Lesson 4 - Causes of Loss Forms - Introduction

In the previous lesson you studied the building and personal property coverage form and now we challenge you to explore the perils as they are defined in the causes of loss forms as well as their exclusions.

Commercial property programs offer four causes of loss forms and we will learn to distinguish their differences. We will also study in depth limitations on certain property; additional coverage for collapse and additional coverage extensions.

Since businesses can suffer losses caused by enforcement of ordinances or laws regulating construction and repair of damaged buildings, we will discuss these losses.

Please read your learning objectives for material mastering information for lesson 4.

Learning Objectives

After completing this lesson you will be able to:

1. Differentiate between the Covered Causes of Loss forms: Basic, Broad, Special and Earthquake.
2. Given a loss situation, apply the exclusions of the Special Causes of Loss Form.
3. Describe the three possible losses a business faces with ordinance or law exposures.

In this lesson, we will go over covered causes of loss, exclusions and related business issues. To get the most out of these discussions, please print these forms now:

Causes of Loss Form Comparison Chart

Special Form (CP 10 30)

Ordinance or Law Coverage Endorsement (CP 04 05)

Water Exclusion Endorsement (CP 10 32)
Lesson 4 Topic A - Covered Causes of Loss

Learning Objective: Differentiate between the Covered Causes of Loss forms: Basic, Broad, Special and Earthquake.

A Causes of Loss Form describes what perils are covered in a policy. Every commercial property policy must have a Causes of Loss Form attached.

Before we get into the differences between the four types of Causes of Loss forms, we need to discuss the two approaches to determining causes of loss:

1. named perils (Basic, Broad and Earthquake forms) and
2. open perils (Special Causes of Loss Form).

<table>
<thead>
<tr>
<th>Named Perils</th>
<th>Open Perils</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Named Perils</strong></td>
<td><strong>Open Perils</strong></td>
</tr>
<tr>
<td>There are three types of Causes of Loss forms that are named perils:</td>
<td>There is one type of Causes of Loss form that is an open peril:</td>
</tr>
<tr>
<td>• Basic</td>
<td>• Special</td>
</tr>
<tr>
<td>• Broad</td>
<td>In this approach, the insurer pays for direct loss to property, unless the policy itself excludes it.</td>
</tr>
<tr>
<td>• Earthquake</td>
<td>The insurer must prove that an exclusion applies.</td>
</tr>
<tr>
<td>In this approach, the insured must prove that the named peril caused the loss to the property.</td>
<td></td>
</tr>
<tr>
<td>The insured must prove that a covered cause of loss occurred.</td>
<td></td>
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</tbody>
</table>

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Types of Causes of Loss Forms

There are four types of Causes of Loss forms, including three that are named perils (the Basic Form, the Broad Form and the Earthquake Form) and one that is an open perils type of form (the Special Form).

1. Basic Form (CP 10 10)

   This form covers losses arising from eleven named perils plus the Additional Coverage - Limited Coverage for Fungus, Wet Rot, Dry Rot and Bacteria. The burden of proof lies with the insured to show that the loss was caused by one of the eleven perils. This form:
   - Covers losses arising from any of eleven named perils;
   - Requires the insured show that the loss was caused by the peril, as defined and limited in the coverage form; and
   - Damage caused by wind or hail, vandalism, or sprinkler leakage may be excluded by endorsement.

2. Broad (CP 10 20)

   The Broad Form provides coverage for all the named and the Additional Coverage in the Basic Form, plus loss caused by:
   - Falling objects
   - Weight of snow, ice or sleet
   - Water damage
   - Additional Coverage - Collapse
   - Damage caused by wind, hail, vandalism, sprinkler leakage or theft may be excluded by endorsement

3. Earthquake Form (CP 10 40)

   The Earthquake Form is another named perils form. It covers loss by earthquake and volcanic eruption, explosion or effusion, all of which are specifically defined in the form.

   ![Note](The Earthquake Form will not be covered in detail in this course.)

4. Special Form (CP 10 30)

   The Special Form provides coverage on a "risks of physical loss" basis. It uses the open perils approach and pays for risks of direct physical loss, with certain exclusions and limitations. This is the only form that picks up theft, which is a very important peril to many insureds. Theft is covered because it is not excluded.
We will study the Special Form in-depth since it is the most commonly used form.

It tells us that the policy will pay for risks of direct physical loss, unless the loss is either:

- Excluded in Section B - Exclusions; or
- Limited by Section C - Limitations.

Also, damage caused by wind, hail, vandalism, sprinkler leakage or theft may be excluded by endorsement.

As you can see by the information provided so far, the Special Causes of Loss Form gives the insured very broad coverage. The remainder of Lesson 4 provides a review of what coverage is either excluded or limited by this form.

**Causes of Loss Forms**

**Let's summarize what we've learned.**

Causes of Loss Forms describe what perils are covered in a policy. Every commercial property policy must have a Causes of Loss Form attached.

Please be sure to review the presentation in Lesson 4 Topic A p7 of 8 to illustrate Causes of Loss.

**Basic:** In the Basic Form, damages causes by wind or hail may be excluded by endorsement.

**Broad:** The Broad Form covers damages caused by falling objects.

**Earthquake:** Damages caused by volcanic eruption are covered in the Earthquake Form.

**Special:** The Special Form is best defined by what is covered, with specified limitations and exclusions. In this example of a covered loss attributable paint overspray, a house is covered because this type of loss is not excluded.

**Tip**

For more information on the Special Causes of Loss Form refer to [Causes of Loss - Special Form (CP 10 30)](#). Also be sure to review the [Causes of Loss Coverage Comparison Chart](#) that was recommended to be printed in the Lesson 4 Introduction.
Lesson 4: Topic B - Exclusions

Learning Objective: Given a loss situation, apply the exclusions of the Special Causes of Loss Form.

With an open perils policy (Special Form), the exclusions really define the coverage. Within Special Causes of Loss, you will find three sets of exclusions: exclusions common to all forms; Special Form exclusions; and concurrent causation exclusions.

Tip
For more information on exclusions, read pages 1 and 2 of the Causes of Loss - Special Form (CP 10 30).

Exclusions Common to All Forms

All of the Causes of Loss forms contain this set of exclusions. These losses are excluded regardless of any other cause or event that contributes concurrently (at the same time) or in any sequence to the loss. There are eight exclusions: ordinance or law, earth movement, governmental action, nuclear hazard, utility services, war and military action, water and fungus, wet rot, dry rot, and bacteria.

Be sure to review Lesson 4 Topic B page 2 for a presentation regarding Exclusions Common to All Forms.

Within Special Causes of Loss, you will find....

Exclusions Common to All Forms

All Causes of Loss forms provide exclusions for: ordinance or law, earth movement, governmental action, nuclear hazard, utility services, war and military action, and water.

Special Form Exclusions

Twelve additional exclusions are found only in the Special Form. These exclusions are necessary because the Special Form is an open perils form, and the insurer may choose not to cover certain exposures.

Concurrent Causation Exclusions

If a loss is covered by two perils, one of which is clearly excluded and one of which is not excluded, concurrent causation holds that the one which is covered by the policy must pay. To prevent the insurer from having to pay, three exclusions were added.
Learning Objective: Describe the three possible losses a business faces with ordinance or law exposures.

1. Ordinance or Law

Insurers will not cover any exposures incurred by the insured as a result of the enforcement of any ordinance or law. For example, some communities require that if a building has been damaged to some specified extent (often 50%), it must be demolished and reconstructed to comply with current building codes. Because of the Ordinance or Law Exclusion, the policy will pay only for the damaged half of the building. The insured now faces three uninsured exposures:

   • The value of the undamaged part of the building because it is no longer useable;
   • The cost to demolish the building; and
   • The increased cost to rebuild the structure to satisfy current codes.

These expenses can be very high for many insureds. So what can the insured do? There is a solution. By attaching the Ordinance or Law Coverage Endorsement (CP 04 05) to the policy, the insured can buy coverage for the following:

   • Coverage A - Coverage for Loss to the Undamaged Portion of the Building
   • Coverage B - Demolition Cost Coverage
   • Coverage C - Increased Cost of Construction Coverage

\[\text{Note}\]
Coverages B and C (demolition and construction costs) may be written as a blanket coverage, with a single limit.

2. Earth Movement

Insurers will not pay for any damage caused by movement of the earth.

However, damage caused by a fire or explosion following an earthquake is covered. This exposure gives rise to the need for the Earthquake Coverage Form, mentioned earlier. Again, we will not get into any great detail about this particular form.

3. Governmental Action

If the government seizes a property, the loss is not covered.

4. Nuclear Hazard

Any damage caused by a nuclear incident is not covered, but any resulting fire is.
5. Utility Services

On-premises damage caused by an interruption of off-premises utility services is not covered.

However, any damage caused by a fire, even if that fire is caused by interruption of off-premises utility services, is covered.

Let’s use an example: an insured owns a manufacturing plant that uses water-cooled machines. A loss of water due to damage by a covered cause of loss at the off-premises water supply location causes the machine’s sensitive parts to overheat and melt down. The damage to the machines is not covered. However, if the damage to the machines sparks an external fire, any resultant fire damage is covered.

6. War and Military Action

Damages caused by an act of war, including undeclared, civil war and other warlike actions by a military force, are not covered.

7. Water

The following types of water losses are not covered:

- Flood, surface water, waves, tides, tidal waves, overflow of any body of water or their spray (whether driven by wind or not);
- Mudslide or mudflow;
- Sewer, drain and sump back-up or overflow; and
- Water under the ground surface that presses on, flows or seeps through:
  - Foundations, walls, floors or paved surfaces;
  - Basements; and
  - Doors, windows or other openings.

This exclusion is further clarified by endorsement Water Exclusion Endorsement (CP 10 32)

If fire, explosion, or sprinkler leakage occurs as a result of the water damage listed above, the insurer will pay for the loss caused by the fire, explosion or sprinkler leakage.

8. "Fungus," Wet Rot, Dry Rot, and Bacteria

Coverage is limited to damage caused by specified causes of loss if they are the result of "fungus," wet rot, dry rot and bacteria. The exclusion does not apply when "fungus," wet or dry rot or bacteria results from fire or lightning or to the extent it is covered under the Additional Coverage - Limited Coverage For "Fungus," Wet Rot, Dry Rot and Bacteria with respect to loss or damage by a cause of loss other than fire or lightning.
These losses are excluded due to the catastrophic nature of the flood exposure. However, special policies (at appropriate premiums) are available to cover flood losses. Flood may be provided by endorsement (CP 10 65)

**Special Form Exclusions (CP 10 30)**

Be sure to review the presentation on the eight exclusions found on all Causes of Loss Forms in Lesson 4 Topic B page 8 of 17.

**There are eight exclusions found in all Causes of Loss forms:**

**Ordinance or Law**
Some communities require that if a building has been damaged to some specified extent (often 50 percent), it must be demolished and reconstructed to comply with current building codes.

**Earth Movement**
In general, damages caused by an earthquake are considered excluded and therefore not covered.

**Government Action**
In general, losses due to government seizures are not covered.

**Nuclear Hazard**
Damage caused by a nuclear incident is not covered. But a fire resulting from the explosion is covered.

**Utility Services**
For example: An insured owns a manufacturing plant that uses water cooled machines. A loss of water due to damage at the premises of the water supply causes the machine’s sensitive parts to overheat and melt down. The damage to the machines itself is not covered. However, if the damage sparks an external fire, any resultant fire damage would be covered.

**War and Military Action**
Damage caused by war is not a covered loss.

**Water**
In general, damages caused by floods are not considered a covered loss.

**“Fungus”, Wet Rot, Dry Rot, and Bacteria**
Coverage is limited to damage caused by specific causes of loss if they are the result of “fungus”. Wet rot, dry rot and bacteria.

The exclusion does not apply when “fungus”, wet or dry rot or bacteria results from fire or lightning or to the extent it is covered under the Additional Coverage – Limited Coverage For “Fungus”, Wet Rot, Dry Rot and Bacteria with respect to loss or damage by a cause of loss other than fire or lightning.
In addition to the exclusions we just covered, there are a number of exclusions found only in the Special Form. These exclusions are necessary because the Special Form is an open perils form, and the insurer has certain exposures that it does not wish to cover.

**Tip**

Please refer to pages 2 and 3 of the Causes of Loss - Special Form (CP 10 30).

There is no coverage under the Special Form for damage caused by any of the following:

1. **Artificially Generated Currents**

   Although damage caused by power surges or brown-outs can be extensive, this type of damage is excluded.

2. **Delay or Loss of Market**

   These include delay, loss of use, or loss of market and are indirect losses involving the loss of income that can result when a business suffers a direct loss. Time Element Forms must be used to handle these exposures. We will study the basics of time element insurance in Lesson 5.

3. **Smoke Damage Caused by Industrial Operations**

   This includes smoke, vapor or gas from agricultural smudging or industrial operations.

4. **Wear and Tear**

   The losses you see listed under the wear and tear group of perils are generally not the subject of insurance since most of them are preventable. However, if any of these losses results in a "specified cause of loss" or building glass breakage, the company will pay for the damage.

5. **Damage Caused by a Steam Engine Explosion**

   This includes damages caused by the explosion of steam boilers, steam pipes or steam engines other than fire damage. These losses need to be covered under a Boiler and Machinery or Equipment Breakdown Policy.
6. **Loss Attributable to Continuous Seepage**

   This includes losses attributable to continuous or repeated seepage or leakage of water over a period of 14 days or more. This is often a maintenance issue, not the subject of insurance.

7. **Water Damage Caused by Burst Pipes**

   This applies to damages caused when pipes freeze, burst and then thaw. This exclusion applies only when the insured fails to take reasonable precautions to maintain the system.

8. **Losses Caused by Anyone Entrusted with the Property**

   This includes dishonest and criminal acts of the insured, partners, members, officers, managers, employees (including leased employees), directors, trustees and other authorized representatives. The insured needs a Fidelity or Employee Dishonesty Bond to cover the peril of employee theft.

9. **Voluntary Parting under False Pretenses**

   This exclusion denies coverage when an insured voluntarily gives the property to someone who has tricked the insured into doing so.

10. **Losses Due to Property Left Out**

    This exclusion denies coverage to property in the open which is damaged by rain, snow, sleet or ice.

11. **Collapse**

    The policy form excludes damages caused by collapse, other than the coverage found under the section detailing Additional Coverage for Collapse. We will discuss this Additional Coverage shortly.

12. **Release of Pollutants**

    Damage caused by the release or escape of pollutants can result in enormous costs. The policy generally excludes pollution unless the release of the pollutants happened because a covered cause of loss occurred. This limited pollution coverage applies on premises only.

    For more information on “Specified Causes of Loss,” please read page 7 of the [Causes of Loss - Special Form (CP 10 30)].

    Be sure to review the presentations on 12 Special Form Exclusions located on Lesson 4 Topic B p12 of 17.
12 Special Form Exclusions

**Artificially generated currents.**
Although damage caused by power surges or brown-outs can be extensive, this type of damage is excluded.

**Delay or loss of market.**
These are indirect losses involving the loss of income that can result when a business suffers a direct loss.

**Smoke damage caused by industrial operations.**
This includes smoke, vapor, or gas from agricultural smudging or industrial operations.

**Wear and tear.**
Most losses here are preventable and not the subject of insurance. However, any resulting “specified cause of loss” or building glass breakage is covered.

**Damage caused by a steam engine explosion.**
These losses need to be covered under a Boiler and Machinery or Equipment Breakdown Policy.

**Losses attributable to continuous seepage.**
This is often a maintenance issue, not the subject of insurance.

**Water damage causes by burst pipes.**
The exclusion only applies when the insured fails to take reasonable precautions to maintain the system.

**Losses caused by anyone entrusted with the property.**
This includes dishonest and criminal acts of the insured, partners, members, offices, managers, employees (including leased employees), directors, trustees and other authorized representatives.

**Voluntary parting under false pretenses.**
This exclusion denies coverage when an insured has been tricked into voluntarily giving away the property.

**Losses due to property left out.**
The includes damages caused by inclement weather, such as rain, snow, sleet or ice.

**Collapse.**
The policy form excluded damages caused by collapse, other than the coverage found under the section detailing Additional Coverage – Collapse.

**Release of pollutants.**
The policy generally excludes pollution unless the release of the pollutants caused on-premises damage and was due to a covered cause of loss.
Concurrent Causation Exclusions Concurrent

Causation holds that an open perils policy must pay if a loss to the property is caused by two perils - one which is excluded by the policy and one which is covered. To prevent the application of the concurrent causation doctrine, several exclusions were added to the Special Causes of Loss Form. They were developed to prevent the insurer from having to pay for losses it never intended to pay.

The exclusions that were added include:

1. Contributing Weather Conditions
   
   This exclusion applies to weather conditions that contribute with a cause of loss found in the first group of exclusions (ordinance or law, earth movement, governmental action, nuclear, utility services, war or flood losses).
   
   For example, torrential rains cause a mudslide to destroy a building. Prior to having this exclusion, insureds claimed that the loss was not caused by mudslide, which is clearly excluded, but rather caused by "weather conditions," which were not excluded. Courts often agreed, citing the concurrent causation doctrine.

2. Acts of Persons or Authorities
   
   This includes losses due to acts or decisions, including failure to act, of persons or authorities.
   
   For example, assume that a river authority neglects to open floodgates, resulting in flooding of buildings above the dam. Without this exclusion, the insured could claim that the cause of the loss was negligent failure of the river authority to act, rather than flood.

3. Inadequate Design or Maintenance
   
   This includes losses due to faulty, inadequate or defective planning, design, materials or maintenance.
   
   Be sure to review the presentation in Lesson 4 Topic B p15 of 17 which illustrates the Three Types of Concurrent Causation Exclusions.
The Three Types of Concurrent Causation Exclusions:

**Contributing weather conditions:**
This exclusion applies to weather conditions combined with a cause of loss found in the group of exclusions common to all forms.

**Acts of persons or authorities:**
This includes losses due to the acts or decisions (including failure to act) of persons or authorities.

**Inadequate design or maintenance:**
This includes losses due to faulty, inadequate or defective planning, design, materials or maintenance.

Special Exclusions

Special exclusions apply only to the following forms:
- Business Income and related business forms;
- Leasehold Interest Coverage Form; and
- Legal Liability Coverage Form.

| **Note** | The specifics of special exclusions are beyond the scope of this course and will not be covered. |

Please refer to the end of Lesson 4 Topics B to complete Self Quiz A-B
Lesson 4 Topic C - Limitations on Certain Property

In addition to the exclusions we have covered, the insurer places limitations on what is covered.

In this section we will find losses to certain property are not covered; some items are not going to be covered on an open perils basis; and some items have dollar limitations on how much the policy will pay for the peril of theft.

Four limitations are covered in this section:

- Losses not covered;
- Special items;
- Limitations on theft; and
- Limitation on appliances or systems.

**Tip** Please refer to pages 5 & 6 of the [Causes of Loss - Special Form (CP 10 30)](#).

**Losses Not Covered**

In this section, we will look briefly at some types of losses that are not covered. These include:

- **Damage to steam boilers, pipes, engines or turbines caused by any condition or event from inside the equipment (such as mechanical breakdown or internal explosion).**
  Boiler and machinery policies are needed to cover this exposure.

- **Hot water boiler damage caused by a condition or event from inside the equipment.**
  This could include a mechanical breakdown or internal explosion. Boiler and machinery policies are needed to cover this exposure.

- **Damage to interior property resulting from rain, snow, sleet, ice, sand or dust.**
  This exclusion would not apply if there is exterior damage by a Covered Cause of Loss. For example: A windstorm rips off a building's roof and the damage caused to the interior by rain is covered. But, if someone left a window open and wind blew in and caused damages, that loss would not be covered.

- **Theft of building construction materials.**

- **Inventory shortage.**
  This applies only when the shortage is the only indication that a loss occurred.

- **Property transferred by unauthorized instructions.**
  Certain crime forms provide coverage for losses caused by employee dishonesty or computer fraud.
**Tip**

The Specified Causes of Loss is defined on page 5 of the *Causes of Loss - Special Form (CP 10 30).*

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**Special Items**

Open perils coverage does not apply to all property. The following items are covered only if their loss results from a Specified Cause of Loss:

- Animals
- Fragile Articles
- Builder's machinery, tools and equipment off the insured's premises

**Tip**

For more information on Special Items, read page 5 of the *Causes of Loss - Special Form (CP 10 30).*

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**Limitations on Theft**

The Special Causes of Loss Form limits the dollar amount the policy will pay for the theft of certain items.

These exposures are generally not common to all insureds and require special forms with an appropriate premium charge. The special limit shown for each category is the total occurrence limit for the loss or damage to all property in that category. If you have one piece of jewelry or ten pieces of jewelry stolen at one time, the most the company will pay is $2,500.

**Note:** Sub-limits within the total limit of insurance do apply to the insured's Business Personal Property (see table below).

**Tip**

For more information on Limitations on Theft, read page 5 of the *Causes of Loss - Special Form (CP 10 30).*

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<table>
<thead>
<tr>
<th>Theft Loss Payment Limits Item</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,500</td>
<td>Fur and fur garments</td>
</tr>
<tr>
<td>$2,500</td>
<td>Jewelry, watches, etc.</td>
</tr>
<tr>
<td>$2,500</td>
<td>Patterns, dies, molds and forms</td>
</tr>
<tr>
<td>$250</td>
<td>Stamps, tickets, lottery tickets</td>
</tr>
</tbody>
</table>

**Limitations on Appliances or Systems**

The last limitation deals with appliances or systems from which water escapes. The policy will pay for any resulting covered water damage, but will not pay to repair the defective system itself.
There Are Four Types Of Limitations On Certain Properties

**Losses Not Covered**

- Damage to steam engines: Damage to a steam engine caused by a mechanical breakdown or internal explosion *is not* a covered loss and special policies are required.

- Hot water boiler damage: Damage to a hot water boiler caused by an internal explosion is *not* a covered loss and special policies are required.

- Damage to interior property: Damage to interior property caused by external forces such as rain or ice is not covered unless there is exterior damage by a Covered Cause of Loss.

- Theft of building construction materials: Theft of building construction materials is not a covered loss.

- Inventory shortage: An inventory shortage is NOT covered if the shortage is the only indication that a loss occurred.

- Property transferred by unauthorized instruction: Property transferred by unauthorized instructions is not a covered loss. However, special crime forms provide coverage for certain types of fraud.

**Special Items**

The open perils coverage does not apply to all property, and some items are covered only if their loss results from a Specified Cause of Loss. These include valuable papers, animals, fragile items, and off-premises builder’s equipment.

**Limitation of Theft**

The Special Causes of Loss Form limits the dollar amount the policy will pay for the theft of certain items. Although these exposures vary, a total occurrence limit determines the maximum amount a company will pay.

**Limitations on Appliance or Systems**

Water damages resulting from leaking appliances are covered. However, the policy will not pay to repair the damage to the appliance itself.
Lesson 4: Topic D Additional Coverage – Collapse

The subject of collapse has generated much controversy. The issue of what actually constitutes a collapse and what is not has been debated in many claims and court cases. The Special Causes of Loss Form limits collapse losses.

Collapse losses are covered only if they are caused by one of the following:

1. A Specified Cause of Loss (see pg. 7 of the Special Causes of Loss Form)
2. Hidden decay (dry rot)
3. Hidden damage by insects, such as termites
4. Weight of people or property
5. Weight of rain on roof
6. Use of defective material or building methods if the collapse occurs during construction of a building

**Note:** If the collapse occurs after construction is complete and results from a listed cause of loss, the insurer will pay for the damage, even if the use of defective material contributes to the loss.

Personal property damaged in a collapse is covered only if the property was inside the building at the time of collapse and only if the collapse itself was caused by a covered cause of collapse.

Certain outdoor property will be covered if the collapse is caused by a covered cause of loss and only if:

1. the loss is a direct result of the collapse of the insured building; and,
2. the property is considered covered property under this coverage form.

**Important Considerations about Collapse**

It is important to remember that collapse does not include:

- settling
- cracking
- shrinking
- expansion

**Note**

Additional Coverage - Collapse is found only in the Broad (CP 10 20) and Special (CP 10 30) Causes of Loss forms.

It is important to remember that this Additional Coverage - Collapse will not increase the Limits of Insurance as provided in this coverage part.
Be sure to review the presentation in Lesson 4 Topic D p4 of 4 to illustrate Collapse.

The Six Types of Additional Coverage - Collapse

**Specified Causes of Loss**
Collapse is covered if the damage was caused by a specified cause of loss, as defined in the Causes of Loss - Special Form.

**Hidden Decay (dry rot)**
Collapse is covered if the damage was caused by some type of hidden decay.

**Hidden Damage by Insects, such as Termites**
Coverage is provided for hidden damages, such as loss caused by termites.

**Weight of People or Property**
Collapse is covered if the damage was caused by the weight of people or property.

**Weight of Rain on Roof**
Collapse caused by the weight of rain on the roof is considered a covered cost.

**Use of Defective Material or Methods if the Collapse Occurs During Construction of a Building**
If collapse occurs during construction of a building and defective materials or methods were used, then the loss is covered.

**Methods if the Collapse Occurs During Construction of a Building**

| Note | For more information on Additional Coverage - Collapse, read page 6 of the Causes of Loss - Special Form (CP_10_30) |
Lesson 4 Topic E Additional Coverage Extensions

The Special Causes of Loss Form includes three extensions of coverage not found in the Basic Causes of Loss Form or in the Broad Causes of Loss Form.

These three extensions address:

- property in transit
- water damage, other liquids, powder and molten material damage
- glass

1. Property in Transit

The insurer will cover the insured's business personal property while in transit (more than 100 feet from the premises) if the property is being transported in a vehicle the insured owns, leases or operates.

This does not apply to property that is in the care, custody, or control of the insured's salespersons. The maximum loss payment for this additional coverage is $5,000.

In addition, the damage must be caused by:

- fire, lightning, explosion, windstorm or hail
- riot, civil commotion or vandalism
- vehicle collision
- theft of an entire package as evidenced by visible signs of forced entry into a securely locked vehicle or compartment of a vehicle.

There is really very little coverage here. Insureds who have any kind of transit exposure need to buy appropriate inland marine coverage to take care of this exposure.

2. Water Damage, Other Liquids, Powder or Molten Material Damage

If the insured sustains a loss due to a covered water damage loss, the insurer will pay the cost to tear out and replace parts of the building to get to the source that caused the damage within the building. However, the insurer does not repair the damage to the system itself.

For example, if a building has a burst water pipe, the insurer will have to pay to have walls replaced where the water pipe burst. However, the policy does not pay to fix the water pipe itself.
3. Glass

The insurer will pay for expenses to put up temporary plates or board up openings if repair or replacement of damaged glass is delayed. The insurer will also pay for expenses incurred to remove or replace obstructions when repairing or replacing glass that is part of a building. This does not include removing or replacing window displays. This coverage extension E.3., does not increase the Limit of Insurance.

Please be sure to review a presentation Lesson 4 Topic E p4 of 5 illustrating Additional Coverage in Lesson 4 Topic E page 4 of 5.

Please refer to the end of Lesson 4 Topics E to complete Self Quiz C-E
Lesson 4: Topic F Additional Coverage -
Limited Coverage For "Fungus," Wet Rot, Dry Rot And Bacteria

Background and Impact of mold claims

Commercial and industrial facilities can be faced with sick building syndrome in which fungus, wet rot, dry rot, and bacteria have made media attention and an awareness of the forefront of workplace safety concerns.

Site inspections, air evaluations and clean up of buildings can be very costly in lost time and production. Claims for mold damage have been increasing markedly in frequency and severity, to a point where insurers have become concerned with the large financial impact threatened by this growing problem. For example, in a highly publicized recent case involving an insurer's failure to fully remediate mold, a Texas jury awarded $32 million in favor of the policyholders. Data provided by the Texas Department of Insurance indicates the level of losses have begun to increase substantially. Emerging data for other states is beginning to show a similar pattern.

Insurers are seeking means of underwriting this exposure. In fact, Arizona and Nevada now rank among the top eight states having the most mold insurance claims. Litigation is now expanded to target builders, architects, HVAC equipment suppliers and installers, etc. The residential construction defects cases have turned into bodily injury claims as a result of the interior mold and the building industry and allied professions now view mold as a serious concern.

In seeking a vehicle to help insurers define and price the emerging and potentially catastrophic losses due to mold and other forms of fungus, limitations and options that will offset a given insured's damages in whole or in part, but will also limit the mold exposure and its impact on the industry have been introduced.

While most, if not all, of the media attention has been focused on mold, bacteria have been included. Bacteria is known to grow in the same environment as mold and can generally be found to be present at the same time and in the same place. Therefore, the limitations and options should also apply to bacteria as bacteria can be expected to be a part of many mold claims.

An article written by C. Michael Moffitt, Ph.D., V.P. Environmental Services - Western Technologies, Inc. "The Growing Mold Issue - Mold and other fungi: Friend or foe?" discusses this very issue. As you can see in the photos that Dr. Moffitt provided, the mold Penicillium produces a metabolite, penicillin, which was discovered in 1929 to be an effective inhibitor of bacteria and helped usher in the modern age of antibiotics. Based upon these facts, it sounds like mold might be our friend; on the other hand, on the exact opposite study the ergot (a rye grain mold) produced thousands of poisonings, gangrene and domesticated livestock deaths in Europe during the Middle Ages.
In 1960, for example, 100,000 turkeys in England died from ingesting moldy peanuts that had been mixed into their feed. This particular mold, Aspergillus flavus, produces a metabolite called "aflatoxin" and has been found to be highly toxic and one of the most potent carcinogens known to man.

How does mold get started in buildings? Dr. Moffitt explains that mold needs moisture, nutrients, and low-light conditions to grow and amplify. The moisture can come from flooding, leaking roofs and windows, leaking or broken pipes, and high humidity (greater than 60%) caused by faulty air conditioning systems. Improper drainage and landscaping can also result in water intrusion. As you can see in the photos of this building, mold growth can destroy building material.

**Additional Coverage - Limited Coverage for "Fungus", Wet Rot, Dry Rot And Bacteria**

With this background in mind, the Additional Coverage, which is part of the Causes of Loss Form, has set up a total limit of coverage up to $15,000 for mold which results from named perils (including flood if flood coverage is endorsed to the policy). The limit is an annual aggregate limit. It is important to note that $15,000 exceeds the cost of most mold remediation claims and thus is highly responsive to the exposure while mitigating the potential for excessive costs. An optional endorsement CP 04 31 Changes - Fungus, Wet Rot, Dry Rot And Bacteria can be purchased to do the following:

- Increase the basic dollar limit
- Modify the application of the dollar limit
- Increase the number of days for time element coverage

This endorsement and limited coverage provided under the Causes of Loss forms are intended to be the only sources of recovery for mold-related losses.

The Additional Coverage does not increase the limit of insurance on the covered property. Also under the Additional Coverage, it is made clear that the limitation on mold does not affect Collapse coverage.