



The
Insurance
Institute

Commercial General Insurance

CIP-04 KEY POINTS



CHAPTER 3

ARRANGING COMMERCIAL PROPERTY INSURANCES

Typical insurance covers required by almost all businesses include property damage, money, glass, business interruption and liability.

The policy the adviser will ultimately recommend to the client might be:

- a stand-alone commercial property insurance policy
- a combined policy
- a package policy.

Package policies are typically marketed to small-to-medium sized enterprises (SMEs) in a particular sector and are constructed in a way that meets the common needs of the targeted sector.

For larger businesses, or those requiring special risk covers, a combined policy may offer greater flexibility.

ESTABLISHING THE SUM INSURED

When advising on property insurance, one of the key elements is establishing the correct sum(s) to be insured.

Buildings

The term 'buildings' includes:

- landlords' fixtures and fittings
- outbuildings, walls, gates and fences, yards, car parks, roads and pavements
- piping, ducting and cables
- landscaping.

Setting a sum insured for buildings:

The basis for setting sums insured is normally reinstatement. The sum insured for buildings should represent the rebuilding cost of the premises, and not the market value.

There are a number of ways that policy wordings can help clients set and maintain adequate sums insured.

Three criteria that commonly apply to buildings' sums insured are outlined below:

- Reinstatement memorandum
- Day one reinstatement
- Index linking.

Additional costs:

The following will need to be included when establishing a buildings' sum insured:

- Professional fees
- Debris removal costs
- Public authorities clause.

Contents and stock



The term 'contents (other than stock)' includes:

- machinery, plant, fixtures, fittings and all other contents
- tenants' improvements, alterations and decorations
- contents of outbuildings
- contents in the open, e.g. in yards
- employees', directors', and visitors' personal effects
- money, documents, manuscripts and computer system records up to a limited amount.

The term 'stock' includes both stock in trade and goods held in trust or on commission that the policyholder is responsible for.

Setting a sum insured for contents:

For most policies, the sum insured for contents is set on a reinstatement basis. The same options exist as for buildings (reinstatement memorandum, day one reinstatement and index linking).

The overall sum insured for contents is typically expressed as a single figure, however, it is sometimes advisable to separate specific elements such as 'office contents'.

For manufacturing risks, a key element is the replacement of any specialist machinery used in the manufacturing process.

In addition to establishing the overall contents sum insured, the adviser will also want to clarify with the policyholder the inner limits for certain specified items within the overall figure.

Setting a sum insured for stock:

The stock sum insured should be based on the cost price to the policyholder, not the sale price.

For theft insurance, insurers divide stock into categories according to its attractiveness to thieves. Goods that tend to be classified as target stock are those:

- of high value and small in size
- with a ready second-hand market
- from an easily disguised source or supplier.

If stock values vary significantly, e.g. where a business is seasonal, a stock declaration basis should be considered.

Where the client's stock is 'high risk', it may be necessary to include specific provision for stock debris removal.

Floating arrangements:

If the insured operates their business from a number of different locations cover may be provided on a floating basis, i.e. one overall contents sum insured 'floats' between all locations specifically listed on the policy schedule.

At renewal the insurers will request an update of the values at risk at each location in order to recalculate the average rate.

First loss cover:

While insurance for fire and perils is typically arranged on a 'full value' basis, a first loss cover may be more suitable for theft.

The policyholder must still declare the full value of the stock to the insurer.

Insurers will consider the estimated maximum loss (i.e. 'worst case scenario') when setting a premium for all types of commercial property insurance. There may therefore be little difference between premiums for full cover and first loss cover.

QUESTIONS TO ASK THE CLIENT

The topics that need to be addressed to accurately establish the client's wants and needs include:

- Business description
- Buildings (risk address)
 - Location/address/Eircode
 - Sum insured, declared value, age
 - Construction details, number of storeys
 - Trade processes
 - Occupancy, multi-tenancy, purpose built
 - Proximity to nearest fire station, security details
 - History of flooding
- Contents
 - Sum insured, declared value
 - Nature of machinery and equipment
- Stock
 - Sum insured and basis of cover
 - Nature and location of stock
 - Details of stock categories, target stock, etc.
- Miscellaneous
 - Details of any other specific cover
- Housekeeping
 - Fire protections
 - Opening hours, periods unattended
 - Unattended machinery
 - Storage of hazardous goods

- Waste removal arrangements
- Heating arrangements
- Risk assessment and safety statement
- Claims experience.

SUBMITTING A NEW COMMERCIAL PROPERTY RISK TO INSURERS

The business description is the first element the underwriter will consider and the enquiry will progress only if this is acceptable. The business description is also the starting point for developing the basis of rating.

A risk submission for commercial property insurance always includes:

- Location; full address of the premises including Eircode
- Sum insured for buildings, contents, stock and other items
- Construction age and occupation of the premises
- Current fire protections and whether these are properly maintained
- Storage arrangements for flammable liquids
- Heating arrangements, including use of portable appliances
- Flood control measures, where appropriate
- The adviser's assessment of the current standard of, and attitude to, housekeeping
- Arrangements for control of visitors, and whether these are properly enforced
- Distance to nearest fire station (and whether full or part time)
- Current security measures.

The submission should also include an up-to-date claims experience with full details of previous claims and losses. The adviser should provide appropriate explanations, especially in relation to mitigating factors.