

Addendum: for use with Utah Property and Casualty online ExamFX courses and study guide version 19566en, per exam content outline updates effective 1/1/2020.

Please note that Utah is changing testing providers. Effective 1/1/2020, state insurance exams will be administered by Prometric. For additional information about exam requirements and complete exam content outlines, please review the Licensing Information Bulletin at <https://www.prometric.com/utah/insurance>

*Please note that the number of questions per exam has changed: **100 questions** per single-line exam (e.g., Property only, or Casualty only), and **150 questions** for a combination Property & Casualty exam.*

The new exam breakdowns are as follows:

**Utah Property Insurance Examination
100 Questions; Time Limit: 2 hours**

Chapter	Percentage of Exam
General Insurance	13%
Property and Casualty Insurance Basics	16%
Dwelling Policy	8%
Homeowners Policy	17%
Commercial Property Policies (CPP)	14%
Businessowners Policy	15%
Other Coverages and Options	4%
Insurance Regulation	13%

**Utah Casualty Insurance Examination
100 Questions; Time limit: 2 hours**

Chapter	Percentage of Exam
General Insurance	11%
Property and Casualty Insurance Basics	13%
Homeowners Policy	14%
Auto Insurance	14%
Commercial Package Policy	10%
Businessowners Policy	10%
Workers Compensation Insurance	9%
Other Coverages and Options	8%
Insurance Regulation	11%

**Utah Property and Casualty Insurance Examination
150 Questions; Time limit: 2.5 hours**

Chapter	Percentage of Exam
General Insurance	10%
Property and Casualty Insurance Basics	12%
Dwelling Policy	4%
Homeowners Policy	12%
Auto Insurance	13%
Commercial Package Policy (CPP)	11%
Businessowners Policy	8%
Workers Compensation Insurance	11%
Other Coverages and Options	8%
Insurance Regulation	11%

*The following are **content additions** to supplement your existing text:*

PROPERTY AND CASUALTY

Businessowners Policy

Section I – Property

1. Covered Property

Businessowners property coverage must be activated on the Declarations page, and is available for buildings, business personal property, or both. The definitions of *building* and *personal property* are similar to those in the building and personal property coverage form. A separate limit of insurance for property of others is not used in the businessowners form as it is included in the business personal property (BPP) limit. The same radius (100 feet) that applied in the commercial package section applies to BPP of the insured in the businessowners form.

PROPERTY COVERED:

1. Buildings, business personal property, or both

PROPERTY NOT COVERED:

1. Money and securities;
2. Aircraft and vehicles;
3. Watercraft while afloat;
4. Accounts, bills, and other evidence of debt;
5. Computers permanently installed in any aircraft, watercraft, or vehicle (unless being held as stock);
6. Contraband or property in the course of illegal trade or transportation;
7. Land, water, crops, or lawns;

8. Outdoor fences, radio and television antennas, satellite dishes, detached signs, trees, plants and shrubs;
9. Electronic data, except as covered under the electronic data additional coverage and except for the insured's stock of prepackaged software; or
10. Animals (unless owned by others and boarded with the insured).

2. Causes of Loss, Limitations, and Exclusions

The Businessowners Property Coverage Form covers risks of direct physical loss to covered property, subject to certain limitations and exclusions.

This form contains several coverage **limitations**, so the policy will not pay for loss or damage to the following:

- Steam boilers, steam pipes, hot water boilers or other water heating equipment caused by any condition inside the equipment; however, loss to the equipment from an explosion of gases or fuel in the device is covered;
- Hot water boilers or other water heating equipment for events inside the equipment other than explosion;
- Property that is missing with no physical evidence to show what happened to the property or if only detected by an inventory shortage (mysterious disappearance);
- Property transferred to a person or place outside the premise in the Declarations based on unauthorized instructions;
- Loss to the interior of any building or structure caused by rain, snow, sleet, ice, sand or dust unless the outside of the building or structure is damaged first. Coverage also applies if the loss results from the melting of snow, ice or sleet on the building or structure;
- Restrictions on coverage for animals, glassware, marble, porcelain unless caused by a list of named perils known as specified causes of loss. These perils are listed in the definitions section of the property portion of the policy and include fire; lightning; explosion; windstorm or hail; smoke; aircraft or vehicles; riot or civil commotion; vandalism; sprinkler leakage; sinkhole collapse; volcanic action; falling objects; weight of snow, ice, sleet; water damage; or
- Special limits of liability exist for theft losses. The sublimit of \$2,500 applies to furs, jewelry, watches, precious stones, gold, silver, platinum, patterns, dies and molds. Jewelry and watches worth \$100 or less per item are not subject to the limitation.

The **exclusions** found in the businessowners property coverage are similar to those already discussed:

- Ordinance or law;
- Earth movement;
- Governmental action;
- Nuclear hazard;
- Utility service (power failure);
- War and military action;
- Water (flood, waves, mudflow, and waterborne material);
- Certain computer-related losses (failure, malfunction, or inadequacy of hardware, software, networks, etc.);

- Fungi, wet rot, and dry rot except as covered in the additional coverage for fungi, and wet or dry rot;
- Virus or bacteria;
- Electrical apparatus (artificially generated electrical current);
- Consequential losses (delay, loss of use or loss of market);
- Smoke, vapor, gas (smoke from agricultural smudging or industrial operations);
- Explosion of steam apparatus;
- Frozen plumbing;
- Dishonesty;
- False pretense (voluntarily parting with property if induced by trick, scheme, or device);
- Exposed property damaged by rain, snow, ice, or sleet;
- Collapse (except as provided in the additional coverage);
- Pollution;
- Neglect;
- Expected losses (wear and tear, gradual deterioration, mechanical breakdown, etc.);
- Errors or omissions;
- Installation, testing, repair;
- Electrical disturbance;
- Continuous or repeated seepage or leakage of water;
- Weather conditions (but only if weather conditions contribute to an otherwise excluded cause of loss);
- Acts or decisions, including failure to act or decide;
- Negligent work;
- Loss or damage to products resulting from an error or omission;
- Business income and extra expense that results from delays or cancellation of a lease; and
- Accounts receivable: loss or damage caused by or resulting from alteration, falsification, concealment, or destruction of records of accounts receivable done to conceal the wrongful giving, taking, or withholding of money, securities, or other property, and loss or damage caused by or resulting from bookkeeping, accounting, or billing errors or omission.

3. Additional Coverages

The businessowners property coverage contains several **additional coverages** explained below. Pay close attention to the numbers associated with each coverage:

Debris removal — 25% / 180 days / \$10,000:

Coverage is provided for up to 25% of the direct loss, plus the deductible if reported within 180 days of the loss or the end of the policy period, whichever is earliest. If the amount of the debris removal and direct loss exceed the limit of insurance, or if the debris removal expense exceeds the 25% limitations, the policy will pay an additional \$10,000 under the debris removal coverage.

Preservation of property — 30 days:

This coverage, commonly called removal coverage, provides 30 days coverage for property that is temporarily removed to protect it from damage.

Fire department service charge — \$2,500:

The \$2,500 limit is included as an additional amount of insurance, unless a different limit is shown in the Declarations.

Collapse — Collapse of a building is covered if caused by one of the specified causes of loss: hidden decay, insect or vermin, weight of people or property, or use of defective materials if the collapse occurs during construction. This additional coverage is included only in the special form.

Water damage, other liquids, powder or molten material damage — If loss or damage is caused by any of these causes of loss, the policy also will pay to tear out and replace any part of the building to make repairs to the system or appliance from which the water or other substance escaped. This additional coverage is included only in the special form.

Business income — Actual loss sustained / 12 months / ordinary payroll — 60 days / 72-hour waiting period:

Loss of business income is included during the period of restoration following a direct loss to covered property. Coverage is limited to 12 months following the loss for business income, and 60 days following the direct loss for ordinary payroll. This additional coverage is not subject to the limit of insurance.

Extended business income — 30 days:

The policy will cover necessary suspension of business operations from the time property is repaired, rebuilt, or replaced and operations are resumed, to the earlier of the date operations are restored to the level that would have existed without the loss, or 30 days after property is repaired, rebuilt, or replaced and operations are resumed.

Extra expense — Actual loss sustained / 12 months / no waiting period:

Extra expense is also covered in the businessowners policy for up to 12 months following a direct loss to covered property. This additional coverage is not subject to the limit of insurance.

Pollutant cleanup and removal — \$10,000 / 12 months / 180 days:

The policy will pay up to \$10,000 for expenses incurred in a 12-month period to extract pollutants from land or water at the described premises if the pollution resulted from a covered cause of loss and is reported to the insurer within 180 days. This is an additional amount of insurance. This coverage does not apply to the cost to test for the existence or effects of pollutants.

Civil authority — 72 hours / 4 weeks:

Loss of business income or extra expense that results from action of civil authority that prevents access to the premises due to a direct loss elsewhere also is covered. Coverage for business income begins 72 hours after the action and continues for up to 4 consecutive weeks.

Money orders and counterfeit paper currency — \$1,000

The policy also will pay up to \$1,000 for losses that occur from the good faith acceptance of counterfeit currency or unpaid money orders. The limitation for money and securities, noted early in this section, does not apply to this coverage.

Forgery and alteration — Up to \$2,500 for losses that result from altered or forged checks or drafts is also covered to include defense coverage.

Increased cost of construction — \$10,000:

Buildings insured on a replacement cost basis are covered for increased costs incurred to comply with enforcement of an ordinance or law while rebuilding, repairing, or replacing damaged parts of the property if the damage was caused by a covered cause of loss. This coverage is not subject to the ordinance or law exclusion, and is subject to a sublimit of \$10,000.

Glass expenses — The policy will pay for expenses incurred to put up temporary plates or board up openings in damaged glass and for the expense to remove or replace obstructions when replacing or repairing glass that is not part of a building.

Business income from dependent properties — \$5,000:

Loss of business income due to physical loss or damage at the premises of a dependent property caused by a covered cause of loss in the insured's policy is covered up to \$5,000. This coverage does not apply to loss to electronic data.

Fire extinguisher systems recharge expense — \$5,000:

The policy will pay up to \$5,000 for the cost of recharging or replacing fire extinguishers if discharged on or within 100 feet of the premises. Loss from accidental discharge of chemicals from extinguishers also is covered.

Electronic data — \$10,000:

The policy will pay up to \$10,000 (or more if a higher limit is shown in the declarations) for the cost to replace or restore electronic data that has been damaged by a covered cause of loss. Losses are valued at replacement cost of the media the data is stored on. Viruses are included as a covered cause of loss for this coverage.

Interruption of computer operations — \$10,000:

The coverage provided under business income and extra expense may be extended to apply to the suspension of operations caused by an interruption in computer operations due to damage of electronic data caused by a covered cause of loss, including collapse and computer virus. The policy will pay up to \$10,000 for this coverage unless a higher limit is shown in the declarations.

Limited coverage for fungi, wet rot, and dry rot — \$15,000:

The policy will pay up to \$15,000 for loss or damage by fungi, and wet or dry rot. Loss must be the result of a specified cause of loss other than fire or lightning.

4. Coverage Extensions

Coverage can be extended from the building or business personal property coverage section when the applicable limit of insurance is shown in the Declarations. The policy includes several **coverage extensions** that are in addition to the limit of insurance:

Newly acquired or constructed property — \$250,000 for buildings / \$100,000 for BPP:

The insured may extend up to \$250,000 coverage to buildings being built on the premises and buildings acquired at a new premises. Up to \$100,000 is available for newly acquired

business personal property. Coverage will only apply for 30 days after the insured acquires the property or the end of the policy period, whichever comes first.

Personal property off premises — \$10,000:

Up to \$10,000 coverage is available for business personal property, other than money and securities, during transit or temporarily at the premises the insured does not own, use, lease, or operate.

Outdoor property — \$2,500 total / \$1,000 per tree, shrub, plant:

The insured may extend the coverage to apply to outdoor radio and television antennas, detached signs and trees, shrubs and plants if the loss results from fire, lightning, explosion, riot or civil commotion, or aircraft. The insurer will pay up to \$2,500 for this coverage extension, but not more than \$1,000 for any one tree, plant or shrub.

Personal effects — \$2,500:

Business personal property coverage may be extended to apply to personal effects owned by the insured, officers, partners or members of the insured, and employees. The insurer will pay up to \$2,500 at each described premises.

Valuable papers and records — cost of research — \$10,000 on premise / \$5,000 off premise:

Up to \$10,000 is available for the cost to research, replace, or restore lost information for which duplicates are not available on premises, and \$5,000 for valuable papers and records not at the described premises. Losses will be valued at the cost of restoration or replacement.

Accounts receivable — \$10,000 on premise / \$5,000 off premise:

The insured may extend the insurance that applies to business personal property to apply to **accounts receivable**. The policy will pay 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 uncollectible pending the insurer's payment of these amounts;
- Collections expenses in excess of normal collection expenses that are made necessary by loss or damage; and
- Other reasonable expenses that the insured incurs to re-establish records of account receivables that result from direct physical loss or damage by a covered cause of loss to the insured's records of accounts receivable.

The most the policy will pay under this coverage extension for loss or damage in any one occurrence is \$10,000, unless a higher limit of insurance for accounts receivable is shown in the declarations. For accounts receivable not at the described premises, the most the extension will pay is \$5,000.

5. Limits of Insurance

The policy will pay up to the **limits of insurance** stated in the Declarations. The following specific limits apply:

- Outdoor signs attached to the building are covered for \$1,000 per sign, in any one occurrence;
- Coverage extensions and the following additional coverages are paid in addition to the limits of insurance:
 - Fire department service charge;
 - Pollutant cleanup and removal;
 - Increased cost of construction;
 - Business income from dependent properties;
 - Electronic data; and
 - Interruption of computer operations.

The Business Property Coverage Form contains 2 provisions that pertain to automatic increases in coverage:

1. **Building Limit — Automatic Increase** — The limit of insurance for the building will automatically be increased annually by **8%** or the percentage amount shown in the Declarations; and
2. **Business Personal Property Limit — Seasonal Increase** — The limit for business personal property will be automatically increased by **25%** for seasonal fluctuations unless otherwise specified in the Declarations. This increase is only applicable if the insured carries insurance equal to 100% of the average monthly values for the past 12 months.

6. Deductibles

The most the insurer will pay for any one loss is the applicable limit of insurance, after the deductible is paid. The **deductible does not apply** to any of the following:

- Fire department service charge;
- Fire extinguisher systems recharge expense;
- Business income;
- Extra expense;
- Civil authority coverages; or
- Optional coverage selections.

7. Property Loss and General Conditions

The following Business Property Coverage Form **conditions** apply in addition to the common policy conditions:

- **Abandonment;**
- **Appraisal;**

- **Duties in the event of loss or damage** — The following are the insured duties in the event of loss or damage:
 - Notify the police if a law has been broken;
 - Give the insurer prompt notice of loss, and a description of how, when, and where it occurred, including a description of damaged property;
 - Take all reasonable steps to protect covered property from further damage, and keep a record of all expenses;
 - At the insurer's request, provide an inventory of the damaged and undamaged property;
 - Permit the insurer to inspect the property and to examine the insured's books and records;
 - Send the insurer a signed, sworn proof of loss within 60 days of the request;
 - Cooperate with the insurer in the investigation and settlement.
 - Resume all or part of the business operations as soon as possible; and
 - The insurer has a right to examine any insured under oath;
- **Legal action against the insurer** — The insured is required to be in full compliance with regard to policy provisions before bringing any legal action against the company, and the action must be brought within 2 years of the date of loss;
- **Loss payment** — In the event of loss or damage, the insurer has the option to do the following:
 - Pay the value of the lost or damaged property;
 - Pay the cost to repair or replace the lost or damaged property;
 - Take all or any part of the lost or damaged property at an agreed upon or appraised price;
 - Repair, rebuild, or replace the lost or damaged property with like kind and quality;
 - Insurer will give notice of intentions within 30 days of receiving the sworn proof of loss;
 - If the property is insured, at the time of the loss, for 80% or more of the full replacement value the policy will pay on a replacement cost basis
 - If the property is not insured to 80% of the full replacement value, the policy will pay the greater of ACV or the coinsurance formula;
 - Replacement cost payment will not be made until all repairs are made in a timely fashion. The insured can elect to settle the loss on an ACV basis. If the cost to repair or replace is less than \$2,500, then the insurer will not require repair or replacement of the property;
- **Recovered property** — If property is recovered after loss settlement, the insured may either retain the property and return any loss settlement payment or surrender property to the insurer;
- **Resumption of operations** — The insurer will reduce the amount of business income and extra expense losses to the extent the insured can resume operations in whole or in part by using damaged and undamaged property.

- **Vacancy** — Losses caused by vandalism, sprinkler leakage (unless the insured takes protective measures), building glass breakage, water damage, theft or attempted theft will not be covered if the building has been *vacant for more than 60 consecutive days*. Losses in a building vacant for more than 60 days caused by any other covered perils will be covered for an amount 15% less than normal coverage under the policy. Note that buildings under construction or renovation are **not** considered vacant. When a policy is issued to a tenant, vacancy occurs when the building does not contain enough business personal property to conduct customary operations. When the policy is issued to the owner or general lessee of a building, vacancy occurs when at least 65% of the square footage is unused or is not rented.

Businessowners policy Section I is subject to **4 general conditions**:

1. Control of property — Any act of neglect of any person other than the insured beyond the insured's direction or control will not affect this insurance. The breach of any condition of this coverage form at any location will not affect coverage at any location where, at the time of loss or damage, the breach of condition does not exist.

2. Mortgageholders — Protection for a mortgageholder exists in the policy as long as certain conditions are met by the mortgageholder. These conditions were covered earlier in the text (*make sure to review them*).

3. No benefit to bailee — No person or organization (other than the insured) having custody of covered property will benefit from this insurance.

4. Policy period, coverage territory — The insurer will cover losses or damages commencing during the policy period shown in the declarations and within the coverage territory, or, with respect to property in transit, while it is between ports in the coverage territory. Coverage territory includes the United States of America (including its territories and possessions), Puerto Rico, and Canada.

8. Optional Coverages

There are several optional coverages built into the businessowners property coverage form. In order for coverage to apply, a limit and premium must be shown on the declarations. The optional coverages are the following:

- **Outdoor signs** — All outdoor signs owned or in the care, custody, or control of the insured can be insured. The signs are generally insured on an open peril basis for an amount of insurance specified in the declarations. Common exclusions include wear and tear, hidden or latent defects, rust, corrosion, and mechanical breakdown. Without additional coverage, the BOP will pay for loss or damage to outdoor signs *attached to the building at \$1,000 per sign* in any one occurrence. However, this additional outdoor sign coverage allows the insured to purchase larger amounts of insurance for outdoor signs.

- **Money and securities** — Loss of money and securities resulting from theft, disappearance, or destruction can be covered. The insured is required to maintain records of the money and securities so that the insurer can verify the amount of loss or damage. In order for coverage to apply, the money or securities must have been at the insured premises, a financial institution, the insured's or employee's home, or in transit from one of these places. Separate limits are specified for losses that occur inside and outside the premises.
- **Employee dishonesty** — Loss to business personal property or money and securities that results from dishonest acts of employees is covered. Under this coverage, employees include anyone who is currently employed or anyone who was terminated within in the past **30 days**. Acts committed by the insured or partners are excluded. The policy declarations will show the applicable limit of insurance. In addition, coverage automatically terminates on any employee once the insured learns of previous acts of dishonesty.
- **Equipment breakdown protection** — This coverage provides protection for a direct loss or damage to covered property caused by a mechanical breakdown or electrical failure to pressure, mechanical or electrical machinery and equipment.

9. Definitions

Definitions found in the businessowners property coverage form include, but are not limited to, the following:

- **Money** means currency, coins, bank notes, and travelers or register checks or money orders held for sale;
- **Period of restoration** for business income coverage begins 72 hours after the direct loss, or immediately for extra expense coverage. The period of restoration ends on the date the property has been repaired or business has resumed;
- **Pollutants** include any solid, liquid, gaseous, or thermal irritant or contaminant;
- **Specified causes of loss** means fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, riot or civil commotion, vandalism, leakage from fire-extinguishing equipment, sinkhole collapse, volcanic action, falling objects, weight of ice, snow or sleet, and water damage; and
- **Valuable papers and records** means inscribed, printed or written documents, manuscripts, and records (including abstracts, books, deeds, drawings, films, maps, or mortgages). The term *valuable papers and records* does not mean money or securities.

SECTION II - LIABILITY

1. Coverages

Business liability: The liability coverage of the businessowners policy is very similar to the CGL policy. One major difference is that this section is included in all policies, and cannot be written on a monoline basis. The BOP liability section has the following features:

- Usually written with an occurrence coverage trigger;
- Includes coverage for bodily injury, property damage, and personal and advertising injury for an occurrence within the coverage period and coverage territory;

- Supplemental payment features are paid in addition to the limit of insurance noted on the declarations;
- The limit of liability is the most the insurer will pay subject to an aggregate amount for the policy term; and
- The insurer's duty to defend ends when the limits of insurance are exhausted.

Medical expenses: Medical payments coverage of a BOP will pay medical, dental, hospital, and funeral services incurred within **1 year** from the date of an accident to a person who suffers bodily injury by accident on or next to the insured's premises, or because of the insured's operations.

2. Exclusions

The following **exclusions** apply to the business liability and medical payments coverages:

- **Expected or intended injury** — This exclusion does not apply to bodily injury that results from the use of reasonable force to protect a person or property.
- **Contractual liability** — This exclusion does not apply to the insured contracts.
- **Liquor liability** — There is no coverage for liability arising out of causing or contributing to the intoxication of a person, furnishing alcoholic beverages to a minor or a person who is already intoxicated, or to any regulation or ordinance relating to the sale, gift, or distribution of alcoholic beverages. This exclusion applies only to insureds in the business of manufacturing, distributing, selling, serving, or furnishing alcoholic beverages (host liquor).
- **Workers compensation and similar laws** — There is no coverage for any obligation the insured has under a workers compensation or similar law.
- **Employer's liability** — There is no coverage for bodily injury to an employee in the course of employment, including the spouse, children, or siblings of the employee. This exclusion does not apply to any liability assumed under an insured contract.
- **Pollution** — Bodily injury or property damage arising out of actual or alleged pollution is excluded. The exclusion does not apply to heat, smoke, or fumes from a hostile fire.
- **Aircraft, auto or watercraft** — There is no coverage for bodily injury or property damage caused by the ownership, maintenance, use, or entrustment to others of any aircraft, auto, or watercraft. However, this exclusion does not apply to the following property and perils, which will be covered:
 - Watercraft while on shore at a premises owned by the insured;
 - Nonowned watercraft **less than 51 feet long** and not being used to carry persons or property for a fee;
 - Parking an auto on or on the ways next to a premise owned or rented by the insured. The auto cannot be owned, rented or loaned to the insured;
 - Liability assumed under any insured contract;
 - Bodily injury or property damage arising out of the operation of machinery or equipment attached to or part of a vehicle that meets the definition of mobile equipment if not subject to a compulsory or financial responsibility law; and

- Bodily injury or property damage caused by the operation of a cherry picker or similar equipment mounted on trucks, and air compressors, pumps and generators.
- **Mobile equipment** — There is no coverage for the transportation of mobile equipment by an auto, or the use of mobile equipment in any speed, demolition, or racing contest.
- **War** — There is no coverage for war, including undeclared civil war, warlike actions, insurrections, rebellions, revolutions, or actions taken by government authority.
- **Professional services** — There is no coverage for bodily injury, property damage, personal, or advertising injury due to the rendering or failure to render professional services listed in the exclusion.
- **Property damage to property the insured owns or in the insured's care, custody, or control**
- **Damage to the insured's product or work**
- **Damage to impaired property or property not physically injured**
- **Recall of products, work or impaired property**
- **Personal and advertising injury exclusions** — These are the same as discussed in the commercial general liability coverage form. *(Review the exclusions found in the CGL coverage section.)*
- **Electronic data** — There is no coverage for damages arising out of damage to or loss of use of electronic data.
- **Criminal acts of the insured;**
- **Recording and distribution of information in violation of law** — There is no coverage for bodily injury, property damage, or personal and advertising injury resulting from a violation of laws such as the Telephone Consumer Protection Act, the CAN-SPAM Act, the Fair Credit Reporting Act, and any federal, state, or local statute, ordinance, or regulation
- **Medical expense exclusions** — These are similar to the exclusions already discussed for medical payments in the commercial general liability coverage form. *(Review the exclusions found in the CGL coverage section.)*
- **Nuclear energy liability exclusion** — This is applicable to all liability coverages.

3. Who is an Insured

If the named insured is designated in the Declarations as an **individual (or sole proprietor)**, that individual and his or her spouse are the insureds, but only with respect to the conduct of a business of which they are the sole owners.

If the named insured is designated as a **partnership** or joint venture, the named insured and his or her spouse, members, and partners also are insureds, but only with respect to the conduct of the business.

If the named insured is designated as a **limited liability company (LLC)**, the named insured and members are also insureds, but only with respect to the conduct of the business. Managers are insureds, but only with respect to their duties as managers.

If the insured is a **trust**, the named insured and trustees are covered.

If the named insured is designated as an **organization other than a partnership (corporations)**, joint venture, or limited liability company, the named insured is covered. Executive officers and directors are insureds, but only with respect to their duties as officers and directors. Stockholders are also insureds, but only with respect to their liability as stockholders.

Each of the following is also considered to be an insured:

- Volunteer, while performing duties related to the insured business or its employees;
- Employee in the course of employment;
- Any person (other than an employee or volunteer) of any organization acting as the insured's real estate manager;
- Any person or organization having proper temporary custody of the property if the named insured dies; and
- The legal representative if the named insured dies, but only with respect to his or her duties as such.

No person or organization is considered to be an insured with respect to the conduct of any current or past partnership, joint venture, or limited liability company that is not shown as a named insured in the Declarations.

4. Limits of Insurance

The amount listed in the Declarations is the most the policy will pay regardless of the number of insureds, claims filed or suits brought, or persons or organizations bringing suit.

Medical expenses are paid on a per person basis and are also subject to the limit on the Declarations.

Aggregate limits exist in the BOP as they did in the CGL policy. The policy includes an aggregate for products and completed operations exposures that is two times the occurrence limit. Another aggregate similar to the general aggregate in the CGL, applies to all bodily injury, property damage, personal and advertising injury and medical expense claims that are not associated with products or completed operations. This aggregate is also twice the occurrence limit listed in the declarations.

In addition, the policy contains a **separate limit** of insurance for fire damage legal liability which can be included in either aggregate based on the nature of the claim.

The limits of insurance under the liability section apply separately to each consecutive annual period, and to any remaining period of less than 12 months, starting with the beginning of the policy period shown on the Declarations.

5. General Conditions

The following conditions for business liability coverage apply to the liability coverage in addition to the common policy conditions:

- **Bankruptcy** — Bankruptcy or insolvency of the insured does not relieve the insurer of any obligation.
- **Duties in event of occurrence, claim or suit** — In the event of a loss, the insured's duties include the following:
 - Promptly notifying the insurer of the occurrence (how, when, where, names and address of any injured persons);
 - Prompt written notice of a claim;
 - Promptly notifying the insurer of any legal papers received related to the loss; and
 - Cooperating and assisting in the investigation of a claim.
- **Legal action against the insurer** — No party has the right to join or bring the insurer into an action against the insured. In addition, no party can sue the insurer unless all the terms of the policy have been complied with. A party may sue the insurer to recover an agreed upon settlement; however, the settlement cannot exceed the policy limits, nor can it include items that are not covered by the policy.
- **Separation of insured** — The limit of insurance is paid only once per occurrence regardless of the number of claimants or the number of insured covered by the policy.

6. Definitions

The Definitions section of the business liability coverage form contains definitions of advertising injury, bodily injury, coverage territory, insured contract, mobile equipment, personal injury, products/completed operations hazard, insured product, and other terms related to liability and medical expenses forms.

SECTION III - COMMON POLICY CONDITIONS

The BOP includes the **common policy conditions** applicable to Section I — Property and Section II — Liability that are in addition to the conditions found in those separate coverage sections. These conditions are similar to the common policy conditions, commercial property conditions and commercial liability conditions already discussed. The businessowners common policy conditions are listed below:

Cancellation — The **insured** may cancel the policy at any time by mailing a written notice of cancellation to the insurance company. In a policy in which 2 or more insureds are listed on the declaration page, only the insured listed first (first named insured) can request the cancellation. The **insurer** can cancel the policy by mailing a written notice of cancellation to the first named insured.

Advance notice of policy cancellation is required by the insurer so that the insured may obtain other insurance. Additional requirements for **notice by mail** are the following:

- Mailed or delivered to the insured **5 days prior** to the date of cancellation if any of the following conditions exist at the insured building:
 - Building is vacant or unoccupied for 60 or more consecutive days (buildings with 65% or more of the rental units or floor area vacant or unoccupied are considered unoccupied);
 - Permanent repairs for damage by a covered loss have not been contracted for within 30 days of initial payment of loss;
 - Building has outstanding order to vacate, demolition order, or has been declared unsafe by a government authority;
 - Fixed and salvageable items have been removed from the building and are not being replaced;
 - Insured fails to furnish necessary utilities (heat, water, sewer) for 30 or more consecutive days (except during a period of seasonal unoccupancy); or
 - Insured fails to pay property taxes owed or outstanding for more than 1 year;
- Must be mailed or delivered to the insured **10 days prior** to the date of cancellation if nonpayment of premium is the cause of cancellation;
- Must be mailed or delivered to the insured **30 days prior** to the date of cancellation for any other reason (may vary by state);
- Insurer has to prove only that the notice was mailed to the first named insured to the mailing address on file with the company, not that the notice was actually delivered; and
- If cancellation results in a return of premium, the refund is sent to the first named insured.

Changes — This condition states that the policy constitutes the entire contract between the insured and the insurer. The policy can be changed only by a written request by the first named insured and approval by the insurer.

Concealment, misrepresentation, or fraud — The policy will be void if any insured commits fraud relating to the policy, or intentionally conceals or misrepresents a material fact concerning the policy, covered property, the insured's interest in the covered property, or a claim under the policy.

Examination of books and records — The insurer has the right to examine and audit the insured's books and records that relate to the policy at any time during the policy period and for up to 3 years after the policy is no longer in force.

Inspections and surveys — The insurer has the right to inspect the insured's premises and operations at any reasonable time during the policy period. The purpose of these inspections is to determine the insurability of the property and operations, to set proper insurance rates, and to make loss control recommendations. Such inspections do not guarantee that the property or operations are safe, healthful, or in compliance with state laws.

Insurance under two or more coverages — If two or more coverages in this policy apply to the same loss, the insurer will not pay more than the actual amount of the loss.

Liberalization — If the insurer adopts any revision that broadens coverage without additional premium within 45 days prior to or during the policy period, that coverage will apply to the policy immediately.

Other insurance — If a loss is covered by other insurance, the insurer will pay only the amount of the loss in excess of the other coverage, whether or not the insured can collect from the other insurance.

Premiums — The first named insured is responsible for paying the premium under the policy. In addition, if ever the insurer gives any refund, it will be sent to the first named insured.

Premium audit — The policy is subject to audit if a premium designated as an advanced premium is shown in the declarations. The final premium due will be computed when actual exposures are determined. The first named insured must keep records of information needed for premium computation and send copies to the insurer at the insurer's request.

Transfer of rights of recovery against others to the insurer (subrogation) — The insurer has the right to recover its claim payment from a negligent third party.

Transfer of rights and duties under the policy — The insured cannot transfer any rights or duties under the policy to any other person or entity without the written consent of the insurer. Also, upon death, the insured's rights and duties under the policy are automatically transferred to the insured's legal representative.

In New York, cancellation requirements for businessowners policies are as follows:

- If the policy has been in effect for 60 days or less, the insured must be given 30 days' notice prior to the cancellation unless the cancellation is due to nonpayment of premium, in which case, a 15-day notice is required.
- If a policy has been in effect for more than 60 days, a 15-day notice must be given by the insurer to the first named insured.

Nonrenewal: notice of nonrenewal must be given to the insured within 60 days of the expiration but not more than 120 days. Conditions are also set for conditional renewals which are renewals with amendments to coverage and premium increases that exceed certain thresholds.

SELECTED ENDORSEMENTS

In addition to the optional coverages built into the property coverage form, insurers usually offer other endorsements that can further expand the coverage provided in the policy for an additional premium.

1. Protective Safeguards

Protective safeguards endorsement adds a policy condition requiring the insured to maintain protective safeguards (automatic sprinkler system, fire alarm, etc.) as a condition for coverage. If the automatic sprinkler system is shut down due to breakage, leakage, freezing, or opening of the sprinkler heads, the insured has 48 hours to restore the system before the insured must notify the insurer.

2. Utility Services – Direct Damage

Utility services — direct damage endorsement provides coverage for direct damage caused by utility service disruption stemming from a covered peril. The insured's location and utility service must be indicated in the endorsement. Utility services include water services, communication services, and power supply services.

3. Utility Services – Time Element

The **utility services — time element** endorsement covers the insured's loss of business income or extra expense in the event of a direct physical loss to a utility service. The insured's location and utility service must be indicated in the endorsement.

Other Coverages and Options

Aviation Insurance

In aviation, *hull* refers to the fuselage, wings, tail, rudders, and other major structural features of an aircraft. The insurance policy that indemnifies the insured for damage to or loss of the hull is called **aviation hull insurance**. An aviation hull insurance policy provides physical damage coverage on the aircraft itself, and is the equivalent of the comprehensive and collision coverage of an automobile insurance policy.

There are 2 basic forms of hull coverage:

1. **All-risk on ground and in flight** — This is the broadest form of hull coverage and provides all-risk coverage on the aircraft both while it is on the ground and while it is in flight. Deductibles may be purchased applying either the same or different amounts while on the ground or while in flight or taxiing.
2. **All-risk on the ground and limited in flight** — This form provides all-risk coverage on the aircraft while on the ground, but coverage while the aircraft is in flight is limited to the perils of fire, lightning, and explosion, but not fire or explosion following a crash or collision.

The major perils not covered in flight are crash or collision. The coverage is usually written with a deductible that applies to all losses except fire, lightning, explosion, vandalism and malicious mischief, transportation, or theft. The deductible applies while the aircraft is not in motion, or when the aircraft is taxiing.

Aircraft Liability

Aircraft liability insurance covers bodily injury or death, and property damage caused by ownership, maintenance, or operation of the aircraft. Aircraft liability usually does not cover the crew. This coverage can be written to include or exclude bodily injury to passengers. Typical exclusions include contractual liability and injury to employees who are covered by workers compensation laws. In addition, there are usually *exclusions* if the plane is

- Used for a purpose not described in the declarations;
- Operated by a different pilot than that named in the policy;
- No longer considered airworthy; or
- Used for flying lessons.

A **medical coverage option**, which would pay regardless of fault, with no deductible, may be available. The medical coverage option pays for aircraft occupants' medical and funeral expenses up to the applicable limit. This may include crew members.

Property damage liability: This coverage covers damage to property of others. As with other property damage coverages, there is no coverage for property owned by the insured or property in the insured's care, custody, or control.

Ocean Marine Insurance

Ocean marine is the oldest type of insurance in the world. Edward Lloyd opened a coffeehouse in London in 1689, and it became a meeting place for people buying and selling insurance. Today's Lloyd's of London grew from these beginnings. Lloyd's list provides the name, position, destination, and other important data of every merchant ship in the free world.

Most ocean marine policy forms were adopted by Lloyd's around 1780 with little change since. The forms are full of archaic terms but have proved reliable in courts, and Lloyd's is reluctant to make changes. The forms are brought up to date by adding printed institute clauses to it.

OCEAN MARINE TERMS:

- *Adventure* means a trip or voyage.
- *Assured* is the insured.
- *Average* means loss.
- *Constructive total loss* means expense to repair or recover exceeding the value or policy limit.
- *Demurrage* is delay of vessel beyond the normal time to on-load or off-load or a charge for the delay.
- *Laid up* means in port or at anchor.
- *Loss of specie* means the subject matter ceases to be a thing of the kind insured.
- *Misfortune* is an accident or occurrence.
- *Particular* means partial.
- *Touching* means applying to.

1. Hull Insurance

A hull policy is type of ocean marine insurance that provides physical damage **coverage for the ship while it is in transit.**

If the **ownership** of an insured vessel **changes**, the hull policy terminates

- At the time of ownership change;
- If at sea, upon arrival at the final port; or
- If the termination is involuntary, 15 days after the ownership transfer.

General average is defined as an ocean marine loss that occurs through the voluntary sacrifice of any part of the vessel or cargo to safeguard the vessel or cargo from a common peril, and all interests at risk contributing to it based on their respective saved values. Simply put, general average is a clause found in ocean marine policies requiring that when there is a sacrifice of property to save the ship, crew, and other cargo, everyone who benefited from this sacrifice must share in the payment for the sacrificed property.

According to the conditions of a hull policy after a loss, wages and maintenance will be paid for the master, officers, and crew when removing the vessel from one port to another for repairs, or on a trial trip to test repairs.

The insurer will not pay maintenance and wages for the master and crew while the ship is laid up for repairs. The insurer can pick the port of repair and can veto any proposed repair facility.

The hull policy pays for sighting the bottom after stranding whether or not damage is found. The hull policy never pays for scraping and painting the bottom of the ship.

American Institute Hull Clauses (AIHC)

American Institute Hull Clauses were created to establish wording to be used in marine policies in order to suppress confusion. Although hull policies could be written for a specific period of time, for a voyage, or for a voyage plus a stated amount of time in port after the voyage, most AIHC policies are issued for a term of 1 year. Explained below are clauses contained within the American institute form.

The **assured** is listed in the policy. If payment is made to anyone other than the owner of the vessel, it will be made on to the extent that the owner would have collected. It also contains a waiver of subrogation to related entities of the assured.

The **loss payee** is the party to be paid by the insurer in the event of loss. The loss payee could be a mortgagee or lien holder.

The **vessel** is the ship itself and is covered for physical damage or loss by the hull policy. Equipment owned by others and installed on the ship will also be covered. No coverage exists for cargo containers, barges or lighters (flat bottom ship used to unload cargo ships).

The **duration of the risk** on hull policies could be for a specified period of time for a voyage (one place to another and usually for an additional 24 hours after moored at anchor safely at port of destination) or mixed (voyage plus a specified period of time in port after arrival). Most AIHC policies are written with a coverage term of 1 year.

Most hull policies are written on an **agreed value** basis. The insured and insurer agree upon the value of the ship at the time the contract is made. In the event of a total loss, this amount is paid.

The limit of insurance is called the **amount insured hereunder**.

Any **deductibles** applying will be expressed as a dollar amount in the policy. A deductible does not apply for total losses.

Premium is stated in the policy and is fully earned in the event of a total loss.

Return of premium will be applied on a pro rata basis upon a change of ownership of the vessel. Premium also will be returned on a pro rata basis for each 30 consecutive day period laid up in port not under repair and not being used for storage or lighting. If the insurer cancels the policy, a pro rata refund is due. If cancelled by the assured, a short rate refund is due.

Nonpayment of premium after 30 days of an in-force policy can be cancelled by the underwriter with 10 days' notice to the assured or broker who negotiated the contract. If a total loss occurs prior to the cancellation, the full annual premium will be earned.

The **adventure** clause describes when the vessel is covered and not covered. In general, it will be covered during the period of the policy while at sea, in docks, and while towing other vessels in distress, trial trips and sailed with or without pilots. The vessel may not be towed by other vessels in other than a customary fashion.

In the event of any accident or occurrence that could lead to a **claim**, prompt notice must be given to the underwriters. The underwriters have the right to appoint their own surveyor to determine the extent of the damage. The underwriters have the right to decide where the vessel will proceed for repairs and have the right to veto any repair firm proposed.

If the underwriters direct the vessel to proceed to a particular port for repair, the insurer will pay the expenses of doing so, including wages and maintenance for the master, officers, and crew. Maintenance and wages also will be paid for the master, officers, and crew during any trip to test the repairs. Maintenance and wages will only be paid while the vessel is underway.

The expenses of sighting the bottom after stranding will be paid new for old without deduction even if no damage is found. In no case does the policy pay for scraping or painting the bottom.

The insurer also will pay for loss or damage to equipment not owned by the assured but installed for use on board the vessel and for which the assured has assumed responsibility.

In the event of a loss or misfortune, the master and crew is required to **sue and labor** to prevent further loss and keep the loss as small as possible. The insurer will pay reasonable expenses in doing so. If the master and crew do not sue and labor to prevent further loss, the insurer could refuse to pay the claim.

The **collision clause** of the hull policy is actually a type of liability coverage because it pays for damage to another's ship with which the assured's ship has collided. The assured must have been at fault for payment to apply.

The **sistership clause** stipulates that in the event the assured collides with a ship also owned by the same assured, each vessel has the same rights as if the collision was with a ship owned by someone other than the assured. If there is a question of liability, an arbitrator will determine the outcome.

When both vessels are at fault for a collision, the indemnity is calculated on the principle of **cross liabilities**. Each vessel owner would pay the other vessel owner the proportionate amount of damage based on the percentage of fault, subject to its own limit of collision liability. The exception to this is if one of the vessel's ability to collect damages is limited by law.

Although most ocean marine insurance is written on an all-risk basis, its intent is to cover the perils of the sea. Losses due to war, strikers, riot, civil commotion, decay, deterioration, and inherent vice are not covered.

In certain areas of the world there exist narrow waters (ports, straits, etc.). In these areas, so as to complete the voyage in a timely and safe manner, **pilotage and towing** services must be used. The insurance coverage remains in effect while the vessel is under tow or the control of the specially qualified pilot in areas where pilotage and towage are the common practice. If the pilotage or towing firm is responsible for the damage, the firm would be liable for paying for it.

In the event of a **change of ownership** (voluntary or otherwise, such as new management - change from one entity to another, not internal changes of the assured; bareboat charter; or classification change), the coverage automatically terminates unless the following conditions apply:

- At that time, or if the ship is at sea with cargo, the coverage terminates upon arrival at the final port.
- In the event of an involuntary temporary transfer by requisition or otherwise, without the prior written consent of the assured, the automatic termination will be 15 days after such transfer.

The insurance will not benefit the new owner.

Additional insurance: other insurance is not allowed, except to cover perils excluded by the policy or to cover the difference between the amount insured hereunder and the agreed value.

Other Hull Coverages

In addition to the AIHC, there are other commonly used hull clauses, such as the **Taylor Hull form**, that are very similar to the AIHC. These other forms use the same terms, and the coverage works the same.

Not only do ocean marine hull policies cover ships on the high seas, but they also cover **coastwise vessels and vessels on inland waterways**. Again, all the same terms, conditions, and provisions apply.

Increased value and excess liability (IVEL) clauses work like umbrella policies. They provide excess coverage for the same losses covered by an underlining policy they are written to go with. The underlining policy must pay up to its limit before the IVEL pays anything.

The IVEL clause can provide excess coverage for protection and indemnity, collision, towage liability, general average and salvage, sue and labor, ship repairers liability, charterers liability, wharfingers/or safe berth liability, and others as specified.

2. Cargo Insurance

Cargo policies are written to cover loss or damage to the cargo. The owner of the cargo certifies that the cargo is suitable for shipment. The amount of premium will be partly determined by the packing method used and partly by the type of ship providing the transportation.

Bulk carriers are used to carry coal, grain, phosphates, and other loose cargo. The ship itself is the container for the cargo. Tankers are used to carry liquid cargo such as oil.

General cargo ships carry break-bulk cargo. Things such as steel, rolls of wire, and boxed goods are hauled in general cargo ships. Loading and offloading is slow because each piece of cargo must be individually handled. The cargo is not as well protected using this method, resulting in higher premiums.

Container ships carry cargo packed in 20- and 40-foot containers that also can be moved by trucks or railcars. This method is the more efficient in cargo handling than break-bulk, resulting in shorter port times. Containers provide better protection for the cargo, resulting in lower premiums than break-bulk.

Roll on/roll off ships (ro/ro ships) are used to carry motor vehicles, which roll on and roll off the ship via a stern ramp.

Types of Cargo Losses

An ocean marine total loss may occur by **actual total loss** or **constructive total loss**. Actual total loss is damage to the entire property. Constructive total loss is when the cost to repair or recover exceeds the policy limit and the insurer pays the policy's agreed value. An actual loss may occur when all property has been destroyed, when there is a loss of specie, or if an insured is irretrievably deprived of all property, even if it is not totally destroyed. A loss of specie is when all property is damaged as to cease to be a thing of the kind insured. A loss of specie is payable as a total loss.

In the event of a loss, the master and crew are required to **sue and labor** to protect the insured property from further loss. The policy will pay the cost of doing so. If the crew does not sue and labor to keep losses as small as possible, the insurer could refuse to pay for the loss.

Partial loss could be either a particular average, in which only those involved in the loss are affected, or general average, in which all those involved in the voyage share in the loss.

If the cargo is damaged short of the destination port, an agent of the insurer at an intermediate port may agree to sell it at the best price. Settlement will be based on the difference between insured value and the net proceeds of the sale. This is called a salvage loss.

Open Cargo Policy

Cargo policies may be written on a trip or voyage basis, or for a frequent shipper, such as an importer or exporter, on an open cargo basis. The open cargo policy would cover all the insured cargo for a specified amount of time or for a specified number of shipments.

There is no standardized open cargo policy form. The cargo clauses of the American Institute of Marine Insurers attach to cargo policies for cargo moved on U.S. ships.

Cargo policies are usually written on a warehouse-to-warehouse basis, covering the cargo from origin to destination even though parts of the trip may be over land. The coverage is in effect until the cargo reaches its destination, or 60 days after discharge at the destination port. The American Institute warehouse-to-warehouse clause states the coverage expires 15 days after discharge at the destination port (30 days if the cargo's destination is outside the limits of the port).

3. Freight Insurance

Freight and cargo, although seemingly synonymous, are 2 separate things. The term **cargo** is used to describe the physical goods that are being shipped from one place to another. The term **freight** is used to describe the charges made to ship cargo from place to place.

The term **freight insurance** is used to describe the indirect loss that an insured would suffer if insured cargo is lost or damaged. Such losses include the income that would be generated, or the charges paid to transport such cargo. Freight charges can be prepaid, in which case coverage would be attached to the cargo policy purchased by the cargo owner. Freight charges also can be paid on delivery, in which case the ship owner could purchase coverage to be attached to the hull policy.

4. Protection and Indemnity

Protection and indemnity coverage under ocean marine contracts is essentially liability insurance that protects the owner of the ship from the consequences of his or her negligent acts or the negligent acts of his or her agents. If the owner should be held legally liable for damages to a third party, the P&I coverage would provide protection against financial losses by paying those sums that the insured became legally liable to pay as damages. The P&I coverage may be written with other marine coverages or as a stand-alone policy.

P&I policies are indemnity policies. Indemnity, the basic concept in insurance, attempts to return an injured party to "whole." Indemnity compensates the injured party for the economic loss, and in insurance, the monetary amount to make the injured party whole again can be up to the policy limit. In a liability policy, the injury to the third party is due to the negligence, or perceived negligence of the insured. Negligence is not exhibiting the same degree of care that a normal person would exhibit under the same or similar circumstances.

The liability of the vessel owner is limited to losses that occur while the vessel is operating on behalf of the vessel owner. Liability coverage will be provided unless there is a stipulation in maritime law that limits the owner's liability.

P&I insures the ship owner against liability:

- To seaman for injuries resulting from unseaworthiness of the vessel and other negligent acts;
- To stevedores (laborers who load and unload vessels in a port), longshoreman, and harbor workers;
- For cargo lost or damaged by negligence;
- For damage to other property, including fixed objects; or
- For damage to other vessels not caused by collision.

Losses caused by the insured's intentional acts will not be covered. The P&I policy includes **no right of recovery** with respect to loss, damage, or expense, either directly or indirectly for several reasons listed below.

P&I coverage provides marine legal liability coverage for the ship owner in the event that the owner is sued for negligence.

For example, under the Jones Act, seamen are covered for their injuries while working on a ship. The law allows that the seaman also may sue the ship owner for negligence and general damages as a result of such injuries caused by negligence.

Also the coverage would apply to suits against the ship owner arising from injuries to longshoremen and harbor workers, loss of cargo caused by negligence, and damage to other vessels caused by collision if the insured's ship was negligent.

Unlike other types of ocean marine insurance on boats, P&I provides coverage for bodily injuries.

The protection and indemnity coverage may be written with other marine coverages, or as a stand-alone policy.

Boatowners

Homeowners policies limit the amount of property and liability coverage available for watercraft. Only \$1,500 of coverage is provided in the homeowners policy for damage to watercraft, accessories, equipment, and trailers. Liability coverage is afforded to the insured arising out of owning or using inboard powered boats up to 50 horsepower, outboard powered boats up to 25 horsepower, or sailing vessels **up to 26 feet** in length.

Additional protection is available either **by endorsement** or through the purchase of a **boatowners policy**. The coverage provides that the watercraft must be used solely for private, pleasure use and that coverage is excluded if the boat is hired out, chartered, used in an official speed or race contest, or used to transport people or property for a fee.

The policy consists of 2 sections:

- **Section I** contains the physical damage coverages, which includes the perils insured against, exclusions, and conditions applicable to Section I only; and
- **Section II** contains the insuring agreements for watercraft liability, medical payments, and uninsured boaters. Also included are Section II conditions, as well as general conditions applicable to both Section I and Section II.

Section I — Physical damage coverage on the boat is designated Coverage A in the boatowners policy. It includes coverage for the actual cash value (ACV) of

- The motor(s) described in the declarations, including remote controls and batteries;
- The boat described in the declarations, including its permanently attached equipment;
- The trailer described in the declarations if specifically designed for the transportation of the boat; and
- Equipment and accessories manufactured for marine use.

As indicated by the last item, the physical damage coverage usually extends to cover equipment pertaining to the use of the vessel, subject to a dollar limit.

Perils insured against — The boatowners policy insuring agreement is usually of the open peril type, providing that the insurer will pay for direct and accidental loss to the property insured.

In addition to the exclusion for loss by war and nuclear hazard, policies usually **exclude** coverage for the following types of damages:

- Due and confined to wear and tear, gradual deterioration, inherent vice, latent defect, mechanical breakdown, faulty manufacture, damage caused by any repairing or restoration process, and service or maintenance operation, unless fire results and then for loss caused by the resulting fire;
- While carrying persons or property for a fee, or while the covered property is rented to others; and
- While the covered property, except sailboats, is being operated in any official race or speed test.

Additional coverages for physical damage are the following:

- **Reasonable repairs** — Coverage applies for the expenses necessary to repair or to protect the covered property from further damage from an insured peril. Payment for loss under the reasonable repairs provision does not increase the policy limit.
- **Recovery** — Coverage applies for the reasonable cost incurred by the insured to recover the insured property in the event of stranding or sinking. This coverage is derived from an ocean marine provision entitled salvage. However, unlike the ocean marine salvage charges, which are payable in addition to the limits of coverage on the hull, the recovery coverage of the boatowners policy does not increase the limits of liability under the policy.
- **Automatic coverage** — Automatic coverage is provided on replacements for the boat, motor, or trailer listed in the declarations, provided the insured notifies the insurer within 45 days of acquisition and pays any additional premium required.

Section II — The liability coverages of the boatowners policy parallel the coverages of the personal auto policy. They include the following:

- Watercraft liability;
- Medical payments; and
- Uninsured boaters.

Watercraft liability coverage provides protection up to the specified limits for claims or suits against a covered person for damages because of bodily injury or property damage caused by a watercraft occurrence. In addition to the promise to pay judgments arising out of such suits, the insurer also agrees to defend the insured, but reserves to the insurer the right to make settlement if it deems it expedient. As in the case of other liability policies, coverage for the cost of defense is payable in addition to the policy's limits.

Exclusions under the boatowners policy include bodily injury or property damage that is expected or intended by the insured, and the liability of any person using a watercraft without permission. Other exclusions are bodily injury to persons eligible for workers

compensation, damage to owned or rented property in the care, custody, or control of the insured, and liability of a person engaged in the business of selling, repairing, storing, or moving watercraft. The policy also excludes liability arising out of racing, speed tests, war and nuclear hazards.

Claim-related expenses are paid as additional coverage, similar to the personal auto policy. Medical payments coverage pays for accidents occurring while the injured party is in, upon, getting into or out of the insured boat. Some policies include medical payments coverage for persons who are injured while water-skiing.

Uninsured boaters coverage usually provides a stipulated amount of coverage (e.g. \$10,000) that can apply for accidents with uninsured watercraft. Increased limits are available for additional premium.

Navigation and territorial definitions — This is an important part of the contract that an insured should be made aware of. The broadest policies cover the watercraft while being operated on any inland body of water within continental United States, Canada, and coastal waters in the same area up to a limit of 10 to 25 miles (depending on the insurer). The most restrictive policies provide coverage only on a specific body of water and within a narrow parameter around that particular area. Many policies provide no coverage for offshore waters, such as the Gulf of Mexico.

Surplus Lines

All states require an insurer to obtain a license or certificate of authority to transact the business of insurance in the state. These insurers are called admitted or authorized insurers. The term **nonadmitted insurance** means any property and casualty insurance permitted to be placed directly or through a surplus lines broker with a nonadmitted insurer eligible to accept such insurance. Each state makes certain exceptions to allow nonauthorized or nonadmitted insurers to transact business within the state. The permitted types of transactions are usually limited to insurance that is difficult to place, or insurance that is not readily available through an authorized insurer in the state. These unauthorized insurers are called **excess** or **surplus lines** insurers. Although the insurance company is unregulated, the insurance may be sold only through licensed excess and surplus lines brokers.

Each state defines those circumstances in which excess and surplus lines insurance may be written. The following are some of the general requirements:

- After diligent effort, the insurance cannot be written through an authorized carrier;
- The purpose of writing the insurance through an excess or surplus lines insurer must not be to obtain a better price or better terms; and
- The coverage must be written through a state-licensed excess or surplus lines broker.

Although these insurers are considered unauthorized, most states compose an approved listing of excess and surplus lines insurers. The NAIC also publishes a listing of excess and surplus lines insurers that it deems acceptable, and many states have adopted this listing.