

Introduction

The Building and Personal Property Coverage Form, CP 00 10

A business—from the one person office or store to the highly complex global manufacturing or industrial giant—has property exposures that need to be addressed from the overall risk management perspective. These exposures include owned or leased real property, business equipment, processed or unprocessed inventory, property of others such as commercial bailments or employees' and customers' property, and the stream of income generated by the business. These exposures must be analyzed and appropriately protected through various risk management and loss mitigation techniques.

The foundation of a solid risk management program for these items is a property insurance program that transfers the economic consequence of loss or damage to an insurance company. Smaller commercial businesses usually arrange coverage on a businessowners policy, a packaged set of insurance coverages for the insured's liability, property, and auto exposures. This set of coverages is the topic of *Businessowners Coverage Guide*, another National Underwriter Company title in the Coverage Guides series. Larger concerns will use separate general liability, commercial property, business auto policies, and other specialized coverages such as directors and officers (D&O) and employment practices liability (EPL), tailored to work together.

ISO Building and Personal Property Coverage Form, CP 00 10

The standard contract for insuring building and personal property exposures of commercial insureds is the Insurance Services Office (ISO) Building and Personal Property Coverage Form, CP 00 10, generally known as the commercial property policy. Introduced by ISO in 1985 as part of the development of simplified language insurance policies, the form has undergone several revisions. To date, there have been eight editions (also sometimes referred to as versions) of the building and personal property coverage form. The form edition date is the last two sets of digits in the form number. For example, the first edition of the policy was issued as the CP 00 10 07 88 edition, meaning it was released for use in July 1988. It currently exists—where approved—as the CP 00 10 06 07 version; it is this edition of the form that is the basis of this book. A historical tracing of the edition dates is relevant because insurance litigation frequently involves loss under previous forms. The following is a listing of all editions released since 1988:

- CP 00 10 07 88
- CP 00 10 10 90
- CP 00 10 10 91

- CP 00 10 06 95
- CP 00 10 02 00
- CP 00 10 10 00
- CP 00 10 04 02
- CP 00 10 06 07

Not all insurance companies employ the standard ISO commercial property policy. Some insurers use ISO forms; others add, delete, or modify policy provisions for competitive or other business reasons. The American Association of Insurance Services (AAIS) offers its own commercial property policy, which is similar to the ISO policy but varies in several respects. This form's differences from the ISO policy are discussed in Chapter 10.

This book's analysis puts the policy into context with the rest of the ISO commercial property program and all its basic forms and permutations. In addition to the CP coverage form, this work treats the commercial property program's three causes of loss forms (basic, broad, and special), optional coverages, builders risk and business income coverage forms and options, and the other coverage forms comprising the ISO commercial property program.

The building and personal property coverage form is one building block in the ISO commercial property program. Also, the commercial property program is one part of the protection available for commercial insureds. Property coverage usually must be combined with general liability, crime, fidelity, inland marine, workers compensation, and automobile coverages in order to adequately protect the interests of commercial insureds.

Property Coverage Forms

Virtually all types of commercial businesses are eligible for the building and personal property coverage form. Specialized versions of property coverage forms exist for use with condominium and builders risk exposures. Other coverages, such as legal liability, value reporting, mortgageholders errors and omissions, tobacco sales warehouses, and leasehold interest are available through separate forms. The policy's basic coverage may be modified in many ways through the use of various endorsements that add, remove, or change in some way the terms of the unendorsed policy.

The commercial property policy is not self-contained; it is part of ISO's modular format for a seamless combination with a policy declarations form, an appropriate causes of loss form (basic, broad, or special), two conditions forms (commercial property and common policy), and any appropriate endorsements to form a *coverage part*. A commercial property coverage part may be used as a monoline policy covering property

only or combined with other commercial lines coverages (e.g., general liability and commercial auto) to form a commercial package policy.

ISO Rules

The rules for the commercial property policy are in the ISO Commercial Lines Manual (CLM) at Division Five—Fire and Allied Lines. A review of some of the basic rules is helpful in putting the form's use into context. These are the ISO rules, which are often supplemented by the underwriting manuals or guidelines of individual insurance companies.

ISO rules allow policies to be written for a specific term, up to three years—for one year, two years, or three years—or on a continuous basis. A policy may be renewed by renewal certificate or by use of the commercial property coverage part renewal endorsement, CP DS 02. When a renewal certificate is used, it must conform in every aspect to current rules, rates, and forms at the time of renewal.

The common policy conditions form, IL 00 17, is used with all policies. This form contains six conditions that must be incorporated into any policy written and that apply to all the policy's coverages. Most of these common policy conditions are restatements of provisions of the standard fire policy, which meet the statutory requirements of the states for writing property insurance. The conditions included in IL 00 17 are cancellation, changes, examination of your books and records, inspections and surveys, premiums, and transfer of rights and duties.

Commercial property conditions form CP 00 90 is also attached to all policies, except when mortgage holder's errors and omissions coverage form CP 00 70 is the only form applicable to commercial property coverage. CP 00 90 contains the following provisions: concealment, misrepresentation, or fraud; control of property; more than one coverage applying to loss; legal action against the company; liberalization; no benefit to bailee; other insurance; policy period; coverage territory; and subrogation.

Interstate accounts may be written on the same policy. One policy may be written to cover locations in more than one state. The coverage may be property or business income and may cover on either a specific or blanket basis. Such a policy is subject to the rules of the state in which the insured's largest-valued location or headquarters is located or where the insurance is negotiated.

Where contributing insurance is an issue—coverage is divided between two or more insurers on a percentage basis—contributing insurance endorsement CP 99 20 may be attached. This endorsement provides that the insurance company's liability on any loss will not exceed its percentage of total coverage. Simply stated, this means that if there are two policies covering a piece of property, one with a limit of \$70,000 and the other with a limit of \$30,000 (\$100,000 total coverage), the first insurer would be liable for only 70 percent of the total of any loss.

ISO rules also call for protective services or devices to be required. Where this is the case, the policy must be endorsed to require that the company be notified if the devices or services are discontinued or out of service using the protective safeguards endorsement, IL 04 15. The endorsement can include automatic sprinkler systems, automatic fire alarms, security services, and security contracts. The burglary and robbery protective systems endorsement, CP 12 11, may also be required.

Underwriting Property Risks

Insurance practitioners use a mnemonic to express the four major areas evaluated when underwriting a risk: COPE. This refers to type of *construction* (what the building is made of), *occupancy* (how the insured uses the building), *protection* (fire protection, such as sprinklers or proximity to fire department service), and *exposure* (such as construction of nearby buildings and how those buildings are used). Together, these indicate the acceptance or nonacceptance of a building risk.

ISO defines seven different types of construction: frame, joisted masonry, noncombustible, masonry noncombustible, modified fire resistive, fire resistive, and mixed. In addition to the construction of the building itself, the underwriter also looks at the floors, roofs, and partitions. The area of the building and any unprotected openings are also considered.

The use of firewalls between portions of a building can greatly reduce the rate for property insurance. The area between firewalls is a fire division. Fire divisions prevent the spread of fire from one section of a building to another. The lacking of fire walls can have an adverse effect on the rate charged. For example, a shopping mall had been a one-story structure with two-story anchor stores at each of the corners. The one-story portion was divided by firewalls into several fire divisions, in effect creating several small exposure units. A remodeling project added a second story over the one-story section. The firewalls were not extended up and through the new second story. The mall went from being several small fire divisions to being one big fire division. Even though the mall was equipped with a sprinkler system and was masonry noncombustible construction, the rate for property insurance increased substantially.

Occupancy refers to the use of the structure. A building that houses fireworks will pay a higher rate for property insurance than the office building next door.

Protection refers to the kind and quality of protection, both public and private, available to a structure. Private protection ranges from fire extinguishers and sprinkler systems to a private fire department. Only the biggest of companies (such as huge manufacturers) have their own fire departments.

Towns and cities receive a protection class code based upon several factors: the firefighting equipment, the training of the firefighters, the mix of full-time and volunteer firefighters, and the local water supply. Class codes range from one to ten, with one being the best and ten being a risk with no responding fire department within five miles. No

city in America has a class one rating. Classes two through five require all full-time firefighters. Classes six, seven, and eight can be a mix of full-time and volunteer. Class nine is typically all volunteer, and class ten may or may not have any fire department at all. One issue that many older cities are facing is the downgrading of their fire protection classes, due mainly to the aging of their infrastructure, specifically the water supply apparatus. As the cities get older, many are experiencing a drop in water pressure. Combine the lower water pressure with more and taller buildings, and a problem arises in the efficacy of the fire fighting.

Exposure refers to external exposure of the building. In other words, what is next to the insured structure? In the previous example, the office building next to the fireworks warehouse may pay a higher rate than a comparable office building in an office park elsewhere in the same city. The office building faces a greater chance of loss from fire at the fireworks warehouse.

COPE is further examined in The National Underwriter Company e-Learning Course, *Insurance Principles*.

The National Underwriter Company Coverage Guides

This work is one of a number of books published by The National Underwriter Company reviewing and analyzing individual insurance forms. Other titles in the Coverage Guide series include *Personal Auto*, *Homeowners*, *Personal Umbrella*, *CGL*, *Business Auto*, *Businessowners*, *Directors and Officers Liability*, *Employment Practices Liability*, *Workers Compensation*, and *Cyber Liability*. Although business income, also referred to as time element coverage, is discussed as a part of the commercial property program in this book in Chapter 7, a more comprehensive treatment of this critical coverage can be found in *The Business Interruption Book*, The National Underwriter Co. (2004). Additional forms and issues are treated in the *FC&S Bulletins*.