

Chapter 6 Property – Specialized Coverages

Specialized Coverages

Marine insurance is a broad term including ocean and inland marine insurance. The Nationwide Marine Insurance Definition, published by the National Association of Insurance Commissioners, includes imports, exports, domestic shipments, means of communications, and personal and commercial property floaters as marine insurance.

Ocean Marine

Ocean marine insurance covers ships or hulls, goods or cargo, earnings (such as freight, passage money, commissions, or profit) and liability (known as protection and indemnity). The vessel owner, or any party interested in or responsible for insurable property by reason of maritime perils, may purchase this insurance.

Protection and Indemnity Insurance

Protection and indemnity insurance (P&I) is a broad form of marine liability insurance that covers the operator of a ship for such things as liability to crew members and other individuals on board the vessel, and for damage to fixed objects, such as docks, resulting from the insured's negligence.

Inland Marine Insurance

Inland marine insurance is for coverage of property that involves an element of transportation. The property must be actually in transit, held by a bailee, at a fixed location that is an instrument of transportation, or be a movable type of goods that is often at different locations.

Bumbershoot Liability

Bumbershoot coverage is a particular form of umbrella liability designed for accounts where the principal exposure is marine and involves the operation of vessels and use of docks.

The Bumbershoot covers protection and indemnity, general coverage, collision, salvage charges, sue and labor, all other legal and contractual liability including employers liability, liability under admiralty laws or the Longshoremen's Act, automobile liability, and those hazards usually associated with general liability insurance. Insured's net retention of at least \$100,000 is usually required.

Charter Boats

Standard protection and indemnity forms issued in conjunction with Hull insurance policies on vessels exclude coverage on the use of a boat for hire or charter. Under certain circumstances, a P & I form, broader in coverage than a standard general liability contract, is issued to an owner or operator of such a vessel used for carrying passengers for sightseeing, fishing, transportation, entertainment or marine observations on a fee basis.

Coverage for liability also may be arranged on an OL&T liability form with rates set in the specialty market at a surcharged rate. Vessels under 40 feet in length are rated at 50% of those over 40 feet. Coverage usually is subject to a deductible. Liability exposure is of more concern to underwriters than loss or damage to the hull.

Restaurant and serving of alcoholic beverages are also principal hazards on larger vessels.

Ship Charterer Legal Liability

This insurance is designed to protect a vessel chartered against liability incurred for loss of, or damage to, the vessel hired under the charter party. Liability is ordinarily limited to damage caused in loading or unloading or failure to provide a safe berth. Policies may be written on an open basis with a flat premium charged for each voyage, or each voyage may be placed

separately.

Ship Repairer Legal Liability

Ship repairer legal liability protects an individual ship repairer, marina or boat yard operator for legal liability to the vessel's owner for damage to the vessel being repaired. This "care, custody or control" coverage provides only property damage liability and may be extended to include insured's legal liability for damage to other property caused by a collision (or otherwise), while the vessel is being repaired or tested.

There are times when situations call for specialized coverage...the type of coverage that can only be realized with an Inland Marine policy.

Some of the types of coverages that can be found in Inland Marine policies are these:

Builders' Risk

Builders' Risk policies cover buildings or structures during the construction, renovation or repair process. While coverage is often tailored to meet the needs of each customer, the vast majority of policies also cover building materials destined to become a permanent part of the building or structure. This property is covered while in transit, at temporary storage locations and while stored at the job site.

Builders' Risk policies are an important insurance product within the construction industry because the vast majority of banks require evidence of Builders' Risk insurance prior to closing on a construction loan.

In addition, two of the most frequently used construction contracts (the Association of General Contractors and the American Institute of Architects Contract for Construction) contain specific provisions outlining requirements for Builders' Risk insurance.

Even putting these requirements aside, few if any companies can afford to invest in construction without insurance protection.

Any business entity with a financial interest in property under construction, renovation or repair needs Builders' Risk insurance. Typical policyholders include:

- Real Estate Developers
- Building Owners
- Home Builders
- General Contractors
- Municipalities
- Colleges and Universities
- Street and Road Contractors
- Excavation Contractors
- Port Facilities
- Warehouse Operators

Computerized Business Equipment

Computerized Business Equipment policies can cover all types of automated equipment capable of accepting and processing data. While we typically think of computers as the primary subject of this coverage, automated manufacturing equipment, computerized medical equipment, flight simulators and any number of other specialized equipment can be eligible for coverage.

Coverage may also include the software and data used by this equipment as well as business income and extra expense exposures that may arise for a loss to such equipment or data.

Coverage typically applies on premises, while in transit and while temporarily away from covered

locations. Laptops and portable computers are covered worldwide.

Technology represents a significant investment to many businesses. Computerized Business Equipment coverage is important to any business entity that relies on technology in their daily operations. The greater the dependence on technology, the more important it becomes to purchase specialized coverage on such a critical aspect of consumers operations.

Contractors Equipment

Contractor's Equipment Coverage can cover scheduled, leased and miscellaneous property of the contractor. In addition, coverage is extended to include any similar property of others for which he is liable. Coverage extensions can include these:

- Additionally Acquired Equipment for up to a policy limit on the equipment, which the insured buys, leases, rents or borrows for defined period of days.
- Rental Expense Reimbursement, which pays up to a defined limit in expenses – rent – if covered equipment is damaged in a covered loss.
- Installation Floater coverage extends to property intended for installation while at job site, at any other location, or in transit.
- Valuable Papers coverage provides for such items as blueprints and other documents of value to the contractor.
- Contractors Equipment is owned or leased to perform a specific function. Use of the equipment is directly related to generating revenue, fulfilling a contract or providing maintenance. Without working equipment, or the means to replace equipment as soon as possible, a contractor's obligations cannot be fulfilled.
- Contractors Equipment policy helps owners expedite the repair or replacement of damaged or stolen equipment. In addition, because of the high cost of the equipment, many banks and lending institutions require insurance on the equipment.

Any business entity with a financial interest in construction or other heavy equipment needs Contractors Equipment insurance. Typical policyholders include the following:

- Real Estate Developers
- Building Owners
- Home Builders
- General Contractors
- Municipalities

Fine Arts

Coverage for works of art at a permanent location, in transit and while loaned to others. Agreed Value Fine Arts coverage ensures that collections are treated properly with a form that addresses the specific collection needs, with availability of breakage coverage, special pairs and sets coverage, and flood and earthquake coverage.

For significant corporate collections, or for artwork and collectibles in commercial settings, Insurers offer comprehensive coverage for a broad spectrum of paintings, sculpture, prints and multiples, as well as more specialized collections of historical, cultural or technological significance.

Who Needs Fine Arts Coverage?

Corporations and commercial accounts may have valuable works of art not specially covered as Fine Arts under standard package policies, and Marine coverage fits the bill.

Installation Coverage

Installation policies insure building materials and components, machinery, and specialized equipment while being installed in a building or structure, or erected or fabricated at a specific location. Typical types of property include heating, ventilating, air conditioning and electrical systems; and wallboard, tile, carpeting and other interior finish material.

More specialized installations include wastewater treatment facilities and controls, pipelines, electrical, telephone and cable television lines, and radio and cellular telephone towers.

Coverage is typically effective from the time the customer's financial interest in the property begins until their interest ceases, including while the property is in transit, at temporary storage locations and while stored at the job site.

The vast majority of Installation policies are written for subcontractors (trade subcontractors in particular). Any business entity having a financial interest in property being installed, erected or fabricated may have a need for Installation coverage.

Typical policyholders include these:

- Specialty Contractors
- Government Authorities and Municipalities
- Utilities (Water, Gas, Telephone, Electrical)
- Manufacturers, Wholesalers, and Retailers of Machinery, Equipment and Materials, Who also Install what they Sell

Marine underwriting specialists have written all types of installation projects - from low hazard residential electrical systems and tenant finish-out, to helicopter assisted tower installations, to the delicate relocation of erosion threatened lighthouse.

Standard programs offer coverage against risks of direct physical loss or damage (subject to certain policy exclusions), or coverage tailored to a specific, complex project.

Manufacturers

Manufacturers' Output Policy (MOP) includes coverage for the personal property of a business at specific, as well as unnamed locations, including while in transit.

Personal property coverage includes such items as machinery, equipment, furniture, fixtures and stock, improvements, and includes any other similar property of others for which an insured is liable.

Coverage Extensions include: Accounts Receivable and Valuable Papers coverages, and Fire Protection System Recharge Expenses.

Motor Truck Cargo Legal Liability

Motor Truck Cargo policies insure common and contract carriers for loss or damage to cargo in their care, custody or control.

Coverage is provided on a legal liability basis as determined by the contract of carriage between the motor carrier and the shipper (Bill of Lading or other specially negotiated contract). Generally, a carrier is liable for the safe delivery of the property entrusted to them, not only while on their vehicles, but also while temporarily at terminals awaiting shipment.

An insurer's Motor Truck Cargo Legal Liability policy is designed to cover that liability on behalf of the carrier.

Anyone who carries the property of others in return for a tariff should have Motor Truck Cargo Liability including

- Common Carriers
- Contract Carriers
- Non-trucking risks whom backhaul property of others on their own truck

Museums

Some Marine policies offer coverage developed specifically to insure museum-quality objects.

The policy insures museum owned property at scheduled locations, on exhibition or on loan to other organizations. The policies also offer coverages for property in transit and the property of others for which the policyholder is legally liable. Coverage is available for art, history, natural history, science and technology and sports museums.

Some insurers also offer coverage for specialized institutions such as aviation and automobile museums.

In the United States, there are more than 12,000 museums eligible for this coverage. The market is expected to expand as the number of specialty museums and local historical societies continues to grow. Many of these smaller museums have no coverage for their collections because they perceive that one-of-a-kind objects are invaluable and therefore uninsurable.

Although an exact replacement is not available, insurance can offer curators the opportunity to supplement the remaining collection with artifacts of the same genre to keep and preserve the mission of the museum. Insurers such as Travelers, and others, provide coverage for these types of unique situations. Whatever the risk, from local special interest museums to large national museums, companies such as Travelers provide Insurance coverage for the art world's special insurance needs.

Scheduled Property

Scheduled Property coverage is designed to cover property that is unique or unusual or is not typically covered under any other marine or property coverage. Coverage is available to protect against risks of direct physical loss or damage (subject to certain inland marine exclusions).

Any commercial property owner with property that travels from location to location or needs coverage for other than real property or contents is a candidate for Scheduled Property.

Scheduled Property is for any business entity that wants insurance protection for unique property ranging from structures outdoors to movable property.

Some of the unusual types of risks eligible for this coverage include:

- Circus rides
- Locomotives and rail cars
- Voting machines
- Transit systems
- Water storage tanks
- Antique and race cars
- Ski lifts

Program can be tailored to the specific property. Scheduled Property is completely flexible in

coverage scope. Coverage applies to property wherever it is located - at a specific location, in transit or at a temporary location. Valuation options of all types are available, including agreed amount, actual cash value or replacement cost. Coverage is tailored to the specific types of property.

Transportation

Transportation insurance typically covers shippers' interest in their property while in transit by public motor carrier, contract carrier, railroad, air carrier, or while on their own vehicles. The coverage form is often extended to provide insurance for loss to property while it is being loaded and unloaded.

A Transportation policy pays up to the limit of insurance, regardless of the extent of the carrier's legal liability or the carrier's ability to meet their financial obligations. In today's fast paced world, insureds don't have time to spend collecting reimbursement from a carrier in the event of a loss. Some Transportation policies also pay for certain losses, even when the carrier may not be liable, such as Acts of God (flood, earth movement, etc.). And if the insured ships F.O.B. and cannot collect the invoice amount from the consignee because of loss or damage during the shipment, the policy will cover the insured's interest in the lost or damaged property.

Any business that deals in a product, such as manufacturers, wholesalers, retailers and distributors, need coverage for incoming and outgoing shipments:

Wholesalers and Retailers

Accounts Receivable Coverage covers the cost of re-establishing records of Accounts Receivable, as well as the actual loss caused by damage.

Camera and Musical Instrument Dealers Coverage protects merchandise while at the premises of the insured, in transit, or away in custody of employees. Coverage is also provided for the property of others while in the insured's custody.

Equipment Dealers Coverage allows coverage for dealers' property, such as mobile, agricultural and construction equipment and related accessories.

Fine Art Dealers Coverage provides for dealers' stock and the property of others, which could consist of sculpture, paintings, drawings, lithographs and other types of fine prints, antiques or collectibles.

Floor Plan Coverage Form protects merchandise for sale that has been financed. This Inland Marine form covers the single interest of the dealer or the lending institution or covers their dual interest.

Furriers Block protects a furrier's stock - consisting mainly of furs, fur garments, garments trimmed with fur and fur accessories.

Jewelers Block covers merchandise while at the premises of the insured, in transit, away in custody of employees, and elsewhere.

Transportation Coverage Form covers property shipped via common carrier or owned vehicles.

Personal Umbrella Liability Insurance

A serious personal liability lawsuit can reach catastrophic levels. There have been judgments that do exceed the liability limits carried by the insured. Once these liability limits are exhausted, the insured is often forced to pay a substantial amount out of his pocket. Thus the need for protection against catastrophic lawsuits exists. Those that usually need this protection are these:

- Highly paid executives
- Physicians
- Surgeons
- Dentists
- Attorneys

Do not be mistaken in the assumption that only those listed above need this protection. Considering the increased frequency of liability lawsuits and the complexities of modern living, most people require this protection.

Nature of Personal Umbrella Liability Coverage

The umbrella package is designed to provide the insured with coverage in the event of

- A catastrophic claim
- A lawsuit
- A judgment

The amount of umbrella coverage can range from \$1,000,000.00 to \$10,000,000.00.

The contract usually covers the entire family worldwide. The umbrella typically covers liability losses associated with these:

- Home
- Automobile
- Boats
- Recreational Vehicles
- Sports
- Other Personal Activities

While it is true that an umbrella policy is not a standard contract, they do have some common features such as these:

- A self-insured retention must be met with certain losses covered by the umbrella policy but not covered by an underlying insurance.
- The umbrella policy provides excess coverage over basic underlying policies, such as personal auto, and homeowners' insurance.
- Coverage is broad and includes coverage for some losses not covered by underlying contracts.

Excess Liability Coverage

The umbrella policy pays only after the limits of the underlying policy are exhausted. Some umbrella policies require that the insured carry certain minimum amounts of liability on the basic underlying contracts. For example, on an automobile policy the minimum required on the basic contract could be

- \$100,000.00 per person bodily injury liability
- \$300,000.00 per occurrence bodily injury liability
- \$25,000.00 for property damage liability
- A combined single limit of \$300,000.00

On a homeowner's policy the minimum required on the basic contract could be

- \$100,000.00 of personal liability

-If a watercraft is involved, liability exposure requirements may be \$500,000.00 of single limit underlying coverage

Broad Coverage

With respect to personal loss exposures, the personal umbrella policy provides broad coverage. The personal policy coverage also covers certain losses that the underlying contract may not cover after a self-insured retention of deductible is met.

These losses include:

- Personal injury
- Libel claims
- Slander
- Defamation of character
- False arrest
- False imprisonment
- Humiliation

Here are five examples of claims that may be paid by umbrella insurance companies:

- The insured slandered two police officers.
- The insured borrowed a tractor and damaged it. After a self-insured retention was met, the umbrella covered the loss.
- The mast on a rented boat broke during a race and seriously injured a crew member. Primary coverage was not available to the insured.
- The insured rents a car in England and is involved in a serious accident. The personal umbrella covers the loss since only limited underlying coverage was available.
- The insured's spouse rents a motorcycle and is involved in a serious accident. Since the underlying automobile/homeowner contracts do not cover the ensuing third-party claim, the umbrella pays.

Self-Insured Retention

When an umbrella policy, and not an underlying insurance policy, covers a loss, a self-insured retention or deductible must be met.

As you are certainly familiar with by now, a deductible is the amount the insured is responsible for paying before insurance benefits will pay out. For example, in an auto policy, the insured may be required to pay the first \$500 of any repair costs before the insured's coverage will kick in – given, of course, that the damage was caused by a covered peril.

In an umbrella policy, as a rule this deductible is at least \$250.00 per occurrence and can be higher. Per occurrence means the deductible must be met each time there is a loss.

Personal Umbrella Coverages

Personal Liability Injury

The insured's liability for personal injury is covered under the personal umbrella policy. Personal injury is defined to include the following:

- Bodily Injury
- Sickness
- Disease

- Disability
- Shock
- Mental Anguish
- Mental Injury

This definition can also include these:

- False Arrest
- False Imprisonment
- Wrongful Entry
- Wrongful Eviction
- Malicious Prosecution
- Humiliation
- Libel
- Slander
- Defamation of Character
- Invasion of Privacy
- Assault and Battery (not intentionally committed or directed by a covered person)

Property Damage Liability

Property damage can be defined as physical injury to tangible property and includes loss of use of the injured property.

The umbrella insurance company agrees to pay losses for which the insured is legally liable and which exceed the retained limit.

The retained limit is either one of these:

- The total of all applicable limits of all required underlying contracts and any other insurance available to a covered person
- The self-insured retention if the loss is not covered by the underlying insurance

Defense Costs

Typically, legal defense costs in addition to the policy limits are paid with the personal umbrella policy. Defense costs include these:

- Payment of attorney's fees
- Premiums on appeal bonds
- Court costs
- Interest on the judgment
- Legal costs

However, some personal umbrella policies will include the cost of defending the insured as part of the total loss. It is possible that in a catastrophic judgment the insured may have to absorb part of the loss. Most umbrella policies will provide and pay the legal defense costs of a covered loss if that loss is not covered by any underlying insurance.

Exclusions

Here are some of the more common exclusions found in personal umbrella policies:

Workers' Compensation: Any obligation the insured is legally liable for under workers' compensation, disability benefits, or similar law is not covered. This is very common of insurance policies, as they are not in the habit of covering losses that are already covered by a different policy. For example, an employer's group health plan will not pay medical costs associated with an employee's work-related injury since it is already covered by the employer's workers'

compensation insurance. Remember, the purpose of insurance is to make the insured "whole" again. It is not intended to allow an insured to profit from the loss, such as being paid by two insurance companies for the same one loss.

Fellow Employee: Some personal umbrella contracts exclude coverage for any insured (other than the named insured) who injures a fellow employee in the course of employment arising out of the use of one of these:

- Automobile
- Watercraft
- Aircraft

Care, Custody or Control: Damage to property a covered person owns is excluded under all personal umbrella contracts. Most contracts also exclude damage to a non-owned aircraft and non-owned watercraft in the insured's possession. However, most umbrellas will cover damage to

- Property rented to an insured
- Property used by an insured
- Property in the care of an insured

(Those above exclude aircraft and watercraft.)

Nuclear Energy: All personal umbrella policies have nuclear energy exclusion.

Intentional Acts: Any act directed by or committed by a covered person with the intent to cause personal injury or property damage will not be covered.

Aircraft: Any liability arising out of these will be excluded from coverage:

- Ownership
- Maintenance
- Use
- Loading
- Unloading an aircraft

Watercraft: Larger watercrafts are usually excluded such as the following:

- Inboard watercraft
- Inboard/outboard watercraft exceeding 50 horsepower
- Outboard motors of more than 25 horsepower
- Sailing vessels of more than 26 feet long

Business Pursuits: While liability arising out of business activity or business property is usually excluded, this exclusion does not apply to the insured's or a family member's use of a private automobile.

Professional Liability: While many insurance companies do not offer this coverage and virtually all umbrella policies exclude professional liability, some companies will cover certain professional liability loss with an endorsement and by charging a higher premium.

Officers and Directors: This exclusion does not apply to a non-profit corporation or organization. It does exclude coverage for an act or failure to act as

- An officer
- A trustee

-A director of a corporation or an association

Recreational Vehicles: Liability arising as a result of ownership and maintenance golf carts is excluded.