COMMERCIAL INLAND MARINE INSURANCE
# COMMERCIAL INLAND MARINE INSURANCE

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FORWARD

Terms to know:

1. **Broker**- an agent who negotiates contracts of purchase and sale (such as real estate, insurance, or commodities).

2. **Exclusive agent**- an insurance agent who works solely for one insurance company.

3. **Independent agent**- an insurance agent who works for any number of insurance companies.

   Marine insurance *brokers* and *agents* are responsible for marketing, explaining, and selling various types of marine insurance products to individuals, businesses, government agencies, and other organizations. The insurance brokers act as intermediaries between the customers who need the coverage and the large insurance carriers who provide and back insurance contracts. If a loss occurs, brokers and agents also assist their clients in submitting their claims to the carriers. Marine insurance agents work either as *exclusive agents* who represent and market the products of only one company, or *independent agents* who market the policies of any number of insurance carriers. Exclusive agents are usually employed by the insurers they represent; however, independent agents are not. Instead, they work as independent contractors associated with independent insurance agencies.

**NOTE**: Insurance brokers are totally different from both exclusive and independent agents. Brokers represent buyers of insurance rather than sellers of insurance; furthermore, they usually concentrate on commercial or business insurance rather than individual home, auto, life, or health insurance policies. For example, a manufacturer might employ a broker to locate an insurance policy that will cover goods that the company ships to a distributor.

This course is designed for these brokers and agents with two purposes in mind: 1) to acquaint the beginner with the basic concepts of commercial inland marine insurance; and 2) to serve as a refresher for those already familiar with these concepts.
To meet these goals, the course content will 1) briefly discuss the history and development of commercial inland marine insurance, 2) analyze the Insurance Services Office (ISO) Commercial Package Policy, 3) detail some of the provisions found in the common policy conditions, the declarations page, and the common exclusions, 4) explain the details esoteric to thirteen common filed forms established and promoted by the ISO, and 5) conclude with a brief overview of the basics of some common nonfiled forms.
INTRODUCTION

Terms to know:

1. *Inland marine insurance*- an insurance contract that insures property in transit over land, on inland waters, and in the air; the coverage of property which is moveable by nature and for which there is no fixed status; and the coverage of property which are instruments of transportation such as bridges, tunnels, piers or television antennas. There are two broad categories of inland marine insurance: 1) **Commercial**-usually purchased by business and industrial clients and 2) **Personal**-usually purchased by individual consumers.

2. *Ocean Marine Insurance*- an insurance contract covering damage to ships or vessels and the goods they carry while on the ocean or inland waters.

3. *Common carriers*- airlines, trucking companies, or railroads that furnish transportation to any member of the general public seeking their services. They cannot discriminate among shippers and must take all cargo that they can reasonably be expected to carry. (Contrast contract carriers and private carriers).

4. *Contract carriers*- carriers that furnish transportation for specific shippers with whom they have contracts as opposed to providing services to the general public.

5. *Private carriers*- carriers that transport their own goods or goods entrusted to them as bailees or lessees.

6. *Common negligence*- a legal term meaning “conduct which falls below the standard established by law for the protection of others against unreasonable risk of harm.” In tort law, which often applies to insurance
claims, the question is, what would the “reasonable man of ordinary prudence” have done under the same circumstances as those in which the defendant found himself?

7. Floater Policy (sometimes referred to as a “trip transit floater policy”)—an insurance contract that provides coverage for specified property wherever it may be located; a policy designed to cover moveable property that protects against loss of property, regardless of where the property is lost, stolen or damaged. The terms “floater” or “floater policy” are sometimes considered synonymous with an inland marine policy.

8. Bailment— a condition which comes into existence when goods are held in trust by a bailee for a specific purpose and returned when that purpose has expired—for example, clothes held by a laundry.

9. Bailor— the owner of the goods that are held in trust by the bailee.

10. Bailee— the person to whom property is put in trust for a special purpose and for a limited period of time.

11. Conflict of Interest— an incongruity between persons or agencies in a position of trust with regard to their official responsibilities.

The term inland marine insurance is somewhat of a misnomer; most lay people naturally assume that it provides insurance for sea faring vessels of all kinds. It could possibly cover these items if a different form of transportation, such as trucks, trains or aircraft, is carrying them. For the most part, however, in its current form inland marine insurance has little to do with sea vessels.

Commercial inland marine coverage is a unique type of property and liability insurance that can be obtained from almost any general insurance provider. It is written
mainly by the inland marine insurance departments of large property and casualty companies. Additionally, there are a few specialty companies that cover rare or non-standard marine insurance risks. Because commercial inland marine insurance is so varied and complicated, there really is no “one fit all” definition. Essentially, with the exception of aircraft and motor vehicles used for transportation, commercial inland marine insurance covers “moveable” property. Virtually every business has some type of exposure to loss arising from property in transit, whether it is products shipped to consumers, goods received from suppliers, interplant shipments, or any combination of these three. Many people seeking insurance for goods in transit simply assume that the air carriers, trucking companies, or railroads are liable for destroyed, damaged, or lost merchandise. However, common carriers are not responsible for damages arising from natural cataclysmic events (such as earthquakes, hurricanes, tornadoes, or floods), war, acts of public authority (such as condemnation or quarantine), or common negligence on the part of the shipper (for example, improper packaging). Even in the event that the common carrier is contractually liable for damaged, destroyed, or lost merchandise, a released bill of lading will most likely have a predetermined limit on the amount of the liability; this amount will most likely be substantially less than the carrier’s loss. In addition, federal deregulation of the airline and trucking industries has created some financial problems for many common carriers, and a carrier with financial limitations may very well be delinquent or, at best, late to settle claims for destroyed, damaged, or lost cargo. Although recovery may be available from the cargo carrier, many clients prefer to collect their damages directly from their own insurance providers and make the insurers try to collect from the cargo carriers. Therefore, because the commercial inland marine insurance industry allows this situation to exist, the insurance providers should be prudent when recommending the proper inland marine coverage.

The most important aspect of inland marine insurance that separates it from other common lines of insurance is that it covers property while it is “on the move,” whereas standard property insurance (such as fire insurance) normally covers items located within one hundred feet of a specified location.
Employed to designate a marine policy, the term *floater policy* (or *trip transit floater policy*) was created to indicate that the covered property was, in fact, in transit. A floater policy is an insurance contract that covers specific property irrespective of where it is physically located. As methods of transportation and communications developed, inland marine policies became known as “floaters,” since the property was essentially “floating” on barges.

An interesting historical note is that the beginnings of *ocean marine insurance* led to the formation of the now world famous Lloyd’s of London in the 17th century. Capitalists and ship owners realized a need to combine their resources to cover potential losses of merchandise arriving primarily from the New World and India. Most of their meetings took place in the London coffee house of Edward Lloyd. In addition, the term *inland marine insurance*, according to some reports, is said to have been “invented” by a few members of this company. One account reports that a couple of members of the firm, while sitting in a local pub, were discussing how they could continue to insure the cargos after they reached port and were shipped over land to their ultimate destinations, thus hoping to double their business. One of them noted that “marine” insurance would not be an appropriate name to describe this new insurance concept, whereupon his drinking partner suggested “inland marine” as being a more accurate label. The term *inland marine insurance* is said to have originated at the point.

More thorough definitions of inland marine insurance coverage can be found in the National Insurance Law Service (NILS) glossary. These include:

- Coverage for property that involves an element of transportation. The property must be *actually in transit*, held in *bailment* for a *bailor* by a *bailee*, at a fixed location that is an instrument of transportation, or be a moveable type of goods that is often at different locations.

- Transportation of goods over land. The term now includes any goods in transit anywhere *except* on the high seas (these goods are covered by ocean marine
insurance). Bridges and tunnels are considered proper subjects for inland marine insurance because they are also classified as instruments of transportation.

There may, at times, be a duplication of the boundaries between the types of insurance companies as well as the kinds of hazards that are covered. For example, both marine and fire insurers cover fire and windstorm; additionally, marine and casualty insurers both cover theft. This duplication of coverage does not, however, create any conflict of interest between marine and fire insurers. As previously stated, most inland insurance is written by specific departments within larger companies; subsequently, if any potential conflict of interest were to arise, it would involve only the rights of the two departments within the same large company. Therefore, it would be resolved internally.
UNIT I. THE INSURANCE SERVICES OFFICE
COMMERCIAL PACKAGE POLICY

Terms to know:

1. *Commercial Package Policy (CPP)*- a single commercial insurance policy consisting of a single insurer, a single premium, and integrated policy provisions. This policy type reduces the chances for any possible inconsistencies and conflicts which may arise between parties.

2. *Insurance Services Office (ISO)*- the largest insurance statistical organization in the United States. It is responsible for developing and introducing insurance forms that are standard throughout the industry.

3. *Coverage part*- a coverage form and endorsements that stipulates what types of perils and property are limited by an insurance contract.

4. *Monoline Policy*- an insurance policy composed of only one coverage part, that is, one that provides only property coverage or only liability coverage. It is composed of the coverage part, declarations, common policy conditions, and any endorsements.

5. *Special multi-peril policy*- the first commercial package policy developed by the Insurance Services Office. It has since been modernized into the current CCP program.

6. *Package Modification Factors (PMF)*- credits that apply when property and liability coverages are included in the Commercial Package Policy.

The term *commercial package policy*, a more recent coverage type, means a single insurance contract that includes both first-party (property) and third-party (liability) coverages. This type of policy should be contrasted to the earlier monoline policies which
combined only property coverages (for example, fire and burglary) or only liability coverages (for example, premises and products liability).

The initial commercial package policy created by the Insurance Services Office (ISO) was called the Special Multi-Peril Policy (SMP), which has since been updated and expanded into the Commercial Package Policy (CPP) program. Virtually every type of coverage that a modern business requires can now be incorporated in a commercial policy package. The only exceptions are workers compensation and employees liability.

A commercial package policy can meet the needs of the majority of the commercial market. A CCP will consist of two or more coverage parts—any two coverage parts create a CCP; if only one coverage part is included in the policy, it is regarded as a monoline policy. The following is a list of the most commonly implemented coverage parts:

- Inland Marine
- General liability
- Boiler and machinery
- Commercial property
- Crime
- Farm
- Automobile / garage

This integration of policy types has created many benefits for all parties involved in the coverage: the insurance provider, the insured, and the producer.

**BENEFITS FOR THE INSURANCE PROVIDER:**

Because the insurance provider is able to write a single policy as opposed to writing multiple policies, the insurer gains the following advantages:

1. A reduction in costs due to the elimination of duplicate functions such as policy writing expenses, underwriting expenses, and accounting
expenses.
2. Additional flexibility in pricing, creating a favorable position concerning competition.
3. In instances where an insured desires coverage for one particularly hazardous exposure, that higher probability of loss can be nullified by the premium for other exposures that are less likely to suffer a loss.

BENEFITS FOR THE INSURED:

Most people seeking insurance want to keep it as rudimentary and cost effective as possible. The following are some of the common advantages the insured will realize as a result of creating a commercial package policy:

1. Premium savings.
2. Adjusting for loss will be simplified.
3. Fewer transactions and fewer decisions to make, thus saving time and eliminating possible unnecessary consternation.
4. Premiums can be budgeted easier.
5. The lessening of the possibility of duplication of coverages.

BENEFITS FOR THE PRODUCER:

The implementation of a commercial package policy may create the following advantages for producers:

1. Reduction of competition. If packaged correctly and efficiently, a commercial package policy should keep the insured satisfied, and subsequently more likely to maintain or increase coverage.
2. A commercial package policy should assist producers in avoiding mistakes and/or omissions by encouraging the insured to purchase broad coverage from a single producer who is in an advantageous position to identify and correct such mistakes and/or omissions.
3. Commercial package policies help eliminate the need for the insured to seek business among more than one producer.

PACKAGE MODIFICATION FACTORS (PMFs)

Package modifications packages are credits that are applied when both property and liability coverages are assimilated into the commercial package policy. They do not apply unless both are included in the policy. In most instances, the property coverage is for buildings or businesses, and the liability coverage is for bodily injury and property damage liability insurance for covered premises.

For purposes of package modification factors eligibility, two or more of the following coverage parts must be included in the package:

- Commercial inland marine-- such as damage to a floor plan.
- Boiler and machinery damage.
- Liquor liability for restaurants and bars.
- Commercial crime-- such as theft by an employee.
- Commercial general liability-- such as liability for personal injury.
- Commercial property-- such as building, equipment, and income.
- Commercial Automobile-- such as vehicles for hire.
- Farm.
- Products/Completed Operations Machinery.
- Pollution liability.
- Professional liability.
- Employment related practices liability.
- Highly protected risks.

NOTE: Most insurance companies do not write all of these coverages.
UNIT II. HISTORICAL BACKGROUND

Terms to know:

1. **Insurance**- coverage by contract whereby one party undertakes to indemnify or guarantee another against loss by a specialized contingency or peril; a means of guaranteeing protection or safety.

2. **The Code of Hammurabi**- a collection of laws codified by King Hammurabi in Babylon in the early seventeenth century B.C. These codes most likely contain the first recorded “insurance contracts.”

3. **Liability**- in a general sense liability is the condition in which one is obligated or responsible to another party.

4. **Bottomry Loan**- historically common in the Roman Empire, an agreement that stipulates that all loans are considered null and void in the circumstance that a sailing vessel fails to reach its destination.

5. **Underwriter**- the insurance company that creates the insurance policy. The underwriter sets the terms and premiums of the policy.

6. **National Marine Definition and Interpretation of the Power of Marine and Transportation Underwriters**- as adapted by the National Association of Insurance Commissioners, it describes the kinds of risks and coverages which may be classified as marine, inland marine or transportation insurance.

7. **Multi-line Policy**- an insurance contract that is composed of more than one coverage part. For example, it could provide both liability and property coverage together.

8. **Assignment**- the transfer of property, especially the transfer of property to be held in trust or to be used for the benefit of creditors.
THE ORIGINS OF COMMERCIAL INSURANCE

Before embarking on the study of the current commercial inland marine insurance industry, a brief look back at its origins and development will enhance one’s overall understanding of the topic.

THE ORIGINS OF COMMERCIAL INSURANCE

The basic concept of insurance is both simple and ancient. The idea of transferring the risk of loss from one person to a group began thousands of years ago. For
example, in communal tribal living, when a family’s hut burned down, the entire tribe would rebuild it.

Around 2500 B.C., Chinese merchants were using primitive forms of marine insurance. When boat operators reached a rapids in the river, they waited for other boats to arrive. Then, they redistributed the cargo in such a way that each boat carried some of the contents of the others. In the event that one boat was lost while navigating the rapids, all of the operators shared a limited amount of loss. That way, no single operator was completely wiped out.

About the same time in Egypt, “insurance” became available through benevolent societies. These societies were organized primarily for religious and social purposes. Individual members contributed to funds that were used to pay for burial expenses (this might be considered the first known equivalent of today’s life insurance policies). Aid was also available to those who were seriously ill or injured by an accident (this could be considered the equivalent of today’s health insurance policies). Although there is no conclusive evidence, some historians believe that by 1500 B.C., these societies also provided fire and storm insurance.

Another early example of “insurance” is found in the Bible. According to biblical historians, Joseph (sometime around 1800 B.C.) interpreted a dream of an Egyptian Pharaoh to mean that there would be “seven years of plenty followed by seven years of famine.” At Joseph’s suggestion, the Egyptians set aide grain during the years of plenty to prepare for the predicted years of famine.

The beginnings of recorded insurance are most commonly traced back to around 1750 B.C. in the Code of Hammurabi. The fundamental concepts of insurance can be found in these early laws. For example, code 232 states that, “If a man has caused the loss of goods, he shall restore whatever losses he has caused, and if he did not make strong the house he built and it fell, he shall rebuild the house that fell at his own cost.” A further part of the code, which specifically addresses commerce, states that Babylonian merchants were to be provided protection (money or goods) from the dangers of the caravan trade by loans that were cancelled in the event that the transported goods did not
arrive safely (this is the precursor of what currently is known as a loan receipt). These codes would appear to contain the first indicators of the concept of liability.

The Greeks and the Phoenicians continued this practice; ultimately, they expanded upon it by including commerce that was transported via the world’s waterways by implementing verbal agreements that were known as bottomry loans—loans that were voided if a voyage failed to reach its destination. Subsequently, this practice was widely used throughout the Roman Empire. This, in effect, created the basis for an ocean marine insurance industry.

The earliest known written insurance contracts were created in Italy in the Fourteenth Century. During the Fifteenth Century, the city of Antwerp, Belgium had established itself as the major center of European commerce; to meet the needs of a quickly expanding commercial insurance industry, the city established the first known judicial body for arbitrating insurance issues and disputes. Later, in 1601, by act of the Parliament in England, the legal status of ocean marine insurance was officially established. Culminating the early European development of ocean marine insurance, Lloyd’s of London was established in 1695.

THE ORIGINS OF COMMERCIAL INSURANCE IN THE UNITED STATES

In Colonial America, the insurance industry was almost exclusively reserved for fire insurance companies that insured only private dwellings. The earliest insurance company, formed in 1735 in Charleston, South Carolina was called the Friendly Society for the Mutual Insuring of Houses Against Fire. By 1740, it was already insolvent due to a major fire that destroyed over 300 houses in Charleston. In 1752, The Philadelphia Contributorship for the Insurance of Houses from Loss by Fire was founded by Benjamin Franklin; this company is still in business today. Within a short time, multitudes of similar companies were formed throughout the colonies; consequently, a thriving insurance industry developed.
The proliferation of commerce and industry sparked a major change in the industry; companies that had previously offered fire insurance solely to private dwellings envisioned a need to expand their services to include rapidly growing business firms.

During this expansion of fire insurance companies, a small number of insurance brokers were embarking on representing the few Americans who were willing to act either as individual underwriters or as partners in marine insurance. Beginning operations in 1792, the earliest marine insurance company in the United States was the Insurance Company of North America, which did business out of Philadelphia. By charter of the General Assembly of Pennsylvania, it could write fire and life insurance as well as marine insurance. Many other companies soon followed suit, and an expanding marine insurance industry was well underway in the United States.

THE DEVELOPMENT OF INLAND MARINE INSURANCE IN THE UNITED STATES

The major difference between ocean marine insurance (sometimes referred to as “wet marine”) and inland marine insurance can be traced back to London in the late 1700’s and early 1800’s. Until that time, it was customary to insure goods under an ocean marine policy only when the property was aboard some type of sea faring vessel. At that time, there was no demand for hazards other than that provided under the ocean marine policy. As modes of transportation and communication (such as railroads, motor vehicles, aircraft, and telecommunications) quickly advanced in the United States, new insurance needs developed because each new improvement created new and unique transportation risks. Consequently, the ocean marine policies were extended to cover the cargo while on a dock or in a warehouse, for example. The ocean marine policies were then extended to cover the goods while they were on connecting land and water conveyances until they reached their destinations.

As inland business and commerce became increasingly more complex, the ocean marine insurers realized that they could not continue to use the regular ocean marine cargo policies, even with the “warehouse to warehouse” and other such clauses attached.
Policies written in this manner were not fully adaptable to meet all the new transportation needs that arose.

For at least several important reasons, it was natural for the marine, rather than the fire or casualty insurers, to insure the new risks through the development of a variety of special policies, each designed for a specific purpose or need.

One reason was the lack of legal authority on the part of the fire and casualty insurers to produce the desired insurance. In most states, the monoline policy was followed; that is, the law required an insurer to restrict its underwriting activities to only one of the following types of insurance: life, fire, casualty, or marine; consequently, it was not possible for either a fire insurance company or a casualty insurance company to write the variety of special insurance that was desired. On the other hand, the marine insurers did not suffer under any such prohibitions. Their charters and state laws granted them the power to assume liability against loss or damage to property growing out of the perils of transportation.

There was no exact definition of what constituted a risk, and the imaginations of the ambitious marine underwriters led to some ingenious interpretations of the “perils of transportation.” In fact, the marine underwriters insured many risks in which the perils of transportation were incidental to the basic coverage provided. Most fire and casualty insurers originally did not object strenuously to these early developments because they believed that broad coverage on such risks as bridges and jewelry stores was a hazardous and undesirable business.

A second reason for the development of commercial inland marine insurance was the expertise of the marine insurers in the insurance of transportation perils, much of which was gained under policies that were written to fit a particular situation.

A third, and probably the most important reason that inland marine insurance began to flourish in the United States, was the strict regulation of the forms and rates that were used by the fire and casualty companies. This regulation tended to create a lack of
flexibility for the fire and casualty companies that was incredibly helpful to the new inland marine insurance industry. Marine insurers never have been subjected to regulation of rates and forms to any significant extent because of the international and competitive nature of the business.

Due to this absence of powerful regulations, the inland marine companies had greater latitude in which to conduct their business. Consequently, marine insurers were able to reduce their rates and began to write policies for virtually any types of businesses as they saw fit. They were able to undercut the fire and casualty companies by accepting business that had little, if anything, to do with inland transportation. This created a rift between the marine insurance companies and the fire and casualty companies.

This rift became so intense that in the early 1930’s, the fire and casualty companies demanded that the New York Insurance Department take action to deter the inland marine companies from undercutting their interests. In 1932, the superintendent of the New York Insurance Department enacted a ruling which both defined and narrowed the scope of powers of marine insurers. During the next year, the National Convention of Insurance Commissioners extended the superintendent’s decree. This established the Nationwide Definition and Interpretation of the Power of Marine and Transportation Underwriters. This has been shortened to what is currently known as the Nationwide Marine Definition, which specifies exactly what types of insurance fall within the boundaries of marine insurance companies. The definition was updated in 1953 and again in 1977. Currently, it contains the accepted powers and regulations esoteric to both ocean and marine companies. As it now stands, the Nationwide Marine Definition has determined the following broad classes of exposures as eligible for inland marine policies:

A. Imports

Imports are eligible under the definition so long as the goods remain segregated and identifiable and have not been (1) sold by the importer, or (2) removed from storage and placed on sale, or (3) moved into a manufacturing or processing operation.
B. Exports

Exports are eligible under the definition from the time the good are designated and being prepared for export.

C. Domestic Shipments

Domestic shipments qualify under the definition so long as the goods are in transit, on consignment, or otherwise in the custody of someone other than the owner.

Such shipments are not covered at manufacturing premises nor after arrival at premises owned, operated, or leased by the insured.

D. Means of Communication

Eligible under the definition are: bridges, tunnels, piers, pipelines, power transmission lines and towers, and outdoor cranes. Specifically excluded are: buildings, their improvements and betterments, furniture and fixtures, and supplies held in storage.

NOTE: Although the definition allows ocean cargo (imports and exports) to be written by inland marine providers, ocean marine underwriters usually write these types of coverages.

The final section of the National Marine Definition identifies the exposures that do not qualify as marine risks unless specifically covered in the preceding section. The following do not qualify under the definition:

A. Storage of an insured’s merchandise.
B. Merchandise in the course of manufacture on the premises of the manufacturer.
C. Furniture and fixtures and improvements and betterments to buildings.
D. Monies and securities in safes, vaults, safety deposit vaults, banks, or the insured’s premises, except while in the course of transportation.

Finally, in 1986 the last transformation in the development of commercial inland marine insurance took place. The Insurance Services Office created a simplified version of its policies affecting commercial inland insurance.

The Insurance Services Office had also rewritten simplified language versions of the commercial lines coverage forms. The 1986 version developed for commercial inland marine coverage is basically formatted in the same way as the other simplified commercial lines forms introduced by the ISO. This format makes it possible for an inland marine coverage part to be composed of only one coverage part—only property coverage or only liability coverage (this is known as a monoline policy); or, in conjunction with coverage parts of other simplified language programs (i.e. commercial, property, crime, liability, or builder and machinery), in what is known as a multi-line policy.

COMMERCIAL INLAND MARINE INSURANCE AND ITS RELATIONSHIP TO OTHER LINES OF INSURANCE

Because commercial inland marine insurance is a relatively new type of insurance, it was forced to rely on the experience of form preparation and underwriting strategies that were developed by other longer-standing lines of insurance, especially ocean marine and fire and casualty insurance.

The influence of ocean marine insurance is self-evident from much of the terminology found in the policies and the fact that the coverage deals primarily with property in or related to transportation. The breadth of coverage, written at a time when other types of insurance believed that the writing of more than a single peril in the same policy was not in the best interest of the insurance providers, is also an indication of the influence of ocean marine insurance on inland marine
insurance. This influence is readily apparent in the use of open and blanket policies and the application of the valued property concept.

Evidences of the influence of the fire and casualty business may be seen in the treatment of assignment, cancellation, automatic reinstatement, other insurance, the basis of valuation, and the use of named perils in defining coverages for some inland marine policies. In addition, commercial inland marine insurance shares with the fire and casualty field much of the common law developed in the interpretation of similar words, phrases, and insuring concepts. For example, the legal definition of the peril of fire would be identical in all situations.

Currently, inland marine insurance is one of the most varied types of property and casualty insurance. According to a survey conducted by Best’s Insurance Reports, out of twenty-one lines of insurance, commercial inland marine policies rank eleventh in the total net premiums written, accounting for approximately two and one-half percent of the entire insurance industry. Its range can be anywhere from a small liability, such as that of a laundry owner’s liability for customers’ clothes that are destroyed in a fire all the way to a major liability, such as the loss of tons of cargo lost in a hurricane or flood. Furthermore, inland marine coverages can be established to cover possible exposures that are not currently covered by other commercial policies; consequently, inland marine underwriters are extremely flexible when it comes to endorsements written by a producer. Because of this flexibility, inland marine insurance providers have a competitive advantage.

It should also be noted at this point that a major difference between inland marine insurance and most other types of property and casualty insurance concerns the types of forms on which they are written. Currently, inland marine insurance utilizes both filed forms and nonfiled forms. Filed forms are so called because by law they have to be submitted to insurance departments in those states that require a filing (regulations and restrictions vary from state to state). Filed forms are usually standardized and produced by an advisory rating organization such as the Insurance Services Office or the American
Association of Insurance Services. Nonfiled forms are implemented for most of the inland marine policies (those types that are discussed at the end of this course); nonfiled forms are so called because they are written by the insurer that offers them, and because they are not subject to the regulations and restrictions of the filed forms (for example, there is no statutory inland marine foundation form that compares to a standard fire insurance policy), they are negotiable between the producers and underwriters.

**NOTE:** A form which is nonfiled in most states may be subjected to filing regulations in some other states; consequently, producers should be careful in determining which type of filing applies to a certain state.

As of the time of this writing, the Insurance Services Office and the *American Association of Insurance Services* (AAIS) have established twelve distinct classes of commercial inland marine coverages. These filed classes of inland marine insurance consist of the following:

- Accounts Receivable
- Camera and Musical Instruments
- Commercial Articles
- Equipment Dealers
- Film
- Floor Plan
- Jewelers Block
- Mail
- Physicians and Surgeons Instruments
- Signs
- Theatrical Property
- Valuable Papers and Records

The majority of the remainder of this course will concentrate on: 1) the study of the specifics of these twelve filed forms, and 2) some of the basics of common nonfiled forms.
Upon completion, an inland marine coverage contract is composed of the declarations, any required inland marine coverage forms, any common policy conditions pages, the policy conditions which are specifically applicable to the commercial inland marine coverage form, any exclusions and any other essential endorsements.

UNIT III. DECLARATIONS

Terms to know:

1. **Commercial Inland Marine Declarations page**- the section of an insurance policy that sets forth the insured’s name, address, coverages provided, policy premium, policy period, expiration date, rate, and other information.

2. **Perils**- exposure to the risk of being injured, destroyed, or lost; danger.

3. **Coverage territory** (territorial limits) - as defined in the policy, the location where a loss-causing event **must** occur in order for the policy’s coverage to apply.

4. **Open perils** (also known as “all risks” or “risks of direct physical loss”) - a coverage form or policy that insures against “risks of loss,” **except** those that are specifically excluded in the policy. It provides broader coverage than named perils coverage. Currently, because of this broad coverage, virtually all commercial marine insurance policies provide open perils insurance coverage.

5. **Named perils**- causes of loss specifically covered by an insurance policy; when insured on a named perils basis, an insurance policy covers lost or damaged property only if such loss or damage results from one of the perils specifically named in that policy.

6. **Direct loss**- damage or destruction of property caused directly by an insured peril.
For example, if a fire destroys a building, this a direct loss of the building; however, if the building is an apartment house, and the insured cannot collect rent until the building is rebuilt, the lost income is only an indirect loss.

7. *Indirect loss*—revenue loss, additional expenses, or other consequential loss resulting from a direct loss.

8. *Consequential coverage*—insurance coverage for destruction or damage by a peril that is not the immediate cause of loss. For example, somebody destroys or damages records of accounts receivable, and because the accounts cannot be collected, a loss incurs.

The Insurance Services Office commercial lines forms contain a *Commercial Inland Marine Declarations page*. Additionally, each of the separate commercial inland marine filed forms has its own declarations page specifically detailed to meet the specific needs of that class. Because the wide diversity of forms that can be attached to a declarations page prevents much standardized preprinting, the declarations page is generally succinct. Quite often, it consists of simply the insured’s name and address, a rate, the effective and expiration dates, a premium, an amount of insurance, and a location for the producer’s countersignature. Sometimes a more detailed and complex declarations page is implemented. It might include such additional information as limits, deductibles, various locations schedules, and any other information required by the policy.

The insuring agreements of commercial inland marine policies vary widely. Typically, however, they include: 1) the covered property, 2) the *perils* insured, 3) the consequences of loss, and 4) the *territorial limits* of the policy.

**COVERED PROPERTY**

Some commercial inland marine policies cover only owned property, whereas other policies also insure items that are in the care, control or custody of the insured. For
example, motor truck cargo policies can cover a trucker’s legal liability for loss of a customer’s goods.

**PERILS INSURED**

Although commercial inland marine policies can be written on either an *open perils* (“risks of direct physical loss”) basis or on a *named perils* basis, the majority are written on an open perils basis because it offers broader coverage. However, no coverage is absolutely “all risks.” A covered cause of loss means risks of direct physical loss to covered property with the exception of those causes of loss that are listed in the exclusions. It is the intention of the insurance provider to cover only direct damage to the property and not to provide coverage for losses resulting from extraneous variables such as interruption of business.

Even though most policies are written on an open perils basis, sometimes a client will prefer a policy containing named perils. Such a policy would likely include some combination of the following causes of loss:

- Flood
- Hurricane or tornado
- Fire and/or lightning
- Collision and/or overturning of a transporting conveyance
- Explosion
- Earthquake

**CONSEQUENCES OF LOSS**

Coverage in most commercial inland marine is limited to *direct loss*, a loss resulting in a loss of value to property. Some policies, however, provide coverage for *indirect loss* (sometimes called consequential loss), a loss resulting in decreased income and increased expenses resulting from a direct property loss; for example, if only a portion of a property were damaged and cannot be replaced, the indirect loss coverage would be available to cover the reduction in
value of the entire property. Other policies provide coverage for some income lost when the subject of insurance has been damaged or destroyed.

**TERRITORIAL COVERAGE LIMITS**

Typically, a commercial inland marine coverage form will declare that the coverage will only apply to property which is located within the United States, Canada, and Puerto Rico. Those covered properties that are in transit via air cargo or ships are not covered under this condition; they would most likely be covered by aviation insurance or ocean marine insurance.

Certain other policies impose stricter limitations on coverage locations. They provide coverage only at specifically listed covered locations or while property is in transit within the coverage territory.

Occasionally, for an additional premium, an inland marine policy will provide coverage irrespective of the location.

Because of territorial limitations, many insureds, to be on the safe side, will decide to purchase aviation insurance or ocean marine insurance as well as inland marine insurance. Thus, the insurance provider should be certain that the insured is completely aware of the territorial limits of coverage.
UNIT IV. POLICY CONDITIONS

Terms to know:

1. *Common policy conditions* - conditions that apply to more than one coverage part, as opposed to the “commercial inland marine conditions,” which apply specifically to inland marine overage.

2. *Commercial inland marine policy conditions* - this is attached to a marine coverage form. This endorsement, CM 00 01, adds eleven conditions that deal with losses, and five more of a more general nature.

3. *Interline* - on an insurance form or policy endorsement, interline is designated by “IL” and indicates that the form of endorsement applies to more than one line of insurance. For example, an interline form can apply both to commercial property and inland marine coverage.

4. *Condition* - a policy stipulation that specifies the rights and obligations of the insured, so that both parties know exactly what is expected of them with regard to the workings of an insurance policy and its coverages.

5. *Insured* - the beneficiary of insurance protection; the party who should, under the terms of the policy, be indemnified in the event of a covered loss.

6. *Named insured* - this refers to the individual(s) or organization(s) named on the declarations page of the policy. A named insured has an insurable interest in the insured risk and has certain rights, duties and obligations that are outlined in the policy.

7. *First named insured* - the name of the insured that is listed first on the policy declarations page. The first named insured is indicated in the declarations
and, with the consent of the insurance company, is authorized to make changes in the policy’s terms.

8. **Integration**- a legal term controlling the process by which the parties to the agreement adopt a writing or writings as the full and final expression of their agreement.

9. **Loss**- damage or destruction to property or persons.

10. **Concealment**- the deliberate prevention of disclosement or recognition.

11. **Misrepresentation**- a false or misleading representation with an intent to deceive or be unfair. In order for a misrepresentation to render a policy voidable, the fact misrepresented must be a material fact (a fact of significant importance to the insurance contract).

12. **Fraud**- misrepresentation or nondisclosure of a material fact.

13. **Action at law**- a judicial proceeding whereby one party sues another for a wrong.

14. **Subrogation**- for insurance purposes, the process whereby an insurance company acquires recovery rights for a loss it has paid. The insurance company may “subrogate” (go against a third party to a loss) for the amount paid under the policy.

15. **Claim**- a demand by an insured to receive indemnity for a loss.

16. **Notice of loss**- notice to the insurance company by the insured after a loss that should include a description of the property as well as how, where, and when the damage took place.
17. *Statement of loss*- a written statement, signed and sworn to by the insured, that gives the insurance company pertinent information about a loss for which the insured has made a claim.

18. *Bill of lading*- a receipt listing goods shipped that is signed by the agent or the owner of a ship or issued by a common carrier.

19. *Straight bill of lading*- a bill of lading that fixes no limit on the amount of the recovery for goods that are transported by a common carrier.

20. *Released value bill of lading*- a bill of lading that limits the amount of recovery for goods that are transported by a common carrier to the amount specified for a particular commodity in the appropriate tariff on file with the regulatory agency.

21. *Loan receipt*- a loan made by the insurance provider for the amount of a loss to a policy owner, subject to the condition that the loan will be repaid only if the loss incurred is recovered from a carrier or a bailee.

22. *Abandonment*- in a general sense, abandonment means the leaving of property in the hands of another who does not want it; for insurance purposes, it means the insured’s turning over possessions of property for the purpose of collecting for a total loss.

23. *Appraisal clause*- a provision found in the inland marine coverage forms that dictates what the insured must do when there is a dispute over a loss settlement; both parties allow third party appraisers to settle the dispute.

24. *Duties*- obligatory conduct owed by one person to another person; a legally sanctioned obligation.

25. *Excess insurance*- insurance that comes into effect when the limits of a
“primary insurance” policy are exhausted or uncollectible.

26. *Pair and set clause*- a provision found in some commercial inland marine coverage forms that limits the amount of recovery on a damaged article that is a part of a pair or set to a reasonable and fair proportion of the total value of a pair, set or part.

27. *Recovery*- the amount of a judgment as well as the amount actually collected pursuant to it.

28. *Scheduled item*- an item that is declared on a policy and for which a specified amount of insurance is written.

29. *Limits of insurance*- as set forth in the declarations, the monetary amounts that represent the maximum that the insurer will pay in the event of loss.

The following policy conditions are found in the Insurance Services Office filed forms as well as in many nonfiled forms. The filed forms are subject to the commercial inland marine conditions forms, as well as the common policy conditions.

Commercial inland marine coverage forms contain two sets of *policy conditions*: 1) *common policy conditions*—those conditions that apply to more than one coverage part; and 2) *commercial inland marine policy conditions*—a policy including both common policy conditions and two or more coverage parts.

**A. The Common Policy Conditions:**

The common policy conditions set forth in endorsement “IL 00 17,” is established in the opening sentence of the endorsement, implementing the wording, “All coverage parts included in this policy are subject to the following conditions.” The reference to “IL” indicates *interline*, which signifies that the endorsement is applicable to two or more
lines of insurance. This endorsement establishes the regulations for the following conditions:

- Policy cancellation
- Policy changes
- Provisions allowing the insurer to examine the insured’s records
- Provisions allowing the insurer to complete inspections and surveys
- Premium payment
- The transfer of rights and duties

Policy cancellation:

This condition establishes the procedures to be implemented if either the insurer or the insured decides it wants to nullify the policy. Quite often, insurance policies have more than one named insured—the party or parties designated on the declarations page of the policy. It is not uncommon that one of the parties wants to cancel or modify the policy, while a second or third party does not. The common policy conditions establish that only the first named insured, the party first listed on the policy, has the authority to cancel the policy by supplying the insurer with written notice at least 30 days prior to the date of cancellation. In addition, only the first named will receive any return premium and any cancellation notice. Finally, this condition establishes that the insurer may cancel the policy for nonpayment of premium; the insurer must give the insured notice of not less than 10 days. If the insurance provider wishes to cancel the policy for any reason other than nonpayment, it must give at least thirty days’ notice.

Policy changes:

This condition stipulates that the policy must contain all the agreed conditions established between the insurer and the insured. Nothing in the policy is considered part of the contract unless it is in writing (this is legally called integration). This condition further establishes that, with the consent of the insurer, the first named insured may make changes to the policy and that the terms of the policy may be altered or waived only via an endorsement issued by the insurer.
Examination of the records:

This condition permits the insurer to inspect and, if necessary, audit the insured’s records and books as they relate to a policy period and up to three years afterward; it also enables the insurer to substantiate policy-rating information.

Inspections and surveys:

This condition authorizes the insurer to examine the insured’s premises and to suggest any requisite changes; furthermore, this condition permits the insurer to examine what it is insuring, and if, for example, an inspector discovers an unsafe condition, the insurer has the exclusive right to suggest changes to insure safety. This condition further clarifies that any inspections or surveys are made for the benefit and protection of the insurance providers. In turn, the insured agrees not to rely on the inspection to indicate every feasible condition that could possibly lead to a loss. If the inspection omits something, the insured cannot hold the insurance provider liable for any loss. Any inspections, surveys, reports, or recommendations relate only to insurability and the premiums to be charged. Furthermore, the insurance providers will not make routine inspections.

Premium payment:

This condition provides that the first named insured is responsible for the payment of the premiums and that he or she will be the payee of any return premiums that the insurance provider is obligated to pay.

The transfer of rights and duties:

This condition dictates that the insured may not transfer his rights or duties expressed in the policy without the permission of the insurance provider. However, if the insured dies, all rights and duties are conveyed to the named insured’s legal representative. If a legal representative has not yet been appointed, anyone having proper temporary custody of the policy owner’s property will have the rights and duties with respect to the insured property.
B. Commercial Inland Marine Policy Conditions:

Attached by endorsement CM 00 01, the commercial inland marine conditions is the second set of conditions that apply to the commercial marine coverage forms. This endorsement supplements five generic conditions of the commercial inland marine insurance policy and eleven policy conditions that deal specifically with loss.

General Conditions of Inland Marine Insurance:

Concealment, misrepresentation of a material fact and fraud:

In the event that the named insured or any other insured is guilty of concealment, misrepresentation of a material fact or fraud, all commercial inland marine insurance is considered legally void.

Action at law (legal action against the insurance provider):

Under this condition, no one may bring a legal action against the insurance provider unless:

- The insured has been in full compliance with all the terms of this coverage part.
- The suit is brought by the insured within two years after the initial knowledge of the loss (a two-year statute of limitations).

Policy period:

In order to be guaranteed under a commercial inland marine policy, the loss must have occurred sometime during the policy period indicated in the declarations.

Valuation:

The amount that can be recovered for lost or damaged property will be the least of the following:

- The property’s actual cash value
- The cost of reasonably restoring the property to its previous condition immediately before the loss
- The cost of replacing the property with substantially identical property
The value of any damaged or lost property is its value at the time of the loss or damage, **not** at the time when the policy was enacted.

The valuation clause is very often amended. For example, other valuation clauses might specify how property in transit is to be valued at the time of loss. Shipments are normally valued at their invoice costs plus any incurred charges. Some policies, however, substitute replacement cost or market value for actual cash value, and others are “valued properties” that specify the amount of insurance that is agreed upon for each insured item.

*No benefit to bailee:*

Insurance provided under a commercial inland marine policy cannot benefit any entity other than the named insured; the policy will **not** cover any liability of a bailee, a person to whom the property is entrusted. This condition, along with the *subrogation* condition, makes it clear that the insurance company has no intention to provide coverage for someone else who has a legal obligation for the safekeeping of the insured’s property.

*Subrogation:*

One of the most important differences between commercial inland marine loss adjustments and those in connection with other property insurance policies is that a large proportion of the commercial inland marine *claims* offer chances of recovery through the process of *subrogation*, the process whereby the insurance company can legally acquire rights to a loss that it has covered. This same fact, of course, affects the underwriting and rating of a given risk. Quite often, property in transit is in the care of a common carrier or a bailee who has some degree of responsibility for the safe and timely delivery of the property. To the extent recovery of a given loss is made from the carrier or bailee, the insurance company’s loss is reduced. Bailees and common carriers frequently attempt to take advantage of the insurance purchased by the policy owner by inserting inappropriate wording in the *bill of lading*. On the other hand, most inland marine policies specifically provide that “this insurance shall in no way inure directly or indirectly to the benefit of any carrier or other bailee.” However, these two provisions are in direct conflict. In order to pay the insured the loss with no delay and at the same time prevent the carrier or bailee
from taking advantage of the payment to reduce their liability, the majority of carriers use a loan receipt. Through this mechanism, the insurance company lends the amount of the loss to the policy owner, subject to the condition that the loan will be repaid only if the loss is recovered from the carrier or bailee in a lawsuit brought in the name of the insured. Historically, the courts have upheld this method of handling the conflict.

**Loss Conditions**

*Abandonment:*

Because insurance companies are established to provide protection and do not wish to operate as “salvage companies,” the insured is not allowed to simply abandon damaged property by leaving it with the insurance companies.

*Appraisal of the property:*

This condition provides that if either the insured or the company wishes to have a formal valuation of a loss, or cannot agree on the assessed value, they will separately choose and pay for an appraiser; if those two appraisers cannot agree on a valuation, the dispute is given over to a mediator or umpire, who is either selected by the appraisers or is appointed by a judge; subsequently, any agreement that may be reached by any two of these three parties is the resulting valuation of the loss. Any extenuating expenses are to be divided equally between the insured and the insurer.

*Duties in the event of loss:*

In the event of a loss, the insured is required to supply information to the insurance company in the form of a notice of loss. Within sixty days, the notice of loss must be followed by a signed, sworn statement of loss. In addition, the insured is expected to:

- Cooperate with the insurance company; this includes granting permission for inspections of property and business records and submitting to questioning under oath.
- Separate any damaged property from any undamaged property.
- Notify the police if any law may have been broken in the course of the loss.
- Protect the property from any further damage.
- Keep track of the costs involved in protecting the property for consideration in the settlement of the claim.
- Immediately forward any legal papers to the insurance provider.
- Abstain from making any statements about the loss without permission of the insurance provider.
- Allow the insurance company to inspect the property and records concerning the loss.

**Insurance under multiple coverages:**

If two or more of the policy’s coverages apply to the same loss, the insurance provider will not pay more than the actual amount of the loss. This condition prevents multiple coverages, under a single policy, from providing more than one recovery in the event of loss. Limits cannot be “stacked.”

**Loss payment:**

The insurer will pay or make good on any loss covered under this policy condition within thirty days after:

- The insurer reaches an agreement with the insured.
- The entry of final judgment.
- The filing of an appraisal award.

The insurance provider will not be liable for any part of a loss that has been paid or made good by others.

**Relationship to other lines of insurance:**

If other insurance is covering damaged or lost property, the commercial inland insurance forms answer on an *excess insurance* basis; subsequently, the coverage provided by commercial insurance will apply **only** after any, and all, other insurance covering the property has been exhausted.
Pair, sets or parts:

This condition, found in some inland marine coverage forms, furnishes the procedure for recovery of losses that are part of a pair (for example, one of two candlesticks), a set (for example, a single knife from a set of knives), or a part (for example, a missing piston from an engine); it limits the amount of the recovery to a fair and equitable proportion on a damaged article that is a component of something. An article that is part of a pair or set may be repaired if this will restore it to its original value. If this cannot be done, the loss is calculated as the difference between the value before and after the damage. In the event of loss or damage to any part of an insured item, the insurer is responsible only for the value of the lost or damaged part. This is sometimes referred to as the “machinery clause” or “labels clause” because the loss of a part usually involves some sort of mechanical device or damage to labels, capsules, or wrappers; these clauses are sometimes found in nonfield policies where they will not be subjected to restricted provisions.

Privilege to adjust with owner:

When the personal property of others is damaged while in the insured’s custody, the insurance provider may directly make payment to the owner of said property; this will satisfy any claim of the insured. In addition, under this condition, the insurance provider, at its expense, may elect to provide a defense for the insured against any action at law resulting from the claims involving the property of others.

Recoveries:

This condition conveys to the insurance provider any items that are recovered or salvaged subsequent to a payment for a covered loss. Any recovery on a loss will accrue entirely to the insurance provider’s benefit until the sum paid by the provider has been made up.

Reinstatement of limit after loss:

Except for payment of a claim for the total loss of a scheduled item, payment of losses does not reduce the policy’s amount of insurance.
If a total loss to an item that is specifically scheduled occurs, any unearned premium for the loss of that item will be refunded to the insured, or it may be applied to the insurance premium for a replacement item; however, if property is totally lost, the limit of insurance for that property will not be reinstated.

In some nonfiled policies, an alternative provision declares the premium fully earned in the event of a total loss. For example, a clause might read, “Each claim paid hereunder reduces the amount of insurance by the sum paid, but the amount of such loss shall be reinstated automatically, and a pro rata additional premium shall be payable from the date of the occurrence when the amount of such loss is determined.”

This type of clause should be eliminated because insureds are often disgruntled by having to pay additional premiums to reinstate coverage after a loss. If it is not possible to eliminate the provision, the insurance company should be obligated to quote the cost to insure the unearned premium. The ensuing charge should be the rate multiplied by one-half of the premium due to the fact that, on average, losses will occur when half the premium has been earned.

*Transfer of rights of recovery against others to the insurer:*

This condition defines the insurer’s subrogation rights under the policy; the insurer acquires any rights the insured may have in recovering monies from a third party. This provision indicates that the insured must do everything necessary to secure the insurer’s rights and must not do anything after a loss that might potentially impair those rights. This condition in the commercial inland marine loss conditions does not include the specific provision to waive rights of recovery that is found in the commercial property conditions. By implication, however, the insured has the right to waive subrogation before a loss because the provision declares that the insured must not do anything after a loss to impair the rights of the insurance company.

Conditions similar to those in filed policies are found in nonfiled commercial inland marine policies as well. In contrast to the filed forms, however, no standardized wording is required in the nonfiled forms. Additionally, conditions are very often
modified or possibly eliminated through negotiations between the producer and the underwriter. In addition, certain policies, such as those covering transportation perils, contain clauses that are substantially different from those found in filed forms.
UNIT V. COMMON EXCLUSIONS

Terms to know:

1. Exclusion- a policy provision that limits the scope of coverage extended to causes of loss.

2. Coverage- insurance protection under a policy (general); scope of insurance protection – as to risks included and excluded – provided under a policy (technical).

3. Coverage form- the part of an insurance policy that provides the “insuring agreement” and “exclusions”; it is assimilated with the declarations page, endorsements, and any other coverage parts to complete the insurance policy.

4. All risks policy- an outdated usage that has been replaced by the term “open perils.” Still found in some contracts, it means that the policy will cover all damage by all risks of loss except those that are specifically excluded in the policy.

5. Proximate cause- a legal theory which states that one is held liable if “a natural and continuous sequence, unbroken by any new independent cause, produces an event without which an injury would not have occurred.”

6. Concurrent Causation Doctrine- according to this doctrine, “all risks” property policies have been held by the courts to cover losses caused in conjunction with an excluded peril, such as flooding or earthquake, and some other peril not excluded by the policy.

7. Concurrent causation exclusions- exclusions that remove coverage irrespective of any other concurrent causes or events that contribute to a loss; it does not matter whether these causes or events are covered or not.
8. *Moral and morale hazard*—moral and morale hazards involve the behavior of the insured. They refer to fraudulent activities and situations that the insured might create intentionally to increase the likelihood of a loss, therefore forcing the insurance company to pay for a claim that with simple prudence or honesty on the part of the insured would otherwise be unnecessary.

9. *Additional coverage provision*—insurance coverage that is obtained as added protection. For example, insurance required to cover loss in cases of collapse.

10. *Inventory shortage*—the excess of the inventory values carried in the insured’s accounting records over the actual inventory shown by the physical inventory.

*Exclusions* set the boundaries on the promises of the insuring agreement. They are included for the purpose of clarification of coverage, eliminating risks that cannot be insured at reasonable rates, or excluding coverage that might encourage the policy owner to be careless or reckless. Commercial inland marine exclusions deserve a producer’s scrutiny because many of the forms offer very broad protection in the insurance agreement but limit that same coverage through exclusions. Because of the wide variety of property covered by inland marine insurance and the diversity of forms used to cover that property, each of the policy exclusions needs to be read thoroughly and carefully.

Beginning in 1986 with the introduction of the Insurance Services Office simplified coverage forms, all classes of inland marine property have been insured against risks of direct physical loss; this covers loss or damage to insured property unless the event(s) that caused the loss is excluded. (Although the types of perils have already been discussed, they need to be repeated here since they play an extremely important role in the nature of exclusions.) This class of coverage is known as “open perils” coverage (sometimes referred to as “all risks”), where any loss or damage is covered unless specifically excluded in the policy, as opposed to “named perils” coverage, a narrower coverage in which an insurance policy covers lost or damaged property only if such loss or damage results from one of the perils specifically named in the policy. The actual coverage is defined by the exclusions. Prior to the ISO’s simplified language program,
the policies promised to insure against all risks of direct physical loss, except those that were specifically excluded. The legal system played a significant role concerning the wording (and subsequent rewording) of the commercial inland marine coverage forms. A quick examination of two related cases can serve to further clarify the courts’ impact.

In 1982, the California courts held “that certain losses, even if excluded in the contract, were, in fact, covered because the occurrence that started a chain of events leading to the loss was not excluded.” In tort law, this is known as proximate cause. In the insurance industry, this is known as the concurrent causation doctrine.

In the case of Safeco Insurance Company of America v. Guyton, the California Federal Court held “that damage caused by flood waters had to be covered by an ‘all risks’ homeowner’s policy, despite its flood exclusion, because the flooding was caused by a third party’s negligent maintenance of flood structure, which was considered an insured peril.”

In a related case (Premiere Insurance Company v. Welch) the following year, the court held that “the earth movement exclusions of an ‘all risks’ homeowner’s policy did not exclude landslide damage to the insured’s house because faulty installation of a drain by a third party was considered to be a covered, concurrent cause of loss.”

One could conclude from these two cases that concurrent causation losses are most likely to be insured under “all risks” policies, such as the old commercial inland marine policies. The courts were suggesting that, under an “all risks” provision, negligence of a third party is considered an insured peril because it is not specifically excluded in the policy.

In response to the court rulings, the Insurance Services Office reworded the phrase “all risks of direct physical loss” to “risks of direct physical loss.” By eliminating the word all, the ISO intended to avoid creating an expectation that a policy would cover any loss, even if it was specifically excluded.
The *concurrent causation exclusions* that follow remove certain coverages from the contract whether or not any other concurrent causes or events contribute to a loss. The ISO language now excludes loss caused directly or indirectly by any of the following, irrespective of any other cause(s) or event(s) that contributes concurrently or in any sequence to the loss:

**Concurrent Causation Exclusions:**

*War and military action:*

This exclusion applies to four related causes of loss:

- War with another nation
- Civil War
- Warlike action by any government sponsored military force
- Acts of insurrection, rebellion, revolution, or usurped power

*Government action:*

This exclusion declares that the seizure or destruction of covered property as an act of the government is not covered. For example, the government’s power of eminent domain allows the government to seize private property for public use. However, authorized destruction of property by the government in order to prevent the spread of fire is covered.

*Nuclear hazard:*

Like the risk of war, nuclear reaction is a true catastrophic exposure. This exclusion eliminates coverage of loss by any weapon using atomic fission or fusion, or by nuclear reaction, nuclear radiation, or radioactive contamination regardless of the cause. However, the insurance company will cover for a direct loss caused by any resulting fire if said fire would otherwise be covered under this coverage form.
Moral and morale hazard:

Exclusions that are related to moral and morale hazards attempt to eliminate coverage for certain types of losses caused by dishonesty, neglect, recklessness, or lack of concern on the part of the insured.

It is a fact that the property covered by commercial inland marine insurance is very often of high value, quite mobile, often difficult to identify, and readily convertible into cash. It logically follows that these characteristics make this line of coverage particularly susceptible to possible unethical or even illegal behavior on the part of the insured. Moral hazard, as a rule, arises from a combination of moral weakness and financial difficulty. For example, facing a financial crisis, the owner of an insured piece of valuable art may claim a theft for the needed cash but conceal the piece of art; the insured could then collect on the policy and still own the piece of art. A second example of a moral hazard would be a situation in which an insured attempted to purchase enough coverage to insure his business for $100,000,000 even though it was worth only a maximum of $500,000. In this case, it would benefit the insured if his business were to burn to the ground. The insurance companies would not allow a client to take advantage of this situation by not allowing the client to insure the business for more than its appraised value. It is a fundamental rule of underwriting that where moral hazard is suspected, the underwriter must turn down the application. Searching for danger signals and avoiding risks that involve a moral hazard call for careful investigation and vigilance on the part of the underwriter.

A morale hazard, a related problem for insurers, is essentially the absence of a desire to safeguard property or the absence of concern over the reasonable settlement of a liability or compensation claim. It is an attitude problem tending to merge into moral hazard. For example, a policy owner may not actually set his business on fire but demonstrates little, if any, concern about allowing conditions to exist that potentially could cause a fire. In addition, the insured may choose to do little to prevent a fire from spreading once it has started. It is also a morale hazard if the insured purchases life insurance and then commits suicide. Most insurance companies will refuse to pay the
survivors under this circumstance; some companies will pay only after two years of the policy’s purchase date.

Specifically regarding commercial inland marine insurance, certain policies exclude theft from an unattended or unlocked vehicle, and the contractors equipment form excludes loss due to weight of a load that exceeds the manufacturer’s rated capacity.

*Excessive hazard:*

Property subject to an excessive hazard such as property on exhibition is usually excluded from coverage since the average policyholder does not need such protection. However, it can be covered for an additional premium.

*Property normally covered by other insurance:*

Property normally covered by other insurance is rated on a different basis and is also excluded under a commercial inland marine “all risks” contract. For example, automobiles, motorcycles, snowmobiles, and aircraft are typically insured under separate, specially designed policies.

*Policyholder carelessness:*

Losses due to marring and scratching of fragile articles are usually the subject of exclusion as a loss due to any refinishing, renovating, or repair process on the part of the insured. In each case, these losses are partially or wholly within the control and care of the insured, and it is felt that to cover such losses could very well lead to carelessness or dishonesty on the part of the policyholder and an excessive number of claims.

*Loss due to artificially generated electricity:*

Loss due to artificially generated electricity, if include at all, is more common in the business coverages. It applies to electrical apparatus only and does not exclude coverage for any subsequent fire.
Dampness and extremes of temperature:

The exclusion of dampness and extremes in temperature may be found in inland marine contracts that are particularly susceptible to such risks. The rationale is similar to that involved in the wear and tear exclusion.

Employee dishonesty:

Most commercial inland marine policies exclude employee dishonesty. The insurance companies are not interested in duplicating the coverage where there is misappropriation, secretion, infidelity, or any dishonest act on the part of the insured, his employees, or others to whom the property may be entrusted. For example, the valuable papers and records form excludes loss “caused by or resulting from dishonest acts by you, anyone else with an interest in the property, or your or their employees or unauthorized representatives, or anyone entrusted with the property.”

Unexplained or mysterious disappearance:

Loss of property that is missing without clear evidence that it was stolen is not covered under this exclusion. For example, suppose that a jeweler places a ring in his pocket after showing it to a potential customer. He forgets about the ring until he arrives at his house later that day and realizes that it is no longer with him. Although the ring might have been stolen, there is no conclusive evidence of theft. It is possible that the ring fell out of his pocket early in the day and became lost. The insurance provider probably would not pay for the claim for the missing ring if the policy excludes unexplained loss or mysterious disappearance.

Inventory shortage:

The exclusion of loss that is discovered upon taking inventory complements and extends the unexplained or mysterious disappearance exclusion. A physical inventory almost always differs from inventory determined from the insured’s books and records. In the event that the physical inventory is less than the book inventory, that fact alone is not sufficient to prove a loss. The shortage might have resulted from numerous causes.

1 NOTE: Carriers for hire are not subjected to this exclusion.
which are not covered by the policy. Some examples of this are employee dishonesty, record-keeping mistakes, or inaccurate counting of the inventory. However, if the cause of loss can be shown to have been caused by a covered peril, the amount of the loss can be determined by using inventory calculations.

*Earth movement:*

This exclusion eliminates coverage for both earth movement and volcanic eruption, explosion, or effusion. Earthquake and other types of earth movement (such as landslide, mine subsidence, or earth sinking) are excluded. Volcanic action, which includes the aboveground effects of a volcano, is covered as a basic peril; however, the belowground concussion, which is similar to an earthquake, would be excluded. Volcanic eruptions typically take place over a period of days or weeks. This creates a unique dilemma: Does a separate deductible apply to each eruption? The answer is “no”; the form states that all volcanic eruptions that occur within a single week are considered as a single occurrence and, therefore, are subject to a single deductible and one limit of insurance.

*Water:*

Loss that is a direct result of flood, mudslide, or water that backs up or overflows from a sewer or drain is excluded. Damage caused by water under the surface of the ground that presses, flows, or seeps through foundations, walls, floors, basements, doors, windows, or other openings is excluded also.

This exclusion does not eliminate coverage for all damage caused by water. For example, water damage resulting from firefighting actions or sprinkler leakage is covered by the basic filed forms, and other types of water damage coverage are provided by special, nonfiled forms. The broader nonfiled forms contain the following four important exclusions:

1. Discharge or leakage from any of the following:
   A. An automatic sprinkler system.
   B. A sump pump or related equipment and parts, including overflow due to sump pump failure or excessive volume of
water.

C. Roof drains, gutters, downspouts or similar fixtures or equipment.

2. The cost to repair any defect that caused the loss or damage.

3. Loss or damage caused by or resulting from continuous or repeated seepage or leakage that occurs over a period of two or more weeks.

4. Loss or damage caused by or resulting from freezing, unless:
   A. The insured does his best to maintain heat in the building or structure.
   B. The insured drains the equipment and shuts off the water supply if the heat is not maintained.

A separate flood insurance policy, written through the National Flood Insurance Program or by a private insurance company reinsured by the program, can cover flood-related perils. Flood insurance is also available under the Flood Coverage Endorsement.

*Trick and device and false pretense:*

The trick and device and false pretense exclusion is implemented to cover for losses in the event that the insured might be duped into voluntarily giving up possession of property. For example, somebody might impersonate a delivery service employee, and the insured might surrender a number of packages to the imposter. Or a dry cleaner might hand over cleaned clothing to somebody pretending to be a customer.

This exclusion also applies to any person in the custody or care of the property. For example, the exclusion would apply when an employee, an agent, or a transportation firm is tricked into voluntarily giving possessions of the insured’s property to a thief.

However, a fraud and deceit clause, which can improve coverage by covering losses that would otherwise be excluded, is often available. A policy containing such a clause would provide the insured with better protection than a standard policy.
Unauthorized Instructions:

Closely related to the trick and device and false pretense exclusion is the exclusion of loss caused by “unauthorized instructions to transfer property to any person or any place.” One type of loss that is not covered due to this exclusion is computer fraud. This type of loss might occur when an outsider gains access to an insured’s computer system and enters fraudulent shipping instructions.

Other Common Exclusions

Under current commercial inland marine policies, the insurance provider will not pay for a loss caused by or resulting from:

- Weather conditions
- Acts or decisions (inclusion or exclusion)
- Faulty, inadequate or defective conditions
- Wear and tear
- Collapse

Any ensuing losses occurring from a non-excluded cause of loss are covered; the policy exclusions do not preclude coverage for other losses that may “flow from” the excluded event, if the other loss is covered in the contract.

Weather conditions:

Weather conditions include lightning; windstorm; hail; weight of snow, ice or sleet; or rain that collects on a roof. This exclusion applies only if weather conditions contribute in any way with one of the concurrent causation exclusions to cause a loss.

Acts or decisions, including any failure to act or decide, of any person, group, organization, or government body:

This condition ensures that if a covered cause of loss results from acts or decisions (or failure of such), coverage will apply; however, any excluded loss that is caused by or results from acts or decisions (or failure of such) will not be covered.
Faulty, inadequate, or defective conditions:

This condition includes:

- Planning, zoning, development, surveying or siting.
- Design, specifications, workmanship, repair, construction, or renovation.
- Remodeling, grading or compaction.
- Materials used in repair, construction, renovation or remodeling.
- Maintenance of a part or all of any property wherever it is located.

As an example of a covered ensuing loss with regard to the last two exclusions, an insured whose business burns because a contractor made the decision to repair a furnace, instead of properly replacing it, will be covered for any resulting fire damage to property covered under the commercial inland marine coverage form.

Wear and tear:

This condition excludes any quality in the property that causes it to damage or destroy itself, or resulting from:

- Hidden or latent defect
- Insects
- Vermin or rodents
- Gradual deterioration
- Mechanical breakdown
- Corrosion rust
- Dampness
- Heat or cold
- Depreciation

Because it is inevitable that the physical condition of property will deteriorate over time, the wearing out of property is not a risk of loss.

A related type of loss, that arising from inherent vice, is also excluded. This refers to losses arising out of a quality within an object that results in the object’s tending to destroy itself. For example, tires will deteriorate even if they are never actually put into actual use.
With the exception of accounts receivable, film, and mail, the remainder of the commercial inland marine forms contains a variety of combinations of the aforementioned items, but all forms include “gradual deterioration” and “any quality in the property that causes it to damage or destroy itself.”

**Collapse:**

This condition removes coverage for collapse in filed forms (collapse is seldom excluded in nonfiled forms) except as provided by the additional coverage provisions explained below.

**Additional Coverage Provision-Collapse**

Concerning any commercial inland marine coverage, damage to insured property resulting from collapse is covered if caused by one or more of the specified causes of loss: windstorm; hail; fire; lightning; explosions; aircraft; smoke; motor vehicles; civil disturbance; vandalism; malicious mischief; broken glass; falling objects; weight of snow, ice or sleet; water damage; hidden decay; hidden insect or vermin damage; weight of people or personal property; weight of rain which collects on a roof; use of defective materials or materials in construction, remodeling or renovation if the collapse occurs during the course of construction, remodeling or renovation.\(^2\)

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**UNIT VI. ACCOUNTS RECEIVABLE**

Terms to know:

1. *Accounts receivable coverage form* - the risk that is assumed by this coverage is loss resulting from the insured’s inability to collect amounts owed by customers because of an accidental loss or damage to the insured’s accounts receivable records by a

\(^2\) **NOTE**: The “use of defective material or methods of construction, remodeling or renovation” allows recovery for a loss or damage to insured property resulting from collapse losses that are caused by defective materials or construction methods only if the collapse occurs during the course of the construction. After a structure is finished, collapse is covered only if caused by one or more of the aforementioned causes.
covered cause of loss.

2. *Consequential damage insurance*- a specialized type of insurance that is written on an actual cash value basis and applies only to the property while it is at the location specifically designated in the contract. The limit of liability applies to each accident; additionally, there is no limitation on the number of accidents that may occur during any given policy period. This coverage applies to 1) losses that are not an immediate risk, or 2) losses that are not covered by loss due to direct damage. It also includes any interruption to business.

3. *Occurrence*- an accident that results in a loss; this could include continued or repeated exposure to substantially the same general harmful conditions.

4. *Coinsurance clause*- a stipulation included in some commercial inland marine coverage forms in which the insurance company agrees to reduce the insurance rate with the understanding that the insured will maintain insurance at a specified relation to values of covered property. If the insured fails to meet the specified amount, he must assume a portion of each loss. In some insurance contracts the insurance provider designates the minimum amount of insurance, expressed in the form of a percentage of the value of the property, that it desires the insured to carry. A full coinsurance clause stipulates a coverage of one hundred percent.

5. *Insurable interest*- pecuniary interest in a risk being insured. Anyone who stands to suffer any financial loss as the direct result of damage to property has an insurable interest in that property. A business or person must have an insurable interest to be eligible for any insurance coverage.

6. *Inventory*- an itemized list of current assets covered under an insurance policy; stock.
As with all commercial inland marine forms, the *accounts receivable coverage form* - CM 00 66 - is assimilated with a declarations page, a common policy form, and an inland marine general conditions form to create a policy.

At times, damage or destruction may make it impossible to collect on monies owed to the insured because his or her records are not readily available. This possible risk led to the creation of protection for accounts receivable. Accounts receivable insurance is really a type of *consequential insurance*, so named because it is not an immediate risk. The loss is a **result** of a consequence deriving from the direct physical harm to tangible property. The risk insured by the accounts receivable coverage form is loss resulting from an insured’s inability or impossibility to collect monies owed to him because of accidental loss or damage to accounts receivable by an insured peril. It does not cover losses arising from debtor’s bankruptcy or unwillingness to pay (credit insurance can cover such bad debt losses). In order for an insured to qualify for coverage, the loss or damage to these records (evidence) must result from a covered cause of loss. Coverage is on an “all risks” basis, but it applies only while the records are on the premises. The policy requires that the records must be secured in described vaults, safes, or containers, except when they are in use.

**Coverage**

The insurance provider will pay for the following:

- All amounts due from the insured’s customers that the insured is unable to collect.
- Interest charges on any loan required to offset amounts the insured was unable to collect pending an insurance company’s payment of those amounts.
- Collection expenses in excess of the insured’s normal collection expenses that are rendered necessary by the loss.
- Other reasonable expenses that the insured incurs in order to re-establish his records of accounts receivable.
Property Not Covered

Coverage does not apply to:

- Records of accounts receivable in storage away from the premises shown on the declarations page.
- Contraband or property in the course of illegal transportation of trade.

Protection of Records

Whenever the insured is not open for business, and except while said insured is actually using the records, the insured must keep all records of accounts receivable in receptacles that are described in the declarations.

An insured can lower his premiums by maintaining high safety standards for his or her records and by creating the conditions by which any foreseeable problems could be logically anticipated. It should be noted that the Insurance Services Office rules allow substantial rating credits (which will lead to lowered premiums) for loss control measures, such as duplication of records in a timely manner, storage of the records at another premises, or storage of accounts receivable records in safes or vaults.

Limitations

Under form CM 00 66, the insurance is subject to three limitations, each of which is specified on the declarations page, and is not subject to a deductible. These limitations apply to the following:

- Property at the named insured’s premises.
- Property away from the named insured’s premises.
- Property at all locations. Under this limitation, the policy is subject to an overall aggregate amount.
These limitations represent the maximum amount that the insurance provider will pay for losses in any single occurrence.\(^3\)

**Coverage Territory**

The insurer will cover records of accounts receivable that are:

1) Within the insured’s premises (the address shown on the declarations page).

2) Away from the insured’s premises while in transit or within the premises of others if those premises are located or the transit is within the United States, Canada, or Puerto Rico.

There is no coverage for records of accounts receivable that are in storage away from the premises established on the declarations page; furthermore, the insured must have a limit of coverage away from the premises determined on the declarations page in order to be covered. If an insured does not need or want such added protection, the space on the declarations page for property away from the insured’s premises is left blank.

**Coinsurance**

All accounts receivable, except those in transit, must be insured for at least 80% of their total value at the time of loss, or the insured will incur a penalty. This penalty is that the insurance company will pay only the proportion of any loss that the limit of insurance shown in the “Declarations for Coverage Applicable at All Locations” bears to 80% of the total value of all accounts receivable at all locations as of the time of any loss; however, this penalty will not be applicable to records of accounts receivable in transit, interest charges, excess collection expenses or expenses to re-establish the insured’s records of accounts receivable. For example, if an insured had records that were valued at

\(^3\) **NOTE:** If any single occurrence, such as a flood or a hurricane, damages records being held at more than one location, the insured cannot recover any monies in excess of the aggregate, even if the total sum of the damages exceeds the overall limitation. For example, if an insured has records safely stored at three locations, each with its own $10,000 maximum, and the records at all three locations suffer damage that totals $30,000, if the aggregate amount was set at $20,000, the insured will recover only that $20,000.
$200,000 for all locations and maintained insurance of only 60% of that value ($120,000), the insurance company would be required to pay only three-quarters of a loss ($120,000 / $160,000).

Exclusions

Of all the exclusions that are common to all commercial inland marine insurance coverage forms that were addressed in Unit V (Common Exclusions), the only one that does not apply to the accounts receivable coverage form is the wear and tear exclusion. Logic would suggest that any chance of loss to records that are properly stored is highly unlikely.

The insurance company will not pay for loss caused directly or indirectly by any of the following. Such loss is excluded irrespective of any other cause(s) or event(s) that contributes concurrently or in any sequence of the loss:

*Delay, loss of use, loss of market or any other consequential loss:*

This exclusion includes coverage for losses that are not physical losses, but result from physical losses.

*Dishonest acts by:*

- The insured or the insured’s employees or authorized representatives.
- Any other person with an interest in the property, or his or her employees or authorized representatives.
- Any other person or persons to whom the property is entrusted.

This exclusion applies whether or not such named persons are acting alone or in collusion with other persons or such acts occur during the hours of employment; however, this exclusion does not apply to covered property to others who are considered carriers for hire.
Alteration, falsification, concealment or destruction of records of accounts receivable:

This exclusion is in effect when someone attempts to conceal or otherwise falsify the wrongful giving, taking or withholding of money, securities, or other property (a moral hazard); however, the exclusion applies only to the extent of the wrongful giving, taking, or withholding itself. For instance, if, in an effort to conceal the illegal act of embezzlement, an insured’s employee destroys the insured’s accounts receivable records, coverage for any subsequent impossibility to collect accounts receivable is precluded, but only with regard to those losses directly related to the illegal act of embezzlement. The insured would be denied coverage for any uncollectable accounts that were the focus of the fraudulent act of the embezzler; however, the insured could still collect insurance monies for any losses resulting from destruction of those records that are unconnected to the embezzlement.

Bookkeeping, accounting, or billing errors or omissions:

Losses caused by any of these circumstances are more aptly covered under a professional liability policy, such as that for an accountant’s errors and omissions.

Electric or magnetic injury, disturbance or erasure of electronic recordings:

This exclusion allows for no coverage for events that are caused by or resulting from:

- Programming errors or faulty machine instructions.
- Faulty installation or maintenance of data processing equipment or component parts.
- An occurrence that took place more than one hundred feet from the insured’s premises.
- Interruption of electrical power supply, power surge, blackout or brownout if the cause of such occurrence took place more than one hundred feet from the insured’s premises.

The insurance provider will, however, pay for direct loss caused by lightning.
Voluntary parting:

This exclusion is in effect if there is any voluntary parting with any property by the insured or anyone entrusted with the property if induced to do so by any fraudulent scheme, trick, device, or false pretense.

Unauthorized instructions to transfer property to any person or any place:

Under this exclusion, loss caused by any unauthorized means is not covered.

Shortage found upon taking inventory:

Because inventory records may not be completely accurate, any shortage discovered during the time of inventory is not covered.

Coverage Extension—Removal

The accounts receivable coverage form, if not read in its entirety, may appear to exclude coverage for any property which is removed from the insured’s premises due to an impending danger of loss if the property is removed to another of the insured’s locations not described on the declarations page. This is due to the fact that the coverage territory includes only property within the described location, or while in transit, or within the premises of others. Nevertheless, the coverage form contains an extension that provides coverage for any loss occurring while accounts receivable have been removed from the insured’s premises because of an impending loss, such as fire. The property is covered while it is at a secure location away from the declared premises, or while it is being taken to or returned from that place. Furthermore, coverage under this extension is applicable only if the insured furnishes the insurer with a written notice within ten days of the removal of the records to a secure location. This coverage extension, however, does not represent a separate insurance amount; it is included within the limit of insurance that is applicable to the premises from which the accounts receivable records have been removed.
Recoveries

The insured will pay the insurance provider the amount of all recoveries he or she receives for a loss covered by the company; however, the insured is entitled to any recoveries in excess of any amount the provider has already paid.

Determination of Receivables

This condition includes the method of valuation which is to be in effect when adjusting for losses and the method of calculating settlement amounts.

In the event that the insured cannot accurately establish the amount of accounts receivable outstanding as of the time of loss, the following method will be implemented:

First, the parties determine the total of the average monthly amounts of accounts receivable for the twelve months immediately preceding the month in which the loss occurs and adjust that total to any normal fluctuations in the amount of accounts receivable for the month in which the loss occurred or for any demonstrated variance from the average for that month. For example, the Blackstone Company has an average outstanding monthly accounts receivable balance of $100,000, but suffers a loss to its records in December, a month when accounts receivable are inflated to $150,000 due to holiday purchases; in this situation, settlement of the claim is based on the December balance, not the $100,000 monthly balance.

Succeeding this, the following will be deducted from the total amount of accounts receivable, irrespective of how the amount is established:

- The amount of the accounts for which no loss exists; for example, any records that were saved.
- The amount of the accounts that the insured is unable to re-establish or collect.
- An amount to allow for reasonably foreseeable bad debts that the insured is normally unable to collect.
- All unearned interest and service charges.

**Endorsements**

Policy owners whose accounts receivable are subject to wide fluctuations may opt for coverage on a reporting basis; this is accomplished by endorsement CM 66 06. This endorsement bases premium charges on values actually at risk. Values must be reported correctly and within a “reasonable time,” and a sufficient limit of insurance must be maintained to cover the maximum value at any time. Contrasting this, using the standard, non-reporting coverage for insuring fluctuating accounts receivable requires the premium payment to be based on the maximum amount of accounts receivable at risk at any time during the policy period, allowing no premium credit for those periods when the number of receivables is lower.

Two other endorsements are available for use only with the accounts receivable coverage form:

1. Endorsement CM 66 01 allows the insured to exclude loss of records of receivable accounts pertaining to specified customers, a request that may be initiated only from an insurer’s underwriting department because certain accounts may be too speculative or valuable to safely insure.

2. Endorsement CM 66 04 stipulates that the insured will practice a form of risk management by way of risk reduction and duplicate a specified percentage of its records of accounts receivable, and keep those records for at least six months at a specified other premise. The advantage of duplicating records and keeping them separated is that an insured can qualify for rating credits since the probability of loss is lessened.
UNIT VII. CAMERA AND MUSICAL INSTRUMENTS DEALERS

Terms to know:

1. *Camera and musical dealers coverage form*- camera equipment and musical instrument dealers can insure their inventory with open perils protection using form CM 00 21.

2. *Reporting form basis*- a method of providing coverage under the equipment dealers, film, accounts receivable, floor plan, mail, and jewelers block coverage forms. Values of covered property are reported to the insurance company on a monthly basis and are used to establish premium costs.

3. *Coverage extension*- an insurance allowance that may be applied to a specific type of property or loss. Some extensions increase the total amount of insurance available to the insured through the policy; others provide a limited amount of coverage within the policy limit to property or losses that otherwise would not be covered. For example, they may impose special sub limits.

By employing form CM 00 21, camera equipment and musical instruments dealers can insure their inventories. The two floater policies may be considered together because they are identical except for the description of the inventory. As is true with the other commercial inland marine coverage forms, CM 00 21 is assimilated with a declarations page, a common policy conditions form, and an inland marine general conditions form to create an insurance contract.

**Eligibility**

Marketers in cameras or musical instruments and any related accessories and equipment (such as furniture, fixtures, office supplies, improvements and betterments, and fittings) and any similar property of others that is in their care, custody, or control are
eligible for the CM 00 21 coverage provisions. This form covers property while at the premises of the insured or in transit. If it is written on a camera or musical instrument department of a discount or department store, the coverage does not apply to any assemblage that is unusual to the insured’s department; additionally, dealers engaged primarily in the manufacturing operations may not be insured under form CM 00 21.

**Coverage**

Subject to specific exclusions that will be described in detail later, the camera and musical instruments dealers coverage form provides for open perils coverage. Although it is first written on a standard amount basis, endorsement CM 99 02 is available to convert it to a *reporting form basis*. In cases where the insured has wide fluctuations in the amount of his inventory, this is advantageous because a limit of insurance is set for the highest value at any given point in time, but the premium is based on the average value at risk during a given year. The average is calculated from periodic reports that the insured makes covering the total values available at the time of the report; the reports are typically conducted on a monthly basis.

**Coverage Territory**

The camera and musicians instruments coverage territory includes property located anywhere within the United States, Canada, and Puerto Rico.

**Covered Property**

Property covered under CM 00 21 consists primarily of cameras or musical instruments and related equipment and accessories; however, this broad definition includes miscellaneous items that a dealer may carry in the interest of his customers.

**Property Not Covered**

Covered property does **not** include:
- Property that has been sold and delivered to customers, including property sold under a deferred payment sales agreement.

- Accounts, bills, currency, deeds evidences of debt, money, notes or securities.

- Furniture, fixtures, office supplies, improvements and betterments, machinery, tools, fittings, patterns, molds, and models.

- Property while in the mail, unless registered mail or government insured mail.

- Contraband or property in the course of illegal transportation or trade.

**Coinsurance**

Form CM 00 21 is subject to a coinsurance requirement of 80%. All covered property, except property in transit, must be insured for at least 80% of its total value as of the time of loss, or the insured will incur a penalty. This penalty is that the insurance provider will pay only the proportion of any loss that the limit of insurance shown on the declarations page for all covered property at all locations bears to 80% of the total value of all property at all locations as of the time of the loss.

**Limitations**

Coverage under CM 00 21 is subject to five limitations; each of these is to be included in the declarations page. Limitations apply to any of the following:

- Property at each location identified as an insured location.
• Property that employees have with them when they are away from an insured location.

• Property that is in transit.

• Property not at an insured location, but not in transit or in the care of an employee (for example, cameras or musical instruments that are on loan to a school).

• “All covered property at all locations”; under this limitation, the policy is subject to an overall aggregate limit.

**Theft Damage to Buildings**

In addition to the collapse peril conditions discussed in UNIT V, a *coverage extension* provides for theft damage to buildings as well as certain equipment within buildings. The insurance provider will pay for damage caused directly by theft or attempted theft to:

- That part of any building containing covered property.
- Equipment within the building used to maintain or service the building; however, this applies only if the insured owns the building or is legally responsible for the damage.

The insurance provider will not pay for damage:
- That is caused by a fire.
- To glass or to lettering or artwork on glass.

This coverage extension is included within the limit of insurance applicable to the covered property at the premises where the damage occurs.
Exclusions

In addition to the exclusions common to all commercial inland marine coverage forms, the camera and musical dealers coverage form is subject to the following additional exclusions:

**Water:**

Losses from flood, surface water, waves, tides, tidal waves, overflow of any body of water, or its spray, and all weather driven by wind or not are excluded. However, the insurance providers will pay for direct loss caused by any resulting fire, explosion or theft if these causes of loss are otherwise covered under this coverage form. This exclusion applies only to property at the insured’s premises. Both property in transit and property off-premises in an employee’s care are covered for flood.

**Earthquake:**

Earthquake itself is excluded; however in case of earthquake, the insurance provider will pay for direct loss caused by resulting fire if said fire would otherwise be covered under this coverage form. This exclusion applies only to property at the insured’s premises.

**Theft from an unattended vehicle:**

Theft from any unattended vehicle is excluded unless at the time of theft the vehicle’s windows, doors and compartments were closed and locked, and visible signs of forced entry were evident; however, this exclusion does not apply to property in the custody of a carrier for hire, such as a delivery service.

**Delay, loss of use, loss of market or any other consequential loss:**

This condition excludes coverage for losses that are not physical losses, but result from physical losses. For example, if an expected shipment is delayed, and the insured’s customers go elsewhere to purchase the product, this policy does not cover any subsequent loss of income. In addition, no coverage exists for lost sales. For example, if
the insured's inventory of cameras is destroyed just before a high-volume sales season, the insurance provider is not liable for any anticipated sales.

*Marring, scratching, exposure to light, breakage of tubes, bulbs, lamps or articles made largely of glass (with the exception of lenses)*:

Such losses are covered if caused directly by fire, lightning, windstorm, vandalism, aircraft, rioters, strikers, theft or attempted theft, or by accident to the vehicle carrying the property, if these causes of loss would otherwise be insured under this coverage form.

*Unexplained disappearance*:

If certain items are missing, it is possible they were stolen or inadvertently discarded; irrespective of how they disappeared, no coverage applies.

*Shortage found upon taking inventory*:

If some inventory is missing, one cannot logically conclude that it was lost because of an insured peril; therefore, no coverage applies.

*Dishonest acts committed by*:

1) the insured or the employees or authorized representatives of the insured.

2) any other person with an interest in the property, or his or her employees or authorized representatives.

3) any other person or persons to whom the property is entrusted.

This exclusion applies whether or not such persons are acting alone or in collusion with other persons or such acts occur during the hours of employment; however, this exclusion does not apply to covered property that is entrusted to others who are carriers for hire.

*Processing or work upon the property*:

The insurance provider will pay for direct loss by resulting fire or explosion, if these causes of loss would otherwise be covered under this coverage form.
Artificially generated current creating a short circuit or other electric disturbance with an article covered under this coverage form:

However, the insurance provider will pay for direct loss caused by resulting fire or explosion, if these causes of loss would otherwise be covered under this coverage form. This exclusion applies only to the item of property where the electrical disturbance occurs.

Voluntary parting:

This condition excludes coverage for the voluntary parting by the insured or any persons entrusted with the property if they are induced to do so by any fraudulent scheme, trick, device, deception or false pretense.

Unauthorized instructions to transfer property to any person or any place:

Loss caused by the transfer of property without proper authorization is not covered.

Additional Conditions

Valuation in the Commercial Inland Marine Conditions is replaced by the following:

1) Unsold property. The value of unsold property will be the least of the following amounts:

   - The actual cash value of that property.
   - The cost of reasonably restoring that property to its condition immediately before loss.
   - The cost of replacing that property with substantially identical property.

2) Sold property. The value of property sold but not yet delivered will be the insured’s net selling price after all allowances and discounts.

3) Property of others. The value of property in the insured’s care, custody, or control will be the lesser of the following amounts:
• The amount for which the insured is liable, plus the value of labor and materials the insured may have added.
• The actual cash value, including labor and material the insured may have added.

4) Negatives, positives, or prints. Negatives, positives or prints are not included in the above three conditions; their value will be the cost of any unexposed film or developing paper, including labor and materials that the insured may have added in their developing.

**Records and Inventory**

The insured is required to keep accurate and current business records and to retain them for three years after the policy term ends. These records will consist of the following:

1) An itemized inventory of the insured’s stock in trade.
2) Records of all purchases and sales, whether cash or credit.
3) Records of property of others in the insured’s care, custody, or control.
4) Records of property the insured sends to others for any purpose.

The insured is further required to take a physical inventory of all stock in trade at least once every twelve months.

**Protective Safeguards**

The insured is required to maintain the protective safeguards stated by same to be in effect at a location when the coverage begins. If the insured fails to keep the protective safeguards:

1) In working condition at a location; and
2) In operation when closed for business

coverage for which the protective safeguards apply is automatically suspended at that location. This suspension will last until the equipment or services are back in proper working condition.
For example, if an insured neglects to maintain a declared smoke detector or sprinkler system at his or her premises, fire damage is not covered as long as the declared equipment is inoperable; however, theft or other coverages are not affected. In addition, if a declared burglar alarm system is not maintained properly and theft occurs, other coverages are not suspended.

**Coverage Options**

In order to suit the needs of a variety of insureds or to accommodate an insurance provider’s particular concerns, the camera and musical instrument dealers coverage form may be amended through any of the five following endorsements:

1) *Additionally covered property:*

The camera and musical instrument dealers coverage form can be altered by endorsement CM 99 01 to extend coverage to furniture, fixtures, and office supplies; the insured’s interest in improvements to a landlord’s building; machinery, tools, fittings; and patterns, dies, molds, and models. Signs may also be covered by another separate endorsement--CM 00 28.

2) *Coverage may be limited:*

Simply by substituting the word *only* for the word *principally* in the covered property section of the form, coverage can be restricted to cameras and related equipment and accessories, or to musical instruments and accessories.

3) *The earthquake and flood exclusion may be expunged.*

4) *Increased limits of insurance for property in an employee’s custody and elsewhere:*

According to manual rules, the camera and musical instrument dealers coverage form provides limits not to exceed 10% of the limit for the insured’s specified locations to property in the employee’s care and elsewhere. For an additional premium, this limit can be increased.
5). *Reporting endorsement:*

Form CM 99 02 modifies coverage to a reporting basis.
UNIT VIII. COMMERCIAL ARTICLES

Terms to know:

1. Commercial articles coverage form- the commercial articles coverage form (CM 00 20) provides open perils coverage (subject to certain exclusions) for cameras, projection machines, films, musical instruments, and related articles used for commercial purposes that are owned by or in the care, custody, or control of the insured.

2. Blanket coverage or blanket basis- when a form is written on a blanket basis, it covers all items within a described class, such as silverware, for one total amount of insurance. No single item, such as a teaspoon from a silverware set, is assigned a specific amount of insurance.

Coverage

Covered property, as used in this conversion form, means:

- Property that is used by photography studios, including cameras, film and related equipment and accessories.
- Property that is used by motion picture production companies, including, projection machines, film, and related equipment and accessories.
- Musical instruments and equipment, including stationary organs used for generating income or playing before the public.
- Property that is used by organizations, such as boards of education and municipalities.
Generally, the commercial articles form is intended to cover property that is used for commercial purposes only.\(^4\)

As with all other commercial inland marine policies, the commercial articles form is assimilated with a declarations page, a common policy conditions form, and a commercial inland marine common policy conditions form to create a policy. Although provisions are in place for *blanket coverage*, a type of coverage covering all items within a described class, the commercial articles form often requires that individual items be scheduled (each insured item must be a listed and described separately).

**Property Not Covered**

Covered property generally does not include contraband or property in the course of illegal transportation or trade. Specifically, property not covered under this coverage form includes television cameras and equipment, coin or token operated devices, property of camera dealers or manufacturers, and aerial or radar cameras.

**Additionally Acquired Property**

The commercial articles form anticipates the acquisition of new property. As long as the property is of a kind already insured by the form (not an excluded type of property), automatic coverage is available on the new items for the lesser of 25\% of the existing limit or $10,000. The coverage extension for newly acquired property ceases after thirty days from the date of acquisition, at which time the policy owner is required to submit a received property schedule to the insurance provider.

**Coverage Options**

Any part (or all) of any property that is covered by the commercial articles form may be insured on a *blanket coverage basis*. Blanket coverage insures covered classes of

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\(^4\) **NOTE:** Camera or musical instrument *dealers* are not eligible for this coverage, as that specialized class of risk can be insured by the camera and musical instruments dealers form (CM 00 21) that was explained in Unit VII.
property for \textbf{one total amount} of insurance; for example, $50,000 on camera equipment. No \textit{single} item within a covered area is assigned a specified value. When blanket coverage is in effect on a commercial articles form, the form contains a 100% coinsurance condition. This stipulates that the insurance must be carried to 100% of the value of the insured property. In addition, when blanket coverage is in effect, the “additionally acquired” property provisions are expunged.

\textit{CM 20 02 Large Schedule Endorsement:} alternatively, if an insured does not elect to comply with the 100% coinsurance provision, or does not wish to lose the additionally acquired property requirement, but has a large number of items to be scheduled, the implementation of form 2 CM 20 02 eliminates the need for a lengthy schedule of items to be attached to the commercial articles form; however, the schedule must be signed and dated by an authorized company representative, typically an insurance agent.
UNIT IX. EQUIPMENT DEALERS

Terms to know:

1. *Equipment dealers coverage form* (form CM 00 22)- this form provides coverage for dealers in agricultural and contractors’ equipment; it also provide coverage for the dealers’ stock in trade, and similar property of others in the care, custody, or control of the dealer.

2. *Mobile equipment*- this includes land vehicles, such as bulldozers or farm equipment, which qualify for coverage under certain inland marine insurance forms.

3. *Deposit premium*- also known at times as a “provisional premium,” the deposit premium is the initial premium charged for coverage that can be later altered by an audit conducted at the end of the policy period.

4. *Full reporting clause*- a provision in reporting form policies that stipulates how the insured shall be penalized for any failure to report monthly values. If an insured’s most recent report shows less than full value for covered property, recovery for any subsequent loss is reduced by the same proportion that the insured’s last reported value bears to the actual full value at the time the report was made.

The Insurance Services Office equipment dealers coverage form is a filed “all risks” form designed for dealers in mobile construction equipment and agricultural equipment. (The American Association of Insurance Services files a similar form titled *Implement Dealers Coverage*). The policy can be written on either a reporting or nonreporting form.

**Covered Property**

As with all other forms under the scope of commercial inland insurance, the equipment dealers form is combined with policy declarations, common policy conditions, commercial inland declarations, and any applicable endorsements to create a policy.
Equipment dealers coverage is written as inland marine insurance under the authorization of the *National Marine Definition and Interpretation of the Powers of Marine and Transportation Underwriters* (addressed in the “Background” section). In addition to mobile construction equipment and agricultural equipment, coverage is also provided for dealers’ stock in trade (those specific items the insured sells) and similar property of others in the care, custody, or control of a dealer.

The *National Marine Definition* establishes a fine line of distinction between the kinds of mobile equipment that are covered under the equipment dealers form and those motor vehicles specifically designed for uses on roads and highways. Mobile equipment such as agricultural machinery and construction equipment can be insured under form CM 00 22. Conversely, motor vehicles designed specifically for use on roads and highways are not proper subjects for coverage under this form.

**Property Not Covered**

Covered property under form CM 00 22 does not include:

- Automobiles, motor trucks, motorcycles, aircraft, or watercraft.
- Accounts, bills, currency, deeds, money, notes, securities, and evidence of debts.
- Property while in the course of manufacturer.
- Property leased, rented or sold, including property sold under a deferred payment sales agreement after it has left the insured’s custody or the custody of carriers for hire when the insured is responsible for the delivery.
- Furniture, fixings, office supplies, improvements and betterments, machinery, tools, fittings, patterns, dies, molds, and models.
- Property of others described in the declarations.
- Contraband or property in the course of transportation of trade.

Regarding “furniture, fixtures, office supplies, improvements, and betterments, machinery, tools, fittings, patterns, dies, molds, and models,” coverage may be extended
to any of the aforementioned excluded items; this is accomplished by entering the amount of insurance in the space provided in the declarations page for additionally covered property by attaching form CM 99 01, the additionally covered property endorsement.

In regard to “property of others described in the declarations,” the condition applies only to any property of others that the insured does not wish to cover; if the insured chooses, he can exclude specific property of others from his coverage under form CM 00 22. The most common reason that an insured would request that property of others be excluded is that the form does not include any provision for loss of use payments. Given the kinds of equipment dealers might possess, loss of use could involve a considerable amount of money. It is possible that in some cases, the damage from loss of use amounts to more than the actual cost of the equipment itself; subsequently, as an alternative, the insured may opt to cover property of others under a separate liability or bailee coverage that makes provisions for these payment types.

**Equipment Dealers Declarations**

The equipment dealers declarations form that is recommended by the Insurance Services Office consists of two pages (however, individual insurers may choose another arrangement when printing their own declarations page). In addition to the policy number, effective date, and rate and premium information, the first page contains a schedule of the property to be covered and respective limits of insurance. Five separate property categories, or items, are listed and described below:

- Property at the insured’s premises – with separate limits for coverages inside and outside the described building.
- Property at other premises acquired after the policy is in effect; this coverage applies for only thirty days after the location is acquired. By that time, the insured should have informed the insurer of the new premises and requested that it be endorsed onto the policy.
- A provision that is intended to set a limit for property in transit.
- A provision that applies a limit to property not at the insured’s premises, and not included in any other of the three categories listed above.
- A provision that applies a total maximum for all property at all locations.

The rates and premiums section has spaces in which the insured can indicate nonreporting or reporting rate and premium information. For the reporting form, there are provisions for deposit premium (an estimate of the final premium), minimum annual premium, reporting period (how frequently values are to be reported to the insurer), premium adjustment period (when the actual premium will be calculated), the premium base (either values or gross sales), and rates.

The applicable deductible along with a blank space for any special provisions that potentially might be added to the policy will be shown on page two of the declarations. There are spaces where separate limits of insurance for each of four kinds of additionally covered property that, if coverage for them is desired, can be listed:

- furniture, fixtures, and office supplies.
- machinery, tools and fittings.
- patterns, dies, and molds.
- improvements and betterments.

Scope of Coverage

The equipment dealers form (CM 00 22) promises to pay for “loss” (a specifically defined term that means “accidental loss or damage”) to covered property from any cause or loss.

Collapse

The additional coverage of collapse that was discussed in Unit V is an included coverage under the equipment dealers form; this provides coverage for damage arising out of a building or structure collapse that is a result of one or more of the specified causes of loss. Covered property is described as the insured’s stock in trade, principally
consisting of agricultural and construction mobile equipment, and similar property of others in the care, custody, or control of said insured. As with all other marine forms, coverage of loss is on an open perils basis: “risks of direct physical loss to covered property except those causes of loss listed in the exclusions.”

**Theft Damage to Buildings Extension**

The insurance provider will pay for damage caused directly by theft or attempted theft to:

- That part of property of any building containing covered property.
- Equipment within the building used to maintain or service the building only if the insured owns the building or is legally responsible for the building.

Nevertheless, the insurer will not pay for damage:

- Caused by a fire
- To glass or to lettering or artwork on glass.

This coverage extension is to be included within the limit of insurance that is applicable to the covered property at the premises where the actual damage occurs.

**Exclusions**

In addition to the common exclusions to all commercial inland marine insurance coverage forms, this coverage form is subject to the following conditions:

**Water:**

This includes flood, surface waves, waves, tides, tidal waves, overflow of water or their spray, and all weather driven by wind or not; however, the insurance company will pay for a direct loss caused by any resulting fire, explosion or theft if these causes of loss would otherwise be covered under the coverage form. This exclusion applies only to property at the insured’s premises.
**Delay, loss of use, loss of market, or indirect loss:**

This condition excludes coverage for losses that are physical losses, but physical losses. For example, if an expected shipment is delayed, and the insured’s customers go elsewhere to purchase the product, this policy does not cover any subsequent loss of income. In addition, no coverage exists for lost sales. For example, if the insured’s inventory of cameras is destroyed just before a high-volume sales season, the insurance provider is not liable for any anticipated sales.

**Unexplained disappearance:**

If certain items are missing, it is possible they were stolen or inadvertently discarded; regardless of the nature of the disappearance, no coverage applies.

**Shortage found upon taking inventory:**

If some inventory is missing, one cannot logically conclude that it was lost because of an insured peril; therefore, no coverage applies.

**Dishonest acts by:**

- The insured, any of his or her employees or any authorized representatives.
- Any other person with interest in the property, or his or her employees or authorized representatives.
- Any other person or persons to whom the property is entrusted.

This exclusion applies whether or not such persons are acting alone or in collusion with other persons or such acts occur during the hours of employment; however, this exclusion does not apply to covered property that is entrusted to others who are carriers for hire.

**Processing or work upon property:**

The insurance provider will, however, pay for direct loss caused by resulting fire or explosion if these causes of loss would otherwise be covered under this coverage form.

**Artificially generated current creating a short circuit or other electronic disturbance within an article covered under this coverage form:**
The insurance provider will pay for direct loss caused by resulting fire or explosion, if these causes of loss would otherwise be covered under this coverage form.

Voluntary parting:

Voluntary parting with any property by the insured or any or person or persons entrusted with the property if induced to do so by any fraudulent scheme, trick, device or false premise is not covered.

Unauthorized instructions:

This exclusion is in effect if there are any unauthorized instructions to transfer property to any person or any place.

Coinsurance

All covered property, except for property in transit, must be for a minimum of at least 80% of its total value at the time of any loss, or the insured will incur a penalty; this penalty is that the insurance provider will pay only the proportion of any loss that the limit of insurance shown in the declarations for all covered property at all locations bears to 80% of the total value of all property at all locations as of the time of loss.

When the coverage is written on a reporting basis, the coinsurance clause is waived in favor of a full reporting clause. This means that, instead of using a coinsurance clause, the insured is required to report all values on a monthly basis. The full reporting clause stipulates that the insured receives only 90% of the amount otherwise due if any required reports have not been submitted, or, if the last report of values filed prior to any loss is less than the actual value at risk at the time the report is filed, the insured’s recovery is reduced in the same proportion as the reported values bear to the actual amount at risk.

For example, Herman, an equipment dealer, reported insured property values of $100,000 on hand as of December 31; however, following a loss on January 20, it was
determined that Herman should have reported values of $150,000. As a result, Herman’s insurance company paid only two-thirds of Herman’s loss, in the same manner that Herman had reported only two-thirds of his value.

**Records and Inventory**

The insured is required to keep accurate records of his or her business and retain them for three years after the date of the end of the policy. These records will consist of the following:

- Any itemized inventory of the insured’s stock in trade.
- Records of all purchases and sales, whether cash or credit.
- Records of property of others in the insured’s care, custody or control.
- Records of property the insured sends to others for any purpose.

The insured will also take a physical inventory of all stock in trade at least once every twelve months.
Unit X. FILM

Terms to know:

1. *Film coverage form* - the film coverage form (CM 00 45) provides coverage for exposed motion picture and magnetic videotapes, including sound tracts and other sound recordings.

2. *Commercial operations* - those operations which are designed to make a profit.

As with the other commercial inland marine coverage forms, the film coverage form (CM 00 45) is combined with a declarations page, a common policy conditions form, and the commercial inland marine general conditions to create a policy.

**Coverage**

The insurance provider will pay for:

- Exposed motion picture film and its sound track or other sound record.
- Properly recorded magnetic or videotape and its sound track or other sound record. Tape, under this coverage, is considered to be property recorded if it had been replayed and checked after recording.

The insured must have these items shown on the declarations page and be the owner of said items or be in the care, custody or control of such items.

**NOTE:** This coverage extends only to *commercial operations*, and not to private productions of hobbyists.

The film coverage form is written on an open perils basis, subject to the terms in the “property not covered” that will be discussed below. In order to qualify for coverage, productions must be specified on the declarations page, and each production receives its own insurance maximum. If a production is in process when the policy expires, and the policy is renewed, the production must be listed on the renewal policy in order to receive
continued coverage. In addition, coverage of collapse is included as a part of the film coverage form’s protection.

**Property Not Covered**

Covered property does not include:

- Cutouts
- Unused footage
- Positive prints of film
- Library stock
- Contraband or property in the course of illegal transportation or trade

**Additional Exclusions**

The film coverage form is subject to its own eight additional exclusions. Losses caused by the following events are excluded from the film coverage form:

- Delay, loss of use, loss of market or any other consequential loss.
- Deterioration, atmospheric dampness or changes in temperature.
- Exposure of negative film to lights.
- Use of developing chemicals.
- Developing, cutting or printing of film or other laboratory work.
- Electric or magnetic injury, disturbance or erasure of electronic recordings or videotape; however, the companies will pay for direct loss caused by lightning.
- Voluntary parting with any property by the insured or anyone entrusted with the property if induced to do so by any fraudulent scheme, trick device or false pretense.
- Unauthorized instructions to transfer property to any person or to any place.
Policy Period

The insurer agrees to cover property until whichever of the following events occurs first:

- The full quota of positive prints or films has been completed.
- The insured’s interest in the property has ceased.
- The policy period expires.
- The coverage is cancelled.

Coverage Territory

The insurerance providers cover any property under this form wherever it is located within (or within fifty miles of) the United States, Canada, and Puerto Rico.

Valuation

The value of covered property will be the cost of production costs covered by this coverage form that are applicable to the production. In the event of loss, the covered property will be the sum of the following amounts:

1). The cost of reproducing the lost or damaged property.
2). The reduction in value of undamaged parts of production.

The payment shall not exceed the value of the covered production as indicated in the insured’s books as of the time of loss. The insured may use any available property or other methods of reproduction to reduce the amount of loss.

The value of the covered property will not include the cost of a story, scenario, music rights, continuity, permanent sets, owned wardrobes, and props. The majority of these items can be insured under separate non-marine forms covering commercial property.
Reports and Premium

The insured will send the insurer a written report for each production when this coverage form ceases to cover that production. This report will state the actual cost, related overhead expenses and any other expenses of the completed production for all items covered by this coverage form. The insured’s report will list each studio, laboratory, vault and cutting room used as well as the period of time this coverage form insured the property at each of these locations. In addition, it will include such other information the company may require. The actual premium to be charged for each production will be based on the insured’s report and will be computed using the rate in effect at the time coverage begins. If this actual premium is more than the premium for this coverage, the insured will pay the company an additional premium. If it is less than the premium paid, the company will return the difference to the insured.

Records

The insured will keep accurate records of his or her business affairs and retain them for three years after the policy ends.

Optional Coverages

As already mentioned, the film coverage form is issued on a reporting basis; however, coverage may be converted to a nonreporting basis by attaching endorsement CM 45 01. This endorsement replaces the reports and premium condition with an 80% coinsurance clause; this clause states that all covered property, with the exception of property in transit, must be insured for at least 80% of its actual value as of the time of loss; if the insured fails to maintain this level of insurance, the insurer will pay only the proportion of the loss that the limit for all locations bears to 80% of the total value of the covered property at the time of loss.

Two other coverage option endorsements are available for use with form CM 00 45 01: 1) coverage may be restricted to specific locations, and 2) the reports and
premiums may be amended to require monthly reporting, instead of the per production reporting that is standard for the film coverage form.
UNIT XI.  FLOOR PLAN

Terms to know:

1. *Floor plan coverage form* (form CM 00 52)- the floor plan coverage form extends open perils coverage on merchandise that has been financed through a lending institution and is held for sale.

2. *Encumbrance*- every right to, interest in, or legal liability upon property.

3. *Single interest*- a contract provision in which the insurance covers the interest of either a dealer or a financial institution.

4. *Dual interest*- a contract provision in which the insurance covers the interest of both a dealer’s interest as well as the financial institution’s interest in the same policy.

A *floor plan* is an arrangement by which merchandise or equipment is placed in the custody of a dealer by the manufacturer or wholesaler of the equipment. Floor plan coverage is written to cover dealers’ merchandise that has been financed through a lending institution; in return, the merchandise or equipment is used as a guarantee for the loan. It usually covers property in which the insured has an interest or in which the insured and a secured lender have a mutual interest. As the pledged unit is sold, the loan secured by the unit is repaid. Form CM 00 52 covers property that is on premises, in transit, or at an unscheduled premise. Coverage ceases at the time the unit is sold to the customer. This arrangement is typically used in the distribution and sale of items that are relatively inexpensive, individually identifiable by serial numbers, and subject to only moderate turnover; household appliances and furniture are examples of items that fall within this classification. The floor plan coverage is written on a monthly reporting basis; payments are also due on a monthly basis.
The floor plan coverage form may be used in two ways: 1) it can insure the interest of either the dealer or the financial institution in merchandise held for sale (this is called *single interest*); and 2) it may use both the dealer’s interest in conjunction with the financial institution’s interest in the same policy to create a *dual interest*. Eligibility for the floor plan coverage form does not extend to the manufacturers or processors of the merchandise.

Eligible merchandise under CM 00 52 is subject to two restrictions: 1) covered property must be specifically identifiable as that financed by the lending institution; and 2) the dealer’s right to sell or otherwise dispose of covered property is subject to the release of any *encumbrance* placed on the property by the financial institution.

**Covered Property**

As used in this coverage form, covered property means:

- Property that is specified in the declarations and is at the risk of the insured.
- Property at the risk of the insured that is specifically encumbered to a secured lending institution that is named in the declarations.

The insured must have a pecuniary interest in the property; in addition, he must risk the loss of money if the property is destroyed or lost. Covered property does not include 1) property in which the insured’s interest have ended, property that has been sold and delivered or otherwise disposed of and 2) contraband or property in the course of illegal trade or transportation.

**Exclusions**

Property covered under a floor plan form is insured against risks of direct physical loss (an open perils basis). In addition to the common exclusions for other commercial inland marine insurance forms, the floor plan coverage form is subject to the following exclusions:
Water:

This exclusion includes flood, surface water, waves, tides, tidal waves, overflow of any body of water and their spray, all weather driven by wind or not; however, the companies will cover for direct loss caused by resulting fire, explosion or theft if these causes would otherwise be covered under this coverage form. This exclusion applies only to property at the insured’s premises.

NOTE: Flood is excluded but can be insured for an additional premium.

NOTE: The form is subject to the concurrent causation exclusion for water. This means that the policy has language that excludes loss caused directly or indirectly, and “regardless of any other cause or event that contributes concurrently or in any sequence to the loss” from water.

Delay, loss of use, loss of market, or any other consequential loss:

This condition excludes coverage for losses that are not physical losses, but result from physical losses. For example, if an expected shipment is delayed, and the insured’s customers go elsewhere to purchase the product, this policy does not cover any subsequent loss of income. In addition, no coverage exists for lost sales. For example, if the insured’s inventory is destroyed just before a high-volume sales season, the insurance provider is not liable for any anticipated sales.

Bankruptcy, foreclosure, or similar proceedings.

Dishonest acts by:

- The insured, his employees or authorized representatives.
- Any other person with an interest in the property, or his or her employees or representatives.
- Any other person or persons to whom the property is entrusted.

This exclusion applies whether or not such persons are acting alone or in collusion with other persons or such acts occur during hours of employment; however,
this exclusion does not apply to covered property that is entrusted to others who are carriers for hire.

Artificially generated current:
Loss related to the creation of a short circuit or other electrical disturbance within an article covered under this form is excluded; however, the company will pay for direct loss caused by resulting fire or explosion, if these causes would otherwise be covered under this coverage form. This exclusion applies only to loss to an item in which the disturbance occurs.

Breakage of glass or similar fragile property:
The insurance provider will, however, pay for such loss caused by fire, lightning, explosion, windstorm, vandalism, falling aircraft, rioters, strikers, collapse of buildings, theft or attempted theft, or by accident to the vehicle carrying the property, if these causes of loss would otherwise be covered under this policy form.

Rain, hail, sleet, snow, or freezing:
This exclusion applies to property in the open, but does not apply to property in transit.

Voluntary parting:
Voluntary parting by the insured of any property by the insured or any person or persons entrusted with the property if induced to do so by any fraudulent scheme, trick, device or false pretense is not covered.

Unauthorized instructions:
If an insured transfers property to any person or place without first receiving permission to do so, there is no coverage under the floor plan form.

Conditions
The commercial inland marine policy conditions and common policy conditions apply to the floor plan coverage form along with the six following conditions:

Valuation:

Three conditions are used to establish an insured’s amount of loss:

- Unsold Property - the value of unsold property will be the **least** of the following amounts:
  1. The cost of reasonably restoring that property to its condition immediately before the loss.
  2. The cost of replacing that property with substantially identical property.
  3. The purchase price to the dealer, including transportation costs.

- Sold Property - the value of property sold but not yet delivered is valued based on the insured’s net selling price after all allowances and discounts.

- Loss Limitation-Single Interest - the insurance provider will pay only that proportion of any loss that the amount of the insured’s interest bears to the value of the property. In the event of loss, the value of the property will be determined as of the time of loss.

Coverage Territory:

The insurer will cover property wherever located within the United States Canada, and Puerto Rico.

Transit Coverage in the Event of Cancellation:

If the policy is cancelled, the insurance provider will cover property already in transit until it reaches its destination.

Dual Interest:

As mentioned earlier, the floor plan form can be issued on a single interest or a dual interest basis. Under the dual interest coverage, the form insures both the dealer and the lending institution’s interests. The dual interest condition states that all provisions of the policy are binding on all parties that have an interest in the covered property;
however, the protection given a secured lender named in the declarations will not be impaired by the failure of another party of interest to comply with all provisions, if the secured lender is diligent in trying to obtain compliance with all provisions. This means that if a lender is named in the declarations, any failure of any other named insureds to comply with the policy provisions will not automatically jeopardize the lender’s recovery in the event of a loss to insured property. For example, if, after a loss, a dealer fails to file a statement of loss with the insurance company, the lender’s claim is not jeopardized by this if the lender attempted to secure the compliance of the dealer.

*Records and Inventory:*

The insured is required to keep accurate inventory of his stock in trade including the following:

- All property of others.
- Actual locations.
- Property in transit.
- Purchase price of property to the dealer.
- Transportation charges.
- An itemized inventory of stock values.
- All outstanding balance payments or values at risk.
- All property sent to others for any purpose.

In addition, the insured must take physical inventory at least once every twelve months.

*Reports and Premium:*

The reporting requirements of this form stipulate that reports are due from the insured within thirty days of the end of each month. If the policy covers the dual interests of both the lending institution and the dealer, the reports must consist of the total value of the property at risk; however, if the policy covers only the single interest of either the dealer or the lending institution, the report has to contain the total payments made by the dealer, or, if for the lender, the outstanding balance of the loan. Premiums are calculated by applying the monthly
rate shown on the declarations as multiplier, to the total values of the insured merchandise reported to the insurer each month; premium payments for floor plan coverage are made on a monthly basis.
UNIT XII. JEWELERS BLOCK

Terms to know:

1. Block policy- derived from the French phrase, *en bloc*, which translates as “all together,” a block policy covers broad perils and a variety of property policies.

2. Jewelers block coverage form (form CM 00 59)- the jewelers block coverage form provides insurance specifically tailored to meet the needs of those in the retail jewelry trade; coverage is written on an open perils basis. The establishment of the jewelers block policy by Lloyds of London in the early twentieth century set a precedent for other dealers’ policies, and special contracts were designed for furriers, camera stores, musical instrument dealers, and equipment dealers.

3. Representation- a statement concerning loss exposure made by an applicant for insurance.

4. Warranty- an assurance by one party to a contract of the existence of a material fact upon which the other party may rely; a statement or promise contained in an insurance contract that if untrue or misleading would render the policy voidable, regardless of its materiality to the policy.

5. Legal liability- an obligation to do or refrain from doing something; a duty which eventually must be performed. As opposed to a moral obligation, legal liability imposes an obligation imposed as a matter of law.

6. Consignee- one to whom something is given over for another’s care.

7. Protective safeguards clause- a clause in an insurance contract that voids coverage unless the insured exercises due diligence in maintaining protective measures, such
as automatic sprinkler systems, fire alarms, or security services on the insured’s premises.

Form CM 00 52, the jewelers block form, provides an open perils coverage that is specifically designed for the needs of dealers in the retail jewelry trade. When it is written for jewelry retailers with inventories under $250,000, jewelers block coverage is a filed, “all risks” reporting form. Nonfiled forms are used for manufacturers, retailers, and wholesalers with inventories in excess of $250,000.

**Covered Property**

Covered property as used in form CM 00 52 includes the following:

The insured’s stock in trade consisting of jewelry precious and semi-precious stones, precious metals and alloys, watches, porcelains, crystal and silverware. Covered property also includes items similar to those listed above that have been sold but not delivered, and similar property of others that are in the care, custody or control of the insured; however, property of others in the jewelry trade that is in the care, custody, or control of the insured is covered only to the extent of the insured’s insurable interest. Property that has been shipped is also covered. The property is insured only to the extent of the amount of money the insured has advanced, or to the extent of the insured’s *legal liability* for the property.

**Property Not Covered**

Covered property does not include any of the following:

1. Property sold under a deferred payment sales agreement after it leaves the insured’s premises.
2. Property while at any exhibition promoted or financially assisted by any public authority or trade association.
3. Property while exhibited in showcases or show windows away from the insured’s premises.
4. Property while being worn by the insured or any one of the following:
   a. any officer, director employee, agent, member or messenger of the insured or any other organization engaged in the jewelry trade.
   b. any member of the family, relative or friend of the insured or while in their care, custody or control for the purpose of being worn; the insurer will, however, cover watches while being worn solely for the purpose of adjustment.

5. Property in transit by any of the following:
   a. mail, unless sent by the United States Postal Service registered mail.
   b. express carriers.
   c. railroads, waterborne or air carriers. Nevertheless, the insurance providers do cover shipments under receipt of their passengers’ parcel transportation or baggage service.

   NOTE: Air carriers’ passenger baggage service subject to air freight tariffs with delivery to the passenger at destination shall be considered as accompanied baggage and subject to the limit of insurance specified in the declarations applicable to “property away from” the insured’s premises and are not included above.

d. motor carriers. However, the insurance companies do cover shipments:
   (1) by a carrier operating exclusively as a merchant’s parcel delivery service.
   (2) by armored car service.
   (3) by parcel transportation or baggage services of passenger bus lines.

6. Contraband.

7. Property in the course of illegal transportation or trade.
A coverage extension is available for damage to buildings occurring during a burglary. Coverage options are also available for property in show windows and for money. Those coverage options are included within the limit of insurance.

The Insurance Services Office rules allow for a standard deductible amounts as well as for deductibles of $10,000 or higher. Credit is allowed for membership in the Jewelers’ Security Alliance, and coverage is subject to an annual proposal.

**Eligibility**

Jewelers block coverage is written on a nonreporting basis and is available to retailers with average inventories that do not exceed $250,000.

The following businesses are not eligible for coverage under the jewelers block coverage form: wholesalers and manufacturers, pawnbrokers, auction dealers, fine arts and antique dealers, watch repair shops, and exhibitions.

**NOTE**: The standard jewelers block form does not provide insurance for exhibitions, such as trade shows, promoted or assisted by a public authority or trade association; however, for an additional premium, coverage can be extended to property at such exhibitions through an endorsement that specifies the location and duration of the exhibition.

**Warranties**

The jewelers block policy is one of only a select few policies that includes the proposal for insurance (the insurance application) as a part of the policy itself. In the majority of instances, the proposal of insurance is simply a *representation* (a statement concerning loss exposure made by an applicant for insurance) on the part of the insured; however, with the jewelers block policy, the insurance application takes on a more significant role. At the policy’s conclusion is a provision entitled “Attachment of Proposal”; this attachment requires that a signed copy of the proposal is attached to and
made part of the form. A statement immediately above the signature states that the
proposal becomes a warranty if the policy is issued.

A *misrepresentation* is a false statement of a material fact relied on by an innocent
party when entering into a contract; it may render a contract voidable. For example, a
representation by a jeweler that his store is located in a low crime area, when, in fact, it is
located in a high crime area would constitute a misrepresentation. It is a false statement
of a material fact. There does not have to be a specific intent to deceive for a
misrepresentation to occur and render a contract voidable.

Warranties differ from representations in one very significant way. A
misrepresentation must be material to the contract in order to render the contract
voidable, but warranties do not have the same limitations. In insurance law, warranties
are statements or promises contained in an insurance policy that, if not factual, would
render the policy voidable, irrespective of their materiality.

If an insured misrepresents certain information, the insurance company must
prove that the misrepresentation affects a claim in a material way in order to deny
coverage. However, violation of a warranty does not have to contain a material effect for
an insurer to be able to use the violation as a positive defense against coverage;
consequently, the jewelers block form’s proposal (form CM 59 90) should be completed
in an assiduous manner.

**Coverage Territory**

The jewelers block coverage territory for this form differs in two ways from the
coverage territory listed on most commercial inland marine forms: 1) the coverage
territory includes anywhere within or in transit in the United States, Canada, or Puerto
Rico; and 2) with the company’s underwriting approval, an insured can extend this
territorial limitation through an endorsement and an additional premium.
While the coverage territory is very broad, detailed limits of liability, which will be discussed later in this unit, bind and restrict coverage to specific locations or specific transport situations within the designated areas. Because the property insured under this form is typically quite valuable, the company protects itself by imposing strict limitations.

**Limits of Insurance**

The limits of insurance, included in the declarations, establish the maximum possible recovery amounts for the insured in the event of loss. In addition, the jewelers block policy provides separate limits for each of the following locations or situations:

1. Stock at each of the insured’s stores. However, if an insured moves to a new location during the term of the policy, there is no automatic coverage. In order to be eligible for coverage, the insured must specify the new location and have it added to the policy. The limitation on stock at the insured’s store is required to be equal to at least 80% of the average inventory values. These values are detailed in the proposal form.

2. Property in a secure safe deposit vault of any bank, trust, or safe deposit company.

3. Property on the premises of any dealer, processor or similar bailee in the jewelry trade.

4. Property in transit by:
   a. registered mail
   b. armored car
   c. a merchant’s parcel delivery service
   d. various other means of public transportation as covered in this form
Property away from the insured’s premises is not included above. This limit of liability essentially relates to the value of hand delivered shipments by travelers or messengers who are employees.

If coverage during the various off-premises circumstances is not advantageous to, nor desired by, the insured, the limits would be declared to be “zero.” For example, the coverage form under the section entitled *Property Not Covered* states that “we do cover shipments by armored car service.” Obviously, this coverage is optional. If the insured does not want it, then “zero” must shown on the declarations page as the “most we will pay” on property that is shipped by armored car.

**Additional Coverage – Collapse**

Concerning any commercial inland marine coverage, damage to insured property resulting from collapse is covered if caused by one or more of the specified causes of loss:

- Windstorm; hail; fire; lightning; explosions; aircraft; smoke; motor vehicles; civil disturbance; vandalism; malicious mischief; broken glass; falling objects; weight of snow, ice or sleet; water damage; hidden decay; hidden insect or vermin damage; weight of people or personal property; weight of rain which collects on a roof; use of defective materials or materials in construction, remodeling or renovation if the collapse occurs during the course of construction, remodeling or renovation.

**NOTE:** The “use of defective material or methods of construction, remodeling or renovation” allows recovery for a loss or damage to the insured’s property resulting from collapse losses that are caused by defective materials or construction methods only if the collapse occurs **during the course of the construction.** After a structure is finished, collapse is covered only if caused by one or more of the aforementioned causes.
Theft Damage to Buildings

The insurance provider will pay for damage caused directly by theft or attempted theft to:

- That part of any building containing covered property.
- Equipment within the building used to maintain or service the building.

These coverage extensions apply only if the insured owns the building or is legally responsible for the damage.

The coverage extension does not include damages caused by fire or any damage to glass or artwork on glass.

The coverage extension does not represent a separate amount of insurance, but is included as part of the limit of insurance for covered property.

Coverage Options

Two additional coverage options are available to extend coverage within the limits of insurance:

1. Show windows:

   If limits of insurance for show windows are shown on the declarations page, the insurance provider will pay for loss to covered property in show windows at the insured’s premises from theft or attempted theft resulting from the smashing or cutting of the insured’s show windows.

2. Money:

   If the limit of insurance for money is shown in the declarations, the company will pay for the loss of money in locked safes or vaults in the insured’s premises, or by theft when the safes or vaults are broken into.

Other categories of property may be covered by adding a separate
endorsement (form CM 99 01). These categories include: furniture, fixtures, office supplies, improvements and betterments, machinery, tools, fittings, patterns, dies, molds and models. All listed items must be insured for at least 80% of their total value, except for furniture, fixtures, office supplies, and improvements and betterments; these must be covered to 100% of their cash value.

The jewelers block form excludes coverage for earthquake and flood perils for property on the insured premises, but these perils may be covered by endorsement if the underwriter agrees to those coverages. Although the earthquake exclusion eliminates coverage for any loss caused directly or indirectly by earthquake, there is an exception for loss caused by a resulting fire, if the fire would have otherwise been covered by the policy.

Other Exclusions

In addition to the exclusions common to the other commercial inland marine coverage forms explained in Unit V, the jewelers block coverage form is subject to the following exclusions:

Delay, loss of use, loss of market, or any other consequential loss:

This condition excludes coverage for losses that are not physical losses, but result from physical losses. For example, if an expected shipment is delayed, and the insured’s customers go elsewhere to purchase the product, this policy does not cover any subsequent loss of income. In addition, no coverage exists for lost sales. For example, if the insured’s inventory of cameras is destroyed just before a high-volume sales season, the insurance provider is not liable for any anticipated sales.

Theft from any vehicle:

This exclusion is in effect unless the insured, an employee, or any other persons whose only duty is to attend to the vehicle are actually in or about such vehicle at the time of the theft. This exclusion does not apply to shipments of covered property that are in the
custody of the United States Postal Service or other carriers for hire. Even in cases where the vehicle is locked, there is no jewelers block coverage the vehicle is left unattended.

*Unexplained disappearance:*

Under this exclusion, any unexplained, enigmatic disappearance of property is not within the scope of this coverage form.

*Shortage found upon taking inventory:*

Because inventory records may not be completely accurate, any shortage discovered during the time of inventory is not covered.

*Shortage of property claimed to have been shipped:*

This exclusion is in effect when a *consignee* receives a package that is in good condition with the seals unbroken. Essentially, this is the same exclusion as the previous one, except it relates to occurrences involving mail.

*Dishonest Acts by:*

1. The insured, the insured’s employees or authorized representatives.
2. Any other person with an interest in the property, or his or her employees or authorized representatives.
3. Any other person or persons to whom the property is entrusted, except:
   a. when the property has been deposited for safe custody by the insured or any of the insured’s officers or members, or salesmen while traveling.
   b. to shipments of covered property in the custody of the United States Postal service or other carriers.
   c. when the property is in the custody of a porter or helper not in the insured’s employ.

   This exclusion applies whether or not such persons are acting alone or in collusion with other persons.

*Theft or attempted theft of property in display windows:*

This exclusion is in effect at the insured’s premises and results from the cutting
or breaking of the windows. However, if limits of insurance are shown in the declarations for show windows, this exclusion does not apply.

*Processing or work upon the property:*

Direct loss caused by resulting fire or explosion, however, is covered.

*Insufficient or defective packaging.*

*Breakage of fragile articles:*

Notwithstanding, the insurance provider will pay for such loss caused directly or indirectly by fire, lightning, explosion, vandalism, windstorm, aircraft, rioters, strikers, theft or attempted theft, or by accident to the vehicle carrying the property, if these losses would otherwise be covered under this coverage form.

*Voluntary parting:*

This exclusion is in effect when it involves any property by the insured or anyone entrusted with the property if induced to part with the property by any fraudulent scheme, trick, device, or false pretense.

*Unauthorized instructions to transfer property to any person or any place:*

Loss caused by the transfer of property without proper authorization is not covered.

**Additional Conditions**

In addition to the commercial inland marine conditions and the common policy conditions, the following conditions also apply to the jewelers block coverage form:

*Valuation:*

The valuation condition of the jewelers block coverage form provides for the adjustment of insured losses on the basis of the lowest of the following values:

- The actual cash value of the property.
• The cost of reasonably restoring the property to its condition immediately prior to the loss
• The cost of replacing that property with substantially identical property.
• The lowest figure assessed to the property in the insured’s inventories.
• stock books, stock paper, or lists existing as of the time of the loss.

Protective Safeguards

If the insured indicated on the insurance proposal that any premises were protected by any protective safeguards, such as fire alarms, sprinkler systems, or burglar alarms, these safeguards must be kept in good working order and operative when closed for business.

In the event that the safeguards are not kept in good working condition, or are not in operation during nonbusiness hours, any coverage cogent to their operation is suspended. For example, by virtue of the protective safeguards clause, burglary coverage is suspended at a location while a burglar alarm described in the proposal is inoperative. Similarly, any fire coverage would be suspended if the fire alarm system were subsequently found to be neglected or inoperative.

Records and Inventory

This condition explains the list of records that the insured is required to keep for three years after the expiration of the policy.

The insured is required to maintain records of all property of others held by the insured, records of travelers’ stock, and records of all other property away from the insured’s premises. In addition, the insured must take a physical inventory at least once every twelve months. If the insured fails to submit to the requirements of this condition, and cannot prove the extent of any loss he or she may suffer, the insurer would not have
any foundation on which to base a claim settlement, and consequently the probability of costly, time consuming litigation would intensify.

**Changes to Premises**

Unless the insurance provider agrees in writing, it will not cover:

1. Property where the risk of loss has been materially increased by changes in the insured’s premises.
2. Property located in expansions of the insured’s premises shown in the declarations.
UNIT XIII. MAIL

Terms to know:

1. Mail coverage form (form CM 00-60)- the mail coverage form is used to insure valuable mail shipments by financial and fiduciary organizations.

2. Certified mail- first class mail for which proof of delivery is secured but no indemnity value is claimed.

3. Registered mail- mail recorded in the post office of mailing and at each successive point of transmission and guaranteed special care in delivery.

4. Pro rata- Latin for “according to the rate”; a commonly used expression used in policy forms and endorsements whenever it is important to apportion a single amount of insurance over multiple locations, or a single risk over two or more insurance companies.

5. Actual cash value (“ACV”)- the dollar value of property arrived at by calculating the replacement cost value of any property less deduction for depreciation; simply stated, this is what the property was worth at the time of the loss.

6. Transfer Agents Mail (form CM 60 08 )- this form insures against the risk of nondelivery of covered property.

7. Negotiable Securities Sent Under Air Bill- a written bill of lading (loading) given by the air carrier to the person whose goods are being shipped. It acknowledges the receipt of the goods by the carrier and sets forth the terms of the contract for carrying the covered property.
8. **Securities Sent by the Treasury Department – Registered Mail** - this form (CM 60 10) provides coverage for securities sent by the U.S. Treasury Department.

9. **Flat Premium per Shipping – First Class Mail or Certified Mail** (form CM 60 02) - this endorsement allows for premiums to be determined by the number of packages that are mailed.

Implemented to insure valuable mail shipments by financial and trust institutions, the *mail coverage form* (CM 00 60) is written on a reporting basis; it provides open perils coverage against risks of direct physical loss when property is sent via first class mail, *certified mail*, the United States Postal Service express mail, or *registered mail*.

Coinciding with the other commercial inland marine parts, the mail coverage form may be used by itself to insure property on a monoline basis; it may also be used in conjunction with coverage parts of other simplified language programs on a multi-line basis.

When a monoline mail policy is implemented, it is created by assimilating a mail coverage form (CM 00 60), any applicable endorsements and essential, additional declarations, a mail coverage declarations page (showing any limits for covered property by type of mail shipment utilized and any special provisions), a reporting declarations (showing deposit and annual minimum premiums, reporting period, and applicable rates by type of covered property), a common policy conditions form (LL 00 17), and a commercial inland marine conditions form (CM 00 01).

**Eligibility**

Eligibility for mail coverage form use is restricted to financial and fiduciary institutions; therefore, those entities that use the mail coverage form include the following:

- Banks and bankers.
- Trust companies.
- Security brokers.
- Investment companies whose business is primarily fiduciary.
Insurance companies.

Corporations that function as their own security transfer agents or registrars for their own security issues.

The mail coverage form, however, is not contrived to insure single, specific mail shipments. If this were the case, the insurance companies would spend too much extra time canceling and rewriting policies; instead, mail shipped according to the policy provisions is covered for the entire stated policy period.

Covered Property

Under the mail coverage form, open perils coverage is extended only to those items of property that have been recorded and maintained by the insured according to the policy provisions. In addition, the property must have been dispatched by a type of mail which for a limit of insurance is indicated on the declarations page; therefore, an insured can be selective about which types of mailings he or she wishes to insure.

As used in this coverage form, covered property means the following when sent by first class mail, certified mail, United States Postal Service direct mail, or registered mail:

2. Coupons if detached from bonds.
3. Postage and revenue stamps, postal express and other money orders, checks, drafts, notes, bills of lading, warehouse receipts and other commercial papers, other documents and papers of value, with the exception of food stamps, unsold travelers checks, and currency.

Covered property also means the following, but only when it is sent by registered mail:

1. Bullion, platinum, and other precious metals.
2. Currency, unsold travelers checks, food stamps, precious and semi-precious stones and similar covered property.
Property Not Covered

Like all other forms, covered property does not include contraband or property in the course of illegal transportation.

When Coverage Applies

The insurance provider covers property in the care, custody, or control of a government postal service. It also covers property in transit by common carrier or messenger to or from the government post office. The insurer covers property until it has been:

- Delivered to the addressee at the address stated on the shipping package.
- Delivered at the proper address in the event of non-delivery by reason of error in address or removal of address.
- Returned to the premises of the sender in the event of non-delivery.

However, the provider does not cover property at the premises of any mail-receiving agency.

Exclusions

The open perils coverage that the mail form provides is modified by three exclusions. The insurance provider will not pay for a loss caused directly or indirectly by any of the following; such loss is excluded irrespective of any other cause(s) or event(s) that may contribute concurrently or in any sequence to the loss:

1. Government action. This includes the seizure or destruction of property by order of government authority. However, the company will pay for acts or destruction ordered by government authority and taken at the time of a fire to prevent its spread if the fire would otherwise be covered under this coverage form.
2. Weapons. This includes any weapon employing atomic fusion or fission or any mine or torpedo. Any loss resulting from nuclear reaction, radiation, or radioactive contamination from any cause (such as a nuclear meltdown) is not excluded in this coverage form; however, it is in the other commercial inland marine coverage forms.

3. Warlike action and action by a military force, including action in hindering or defending against an actual or expected attack by any government, sovereignty, or other authority using military personnel or other agents.

This exclusion further includes any undeclared civil war, insurrection, rebellion, revolution, usurped power or action taken by governmental authority in hindering or defending against any of the aforementioned.

However, the insurance provider will pay for any direct loss caused by fire, explosion, stranding, heavy weather, collision or contact with aircraft, rockets or missiles, or any fixed or floating object (with the exception of any mine or torpedo), if warlike action does not contribute directly to these causes of loss.

Valuation

The valuation provision of the mail coverage form replaces the valuation of the Commercial Inland Marine Conditions form.

The value of covered property will be its actual value, but not less than its market value on the date of mailing.

In the event of loss:
1. The insurance provider will furnish a bond or indemnity necessary to reissue or duplicate the covered property after receipt of the insured’s statement of loss.

   If the provider does this on behalf of the registered owner, and that owner finds or recovers the property after its reuse or duplication and fails to return it for cancellation, the insured’s rights of recovery against that owner are transferred to the insurance provider.

2. If the insured is required to deliver and cannot borrow equivalent property prior to the time the covered property can be reissued or duplicated, the provider will pay the following:
   - The cost of equivalent property purchased by the insured in an available market.
   - The postage and insurance charges for that mailing.
   - Any loss of interest actually earned on the covered property between the date of mailing and the date the equivalent property is purchased.

3. If the covered property cannot be reissued or duplicated and if equivalent property cannot be purchased, the provider will pay:
   - The value of the covered property on the date of loss.
   - The postage and insurance charges for the mailing.
   - Any loss of interest actually earned on the covered property as of the date of the mailing. However, the insurer will pay this interest only if it has not been already included in the value that the insured recorded for that mailing.

4. If the insurance provider pays for any loss, it will pay no more than:
   - One hundred and twenty five per cent of the value the insured recorded for insurance and bonds, stock certificates, certificates of deposit and other securities.
The value the insured has recorded for insurance for all other covered property.

Furthermore, if the provider pays for any loss, it will pay the insured as well as any other person or persons the insured directs the company to pay; thereupon, all right title and interest in the covered property will be conveyed to the provider.

**Reports and Premium**

1. **Reports.** Within thirty days after the end of each reporting period shown on the declarations page, the insured will report to the insurance provider the total values of all property covered by this coverage form (CM 00 07) sent during the preceding reporting period. This report will list the values separately for each kind of property and type of mail for which a rate is shown on the declarations page.

2. **Rates, Premium and Premium Adjustment.** If an annual reporting period is shown on the declarations page, the provider will apply the total computed premium to the direct premium. If it is more than the deposit premium, the insured is required to pay the provider the difference. If it is less than the deposit premium, the provider will pay the insured the difference.

   If any other reporting period is shown on the declarations page, the provider will apply the computed premium to the deposit premium until it is exhausted. The insured will pay the provider all premiums that exceed the deposit premium. The provider will make these premium adjustments for each reporting period.

   The insured is required to pay at least the minimum annual premium shown on the declarations page.
3. If this coverage form is cancelled, the insured will promptly report to the insurance provider the total values of all property covered by this coverage form sent up to the date and time of cancellation. The provider will compute the premium as provided above.

The insured must pay a minimum premium of at least one-half of the minimum annual premium shown on the declarations page for each month or part of a month that this coverage applies during the policy period.

Coverage Territory

For covered property sent by first class mail and United States Postal Service express mail, the mail coverage form coverage territory includes territory within and between places in the United States of America, Puerto Rico, Canada, the United States Virgin Islands and any other territories or possessions of the United States. Any property sent by registered mail is covered anywhere in the world.

Records

The mail form requires insureds to keep accurate records of all mailings of covered property; such mailings must record each mailing prior to a loss. These records must consist of a description of the covered property, its destination, and the type of mail used. The records must also contain the value of the property contained in each shipping package covered by this coverage form.

Duties in the Event of Loss

In the event of loss, an insured is required to file a statement of loss with the insurance provider. The statement of loss will include the following:

- Proof of interest in the property.
- An affidavit of mailing.
• An affidavit of non-receipt by the addressee and, if the insurer requests, by the owner of the property.
• If applicable, the receipt of any government postal service for mailing.

Loss Payment

Payment for a covered loss is made within seven days after a settlement agreement is reached with the insured, a final judgment is entered (in the event that a court of law is involved), or an appraisal is filed (in the case of a court or arbitrator’s decision).

Cancellation

Any property at any point in the process of delivery will retain coverage until it reaches its destination, even upon cancellation of the policy.

Other Insurance

If there is any other insurance or indemnity covering the same loss as the insurance under form CM 00 60, the insurance provider will pay only its pro rata proportion of the loss except as follows:

1. With respect to loss by theft on the part of employees of senders or addressees, the insurance provider will pay only for the excess of the amount covered by any other insurance whether the other insurance or indemnity is collectible or not.
2. With respect to loss other than by theft on the part of employees of senders or addressees (for example, destruction of a package in a fire) which is covered by any blanket bond, the provider will be directly and primarily liable for that loss; the insurance provider has no recourse against any blanket bond.
Error and Oversight

The mail coverage form contains the following two special provisions regarding error or oversight on the part of the insured:

1. A provision that concerns the insured’s improper recording of mail shipment values resulting from an error or oversight; it states that the insurer agrees to pay the *actual cash value* of any lost or damaged property rather than the recorded value. The insured is required to notify the provider as soon as the error is discovered and to correct that error promptly. Payment under this provision is nonetheless subject to the applicable limit of insurance for the covered property.

2. A provision that concerns instances where the insured’s error or oversight results in values in a single shipping package that exceed the limit of insurance shown on the declarations page. In these instances, payment is calculated on a pro rata basis according to the ratio of policy limits to the values at risk.

Mail Form Endorsements

1. *Transfer Agents Mail* (form CM 60 08). This endorsement is used with the mail coverage form when the insured operates as a transfer agent, a trustee under indentures governing debt securities (not issued by the insured), a registrar, or as any other agency for the issuer of the covered property; it insures against the risk of non-delivery of covered property.

   This endorsement of covered property is modified to include only nonnegotiable securities and fractional share or script certificates, subscription warrants, rights and similar certificates in a negotiable form (as long as the actual per package shipped does not exceed $150). Such property must have been recorded prior to a loss and be dispatched by a type of mail for which a limit of insurance is shown.
In order to separate the cause of loss of nondelivery from the other causes of loss covered in the basic mail policy, an additional declarations page is implemented with this endorsement.

2. Negotiable Securities Sent Under Air Bill. This endorsement (CM 60 09) extends mail form coverage to shipments of negotiable securities under air bills of airline carriers named on the declarations page; when this endorsement is in effect, this coverage applies only to property sent within the continental United States.

3. Securities Sent by the Treasury Department – Registered Mail. This endorsement (form CM 00 60 10) furnishes coverage for securities sent by the United States Treasury Department or any other agency or corporation of the government to the insured or the customers of the insured; however, if the customer had previously insured the mailing, this endorsement is not put into effect.

When implementing this endorsement, the insured is required to record covered property; however, in the event that a shipment is made without the knowledge of the insured, coverage is still provided as long as it is recorded in a timely manner.

4. Flat Premium per Shipping Package – First Class Mail or Certified Mail (form CM 00 02). This endorsement authorizes the premium for first class or certified mail shipments to be determined based on the total number of mailed packages sent. Covered property is identical to that found on the transfer agents mail endorsement described above.

As with the transfer agents mail endorsement, the flat premium endorsement requires an additional declarations page to indicate separate limits of insurance that apply to form CM 00 02.
UNIT XIV. PHYSICIANS AND SURGEONS

EQUIPMENT

Terms to know:

1. *Physician and Surgeons coverage form* (CM 00 26)- written on an open perils basis, this form insures three classes of property: professional equipment, office equipment, and tenant-insured’s interest in improvements and betterments.

2. *Improvements and Betterments*- permanent physical changes a tenant makes to a rented or leased premises. The alterations become part of the premises’ structure and, therefore, the property of the premises’ owner. The insured maintains an insurable interest in improvements and betterments only during the time he or she occupies the premises.

3. *Repair or replace*- a phrase that is commonly used in commercial inland marine coverage forms that refers to an insurance company’s right to settle a loss by repairing or replacing damaged property with property of similar kind and quality.

**Covered Property**

Covered property, as used in this coverage form, includes the following:

1. The insured’s medical and dental equipment, materials, supplies, and books usual to the medical and dental professions. At the insured’s option, this form covers similar property of others used by the insured in his or her profession.

2. The insured’s office equipment, including furniture and fixtures, while at his or her premises.
3. The insured’s interest in *improvements and betterments*, meaning fixtures, alterations, installations or additions to the premises made at the insured’s expense but that he or she cannot remove legally. For example, a tenant’s alterations to a lighting system in an examination room is included in this category.

This coverage applies only if the insured does not own the building in which the premises are located.

**Property Not Covered**

Covered property under this form does not include:

- Radium.
- Contraband or property in the course of illegal transportation or trade.

**NOTE**: Radium used for either medical or dental purposes can be insured separately by implementing a radium floater, a nonfiled form.

**Eligibility**

The physicians and surgeons equipment form (CM 00 26) is available for implementation by insurds in the medical or dental professions with the following exceptions: marketers in medical equipment, medical schools, hospitals, clinics, and similar risks.

**NOTE**: Doctors who share the same facilities while maintaining separate and individual practices are not considered clinics or similar risks and, therefore, are eligible for the physicians and surgeons coverage form.

**Coverage Extensions**
If so desired by the insured, the covered property limit can be increased by endorsement to cover damage from theft or attempted theft to buildings or to equipment within the building if the building is owned by the insured or if the insured is legally liable for damage; like many of the other coverage forms, this form, does not extend to fire damage, glass, structural glass, or lettering or art- work on glass.

In addition, the insured may purchase the additionally covered property endorsement (CM 26 02), which makes provisions for five additional coverage extensions; each of these extensions is allotted a separate limit of liability (noted in the parentheses). Each limit of liability functions as an additional amount of insurance. These coverage extensions are:

1. Thirty-days coverage for office equipment that is temporarily “off-premises” ($1,000 maximum limit per occurrence).

2. Additional expense coverage to continue “normal office operations” after a covered loss ($1,000 maximum limit per occurrence).

3. Money and stamps while on the premises (maximum of $250). However, while outside the premises, money is covered only while it is conveyed to the bank for deposit, and stamps are covered only while they are being conveyed from the place of purchase to the work place. In either event, for coverage to apply, the insured property must be conveyed by the insured or an employee of the insured. In addition, under no circumstances does coverage apply in regard to a loss caused by dishonesty on the part of the insured or anyone with an interest in the property, the insured’s employees or authorized representatives, or any other person or persons entrusted with the property.

4. Personal effects of the insured, or of any other persons, is covered while it is on the premises (maximum of $500). This coverage, which applies only if the property is not otherwise insured, is specifically for losses from any cause of loss other than that of theft.
5. Books of account, manuscripts, drawings, card index systems, and other indications of the insured’s records (maximum of $500). Also included in this amount is the expense of reproducing records.

Exclusions

In addition to the common commercial inland marine exclusions, the physicians and surgeons equipment coverage form is subject to the following exclusions. Under form CM 00 26, there is no coverage for losses resulting from:

Marring, scratching, exposure to light; breakage of tubes, bulbs, lamps or articles composed primarily of glass (except lenses).

However, the insurance provider will pay for such loss caused directly by fire, lightning, explosion, windstorm, earthquake, flood, vandalism, aircraft, rioters, strikers, theft or attempted theft, or by accident to the vehicle carrying the property, if these causes of loss would be otherwise covered under this coverage form.

Delay, loss of cause, loss of market, or any other consequential loss.

This condition excludes coverage for losses that are not physical losses, but result from physical losses. For example, if an expected shipment is delayed, and the insured’s customers go elsewhere to purchase the product, this policy does not cover any subsequent loss of income.

In addition, no coverage exists for lost sales. For example, if the insured’s inventory of cameras is destroyed just before a high-volume sales season, the insurance provider is not liable for any anticipated sales.
Processing or work upon the property.

However, the company will pay for direct loss caused by resulting fire or explosion, if these causes of loss would otherwise be covered under this coverage form.

Artificially generated current creating a short circuit or other electric disturbance within an article covered under this coverage form.

However, the insurance provider will pay for any direct loss caused by resulting fire or explosion, if these causes of loss would otherwise be covered under this coverage form. This exclusion applies only to loss to that article in which the disturbance occurs.

Voluntary parting.

Coverage does not apply to loss resulting from the voluntary parting with any property by the insured, or any other person or persons entrusted with the property due to a fraudulent scheme, trick, device, or false pretense.

Unauthorized instructions to transfer property to any person or any place:

Any loss caused by the transfer of property without proper authorization is not covered.

Wear and tear:

Any quality in the property that causes it to destroy or damage itself, gradual deterioration, mechanical breakdown, insects, vermin, hidden or latent defect, rodents, corrosion, or cold or heat are not considered proper causes of loss under this coverage form.

Coverage Territory

The insurance company will cover property wherever located within the United States, Canada, and Puerto Rico.
Valuation

This condition separates property covered under the physicians and surgeons equipment coverage form into improvements and betterments and all property other than improvements and betterments. Separate methods of valuation pertain to each of these divisions. Property other than improvements and betterments coverage will be the least of the following amounts:

1. The actual cash value of that property.
2. The cost of reasonably restoring that property to its condition immediately prior to the loss.
3. The cost of replacing that property with substantially identical property.

Improvements and betterments, on the other hand, presents a unique problem in the valuation calculations. Even though the insured has spent his or her own money for these improvements, they ultimately belong to the insured’s landlord. Because the insured will benefit from them only for the duration of his or her occupation, they are valued under the following conditions:

If the property is repaired or replaced, an actual cash value settlement as of the time of the loss is calculated.

If the property is not repaired or replaced, its value is calculated on a percentage of its original cost. This percentage is calculated by dividing the unexpired term of the insured’s rental agreement by the period of time spanning the date the property was installed to the expiration of the rental agreement. For example, if a physician who altered the lighting system of an examination room on the first day of a three year lease sustained a covered loss to the lighting system on the first day of the second year of the lease and did not repair or replace it, the physician would receive a settlement of two-thirds of the system’s original cost. This is based on the calculation of two years divided by three years.
**Coinsurance**

The amount of insurance purchased for all covered property must be at least 80% of the total value of the property at the time of loss. If the 80% level is not maintained, the insurance company will impose a penalty. This penalty will not apply to property in transit, property covered by an additionally covered property endorsement (CM 26 02), or property insured under the endorsement entitled “Property usually carried by you” (CM 26 01).

**Protective Safeguards**

In the same manner as the jewelers block coverage form, the physicians and surgeons equipment form requires that protective safeguards must be maintained both during and after business hours. If they are not maintained, coverage may be suspended for those causes of loss against which protection is assumed. For example, fire coverage may be suspended until an inoperative sprinkler system is properly repaired.

**Portable Property**

Addition of the “property usually carried by you” endorsement (CM 26 01) narrows the definition of covered property to include only the medical and dental equipment, material, supplies, and books typically used in the professions, and usually carried by the insured. When this endorsement is in effect, the coverage extension for theft damage to buildings does not apply, nor does the provision for coinsurance; nevertheless, all other terms and conditions of the physicians and surgeons form do apply.
Unit XV. SIGNS

Terms to know:

1. Signs coverage form (CM 00 28)- this form provides open perils coverage for florescent, neon, atomic, or mechanical electric signs and lamps.

It has been estimated that the United States has more than twenty-five million electric signs and that we are currently spending about a billion and a half dollars a year to build and maintain these tools of modern merchandising. Most signs are small, but signs used by a chain of motels, for example, usually represents an investment of hundreds of thousands of dollars, and the giant “spectaculars,” such as those in Las Vegas, may cost in excess of a million dollars per year. With these kinds of numbers, the need for insurance coverage should be obvious.

The signs coverage form (CM 00 28) is a filed form covering signs that are generally excluded from standard property policies. This coverage extends open perils coverage to fluorescent, automatic, neon, or mechanical electric signs and lamps. Billboards or ordinary fixed signs, irrespective of whether they are directly elucidated by electric lights or not, are not eligible for coverage under this form.

Under the commercial inland marine program’s modular format, a complete signs policy is created by combining a signs coverage form with a declarations page on which to schedule all covered property with limits of insurance, a common policy conditions form, and an inland marine general conditions form; in turn, these forms may be included with forms and endorsements of other commercial lines programs to form a commercial package policy.

Covered Property

Covered property, as used in this coverage form means:
- The insured’s signs.
Similar property of others in the insured’s care, custody or control.

**Property Not Covered**

Covered property does not include contraband or property in the course of illegal transportation or trade.

**Exclusions**

Property insured under the signs form is protected against risks of physical loss, subject to the general exclusions (see Unit V supra). In addition to the general exclusions, the following causes of loss are also excluded from the signs coverage form:

1. *Delay, loss of use, loss of market or other any other consequential loss:*

   This condition excludes coverage for losses that are not physical losses, but result from physical losses.

   For example, if an expected shipment is delayed, and the insured’s customers go elsewhere to purchase the product, this policy does not cover for any subsequent loss of income.

   In addition, no coverage exists for lost sales. For example, if the insured’s inventory of signs is destroyed just before a high-volume sales season, the insurance provider is not liable for any anticipated sales.

2. *Breakage during transportation, or breakage during installation, repairing or dismantling:*

   This exclusion does not apply if the breakage is caused by fire, lightning, or by accident to a conveying vehicle.

3. *Dishonest acts by:*
a. the insured or his or her employees or authorized representatives.
b. any other person with an interest in the property, or his or her employees or authorized representatives.
c. any other person or persons to whom the property is entrusted.

4. *Artificially generated current creating a short circuit or other electrical disturbance within an article covered under this coverage form:*

However, damage caused by direct loss caused by resulting fire is covered.

5. *Voluntary parting:*

This exclusion is in effect if the insured voluntarily parts with any property if induced to do so because of any fraudulent scheme, trick, device, or false pretense.

6. *Unauthorized instructions to transfer property to any person or any place:*

Loss caused by the transfer of property without proper authorization is not covered.

**Coverage Territory**

Property is covered anywhere within the United States, Canada, and Puerto Rico.

**Coinsurance**

The signs form requires 100% insurance to value on all covered property (with the exception of property in transit), or a coinsurance penalty will be enforced. The amount of this penalty will be based on the proportion that the limit of insurance for all covered property bears to the actual value of all covered property at the time of loss.
Unit XVI. Theatrical Property

Terms to know:

1. *Theatrical property coverage form*—the theatrical property coverage form (CM 00 29) is utilized to cover scenery, theatrical properties, costumes, and similar property. In addition, it covers property belonging to others in the insured’s care that is used in a production scheduled in the policy declarations.

**Covered Property**

As used in this coverage form, covered property means: the insured’s scenery, costumes, and theatrical properties and similar property of others in his or her care, custody or control or on which the insured has made partial payments that are intended to be used or have been used in a production stated in the declarations page. With the exception of carnivals, circuses, rodeos, or costume rental companies, any theatrical production is eligible for use of this form.

**Property NotCovered**

Covered property does not include:

- Buildings or their improvements and betterments.

- Vehicles unless actually used on the stage in the covered production.

- Jewelry comprised of precious or semi-precious stones, gold, silver, platinum, or other precious metals and alloys.

- Accounts, bills, currency, deeds, money documents, transportation or admission tickets, notes, securities and evidences of debt.

- Animals.
- Contraband or property in the course of illegal transportation or trade.

**Coverage Territory**

The insurance provider covers property wherever located in the United States, Canada, and Puerto Rico.

**Coverage Option**

Coverage may be written in one of two manners: 1) coverage may be purchased on an individual production basis in which insurance will be in effect for the duration of a specifically scheduled theatrical production; or 2) theatrical property coverage may be obtained on a blanket production basis, in which, for example, the entire season of production for a community theater group receives coverage.

**Exclusions**

The insurance provider will not pay for loss caused by or resulting from any of the following:

*Theft from any unattended vehicle:*

This exclusion is in effect unless at the time of theft the vehicle’s windows, doors, and compartments were closed and locked and there are visible signs that the theft was the direct result of forced entry. However, this exclusion does not apply to property in the custody of a carrier for hire.

*Marring, scratching, exposure to light; breakage of tubes, bulbs, lamps or articles made primarily from glass (with the exception of lenses).*

The insurance provider will, however, pay for such loss caused directly by fire, lightning, explosion, windstorm, vandalism, aircraft, rioters, strikers, theft or
attempted theft, or by accident to the vehicle carrying the property if these causes of loss would otherwise be covered under this coverage form.

*Delay, loss of use, loss of market, or any other consequential loss:*

For example, let’s assume a stage set catches fire and, as a consequence, the opening night of the production must be delayed by two days. While coverage in the theatrical properties policy for loss to scenery is covered, losses of the potential gate receipts is not covered.

*Shortage found upon taking inventory:*

As explained previously in the unit concerning exclusions, shortages in inventory may have a multitude of explanations, such as breakage or inaccurate calculations of the inventory. Therefore, there is no coverage if all the insured can prove is shortage upon taking inventory. However, if the insured can prove that the shortage is the result of a covered cause of loss, the coverage will apply.

*Unexplained disappearance:*

This coverage exclusion is similar to the exclusion for shortage upon taking inventory; for instance, any loss resulting from missing property, the absence of which has no explanation, does not receive coverage under this form.

*Dishonest acts:*

Dishonest acts that are performed by the insured or anyone else with an interest in the property, or their employees or authorized representatives or any other person or persons entrusted with the property, whether acting alone or in collusion with others, are not considered as a covered cause of loss under this form. However, this exclusion does not apply to property that is entrusted to carriers for hire.

*Processing or work upon the property:*

The insurance company, however, will pay for loss caused by resulting fire or explosion if these causes of loss would otherwise be covered under this coverage form.
Artificially generated current creating a short circuit or other electric disturbance within an article covered under this coverage form:

However, the insurance company will pay for any direct loss caused by resulting fire or explosion if these causes would otherwise be covered under this coverage form.

Voluntary parting:

No coverage is available if an insured, or any other person entrusted with the property, parts with any property due to a fraudulent scheme, trick, device, or false pretenses.

Unauthorized instructions to transfer property to any other person or to any other place:

If any property is moved or transferred to any person or place without proper authorization, no coverage will apply.

Coinsurance

The theatrical property coverage form (CM 00 29) contains an additional coinsurance condition. At the time of any loss, the amount of insurance purchased for all covered property at all locations (with the exception of property in transit) must be at least 80% of the total value of the property. In the event that this level of insurance is not maintained, the insurance provider will impose a penalty by paying an amount of the loss in proportion to the ratio that the limit of insurance bears to 80% of the total value of all property; this penalty, however, does not apply to property in transit. For example, the insured suffers a total loss due to fire on all property being utilized in a community theatrical production. The property is worth $20,000 but was insured for only $10,000 (50% of its value instead of the required 80%). The property should
have been insured for $16,000 (80 % of $20,000). Consequently, the insured will recover only five-eighths (62.5 %) of the $20,000 loss. This would equal $12,500.
Unit XVII. VALUABLE PAPERS AND RECORDS

Terms to know:

1. *Valuable papers and records coverage form* (CM 00 67)- this form is used to cover such property as blueprints, manuscripts, deeds, maps, historical documents, or everyday business records.

2. *Libraries endorsement form* (CM 67 01)- this form is attached to a basic policy; it excludes property while it is away from the insured’s library premises in the care, custody, or control of a borrower.

3. *Underwriters Laboratory, Inc.*- a firm established by Midwestern fire insurance companies to test materials, devices, and processes to see that they do not present a fire hazard; the firm presently operates independently of insurers and is self-supporting.

4. *Agreed value*- both the insured and the insurance company agree that the limit of insurance set out for a scheduled item of property equals the worth of the property, and is the amount that will be paid in the event that the property is destroyed.

The valuable papers and records insurance coverage form is issued in conjunction with the commercial inland marine conditions form, the common policy conditions form, and a valuable papers and records declarations page to create an insurance contract.

Many businesses processing valuable papers and records (such as blueprints, manuscripts, deeds, historical documents, maps, or everyday business records) avoid any potential financial consequences of loss to such items by simply maintaining duplicates at separate locations. Policy owners who do maintain duplicates may not
have any need for valuable papers and records coverage. On the other hand, many businesses have ownership of certain property or have operations of such a nature that they cannot sufficiently create, maintain, or store duplications. The valuable papers and records coverage form (CM 00 67) is a pertinent coverage form for these clients. For example, an original document written by an important person in history cannot be replaced if it is damaged, lost, or stolen; the existence of a facsimile at a separate location would not lessen the loss to the original valuable document. Although valuable papers and records coverage will never be able to replace or restore the original document, it can at least offer some financial protection.

**Coverage Territory**

The insurance company will cover property that is within the premises of the insured or when it is away from the insured’s premises while in transit or within the premises of others so long as those premises are located or the transit is within the United States, Canada or Puerto Rico.

**Covered Property**

Covered property as used in this coverage form means “valuable papers and records” that are the property of the insured or property of others in the insured’s care, custody, or control. Form CM 00 67 defines valuable papers and records as “inscribed, printed or written documents, manuscripts, or records, including abstracts, books, drawings, deeds, maps, film, or mortgages.” Similar articles or property that are not specifically listed above may be considered eligible for coverage.

When the valuable papers records coverage form is utilized for a library, a libraries endorsement (form CM 67 01) is attached to the basic policy. This endorsement excludes property while it is away from the insured library’s premises in the care, custody or control of a borrower or renter. In addition, any losses resulting from the failure of a borrower or renter to return property, vandalism, mutilation by any person or persons using the property within the premises of the insured,
unexplained disappearances of the property, and loss that can be proven only by an
audit or inventory are excluded from coverage.

Property may be insured on any of the following: 1) a specific item-
by-item scheduled basis; 2) on a blanket basis; or 3) in both manners. However,
property that cannot be replaced with other property of “like kind or quality” should
be insured either specifically or not at all because the form excludes such property
unless it is specifically scheduled.

The valuable papers and records coverage form’s declarations page contains
blank spaces for indicating the limits of insurance for scheduled items at the insured’s
premises, for all other property at the insured’s premises, and for property that is
away from the insured’s premises. If no higher limit is indicated in the declarations
page for property away from the premises, $5,000 coverage is the maximum amount
that the insured will recover under a coverage extension; consequently, the insured
has three separate limits of insurance available with which to design coverage to suit
his or her specific needs.

Property Not Covered

Covered property does not include:

- Property not specifically declared and described on the declarations
  page if such property cannot be replaced with any property of like kind
  and quality.
- Property held as samples or for delivery after sale.
- Property that is in storage away from the premises shown on the
  declarations page.
- Converted data, programs or instructions used in data processing.
- Money and securities.
- Contraband or property in the course of illegal transportation or trade.
Coverage Extensions

1. Removal – if the insured supplies the insurance company a written notice within ten days of removal of the insured’s valuable papers and records because of impending danger of loss, the insurance company will pay the loss while it is:
   a. at a safe place away from the insured’s premises.
   b. being taken to and returned from that place.
This coverage extension is included within the limits of insurance applicable to the premises from which the records have been removed.

2. Away from the premises of the insured. The insurance company will pay a maximum of $5,000 for loss to covered property while it is away from the insured’s premises. However, if a higher limit of insurance is specified on the declarations page, that limit will be applicable. The limit for this coverage extension is additional insurance.

Operational Rate Credit for Containers

The declarations page also includes a blank space in which to describe receptacles, such as safes or fireproof containers, the use of which may enable the insured to receive a rating credit. These credits can range anywhere from 10% to 40%, depending on the Underwriters Laboratory exposure rating for the container.

Protection of Records

Whenever the insured is closed for business and except when he or she is actually using the property, the insured is required to keep all valuable paper and records in receptacles that are described on the declarations page.
Valuation

The value of each item of property that is specifically declared and described on the declarations page is the applicable limit of insurance shown on the declarations for that item. The insurance company and the insured agree on the value of scheduled property at the time of policy issuance, before a loss occurs. Scheduled items are covered on what is often called an *agreed value* basis.

Recoveries

If either the insured or the insurance company recovers any property after loss settlement, that party must give the other party prompt notice. The insured may opt to have the property returned to him or her. If this is the case, the insured’s loss will be readjusted based on the amount the insured received for the property recovered, with an allowance for recovery expenses incurred.

Exclusions

The insurance provider will not pay for a loss caused by or resulting from any of the following:

*Delay, loss of use, loss of market or any other consequential loss:*

This condition excludes coverage for losses that are not physical losses, but result from physical losses. For example, if an expected shipment is delayed, and the insured’s customers go elsewhere to purchase the product, this policy does not cover any subsequent loss of income. In addition, no coverage exists for lost sales. For example, if the insured’s property is destroyed just before a high-volume sales season, the insurance provider is not liable for any anticipated sales.

*Dishonest acts by:*

1. The insured, his or her employees or authorized representatives.
2. Any other person with an interest in the property, or his or her employees or authorized representatives.
3. Any other person or persons to whom the property is entrusted.
   This exclusion applies whether or not such persons are acting alone or in collusion with other persons or such acts occur during the hours of employment; however, this exclusion does not apply to covered property that is entrusted to others who are carriers for hire.

*Errors or omissions in processing or copying:*

   However, the insurance company will pay for direct loss caused by resulting fire or explosion if these causes would otherwise be covered by this coverage form.

*Electrical or magnetic injury disturbance or erasures of electronic recordings:*

   The insurance provider will cover for a direct loss caused by lightning.

*Voluntary parting:*

   Any voluntary parting with the property by the insured or any other person entrusted with the property if induced to do so by any fraudulent scheme, trick, device, or false pretense will not be covered.

*Unauthorized instructions to transfer property to any person or any place:*

   Any loss caused by the transfer of property without proper authorization is not covered.
UNIT XVIII. COMMON NONFILED FORMS

Terms to know:

1. Burden of proof - a legal concept that essentially means “who (the plaintiff or the defendant) has to prove what.” It is the duty of proving a disputed assertion or charge.

This unit will focus on some of the conditions and specifics of some of the more common types of nonfiled forms found in most texts on commercial inland marine insurance. The list is simply a sampling and is not to be considered all-inclusive.

ALL RISKS BUILDER RISK FORM

This form is implemented to cover the policy owner’s property, including machinery, supplies, materials, equipment, fixtures, and temporary structures to be utilized in or incidental to the construction, fabrication, installation, erection, or completion of a building. The insured may be the builder, owner, or seller of the property, or the policy can be written to cover more than one interest in the property. Although similar policies are produced by property underwriters, commercial inland marine insurance can usually offer both broader coverage and lower rates.

The coverage goes into effect when the insured property is moved to the job site, while in transit to the job site, or while the property is in storage before being transported to the job site. The coverage expires when the policy owner’s interest in the property ceases, when the policy owner abandons the building with no apparent indication of an intent to finish the construction, when the building is occupied, when ninety days have elapsed subsequent to construction, or when the policy expires. Some policies exclude blueprints, designs, plans, or specifications unless amended to the policy by endorsement.
Common exclusions include the following:
- Loss caused by rain, hail, snow, or sleet, whether driven by wind or not.
- War and nuclear damage.
- Loss, damage or expense caused by settling, expansion, or shrinkage.
- Flood
- Earthquake
- Loss caused by error, omission, or faulty construction.

**ARMORED CAR and MESSENGER POLICY**

The Armored Car and Messenger Policy is similar to the parcel post mail policy (which will be discussed later in this unit), covering shipments of precious metals, currency, and valuable papers from the time of their acceptance by the armored motor car carrier until the time of delivery to the addressee, or in the event of nondelivery, until the time the item(s) are returned to the shipper.

Insurance coverage is against “all risks” with the exceptions of war, nuclear energy, and theft on the part of the shipper or the consignee.

**BRIDGE AND TUNNEL INSURANCE**

Bridges and tunnels and similar structures are usually insured against “direct physical loss or damage.” This is extremely broad coverage because the loss or the damage does not necessarily result from a risk. In actuality, the exclusions determine the coverage. Damage due to war and government action, nuclear energy damage, loss caused by riots and looting, civil commotion, strikes, lockouts, and the like, and loss due to neglect or carelessness on the part of the insured to save and preserve the property are all excluded. It should be noted that a collapse of a bridge is considered an insured hazard (even though a collapse is usually caused by inherent defect or wear and tear) unless the collapse is a result of the insured’s failure to maintain the
bridge in a reasonable manner. The most serious cause of loss would be fires in tunnels, collapse of tunnels or bridges, ice and flood damage, and ship collisions.

Business interruption coverage is available, as is a builder’s risk form; coverage is subject to a coinsurance clause, and in most cases a substantial deductible is also applicable except in the event of a total loss. When revenue bonds are supported by tolls collected by bridges and tunnels, the importance of protection to cover loss earnings is strikingly obvious.

**CLEANERS, DRYERS, AND LAUNDRIES FORM**

Many insurers offer their own nonfiled cleaners, dryers, and laundries forms. In addition, specialized forms are available for rug cleaners and for pressing and tailoring businesses. This form is designed to cover the mutual interests of the customer and the bailee by insuring against loss or damage to the property of the insured irrespective of the insured’s legal liability. This arrangement assists the business owners in keeping their customers satisfied in the event of damage of or loss to the customer’s property. Coverage can be either on an “all risks” basis or on a named perils basis and usually includes boiler explosion. Typically, the coverage is applicable wherever the customer’s goods are located as long as they are in the possession of the insured. Coverage for theft or robbery from an insured’s vehicle sometimes excludes loss of individual items or packages of laundry or dry cleaning. Some of the forms cover only the theft of an entire vehicle load, with coverage often excluded for theft of goods left overnight on a delivery, unless the vehicle is locked within the insured’s garage or building.

Because the insured usually has no idea of the exact value of the goods in his possession, many policies are written with a fixed limit of insurance which is not subject to coinsurance, and other policies are written with no limitations at all. A deductible clause is usually included; however, it may apply only to certain risks such as loss of property, theft, and burglary. In the majority of states, the coverage can be
extended to cover the insured’s personal property, including fixtures, machinery, and furniture.

**CONTRACTORS EQUIPMENT FLOATER**

The Contractors Equipment Floater is designed to produce mobile equipment and machinery such as cranes, pile drivers, tractors, loaders, graders, forklifts, and scrapers. In addition, this policy may be implemented to cover smaller items such as hand tools. Many commercial and industrial operations other than contractors have such equipment and are able to insure it by using this form. For example, forklift or squeeze lift trucks owned by manufacturers, wholesalers, or retailers are often scheduled on a contractors equipment floater. Even a small apartment complex with a tractor to mow grass and plow snow is a possibility for this type of coverage.

The policy can be written on either an “all risks” or on a named perils basis. Flood is insured on some forms but not on others.

For smaller accounts, covered property is scheduled in the policy with a description of the equipment, the model, the identification number, along with a limit of insurance for each item and an aggregate limit for any one loss or occurrence.

For larger accounts, the contractors equipment floater is typically written on a *blanket coverage* basis. In the majority of cases, these policies provide limited automatic coverage for additional equipment, and a few of the broader forms include insurance on similar property of others that the insured leases or for which the insured is legally liable. Most of these policies are actual cash value; however, some also provide coverage for earnings lost as a result of damage to insured equipment or for the cost of the rental of substitute equipment. Property typically excludes the following:

- Aircraft.
- Watercraft.
- Automobiles, trucks, trailers, tractors, and similar conveyances designed for over-the-road transportation of cargo or people.
- Waterborne property with the exception of property while in transit in the custody or care of a carrier for hire.
- Property that has become a permanent part of any building or structure.
- Property while rented, lent, or leased to others; however, this coverage may be added by endorsement.

A one hundred percent coinsurance provision is the standard for the contractors equipment floaters policy; however, in certain situations, a lower percentage may be utilized.

A substantial deductible is very often required due to the hazardous nature of certain types or uses of equipment.

The territorial limits typically provide coverage at locations within or while in transit within the United States, the District of Columbia, Canada, or Puerto Rico; some policies, however, exclude Alaska, Hawaii, or Puerto Rico. Thus, the insurance producers should be prudent in determining if their clients with operations outside the continental United States have the correct territorial limit.

Normally, contractors equipment floaters exclude losses caused by or resulting from the insured’s neglect to use any and all reasonable means to save and preserve the property after a loss. Furthermore, coverage can be voided by any act or agreement by the insured before or after the loss that impairs any right to recovery against any common or contract carrier, bailee, or any other liable party. In addition, the insurance provider is not liable for any loss or damage that, without the written consent of the insurer, the insured has settled or compromised.

Contractors quite often have to work under strict deadlines; they cannot afford to tie up a job waiting for the repair of damage or lost equipment. To meet this need,
many insurance companies will offer coverage for the expenses incurred to rent substitute equipment in the event that covered equipment is lost or damaged.

This coverage type is particularly attractive to home builders, general contractors, road and bridge constructors, and other similar contractors because they usually have large inventories of mobile equipment. Smaller contractors and subcontractors are also attracted to this floater type because, although they have a smaller inventory to insure, they generally cannot afford to lose any of their equipment.

Other kinds of businesses have mobile equipment, such as snow removal equipment or forklifts; however, commercial property insurance is more likely to cover this class of equipment because it is normally utilized on the insured’s premises. Commercial inland marine insurance, however, can provide coverage that is broader than most commercial property forms.

**Electronic Data Processing Policy**

This policy is an “all risks” nonfiled policy implemented to cover computers, word processors, and other related electronic equipment. It is a very specialized type of coverage that very often involves extremely high values in a single location. In addition to covering equipment (hardware), the policy also insures “media” or “software,” additional expenditures, and business interruption. The policy can cover owned property as well as property leased by, or rented to, or under the control of the insured.

Coverage can be blanket coverage or scheduled coverage, with loss adjusted at actual cash value or replacement cost. A coinsurance clause is typically included in this policy type; the majority of the policies are written with a deductible ranging anywhere from one hundred dollars for a desktop computer up to fifty thousand dollars or more for major computer installations. The policy can be endorsed to
provide valuable papers and accounts receivable insurance for computer-stored records.

The following are common policy exclusions:

- Mechanical failure
- Faulty construction
- Dishonest, fraudulent, or criminal acts by an insured
- Error in design, unless explosion or fire ensues
- Extremes of temperature, unless directly resulting from physical damage to the data processing system’s air conditioning facilities
- Short circuit, blowout, or other electrical disturbance (with the exception of lightning) within electrical apparatus, with the exception of ensuing fire or explosion
- Disturbance to or erasure of electronic recordings

Many of these exclusions can be negotiated out of a particular policy for an additional premium.

**EXHIBITION FLOATER**

This coverage form is available on either an “all risks” basis or on a named perils basis to cover the insured’s property or the property of others in the insured’s care, custody, or control, while away from the premises of the insured, or in transit to or from or on exhibition or trade shows at specified locations. The following perils are excluded in the “all risks” form:

- Wear and tear
- Inherent vice
- Gradual deterioration
- Insects
- Vermin
- Freezing
- Dampness of atmosphere
- Extremes in temperature
- Mechanical or electrical breakdown or failure
Marring, scratching, and breakage of glass or other fragile articles are also excluded unless caused by a peril specifically named in the contract. Quite often, these exclusions can be eliminated with the purchase of an additional premium. The named perils form also covers fire and most of the other fundamental perils, as well as burglary and transportation risks.

This policy type is typically subject to both a coinsurance clause and a deductible. The territorial limit of this type of coverage is the forty-eight contiguous states of the United States, the District of Columbia, and Canada.

**FINE ARTS FLOATER**

The Fine Arts Dealers Floater is a nonfiled form produced for dealers in fine arts and antiques; it is written as an “all risks” contract that is intended to cover property while on premises, while in transit, or while elsewhere within the United States, Canada, and Puerto Rico. This form can be issued either annually or continuously, subject to the reporting of values.

Common exclusions include the following:

- Loss or damage caused by or resulting from insufficient or defective packaging.
- Loss or damage caused by the breakage of articles of a fragile or brittle nature unless caused by certain named perils in the property.

**FURRIERS BLOCK POLICY**

Closely resembling the Jewelers Block Policy (Unit XII ), the Furriers Block Policy is an “all risks” nonreporting policy. This nonfiled form is implemented to insure dealers whose property consists primarily of furs, fur garments, and garments trimmed with fur, but not those firms that deal exclusively in raw or dressed skins or those that manufacture principally for the fur trade. With minor policy
modifications, a fur concession in a department store can be eligible for coverage under this policy type.

As is the case with jewelers, furriers may purchase insurance that is applicable to goods away from the premises and can include fixtures, machinery, furniture, improvements made by a tenant, and hand tools.

The property of others is insured for the furrier’s legal liability if owned by another furrier or on a direct damage basis if in the insured’s possession for repair and alteration.

Common exclusions include the following:
- Property of others accepted for storage.
- Coverage while the property is being worn by the insured, any family member, or friend.
- Insects and vermin.
- Loss or damage occurring at the insured’s property if such damage or loss is caused by a flood.

**NOTE:** Furs of customers are specifically excluded; therefore, there is a need for a Furriers’ Customers’ Policy.

**FURRIERS’ CUSTOMERS’ POLICY**

The Furriers’ Customers’ Policy “covers furs, or garments that are trimmed with fur, being the property of customers, accepted by the insured for storage, alteration, repairing, cleaning, or remodeling and for which the insured issues a receipt under which the insured agrees to maintain insurance on the property.” The garments are covered during transportation or otherwise while in the custody of the insured for the purposes named above.
Insurance is against “all risk” of loss or damage to the insured property, including the insured’s legal liability thereof, except (1) loss or damage due to gradual deterioration, moths, vermin, inherent vice, or damage due to any process, and (2) loss due to war, invasion, or nuclear reaction.

The insured agrees to report each month the total amount at risk (the total values as indicated by the receipts issued) and pay the premium thereon. The insurer’s liability is limited to the amount stipulated in the receipt issued for each article.

**GARMENT CONTRACTORS FLOATER**

This nonfiled form is basically a specialized processors floater for the clothing industry, in which subcontracting is a standard practice. Individual garments might be processed by numerous subcontractors who cut the fabric, assemble the garment, make button holes, attach buttons, pleat, or perform other related specialized tasks. Each part of a garment is separately insured, including shipping containers, and the policy covers the property of the insured or held by the insured in trust, on commission, on consignment, or on which the insured has made payments in advance. Specific locations of any subcontractors are scheduled in the policy for specific limits of insurance; other limits apply during the course of covered property while it is in transit. The insurance is written on an open perils basis while it is in transit and on either an open perils basis or a named perils basis while it is on the premises. Optional additional perils include the following:

- Theft
- Strikes
- Explosion
- Malicious mischief
- Riots
- Consequential damage to the garments
With regard to the garments contractors floater, the definition of “consequential damage” is a specialized pairs and sets clause that can include the consequential loss to undamaged garments that might be caused by such events as broken lots, inadequate size or ranges, or insufficient color ranges. Clothing store owners will usually order a particular style of a garment in a range of sizes and colors. In the event that a full range is not available, the remainder of the garments will be subject to a subsequent reduction in their price. This policy type is subject to a one hundred per cent coinsurance clause and, unlike most other similar policies, can be extended to provide open perils coverage on the insured’s location, including the insured’s tools, equipment, furniture, and fixtures, as well as the garments themselves.

**INSTALLATION FLOATER**

The installation floater is specifically produced for contractors and subcontractors who specialize in the installation of machinery and equipment, including, but not limited to, heating, plumbing, air conditioning firms, as well as manufacturers of elevators and store and restaurant fixtures. The usual clients for this floater type are owners for whom the work is being done or sellers who are the providers of equipment, materials, or supplies for installation projects. The property of the insured is typically covered while it is in transit to the job site, at the site awaiting installation, during and after the installation, and up to the point when the job is actually accepted and the title to the property is transferred to the buyer. This form may be offered either on an open peril basis or on a named perils basis.

Earthquake and flood insurance, although excluded in the majority of similar floater policies, can be added by endorsement. The policy is customarily written on a “continuous-until-cancelled” basis, with monthly reports of insured values installed.

Building materials can be covered until they become a part of a structure, and the policy can be extended to include tools and equipment used by the insured in the process of the installation. Typically, this coverage form does not cover against any
loss that is caused by any errors or omissions in design, faulty workmanship, or the
testing of equipment. The policy is normally subject to a deductible, and typically it
will contain a coinsurance or full reporting clause.

**INSTALLMENT SALES FLOATER**

This type of insurance floater is produced to cover goods such as appliances
or contractors equipment that is sold on time payment plans. It is usually written on a
monthly reporting form with a full reporting clause. It can cover property that is
leased, lent, rented, and out on approval or demonstration; in addition, it can cover
property that is on premises for repair. The contract can be either a *single interest*
(insuring the lender exclusively) or *dual interest* (insuring both the lender as well as
the purchaser). When the policy is issued on a dual interest form, the insured is
required to provide a certificate of insurance to the purchaser of the merchandise.
This form can be written on either an open perils basis or on a named perils basis.

**OTHER INSTRUMENTALITIES OF TRANSPORTATION AND
COMMUNICATION**

Coverage on instrumentalities other than such structures as bridges and
tunnels is not written under any standard form. Each separate policy must be written
to fit individual conditions. For example, a 1,500-foot T.V. tower represents a direct
damage risk of several million dollars, and the interruption of earnings due to the loss
of a tower would amount to additional millions of dollars. In underwriting radio and
television transmitting towers, the basic hazard is windstorm, but also consideration
must be given to the danger of collapse due to ice accumulation or due to vandals
cutting the support cables. Fire as such, however, is not considered a major hazard.
On the other hand, power transmission lines, although insured along similar lines as
radio and television towers, are subject to the hazards of forest fires.
MOTOR TRUCK CARGO INSURANCE

Carriers, because of their responsibility for safe delivery of goods, may have a potential liability to the shipper if the goods are lost or damaged as a result of any cause other than those specifically excluded. There are two types of forms: *Owner’s form* and *Public Truckmen’s legal liability form*.

1. Owner’s form: The owner’s form of motor truck cargo insurance is designed to protect the shipper of merchandise who owns and operates a fleet of trucks. Merchandise of the insured is covered “only while in the custody of the insured and actually in transit …and only contained in or on the following described motor truck and/or trucks owned and operated by the insured.”

   The perils covered by the owner’s form are the following:
   - Fire, including self-ignition and internal explosion, and lightning
   - Flood
   - Cyclone and tornado
   - Perils of the sea, rivers, lakes, and/or inland waters while on ferries only
   - Collapse of bridges
   - Accidental collision including overturning of the vehicle

   Although not included in the basic form, it is quite common to include theft coverage (limited, however, to theft of either an entire shipping package or the entire load). All goods are to be “to be valued in case of loss or damaged at the amount of invoice, if any; otherwise at cash market value on the date and at the place of the shipment.” The amount of the insurance per truck is specified, and with respect to the contents of each truck, the liability is to the proportion of the loss that the sum insured on the contents bears to the value thereof at the time of the loss.

2. Public truckmen’s legal liability: The legal liability form of motor truck cargo insurance provides protection against claims that may be made against truck drivers for the loss or damage to the merchandise that they carry. The Interstate Commerce Commission (ICC), which has jurisdiction over motor carriers engaged in
interstate commerce, requires legal liability coverage before certificates of convenience and necessity for engaging in motor trucking can be obtained. In addition to the Interstate Commerce Commission, many states prescribe cargo endorsements that must be attached to policies of carriers within or passing through their borders. Consequently, this form of coverage is necessary for the majority of trucking organizations.

The perils usually insured against are the following:

- Fire, including self-ignition and internal explosion, and lightning
- Collision
- Overturning of the motor truck
- Collapse of bridges
- Flood
- Cyclone and tornado
- Perils of the seas, rivers, lakes, and/or inland waters while on ferries only

As is the case with the owner’s form of motor truck cargo insurance, theft coverage is usually added.

Certain property may be excluded from coverage. For example, a typical policy might not insure such items as currency, bullion, valuable papers, live animals, or works of art. The producer for a shipper that carries any of the aforementioned excluded types of property must amend the policy to add required coverage.

**PARCEL POST POLICY**

Parcel post insurance is available to those who ship frequently by parcel post and who not wish to incur the inconvenience (it is often time-consuming) or extremely high cost of insuring each package separately with the United States Postal Service. Coverage is written using an open perils form that requires the insured to keep a record of shipments and to report them periodically to the insurer. Coverage under the parcel post policy extends to goods while in transit by parcel post, either registered or unregistered, from the time the property passes into the custody of the
United States Postal Service for transportation until the arrival at a stipulated address. The following exclusions usually apply:

- Merchandise especially susceptible to deterioration is protected only against fire, theft, pilferage, and nondelivery.
- Goods that are inaccurately or insufficiently addressed, improperly wrapped or packaged, or on which postage is not fully prepaid or when the package is not marked “Return Postage Guaranteed.”
- Certain accounts, bills, currency, deeds, checks, and goods on consignment are not covered; however, they may be insured under a registered mail policy.
- War and nuclear hazard.
- Perishable goods.

**PATTERNS AND DIES FLOATER**

The patterns and dies floater is a nonfiled form that is produced and designed to cover patterns, dies, molds, and forms that the insured owns or for which the insured is legally liable. Coverage applies while the property is in transit or at locations other than the premises of the insured (for example, at a subcontractor’s facility for the purpose of making parts for the insured’s product or in processing the insured’s property in some manner). This policy type can be written on an open perils basis or on a named perils basis. A one hundred percent coinsurance is usually applicable. Under certain circumstances, this policy type can extend to coverage to the insured’s location.

**PROCESS FLOATER**

This policy type is designed to insure manufacturers that send partially completed products to contractors for processing. The policy provisions and perils are very similar to those found in the patterns and dies floater. One major difference is that under this form, theft coverage is available for an additional premium.
RADIOACTIVE CONTAMINATION COVERAGES

There are two commercial inland marine nonfiled forms of coverage available for very large numbers of firms using, handling, or transporting low-risk radioactive isotopes: Motor Truck Cargo Radioactive Contamination Policy, and the Shippers Radioactive Contamination Policy.

1. Motor Truck Cargo Radioactive Contamination Policy: this policy is designed for the common carriers and protects them against legal obligations to shippers or connecting carriers for direct physical loss or damage by radioactive contamination from commercial radioisotopes. This coverage applies only while both the property contaminated and the radioisotopes causing the contamination are in the custody of the insured or a connecting carrier. Coverage does not apply if the shipment is, in any way, a violation of any law or regulation or if the radioactive material is in any form other than a commercial radioisotope. In other words, transit of nuclear waste material is not a desired exposure.

2. Shipper’s Radioactive Contamination Policy: this policy has two types of insuring agreements. The first covers the direct physical to property of the insured by radioactive contamination while the goods are being transported by a common carrier or contract carrier. The second provides direct physical loss coverage while the goods are in transit on a motor vehicle operated by or for the insured. The exclusions are basically the same as the Motor Truck Cargo form.

NOTE: This limited exposure should not be confused with the insuring of nuclear reactors, risks using or transporting enriched fuel elements or fuel materials, or facilities using substantial quantities of radioactive material. These high risks are usually insured by the American Nuclear Insurers or the Mutual Atomic Energy Reinsurance Pool.
SALESPERSON’S SAMPLES FLOATER

This nonfiled form covers a salesperson’s samples while they are away from the insured’s premises. The contract insures merchandise as described in the policy. The following items are typically found in the policy:

- Property belonging to the insured.
- Trunks and containers.
- Property for which the insured is an agent and for which the insured is legally liable.
- Property of others that is held in trust or on commission.
- Property which is in transit between the insured and the sales representative.
- Property in the care, custody, or control of the insured’s sales representative.

This insurance will typically provide open perils coverage for direct physical loss. The contract usually excludes, among other causes of loss, unexplained loss or mysterious disappearance and theft from any transporting conveyance while it is unattended, unless the vehicle is equipped with a fully enclosed and securely locked metal body or compartment and the theft results from an obvious forcible entry evidenced by clearly visible marks, or if the entire transportation conveyance is stolen. The above-mentioned exclusions do not apply while the property of the insured is in the care or custody of either common carriers or contract carriers. Most often, the policy will require that alarms or other such security devices be installed on the sales representative’s vehicles. The limit of liability applies per sales representative, and a one hundred percent coinsurance clause and a per-loss deductible generally apply. The territorial limit of this coverage type is usually the forty-eight contiguous U.S. states, the District of Columbia, and Canada.
WAREHOUSE OPERATORS’ LEGAL LIABILITY POLICY

Warehouse operators’ legal liability policies vary considerably among insurance providers. This form of insurance is typically written on an open perils basis; this includes coverage for investigation expenses, defense, and court costs in connection with claims.

As is the case with most other bailees, warehouse operators are responsible for “ordinary negligence.” The legal burden of proof is generally on the owner of the property to prove that a warehouse operator is, in fact, guilty of not operating with “due care.” Because the responsibility of the warehouse operator varies from state to state, the insurance producer should review the appropriate statutes to determine the exact liability of the warehouse operator. For example, in the state of California, the burden of proving negligence in a fire loss rests with the customer, but with all other types of losses, the burden of proof rests with the warehouse operator to prove that the operator did not act in a negligent manner.

Exclusions are typically the following: delay, market loss, consequential loss, and changes in temperature.
Course Synopsis

This course was designed to acquaint or refresh insurance brokers and agents with the basic concepts of commercial inland marine insurance and the coverage forms that establish the conditions of insurance.

Insurers that specialize in commercial inland marine insurance can provide producers with the full range of inland marine insurance options. Although most insurers that provide commercial multi-peril coverage write commercial inland marine insurance, the ten largest writers of commercial inland marine insurance write a much greater percentage of all inland marine insurance than the ten largest writers of commercial multi-peril write of all commercial multi-peril insurance. Some insurance companies entrust their commercial inland marine underwriting to their commercial package underwriters; consequently, they do not achieve the degree of creativity that is inherent in the diverse types of inland marine policies. Many producers may find that they need to access another insurer that has experienced commercial inland marine insurance underwriters to take full advantage of the competitive edge provided by the inland marine approach.

Although this course focused primarily on the twelve filed classes of commercial inland marine coverages provided by the Insurance Services Office in conjunction with its policy simplification program, brokers and agents should keep in mind that many other nonfiled coverage types exist. This demonstrates both the variety and flexibility of inland marine insurance. However, a detailed analysis of all the possible types of floater policies is far beyond the scope of this course. Virtually anything that a dealer, merchant, or business deals in can be insured on a nonfiled, all-purpose (either open perils or named perils) policy called a Scheduled Equipment Floater. A sampling of some of those coverages would include (but are not limited to) the following:
Accountants  
Advertisers  
Aerospace Industries  
Agricultural Equipment Dealers  
Air Carriers  
Air Conditioning Companies  
Antique Collectors  
Appliances  
Architects  
Armories  
Art Collectors and Galleries  
Art Metal Work  
Attorneys  
Automobile Dealers  
Bakeries  
Banks  
Banquet Facilities  
Barbers’ Equipment and Supplies  
Bars  
Beauty Salons  
Beverage Distributors  
Bicycle Shops  
Billing Services  
Book Dealers and Binderies  
Bookkeeping Services  
Bulk Liquids  
Buses  
Cable Systems  
Cabinet Makers  
Campgrounds and Recreational Vehicle Parks  
Cellular and Wireless Phone Services  
Cemeteries
China and Glassware Dealers
Churches
Civil Engineers
Coin and Bill Changing Machines
Coin Collections
Coin Dealers
Colleges and Universities
Computer Software
Construction Equipment Dealers
Counties
Country Clubs
Credit Unions
Dairies
Dam Operators
Day Care Centers
Department Stores
Dentists
Die Makers
Drywall Contractors’ Equipment and Supplies
Electricians
Elevators Sales and Service
Engineers
Engravers
Excavating Contractors and Equipment
Express Companies Forwarders
Extermination and Fumigation Equipment and Supplies
Fabricated Metal Products Manufacturers
Fax Communications and Equipment Services
Fire Protection Equipment and Supplies
Fixtures Manufacturers
Florists
Foster Care Services
Foundries
Funeral Homes and Directors
Furniture Manufacturers and Dealers
Garage Dealers and Builders
Glass-Auto
Golf Course Equipment and Supplies
Graphic Designers
Greenhouses
Grinding Machines and Equipment
Grocery Stores
Hardware Stores
Heating Companies
Hoists
Home Computers
Hospitals
Hotels
Hydraulic Equipment and Supplies
Information Systems
Installment Sales
Interior Decorators and Designers Equipment and Supplies
Internet Products and Services
Laboratory Equipment and Supplies
Land Development Companies
Landscape Contractors
Libraries
Lighting Systems and Equipment
Linen Supply Dealers
Machine Shops
Manufactured Mobile Homes
Mercantile Dealers
Mining Operations
Motorcycle Sales and Equipment
Museums
Newspapers
Nurseries
Office Equipment Dealers
Optical Equipment and Supplies
Packaging Plants
Paving Contractors
Pharmaceutical Products and Supplies
Photographers
Plumbing Contractors
Printers
Private and Public Schools
Quarries
Radio Stations
Railroads
Real Estate Offices
Recreation Centers
Refineries
Repairmen
Restaurants
Riggers Legal Liability
Roofing Contractors
Rugs
Safes and Vaults
Satellite Equipment
Scientific Instruments
Service Contractors
Ski Resorts
Stamp Collections
Street Clocks
Surveyors
Telecommunications Equipment
Television Dealers
Television Stations
Tire Dealers
Tractor Dealers
Tree Service Equipment and Supplies
Trip Transit
Truckers
Upholsterers
Vending Machines
Veterinarians
Video Equipment
Voting Machines
Warehouseman Liability
Water heaters
Wedding Presents
Welding Equipment and Supplies
Wholesalers
X – Ray Machines and Equipment
Zoos

The various filed and nonfiled coverage forms included in this course are used by the majority of commercial inland marine departments of large insurance companies. Be cautious when doing business with any specialty markets because the terms and conditions of the policies they utilize might be substantially different than those provided by the Insurance Services Office.

In conclusion, the growth of commercial inland marine insurance since the 1930’s has been impressive. Although the future is less than clear, in recent years the premium volume has continued to increase, despite the growth of both personal and commercial package policies that now include coverages that formerly only commercial inland marine underwriters would accept. Because of the unique nature of the special number of underwriting skills required, there is reason to believe that
commercial inland marine insurance will continue to be an important component of the overall insurance industry for the foreseeable future.

For further information, contact or visit the web sites of the American Association of Insurance Agents (AAIS), the Insurance Services Office (ISO), the Inland Marine Underwriters Association (IMUA), the Accredited Advisor of Insurance (AAI), the ACORD Forms Instruction Guide, the Insurance Institute of America (IIA), the American Institute for Chartered Property Casualty Underwriters (AICPCU), the Associate in Marine Insurance Management (AMIM), or the National Insurance Law Service (NILS).