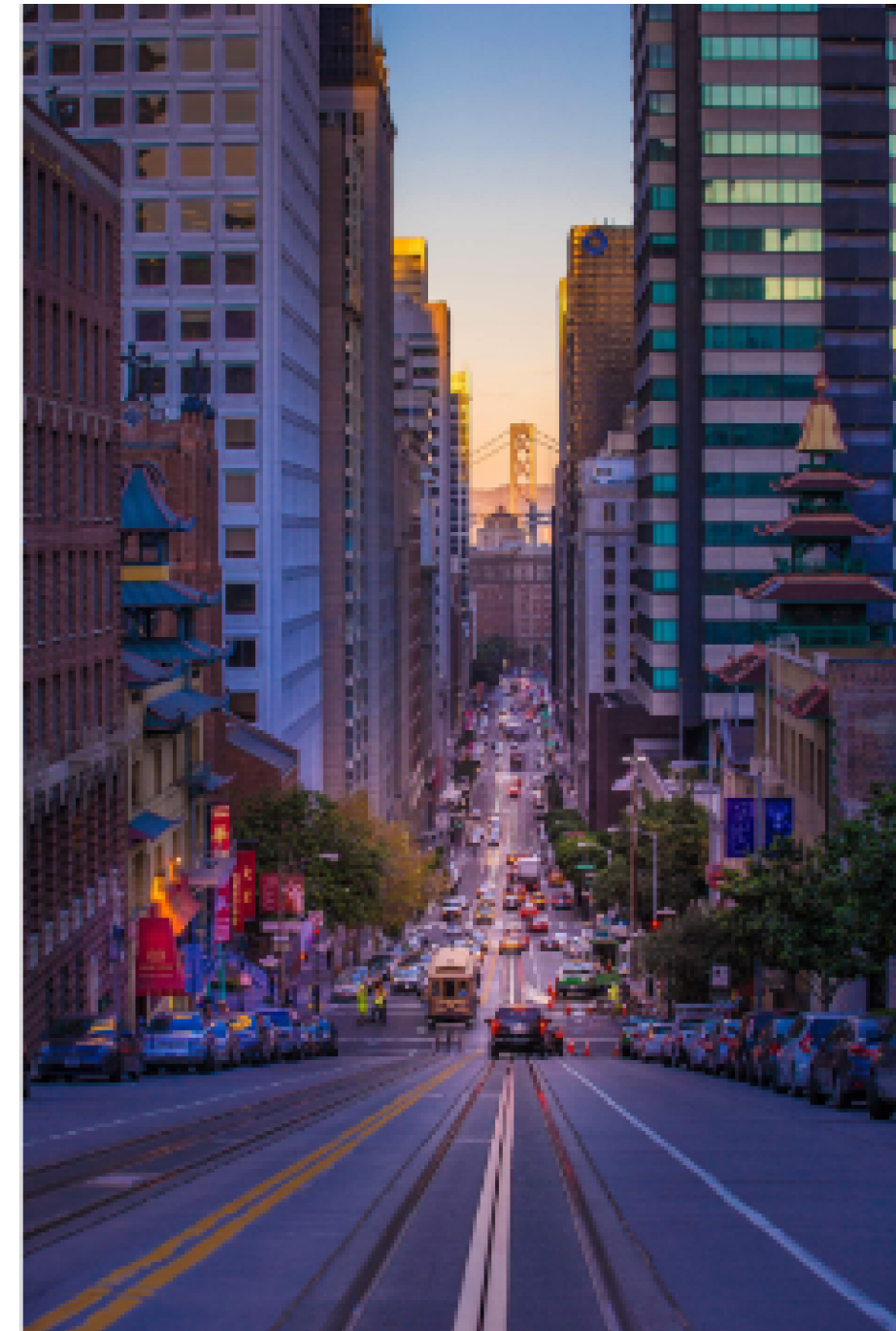
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## Commercial Policy

The following types of properties are available for coverage under the Commercial Policy.

### Five+ Habitational Units

Commercial residential properties such as apartment buildings, hotels, motels, condominiums, and multi-unit dwellings that contain five or more habitational units.



# Retail Mercantile



Retail or wholesale risks.

An example may be a shop that sells clothing, shoes, and other accessories.



# Manufacturing Risks



A building in which the making of articles on a large-scale using machinery is done; industrial production.

An example could be a manufacturing plant that assembles hoods for automobiles.

# Office Buildings



A building containing offices where business is conducted.

# Course of Construction



Insurance to cover either a residential or commercial building that is being constructed.



# Farm Property



Farm property includes commercial farms, ranches, and wineries. Basic fire insurance is available for farm property, including buildings, equipment, finished product, and other business personal property under the Commercial fire program. Coverage does not include crops, livestock, animals, farming vehicles (such as tractors, combines, hay balers etc.), orchards, land, underground irrigation equipment, and field and pasture fences.

# Perils Insured Against

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## Named Peril Policy

The FAIR Plan Commercial Policy is a named peril policy, which provides coverage only for damage caused by the specific causes of loss listed in the policy.

The named perils are as follows:

**Fire**



**Lightning**









**Explosion**



## Extended Coverages

Below are the six extended coverages, which are available in the Commercial Policy for an additional premium. Click each card to learn more.

<h3>Windstorm or Hail</h3> 	<h3>Smoke</h3> <p>Causing sudden and accidental loss or damage. This cause of loss does not include smoke from agricultural</p> 	<h3>Aircraft or Vehicles</h3> <p>Meaning only physical contact of an aircraft, a spacecraft, a self-propelled missile or</p> 
<h3>Riot or Civil Commotion</h3> 	<h3>Sinkhole Collapse</h3> <p>Meaning loss or damage caused by the sudden sinking or collapse of land into underground</p> 	<h3>Volcanic Action</h3> <p>Direct loss or damage resulting from a volcanic eruption. This includes damage caused by the</p> 

As shown in the sample Declarations below, the above covered perils **do not apply unless** a premium is shown in the "PREMIUMS" column of the Declarations for "EXTENDED COVERAGES".

### COVERAGE AND PREMIUM INFORMATION

In case of loss we cover only that part of the loss which exceeds the deductible shown. We provide only those coverages and perils shown below as selected ( ✓ ). These are brief summary descriptions; please read the entire policy for details about coverages and covered perils. Please ask your broker for assistance if you wish to obtain information about any coverages you have not purchased.

### COVERAGES, LIMITS, PERILS AND PREMIUMS

SELECTED COVERAGES		LIMITS	PERILS INSURED AGAINST	PREMIUMS
<input checked="" type="checkbox"/>	Building(s)	\$ 975,000	<input checked="" type="checkbox"/>	Fire, Lightning and Explosion \$ 3,268
<input checked="" type="checkbox"/>	Business Personal Property	\$ 225,000	<input checked="" type="checkbox"/>	Extended Coverages \$ 252
<input checked="" type="checkbox"/>	Personal Property of Others	\$ 5,000	<input type="checkbox"/>	Vandalism
<input checked="" type="checkbox"/>	Business Income and Extra Expense <small>25% Monthly Limitation</small>	\$ 90,000	<input type="checkbox"/>	Sprinkler Leakage
<input checked="" type="checkbox"/>	Other Structures	\$ 25,000		Total Base Premium \$ 3,520
<input type="checkbox"/>	Improvements and Betterments	\$ 0		Brush/Wildfire Area Charge \$
<input type="checkbox"/>	Replacement Cost	EXCLUDED		
<input type="checkbox"/>	Yard	\$ 0		
				<b>Total Annual Premium \$ 3,520</b>

For illustration purposes only. Actual premium may vary.



# Other Perils

Other Perils that can be purchased separately are as follows:

VANDALISM	SPRINKLER LEAKAGE
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**Vandalism**, meaning willful and malicious damage to, or destruction of, the described property.

An example of vandalism could be that someone spray painted graffiti on the building.

As shown in the sample Declarations below, the peril of Vandalism does not apply unless the word "INCLUDED" is shown in the "PREMIUMS" column of the Declarations for "VANDALISM".

For illustration purposes only. Actual premium may vary.

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<input checked="" type="checkbox"/>	Business Personal Property	\$ 225,000	<input type="checkbox"/>	Extended Coverages \$
<input checked="" type="checkbox"/>	Personal Property of Others	\$ 5,000	<input checked="" type="checkbox"/>	Vandalism INCLUDED
<input checked="" type="checkbox"/>	Business Income and Extra Expense 25% Monthly Limitation	\$ 90,000	<input type="checkbox"/>	Sprinkler Leakage
<input checked="" type="checkbox"/>	Other Structures	\$ 25,000	Total Base Premium \$ 3,268	
<input type="checkbox"/>	Improvements and Betterments	\$ 0	Brush/Wildfire Area Charge \$	
<input type="checkbox"/>	Replacement Cost	EXCLUDED	<b>Total Annual Premium \$ 3,268</b>	
<input type="checkbox"/>	Yard	\$ 0		

**Sprinkler Leakage**, meaning leakage or discharge of any substance from an Automatic Sprinkler System, including collapse of a tank that is part of the system.

An example of sprinkler leakage could be that there is a fire and the sprinklers go off in a commercial building causing water damage.

**Note:** Only available for qualifying risks.

As shown in the sample Declarations below, the peril of Sprinkler Leakage does not apply unless the word "INCLUDED" is shown in the "PREMIUMS" column of the Declarations for "SPRINKLER LEAKAGE".

For illustration purposes only. Actual premium may vary.

#### COVERAGE AND PREMIUM INFORMATION

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<input checked="" type="checkbox"/> Business Personal Property	\$ 225,000	<input type="checkbox"/> Extended Coverages	\$
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<input checked="" type="checkbox"/> Business Income and Extra Expense <small>25% Monthly Limitation</small>	\$ 90,000	<input checked="" type="checkbox"/> Sprinkler Leakage	INCLUDED
<input checked="" type="checkbox"/> Other Structures	\$ 25,000	Total Base Premium	\$ 3,268
<input type="checkbox"/> Improvements and Betterments	\$ 0	Brush/Wildfire Area Charge	\$
<input type="checkbox"/> Replacement Cost	EXCLUDED		
<input type="checkbox"/> Yard	\$ 0		
		<b>Total Annual Premium</b>	<b>\$ 3,268</b>

# Coverages & Covered Property

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## What is covered under the Commercial Policy?

The Commercial Policy includes coverage for the building and any outdoor fixtures, machinery, and equipment attached to the building. As discussed in the previous lesson, these items are insured against Fire, Lightning, and Explosion.

Extended Coverage can be added for Windstorm or Hail, Smoke, Aircraft or Vehicles, Riot or Civil Commotion, Sinkhole Collapse, and Volcanic Action. Optional coverages can be purchased separately for Vandalism and Sprinkler Leakage.

# What property is covered?

The Commercial Policy covers the type of property specified in the policy and shown in the Declarations. Hover over each number below to learn more about the types of covered property.



01

02

03

**Building Coverage** includes coverage for the building, completed additions, permanently installed fixtures, machinery and equipment, outdoor fixtures and furniture, floor coverings, and similar property typically used to maintain the building.



01

**Business Personal Property** (as defined in the policy) on or within 100 feet of the described premises can be covered under the Commercial Policy.

02

Examples of Business Personal Property could include computer equipment used by a business, office furniture, or a shop cash register, among others.

03



01

**Personal Property of Others** that is in the care, custody, or control of the insured. The personal property must be located on or within 100 feet of the described premises can be covered.

02

An example might be a fire loss in which a customer's clothing was damaged.

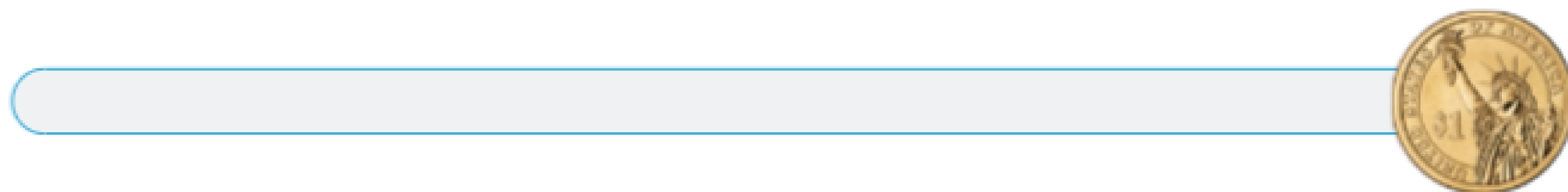
03

# Deductibles

There are many deductible amounts that may be chosen. Click and drag the coin below to see these amounts.

\$1,000    \$5,000    \$10,000    \$50,000

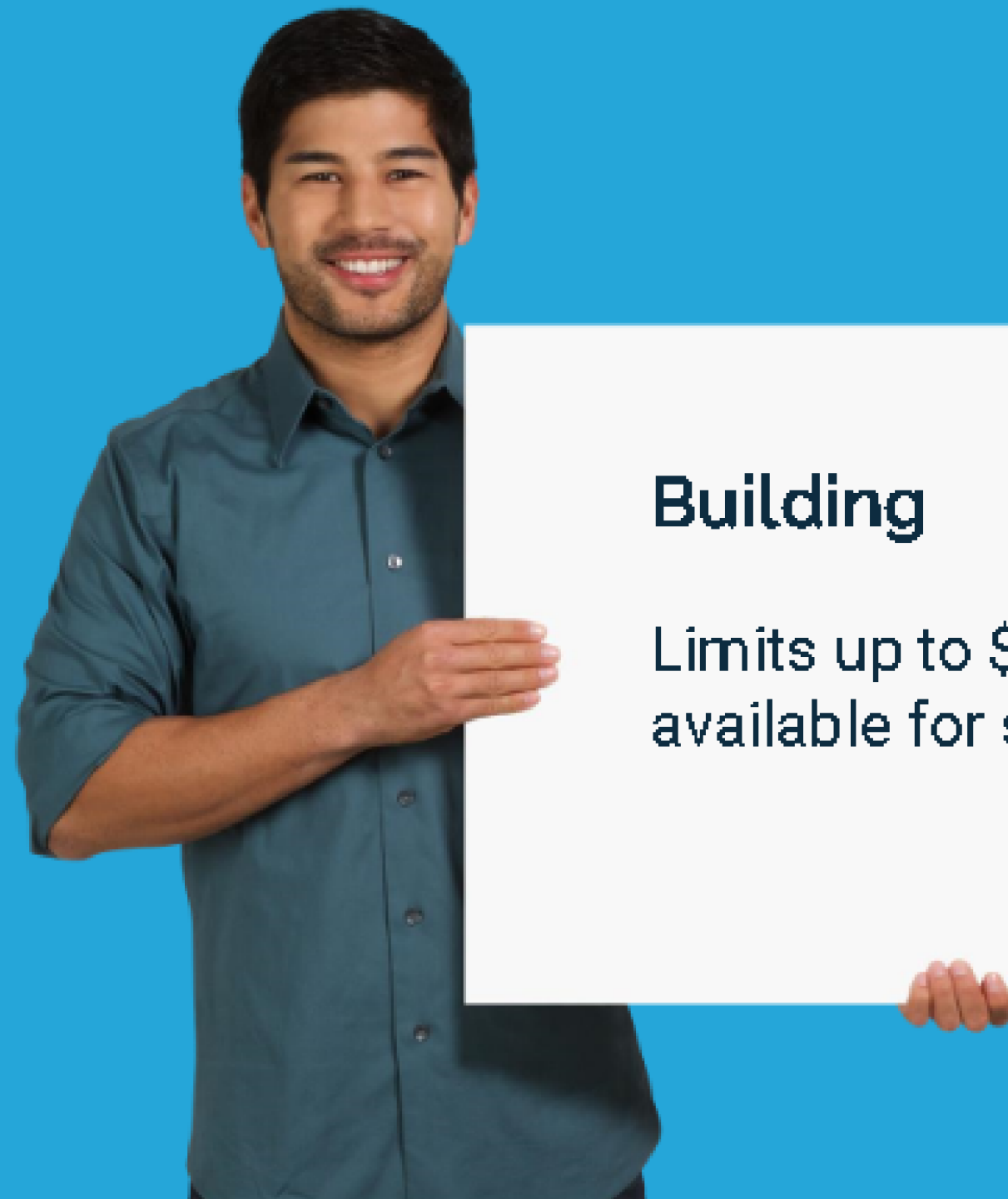
\$500    \$2,500    \$7,500\*    \$25,000    \$75,000



\*The deductible of \$7,500 is for Course of Construction only.



# Available Limits



## Building

Limits up to \$5.6 million are available for structures.

1

Building

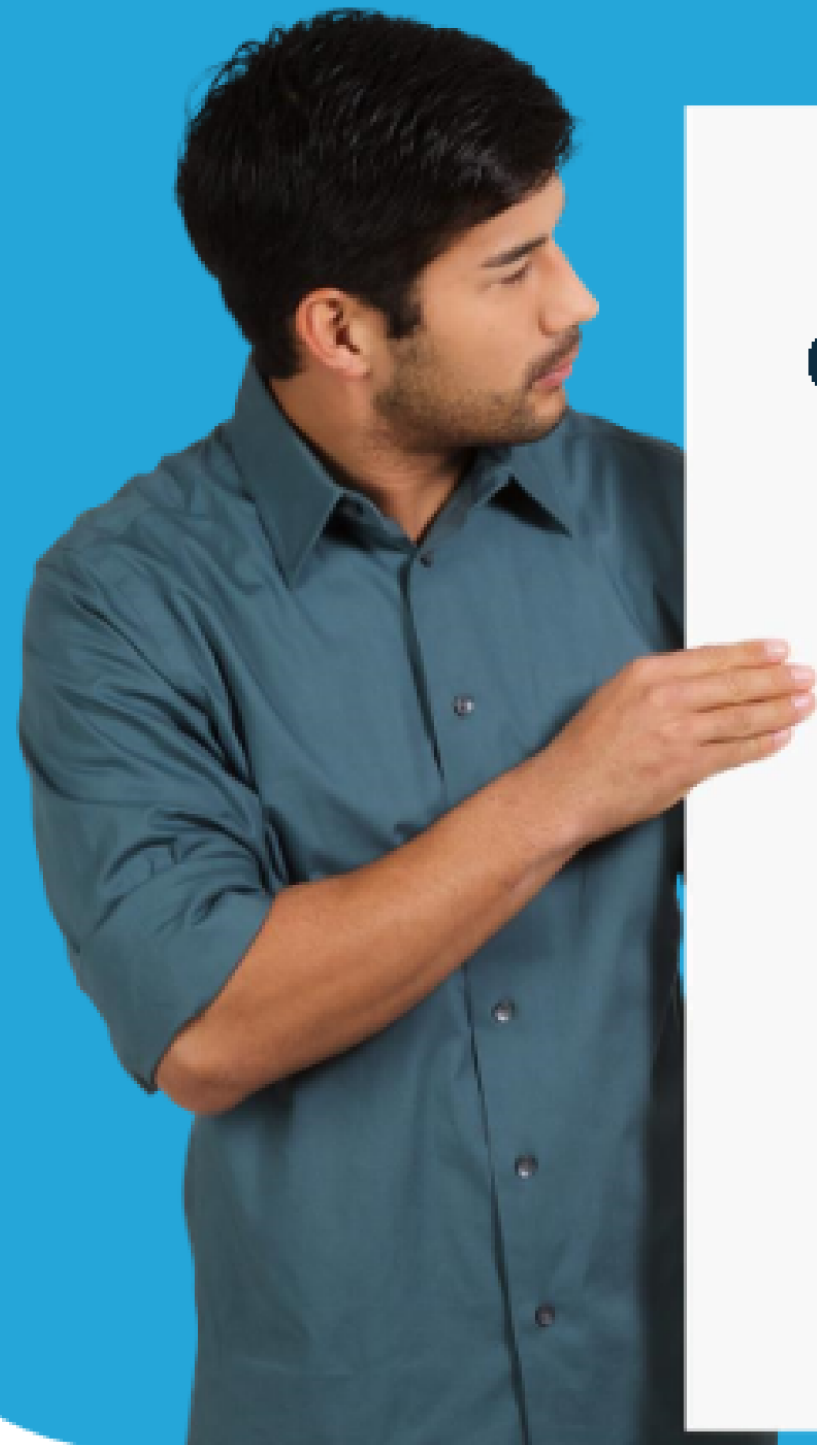
2

Other Coverages

3

Combined

# Available Limits



## Other Coverages

Limits up to \$2.8 million are available for all other coverages.

1

Building

2

Other Coverages

3

Combined

# Available Limits



## Combined

Limits up to \$8.4 million are available for all commercial properties at one location.

1

Building

2

Other Coverages

3

Combined

# Coinsurance

Coinsurance does apply on the policy. This means:

- 1 The policy includes a coinsurance percentage selected by the broker.
- 2 The insured is required to maintain a policy limit of at least the value of the covered building(s) multiplied by the coinsurance percentage.
- 3 If the required limit is not maintained, a coinsurance penalty may be applied to the settlement value of any loss.

In other words, the only time the coinsurance penalty applies is if the value of the covered property at the time of loss, multiplied by the coinsurance percentage, is greater than the limit of insurance.

The policy explains this provision as follows:

## **G. ADDITIONAL CONDITIONS**

### **1. COINSURANCE**

If a Coinsurance percentage is shown in the Declarations, the following condition applies. We will not pay the full amount of any loss if the value of Covered Property at the time of loss times the Coinsurance percentage shown for it in the Declarations is greater than the Limit of Insurance for the property.

Instead, we will determine the most we will pay using the following steps:

# Additional and Optional Coverages

The tabs below highlight some of the additional coverages provided by the Commercial Policy. Click through each to learn more.

DEBRIS REMOVAL

POLLUTANT CLEAN UP AND  
REMOVAL

OTHER STRUCTURES

Up to 25% of the limit of liability can be used to pay for the expense to remove the debris of covered property from the premises.

For example, the insured may incur expenses to haul off a dumpster full of drywall, flooring material and roofing material damaged in a covered loss.

These expenses must be reported to the FAIR Plan in writing within 180 days after the covered loss occurs.





DEBRIS REMOVAL

POLLUTANT CLEAN UP AND  
REMOVAL

OTHER STRUCTURES

If a covered loss results in the release of pollutants, up to \$10,000 may be paid for expenses to extract those pollutants from land or water at the described premises.

These expenses must be reported to the FAIR Plan in writing within 180 days after the covered loss occurs.





DEBRIS REMOVAL

POLLUTANT CLEAN UP AND  
REMOVAL

OTHER STRUCTURES

Upon request the FAIR Plan will review whether applicable Other Structures can be added to the Commercial Policy. Other Structures could be water tanks, fences, block walls, or free-standing signs, among others.

A limit of \$1,000 applies unless the structure is specifically scheduled.

Example: For a motel, the FAIR Plan would insure a free-standing sign.



## Business Income and Extra Expense

Business Income and Extra Expense Coverage offers coverage for the actual loss of business income sustained due to necessary suspension of operations during the period of repair/restoration. The suspension must be caused by covered loss or damage to property at the described premises. The FAIR Plan will also pay extra expenses incurred during the period of restoration to avoid or minimize the suspension of business and to continue operations.



For example, if the insured sustained a covered fire loss to their retail store which prevents it from opening for two weeks, the policy could cover the lost income during the time the store was unable to open. This would fall under Business Income coverage.

If this insured were able to temporarily use a nearby property to continue operations, the cost to relocate and operate from the temporary property would be considered Extra Expense. It is likely in such a case that the insured would incur both a Business Income Loss and Extra Expense.

Additional things to note about Business Income and Extra Expense Coverage:

- Coverage is provided on the basis of the actual loss sustained.
- The most that can be paid each month is 25% of the total limit of liability.
- There is no coverage for vacant or unoccupied properties except as defined in the endorsement.

Refer to the endorsement in the below attachment for a full description of definitions and coverages.

## **Sprinkler Leakage**

As discussed previously in this lesson, Sprinkler Leakage coverage is available for qualifying buildings. Refer to the form in the below attachment for additional information.

## Commercial Replacement Cost

Commercial Replacement Cost pays to reconstruct or replace the part of the building damaged without deduction for depreciation up to the policy's limit of liability for building coverage. This means the actual cost to repair or rebuild at current market prices.

Replacement Cost applies to buildings only. Replacement Cost coverage is not available for business personal property or personal property of others.

Click the icons below for additional things to note about Commercial Replacement Cost.



Buildings that were constructed more than 50 years ago are ineligible for this coverage unless the plumbing, heating, electrical wiring, and roof have been updated in the last 10 years.



The building(s) should be insured to at least 100% of the full Replacement Cost.



The Limit of Liability for each building or coverage is the maximum the FAIR Plan pays in the event of a loss.



The Replacement Cost CFP-RCAC-2 Addendum Form must be filled out and reviewed by the Underwriting Department for approval. This form must be included with any request for Replacement Cost coverage for any commercial buildings constructed more than 50 years ago.

# Special Risk Definitions & Requirements

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## Course of Construction

**Course of Construction (COC) Policies cover either residential or commercial structures in construction from the ground up, or existing structures undergoing extensive reconstruction or renovations.** COC Policies can be written for one year on a Commercial Fire Policy for either a dwelling or commercial risk. An example would be a 10 unit apartment building being built by a contractor while it is under construction.

Coverage is limited to the basic perils (Fire, Lightning, and Explosion) offered by the FAIR Plan at the location where the construction/reconstruction work is being performed. Various underwriting guidelines may apply to this coverage. Additionally, minimum mandatory deductibles may apply, depending on the amount of coverage requested.

Click each icon below to learn more about the Course of Construction requirements.



Course of Construction (COC) is a one-year policy, and renewal is not available.



Buildings under Course of Construction are not considered vacant or unoccupied.



The Course of Construction questionnaire is required for new construction and is included in the commercial application.



The policy has a 100% coinsurance clause and must be written for the full value of the completed building.



A deductible of \$7,500 is available only for Course of Construction risks, subject to minimum deductible requirements.



A construction fence is required when the amount of insurance exceeds \$500,000 and a guard is required on a commercial risk when the value exceeds \$1 million.

These requirements are added to the policy when the coverage amount reaches these levels.



## Conclusion

In this chapter, we have presented an overview of the Commercial Policy including the perils insured against, coverages provided, types of property covered, and special risk requirements. In the next chapter, we will learn about the Business Owner's Policy.