Property Coverage

Commercial vs Personal

- What difference does it make? -

A very popular question is raised when an agent explores the possibility of moving their real estate investor clients to our exclusive commercial lines investor program. Since a majority of agents are proficient at either personal lines (forms) or commercial lines (forms), they wonder what differences they should inform their clients of when making this switch.

A couple things to keep in mind

- Most dwelling fire policies are written on either the DP-1 or DP-3 form so I will concentrate on those two forms from the personal lines side.
- We have the availability of Basic (CP-1010), Broad (CP-1020) and Special (CP-1030) forms and a majority of these will be issued on Special form so I will concentrate on that on the commercial side.

We find that a vast number of accounts we see from a new business standpoint are written on **individual dwelling fire policies**. Many of these individual policies are written on a DP-1 Form. This creates a "tracking" nightmare as an investor continues to buy additional properties since they end up with multiple expiration dates they need to keep track of. Miss one, and you may have an uncovered loss on one of their properties.

Our program is able to write these on an Annual Scheduled Policy or on a Monthly Reporting Form with **one single expiration date**. The higher number of properties lends itself to be scheduled on a commercial lines fire policy for ease of administration.

Advantages of the **commercial lines form** over a personal line form

(Keep in mind that some carriers may use their own form and not ISO forms so the differences "may" or "may not" apply):

- ✓ **Higher liability limits** are usually available on a commercial lines form than a personal lines form (DP-1 or DP-3).
- ✓ **Higher Property limits** are also usually available on a commercial form over a personal lines form. Most carriers limit their exposures on dwelling fire forms (both from a minimum and maximum basis).
- ✓ **Personal and Advertising Injury** is included on a commercial lines form, where Many times a Personal lines carrier will exclude.
- ✓ **Personal lines programs** are limited to 1, 2, 3, or 4 family dwellings and we are able to write up to 12 family dwellings/apartments inside this program.
- ✓ As mentioned above, the **administrative workload** is reduced by scheduling all the properties on one policy, with a single expiration date.
- ✓ **Business income coverage** does not reduce the dwelling limit and is written as a separate limit. This can be a significant advantage on a loss that takes a significant amount of time to adjust.
- ✓ Separate limits for **adjacent structures** does not reduce the dwelling limit.
- ✓ Simplicity to add or remove properties or change occupancy. This prevents **cancel/rewrite situations**.
- ✓ Many **personal lines carriers** will not write LLC's or Corps on a personal lines form. The wording of personal lines form is geared towards an individual and not towards more sophisticated real estate investors.
- ✓ The **DP-1 (basic form)** is normally written on an ACV basis, where we have the availability of offering coverage on an ACV or RC basis.
- ✓ The **DP-3 (special form)** is normally written on a RC or ACV basis, where we offer both of those options.
- ✓ Depending on coverage form, you may incur **coinsurance penalties** on some personal lines policies whereas our program gives the option of waiving coinsurance.
- ✓ **Special form** on a commercial basis has some broader perils than what the personal lines form offers.

Moving from a Personal Lines Policy to a Commercial Policy

Some of what you lose when you move from a personal lines policy to a commercial policy:

- Ease of escrow billing with lenders since each policy stands on its own (Monthly Reporting Form).
- Automatic coverage percentages for items such as adjacent structures and rental income.
- Specific term policies for vacant dwellings.
- Total property limit may not be aggregated.
- Overall familiarity of personal lines producers with the use of personal lines forms.

So... Which is Better?

This begs the question, which is better? The politically correct answer... it depends.... Each situation needs to be looked at individually and see what best fits the client.

If the client has a handful or fewer properties, or is not a very sophisticated real estate investor, they may have more of a comfort level with personal lines policies. A more sophisticated buyer with many properties is in need of a more tailored program with less administrative hassles and would do better moving to a commercial lines form.

Some other things to consider

✓ **Do they just want to insure the properties for what they have invested?**
(in other words, do they not want the constraints of coinsurance.)

✓ **Do they need more flexibility?**
(buying properties and renovating them so they may be vacant, increasing in value during renovations or maybe being "flipped" and sold once the renovation is done.)

✓ **Are they not interested in some of the "bells and whistles" offered under a personal lines form?**

✓ **Do they just want the following:**

A. Liability coverage

B. Property Coverage to cover their investment

and

C. Rents coverage to continue their income if they have a loss?

What should you **tell your client?**

We are **not comparing** "apples to apples"

You are looking to assess their situation and provide the best program you can based on their **needs and expectation**.

You are looking to provide them with a **tailored solution** to address their risk in the most simplified and straight forward basis.

With the pricing slowly increasing in the habitational sector, you want to provide them with a **stable program** while maintaining significant flexibility.

Bottom line, help provide your client with an insurance solution that helps them reduce administrative headaches and provides them with the coverage they are looking for.

This endorsment changes the policy

Montly Reporting Form

- Please read it very carefully -

This endorsement modifies insurance provided under the following:

- ✓ Building and Personal Property Coverage Form
- ✓ Business Income (and Extra Expense) Coverage Form Commercial
- ✓ General Liability Coverage Form
- ✓ Standar Property Policy

A REPORTING PROVISIONS FOR COVERED PROPERTY

1. Commencing with the effective date of this policy, you must file a report with us, in a format acceptable to us, within fifteen (15) days after the end of each calendar month showing the values of Covered Property at each "insured location" as of the last business day of the preceding month.

2. In addition to reporting the value of Covered Property, your monthly report must also include the amount of any "specific insurance" applicable to each "insured location".

B REPORTING PROVISIONS FOR BUSINESS INCOME COVERAGE

If Business Income Coverage is shown in the Declarations, commencing with the effective date of this policy, you must file a report with us, in a format acceptable to us, within fifteen (15) days after the end of each calendar month showing each "insured location", the type of Business Income Coverage for each "insured location", and the limit of insurance for Business Income Coverage at each "insured location". Business Income Coverage will only be provided for those "insured locations" identified on the monthly report as including Business Income Coverage, and only for the limit of insurance and the type of Business Income Coverage identified on the monthly report for each such location.

C REPORTING PROVISIONS FOR COMMERCIAL GENERAL LIABILITY COVERAGE

If Commercial General Liability Coverage is shown on the Declarations, commencing with the effective date of this policy, you must file a report with us, in a format acceptable to us, within fifteen (15) days after the end of each calendar month showing each "insured location" and whether or not Commercial General Liability Coverage is provided at that location. Commercial General Liability Coverage will only be provided for those "insured locations" identified on the monthly report as including Commercial General Liability Coverage.

D FAILURE TO SUBMIT REPORTS

If at the time of loss or damage you have failed to submit:

1. **The first required report:**
   - **a.** We will not pay more than ninety percent (90%) of the amount we would otherwise have paid; and
   - **b.** We will only pay for loss or damage at "insured locations" shown in the Declarations, including Business Income loss if Business Income Coverage is shown in the Declarations at the "insured location" involved in the loss or damage, and including any liability claim if Commercial General Liability Coverage is shown as applicable to the "insured location" involved. You may not correct an inaccurate monthly report after loss or damage.
2. **Any required report after the first required report:**
   - **a.** We will not pay more than ninety percent (90%) of the amount we would otherwise have paid; and
   - **b.** We will only pay for loss or damage at "insured locations" reported in your last report filed before the loss. This includes Business Income loss and any Commercial General Liability claim if Business Income Coverage and/or Commercial General Liability Coverage is shown as applicable at the location of loss on your last report filed before the loss.
   - **c.** For a Commercial General Liability claim, we may pay the remaining ten percent (10)% on your behalf to effect settlement of any claim, and upon notification of the action taken, you must promptly reimburse us for the amount that has been paid by us. You may not correct an inaccurate monthly report after loss or damage.

E THE COINSURANCE

The Coinsurance Provision in the **Building and Personal Property Coverage Form** and the **Standard Property Policy**, is deleted and replaced by the following:

1. If the Covered Property is insured on an actual cash value basis, and on the date of your last report, the actual cash value of the Covered Property at the "insured location" where the loss occurs exceeds what you last reported, we will only pay a proportion of the loss.

The proportion of the loss payable, prior to the application of the deductible, will be determined by dividing your total reported value for the "insured location" by the actual cash value of the Covered Property at that location on the date of your last report. This provision, however, does not apply to Covered Property that we have agreed to insurance on an agreed value basis.

2. If the Covered Property is insured on a replacement cost basis, and on the date of your last report, the replacement cost of the Covered Property at the "insured location" where the loss occurs exceeds what you last reported, we will only pay a proportion of the loss.

The proportion of the loss payable, prior to the application of the deductible, will be determined by dividing your reported value for the "insured location" by the replacement cost of the Covered Property at that location on the date of your last report. This provision, however, does not apply to Covered Property that we have agreed to insure on an agreed value basis.

3. For locations you acquire after the last report of values, we will not pay a greater proportion of the loss, prior to the application of the deductible, than the proportion determined by dividing the values you last reported for all locations by the value (either replacement cost, actual cash value or agreed value as described above) of the Covered Property at all locations on the date of your last report.

Example of Under Reporting:

If: The values reported are	$90,000
The actual values on the last report date were	$120,000
The deductible is	$250
The amount of loss is	$60,000

Step a: $90,000 / $120,000 = .75
Step b: .75 x $60,000 = $45,000
Step c: $45,000 - $250 = $44,750

The most we will pay is $44,750.
The remaining $15,250 is not covered.

F THE DEFINITIONS

The following are added to **definitions:**

1. "Insured location" means a:

a. Named Location shown in the Commercial Property Coverage Schedule; or

b. Location in the policy territory that you acquire after the effective date of the policy and that is reported to us as required by the terms of this endorsement.

2. "Specific insurance" means other insurance that:

a. Covers the same Covered Property to which this endorsement applies; and

b. Is not subject to the same plan, terms, conditions and provisions as this insurance, including this endorsement.

G THE PREMIUM

Premium for the **Covered Property, Business Income Coverage and Commercial General Liability Coverage** to which this endorsement applies, will be based on the values of Covered Property, the types of and limits of Business Income Coverage applicable to each "insured location", and the Commercial General Liability Coverage applicable to each reported location (as applicable), as reported by you on the monthly report of values. In calculating the premium, we will first deduct the amount of any "specific insurance" applicable to such Covered Property from the reported values of the Covered Property to obtain an adjusted amount. We will determine the amount of your premium based on this adjusted amount, the types and limits of Business Income Coverage applicable to each location, and the Commercial General Liability Coverage applicable to each location (as applicable), as requested in the monthly report.

If you fail to file a monthly report of values within **thirty (30) days** after its due date, we will use the values you last reported in determining your premium. If we have not received your first monthly report of values within sixty (60) days after its due date, your premium will be based on the values of Covered Property, the types of and limits of Business Income Coverage and the Commercial General Liability Coverage applicable to each "insured location", as provided at the inception of the policy. If, after your first report of values is received, we determine that additional premium is due, you will be responsible for paying such additional premium.