# 2006 Insurance Guidelines

## Michigan State Housing Development Authority (MSHDA)

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# MSHDA
# 2006 INSURANCE GUIDELINES

## INTRODUCTION

This guide is designed to assist owners and management agents of Michigan State Housing Development Authority (MSHDA) financed assets with the placement of insurance coverage for completed assets and assets under construction.

If you or your Insurance Agent have any questions on these guidelines, please call MSHDA's Insurance Coordinator at 517-241-1329 or the Legal Division at 517-373-8295.

# GENERAL INFORMATION

## Summary of Insurance Guidelines

# General Information

The following are MSHDA's general insurance guidelines. Enclosed are separate insurance specification sheets for the owner, manager and the general contractors. MSHDA reserves the right to modify the insurance guidelines at its discretion.

Certificates of Insurance must be provided on all properties as soon as available, but in no event less than **seven days** prior to the anticipated closing or policy renewal date in accordance with the following guidelines:

1. Evidence of all insurance must be provided on an Acord Certificate of Insurance form, or its equal. Certificates should be sent to the attention of Karyn Stockard by facsimile at 517-373-2450 or by e-mail to stockardk@Michigan.gov. Insurance binders are not acceptable as the coverage is bound for only 30 days. Property Certificates should be prepared on an Acord Form 27; all others on Acord Form 25-S. Original policies should be provided in all cases as soon as practicable.

2. All Michigan licensed insurance companies must have an A.M. Best's rating of at least A-,VII. If the rating is lower than A-,VII, approval is required; however, evidence of a strong reinsurer via a reinsurance cut-thru endorsement (100% fully reinsured) will be considered. MSHDA prefers that insurers be licensed in Michigan, however MSHDA will accept surplus lines insurance companies with an A.M. Best rating no less than A-, VIII.

3. All policies must contain an acceptable non-contributory mortgagee clause and loss payable clause as is appropriate for the type of coverage.

4. MSHDA-financed properties must have exclusive insurance coverage. No other property that is financed by any other lending firm may be included on a MSHDA-financed insurance policy. Blanket or package policies are acceptable, providing the property is listed and identifiable in the policy, and there is a mortgagee clause naming MSHDA. However, blanket policies will be scrutinized for adequate limits and coverage.

5. All policies shall include a thirty (30) day notice of cancellation or material change and ten (10) day notice of cancellation for non-payment of premium.

6. Polices shall be placed without exclusions for acts of terrorism, provided that terrorism coverage is obtainable at a commercially reasonable cost, as determined by MSHDA.

# COMPLETED BUILDINGS

# Insurance Guidelines for Completed/Operational Buildings

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The following are the guidelines for the Owner/Manager of a Completed/Operational Building or Complex.

## PROPERTY INSURANCE GUIDELINES

**A.** <u>All Risk Property Coverage</u>

| | |
|---|---|
| COVERAGE: | All Risk or Special Form |
| CO-INSURANCE: | None |
| VALUATION: | 100% Replacement Cost coverage with an Agreed Amount Endorsement or with no Co-Insurance; ***Please provide evidence of the coverage on the certificate of insurance.*** Loss Limit policies will be considered on a case-by-case basis, after analyzing critical factors such as project location, total portfolio size and percentage of value covered. |
| DEDUCTIBLE: | $10,000 maximum ($25,000 or higher with MSHDA's direct approval) |
| LOSS OF RENTS: | A minimum of twelve (12) months of rental insurance in an amount equal to the gross rental for each period for all perils is required with a 180 day extended period of indemnity clause. |
| CONTENTS: | Coverage for contents may be required in assets where personal property is significant to the operations of the real property. |
| ORDINANCE OR LAW: | |
| UNDAMAGED PORTION | Insure for 100% of the replacement cost of the building. |
| DEMOLITION COST | Insure for 20% of the value of the covered building insured by direct physical damage, |

cost to demolish and clear the site of undamaged parts as a consequence of enforcement of an ordinance or law that requires demolition of such undamaged property.

| | |
|---|---|
| INCREASED COST OF CONSTRUCTION | Increased Cost Of Construction Coverage should be 100% of the increased cost to repair or reconstruct damaged portions of building/s and or costs associated with reconstruction or remodeling undamaged portions of that building, whether or not demolition is required. |
| LOSS PAYABLE CLAUSE: | "Loss, if any, on all property unless otherwise shown shall be adjusted with the Insured and made payable to the named insured and shall also be payable to any additional named insured entities, loss payees and mortgages named." ***Certificate should stipulate that it meets this requirement.*** |

**B.** <u>Flood Insurance</u>

Any building that is located on the flood maps and shown to be within a Special Flood Hazard Area (SFHA), or those known to be prone to flooding, are eligible for and must carry a National Flood Insurance Policy. Please refer to the "Flood Insurance" section of this manual for further information on Flood Insurance and the National Flood Insurance Program.

MSHDA may require flood coverage for properties not in a Special Flood Hazard Area (SFHA) on a case by case basis, but it is not normally required.

| | |
|---|---|
| COVERAGE: | Maximum limit available up to 100% Replacement Cost. |
| DEDUCTIBLE: | \$25,000 or higher with MSHDA's direct approval<br>\$500 on National Flood Insurance Policy |

**C.** <u>Earthquake Insurance</u>

All properties located in areas prone to earthquakes are required to provide coverage if reasonably available. It is recommended that coverage be provided for all other properties.

| | |
|---|---|
| COVERAGE: | Insure to probable maximum loss (will be considered on a case-by-case basis). |
| DEDUCTIBLE: | Subject to market conditions, to be determined and approved on a case by case basis, but not to exceed 10% of the value of the property. |

**D.** Boiler and Machinery/Equipment Breakdown Insurance

All properties that have a central boiler or heating system, sprinklers, central air conditioning, generators, other machinery and equipment and/or elevators in the building will be required to carry Boiler & Machinery coverage.

| | |
|---|---|
| AMOUNT: | Lesser of $2,000,000 or the insurable value of the improvements. |

# LIABILITY INSURANCE GUIDELINES

**A.** Commercial General Liability

| | | |
|---|---|---|
| TYPE: | Commercial General Liability (CGL) policy on an occurrence form. | |
| MINIMUM LIMITS: | General Aggregate (per project): | $2,000,000 |
| | Products and Comp/Op Aggregate: | $1,000,000 |
| | Each Occurrence or Claims Made with an Extended Reporting Period: | $1,000,000 |
| | Fire Damage: | $50,000 |
| MULTIPLE LOCATION POLICY: | If the policy covers multiple locations, a per location aggregate limit is required and must be endorsed onto policy. | |
| ENDORSEMENT: | Coverage for hostile fire must be included/endorsed onto policy (i.e. pollution exclusion must specify that hostile fire is not excluded). | |
| DEDUCTIBLE: | None allowed unless directly approved by MSHDA | |

**B.** Worker's Compensation for Owner/Manager

STATUTORY LIMITS: As set by statute in the applicable state with employer's liability limits of $500,000. Must be carried with respect to any employee of the owner or management agent.

**C.** Commercial Auto for Owner/Manager

| | | |
|---|---|---|
| COVERAGE: | All owned, hired and non-owned automobiles | |
| MINIMUM LIMIT: | Bodily injury and property damage: | $1,000,000 CSL |
| | Uninsured and underinsured: | Statutory limit |

**D.** Umbrella Liability for Owner/Manager

TYPE: Occurrence Basis or Claims Made with Extended Reporting Period. Following form (Coverage not more restrictive than underlying GL).

MINIMUM LIMIT: $4,000,000

LOANS GREATER THAN $25M, NOT LESS THAN: $9,000,000

**E.** Environmental / Pollution Legal Liability

COVERAGE: Pollution Legal Liability coverage may be required depending upon the results of Phase I and Phase II reports.

**F.** Fidelity and Crime Coverage (Employee Dishonesty)

COVERAGE: Employee dishonesty and forgery covering all employees without exception. Blanket coverage is acceptable, provided the policy names each development covered and only includes MSHDA- financed developments. For blanket policies provided by managers, all owners must be listed as named insureds.

MINIMUM LIMIT: Section 8 developments must provide coverage equal to one months' gross rent potential (not less than $100,000)

All non-Section 8 developments must provide coverage equal to two months' gross rent potential (not less than $200,000)

Forgery - $100,000

Owners/ Managers will provide Certificates of Insurance evidencing all coverages outlined above as soon as possible, but in no event less than seven days prior to the anticipated closing date or prior to expiration of any policy. Correct Additional Insured wording will also be evidenced on each certificate. Please see attached sample certificates at the end of this manual for further detail.

# DURING CONSTRUCTION

# Insurance Guidelines for
# Buildings Under Construction/Renovation

The following are the guidelines for the Owners and their General Contractors for a Project while under construction or renovation.

## PROPERTY INSURANCE GUIDELINES

**A.** Builders' Risk Property Coverage

| | |
|---|---|
| COVERAGE: | Builders' Risk – Special all-risk form including soft costs, delay in construction, coverage for new construction & existing structure. |
| TYPE: | Completed value, open perils including but not limited to perils of fire and extended coverage; vandalism and malicious mischief.<br>MSHDA cannot accept "reporting form" coverage. |
| AMOUNT: | New Construction – The limit of insurance must be equal to the full value of the completed project (Hard Construction Cost + ½ Architectural/Engineering Fees + Construction Contingency).<br><br>Rehab/Reconstruction – The limit of insurance must be equal to the value of the building after the demolition portion is completed, plus the full construction/rehab value including cost of labor with soft cost contingency. |
| DEDUCTIBLE: | $10,000 maximum ($25,000 or higher with MSHDA's direct approval) |
| LOSS PAYABLE CLAUSE: | "Loss, if any, on all property unless otherwise shown shall be adjusted with the Insured and made payable to the named insured and shall also be payable to any additional named insured entities, loss payees and mortgages named." ***Certificate should stipulate that it meets this requirement.*** |

**B.**

Flood Insurance

Any building that is located on the flood maps and shown to be within a Special Flood Hazard Area (SFHA), or those known to be prone to flooding, are eligible for and must carry a National Flood Insurance Policy. Please refer to the "Flood Insurance" section of this manual for further information on Flood Insurance and the National Flood Insurance Program.

All other properties should carry flood coverage, but it is not required unless the property is located in a Special Flood Hazard Area (SFHA).

| | |
|---|---|
| COVERAGE: | Maximum limit available up to 100% Replacement Cost. |
| DEDUCTIBLE: | $25,000 or higher with MSHDA's direct approval<br>$500 on National Flood Insurance Policy |

**C.** Earthquake Insurance

All properties located in areas prone to earthquakes are required to provide coverage if reasonably available. It is recommended that coverage be provided for all other properties.

| | |
|---|---|
| COVERAGE: | Insure to probable maximum loss (will be considered on a case by case basis). |
| DEDUCTIBLE: | Subject to market conditions, to be determined and approved by MSHDA prior to closing. |

**D.** Boiler and Machinery Insurance

All properties that have a central boiler or heating system, sprinklers, central air conditioning, generators, other machinery and equipment and/or elevators in the building while under construction or renovation will be required to carry Boiler & Machinery coverage as part of their property/builders risk coverage.

| | |
|---|---|
| AMOUNT: | Lesser of $2,000,000 or the insurable value of the improvements. |

LIABILITY INSURANCE GUIDELINES

The General Contractor must maintain its own Commercial General Liability policy with coverage limits as outlined below. This coverage is intended to be primary over any other insurance the Owner may choose to purchase and evidence of primary coverage must be shown on the Certificate of Insurance provided to the Owner and MSHDA along with the additional insured language.

The Owner's (Partnership or LLC) CGL insurance, if separate, should be excess and contingent in nature over the primary insurance carrier by the General Contractor.

# I. General Contractor

## A. Commercial General Liability for General Contractors

| | | |
|---|---|---|
| TYPE: | Commercial General Liability (CGL) policy on an occurrence form, including coverage for premises exposure, owner's and contractor's protective, contractual liability, independent contractors and completed operations. Coverage must be renewed for three (3) years after the owner's final acceptance of the work. | |
| MINIMUM LIMITS: | General Aggregate (per project): | $2,000,000 |
| | Products and Comp/Op Aggregate: | $1,000,000 |
| | Occurrence Basis or Claims Made with Extended Reporting Period: | $1,000,000 |
| | Fire Damage: | $50,000 |
| | Medical Expenses: | $5,000 |
| ENDORSEMENTS: | Per project aggregate limit. | |
| DEDUCTIBLE: | $10,000 maximum ($25,000 or higher with MSHDA's direct approval) | |

## B. Commercial Pollution Coverage for General Contractors and Selected Subcontractors

| | |
|---|---|
| TYPE: | Occurrence Basis – Providing defense and indemnity coverage for bodily injury, property damage, and environmental investigation and clean-up costs for pollution conditions arising from contractor's operations. In addition to the General Contractor, subs with the potential for disturbing environmental conditions (such as excavators or asbestos removal subcontractors, should also have this coverage. |

| | | |
|---|---|---|
| MINIMUM LIMITS: | General Aggregate (per project): | $2,000,000 |
| | Each Occurrence: | $1,000,000 |

**C.** Worker's Compensation for General Contractors

STATUTORY LIMITS: As set by statute in the applicable state including employers' liability limits of $500,000.

**D.** Commercial Auto for General Contractors

COVERAGE: All owned, hired and non-owned automobiles

| | | |
|---|---|---|
| MINIMUM LIMIT: | Bodily injury and property damage: | $1,000,000 CSL |
| | Uninsured and underinsured: | Statutory limit |

**E.** Umbrella Liability for General Contractors

TYPE: Occurrence Basis or Claims Made with Extended Reporting Period. – Following form (Coverage not more restrictive than underlying GL).

MINIMUM LIMIT: $4,000,000

General Contractors will provide Certificates of Insurance evidencing all coverages outlined above as soon as possible, but in no event less than seven (7) days prior to the anticipated commencement of construction or expiration of any policy. Correct Additional Insured wording will also be evidenced on each certificate. Please see attached sample certificates at the end of this manual for further detail.

If the Owner (Partnership or LLC) is not included as an additional insured on the General Contractor's Liability Certificate of Insurance, it will be required that the Owner maintain a separate Liability policy and provide a Certificate of Insurance outlining the coverage discussed below.

# II. Owner/Partnership/LLC

## F. Commercial General Liability for Owners

| | | |
|---|---|---|
| TYPE: | Commercial General Liability (CGL) policy on an occurrence form including coverage for premises exposure, owners and contractor's protective, contractual liability, independent contractors and completed operations. Coverage must be renewed for three (3) years after the owner's final acceptance of the work. Owners may not exclude subcontractors or independent contractors in the policy. | |
| MINIMUM LIMITS: | General Aggregate (per project): | $2,000,000 |
| | Products and Comp/Op Aggregate: | $1,000,000 |
| | Occurrence Basis or Claims Made with Extended Reporting Period: | $1,000,000 |
| | Fire Damage: | $50,000 |
| | Medical Expenses: | $5,000 |
| ENDORSEMENTS: | Per project aggregate limit. | |
| DEDUCTIBLE: | None allowed. | |

## G. Umbrella Liability for Owners

| | | |
|---|---|---|
| TYPE: | Occurrence Basis – Following form (Coverage not more restrictive than underlying GL). | |
| MINIMUM LIMIT: | | $4,000,000 |

# III. Architect

## H. Architect's Errors and Omissions Insurance

| | |
|---|---|
| COVERAGE: | E&O insurance in an amount equal to the greater of $1,000,000 or 10% of the construction contract amount.<br>Depending on project size deductible minimum of $10,000 to a maximum of $100,000 |

# FLOOD INSURANCE

# Flood Insurance &
# The National Flood Insurance Program

The USGS (U.S. Geological Surveyors) will survey the land in the US. When it comes to rating geographic areas for exposure to Floods, they rate them as follows:

| | |
|---|---|
| Flood **Zone A,A1-30, AE, AH, AO, AR, A99** | Within a 100 year flood plain |
| Flood **Zone B** (more recently referred to on new maps as **Shaded X**: | Within a 100 to 500 year flood plain |
| Flood **Zone C** (more recently referred to on new maps as **Unshaded X**: | Outside of the 500 year mark |
| Flood **Zone D**: | Not rated or surveyed - mapping not currently available |
| Flood **Zone V, V1-30,VE,** | Velocity / coastal rating. Usually included for Wave action |

The government has an insurance program available to owners of buildings in all rated Flood Zones in participating communities with the exception of any buildings within a Coastal Barrier Resources System area (CBRS) or Otherwise Protected Areas (OPRA). The program is referred to as the NFIP - National Flood Insurance Program. The Standard Flood Insurance Policy (SFIP) is available for all buildings falling within all **A** and **V Zones.** The Preferred Risk Policy (PRP) is available for buildings in **B**, **C** and **X Zones.**

Commercial insurance companies offering property insurance to property owners will also provide flood insurance, provided the property is not located in Flood Zone A. Properties in Zone A typically obtain whatever limits are available for Flood insurance through the NFIP. If the property value is higher than the limit available through NFIP, the insured may be able to purchase the balance of the coverage from their commercial property carrier.

NFIP offers a maximum limit of insurance ($250,000 per building). If your building in Flood Zone A has a replacement cost value of $750,000, and you purchase your standard property coverage from the "ABC Insurance Company," the policy will probably exclude flood coverage. Therefore, you will need to purchase coverage through the NFIP. NFIP insurance is available through most agents and the rates are fixed.

If you have a complex of buildings valued at $1,200,000 (e.g.: 6 duplex apartment buildings, each building valued at $200,000), you will need to purchase 6 separate NFIP policies because NFIP coverage is written on a "PER BUILDING" basis. Coverage must be purchased according to the requirements for each Zone as follows:

**<u>All A and V Zones:</u>** A separate NFIP policy for each building. If your commercial carrier will agree to provide replacement cost coverage above NFIP's $250,000 per building limit, this should be specified in your All Risk Property Insurance Policy.

**<u>Zones B, C and X:</u>** A separate NFIP policy for each building is required if your commercial carrier does not offer full coverage for properties in Zones B,C and X and the property, or a portion thereof, is prone to flooding. Your commercial carrier may agree to cover replacement costs above the $250,000 per building limit or may elect to provide full replacement cost value for properties in these Zones.

**How Do You Know What Flood Zone You Are In?**

The USGS Flood Maps are drawn up based on the ground level elevation. This information is usually through the town hall, your engineering firm or your insurance company.

The Maps are somewhat confusing to read but will state which areas are in Zone A vs. Zone B (Shaded X) vs. Zone C (Unshaded X), and how many feet above Base Flood Elevation (BFE) the first finished floor of a building must be to fall into each Zone respectively.

Therefore, if your property on a flood map appears to be in Zone A, then your first "Finished Floor" elevation should be somewhere between the "ground level" elevation and the number of feet above Base Flood Elevation (BFE) that would qualify for a Flood Zone B rating. The following is an example:

**Sample Facts** - Main Street is in a Flood Zone on the USGS Flood map.

**Zone A:** Buildings on Main Street with a first "Finished Floor" elevation between Ground Level and 2 feet above ground level are in Zone A.

**Zone B:** Buildings on Main Street with a first "Finished" elevation of greater that 2' above ground level but less than 4'3" above ground level are in Zone B.

**Zone C:** Buildings on Main Street where their first "finished floor" elevation is greater than 4'3" are in Zone C <u>OR</u> are not considered to be in a "NFIP Flood Zone".

**<u>Scenario I:</u>** Your Building, which is on Main Street, has a first finished floor elevation at 1'3" above ground level. Based on the above facts, your building would be considered to be in Zone A. NFIP insurance will be required by commercial carriers and is available. However, not all commercial carriers are able to provide coverage over the $250,000 per building coverage provided by NFIP.

**<u>Scenario II:</u>** Your Building, which is on Main Street, has a first finished floor elevation of 3'10" above ground level. Based on the above facts, your building would be considered to be in Zone B. NFIP insurance is available but not always required by commercial carriers.

**<u>Scenario III:</u>** Your Building, which is on Main Street, has a first finished floor elevation that is 4'6" above ground level. Based on the above facts, your building would be considered to be in Zone C. NFIP insurance is not necessary. Your commercial carrier should provide the flood coverage.

In summary, a map can place your building in a geographical area that is rated as Flood Zone A, <u>but</u> the elevation of the building's first finished floor will determine whether the building is in Zone A, B, or C. To qualify for a change in Flood Zone Determination you need to submit a Letter Of Map Amendment (LOMA) or a Letter Of Map Revision Based On Fill (LOMAR-F) to the Federal Emergency Management Agency (FEMA). In certain circumstances, you may wish to redesign slightly to avoid Zone A. The footage variances differ from region to region and the above sample is just that, for discussion purposes only.

# GLOSSARY

# Glossary of Insurance Terms

This Glossary of Insurance Terms is provided to assist in reviewing the Insurance Guidelines outlined herein.

**Acronyms and Abbreviations**

B&M ………………………. Boiler & Machinery
BI ………………………….. Bodily Injury (when with a GL policy)
BI-I ………………………… Business Interruption Insurance (when with a property policy)
CGL ……………………….. Commercial General Liability
CSL ……………………….. Combined Single Limit
D&ICC……………………. Demolition and Increased Cost of Construction
EQ ………………………… Earthquake
F&C ………………………. Fidelity & Crime
GL ………………………… General Liability
PD ………………………… Physical Damage

**Additional Insured:** An individual or entity that is not automatically included as an Insured under the policy of another, but for whom the named insured's policy provides a certain degree of protection.

**Agreed Amount Endorsement:** A property insurance provision that effectively does away with the coinsurance clause, thereby eliminating a coinsurance penalty should a claim arise.

**All Risk Form:** Property insurance form that provides coverage for losses arising from any fortuitous cause except those that are specifically excluded. This is in contract to named perils coverage which applies only to losses arising out of causes that are specifically listed as covered.

**A.M. Best's Rating:** A widely accepted rating system developed and published annually by A.M. Best Company. This rating system provides indications of the financial condition of insurance companies.

**Blanket Limit Policy:** A single limit of insurance that applies over more than one location or more than one type of coverage of both. In the case of a Blanket Property Policy, it typically adds up all of the location limits and provides the total limit of coverage as the Blanket Limit.

**Builders Risk:** Indemnifies for loss of or damage to a building under construction. This insurance is normally written for a specified amount on the building and applies only in the course of construction.

**CGL - Commercial General Liability:** A broad form of liability insurance usually covering business organizations to protect them against liability claims for bodily injury and property damage to others, arising out of the insured's operations, products and completed operations, and independent contractors, but excluding coverage for liability arising out of the use of automobiles.

**Certificate of Insurance:** A document providing evidence that certain general types of insurance coverages and limits have been purchased by the party required to furnish the certificate.

**Co-insurance:** A property insurance provision that penalizes the insured for not purchasing a limit of insurance at least equal to a specified percentage (commonly 80%) of the value of the insured property. Affects loss recovery only in the event of a partial loss.

**Combined Single Limit:** A liability insurance term providing one limit that is combined to cover both bodily injury and property damage. (E.g., auto insurance can provide one limit for bodily injury claims and a separate limit for property damage claims to others. A CSL is one limit that applies to both.)

**Completed Value:** A term used in relation to Builders Risk coverage which means you have provided the total amount of the properties value upon completion of construction.

**Demolition & Increased Cost of Construction (D&ICC):** Coverage available by endorsement to a property policy which provides coverage for the cost to demolish a building that had an insured loss and also pays for any increased costs to rebuild as a result of now having to meet new property/building codes.

**Endorsement:** A form used to change the standard coverage of a policy. An endorsement to a policy can add coverage or it can reduce coverage.

**Extra Expense:** Coverage for expenses in excess of normal operating expenses that are incurred to continue operations after a direct damage loss.

**Fidelity & Crime Coverage:** Sometimes termed Employee Dishonesty Coverage, provides coverage for employee theft of money, securities, or property.

**Following Form:** When an umbrella policy provision follows the underlying policy as to how the coverage provisions apply.

**General Aggregate Limit:** The maximum limit of insurance payable during any given annual policy term by an insurer on behalf of the insured for all losses other than those arising from the products and completed operations hazard which has its own limit.

**Hard Costs:** The material and labor costs of constructing a building. This does not include costs such as architect fees, legal fees, filing fees, interest and penalties, lost income if construction delayed.

**Hostile Fire:** A fire that is not intentionally kindled or an intentionally kindled fire that does not remain within its intended confines, such as a fireplace or furnace. For the purpose of this manual, this term relates to liability coverages. Some liability policies have included smoke (from a hostile fire) as a pollutant and, therefore, smoke inhalation claims were excluded. These guidelines require that the liability policies include coverage for any claims arising from smoke from a hostile fire. The typical pollution exclusion on the liability policy must be worded in such a way as to include such claims as insured.

**Insured:** The individual or entity purchasing the insurance, named on the policy, is the Insured.

**Loss Payee:** A person or entity, other than the named insured on a property policy, having an insurable interest in the property covered is a loss payee and should be named on any property loss claims payments because they are a loss payee.

**Occurrence Form:** In the industry standard commercial general liability policy, the form is written to insure liability for bodily injury or property damage that is caused by an occurrence.

**Ordinance or Law Coverage:** Sometimes referred to as Building Ordinance Coverage (Demolition, Increased Cost of Construction, Contingent Liability from Operation of Building Laws Coverage) - This coverage is added to a property policy by way of an Endorsement. When a community has a building ordinance(s) that states when a building is damaged to a specified extent (i.e., more than 50% of building is damaged), it must be completely demolished and rebuilt in accordance with current building codes rather than repaired. Unendorsed, standard property policies do not cover the loss of the undamaged portion of the building, the cost of demolishing that undamaged portion of the building or the increased cost of rebuilding the entire structure in accordance with the current building codes. Some insurers use three separate endorsements to add this coverage: (1) demolition, usually subject to a separate limit; (2) increased cost of construction, may be subject to a separate limit; and (3) contingent liability from operation of building laws, normally subject to the building limit. Others use one single endorsement such as the ISO Ordinance or Law Endorsement.

**Property Insurance:** First party insurance for Real and/or Personal Property.

**Replacement Cost Coverage:** A property insurance provision that changes the valuation of covered property from actual cash value (ACV) to replacement cost value: the cost to replace it today with property of like kind and quality without deduction for depreciation.

**Reporting Form:** Property form that allows insured to report values on a periodic schedule (e.g., monthly or quarterly reports of actual property values). The insured is penalized for late or inaccurate reports and lose coverage when filing a claim if reporting requirements have not been maintained and accurate.

**Soft Costs:** The costs related to a construction project that are not the material and labor costs. To obtain soft costs coverage under a builders risk policy form, you must report the soft costs values which could include costs such as architect fees, legal fees, filing fees, interest and penalties, potential loss or rents if construction delayed, etc.

**Special Form:** This is a property coverage term which means the policy is an All Risk policy providing coverage for losses from all causes that are not specifically excluded. The other forms are more restrictive and only provide coverage for specific named perils.

**Umbrella Liability Policy:** A policy designed to provide protection against catastrophic losses. It is generally written over various primary liability policies such as CGL, auto, employers' liability. The umbrella policy serves three purposes: It provides excess per occurrence limits when the per occurrence limits of the underlying liability policies are exhausted by payment of claims; it drops down and picks up where the underlying policy leaves off when the aggregate limit of underlying policy in question is exhausted by payment of claims; and it provides protection against some claims not covered by the underlying policies.

**Umbrella Policy - Following Form:** When an umbrella policy provision follows the underlying policy terms as to how the coverage provisions will apply.

# APPENDIX

# SAMPLE CERTIFICATES