

**PROGRAM DIVISION
BULLETIN**

2002-13

July 15, 2002

Commercial Property Changes 07/02

Advisory Notice Of Policyholders

Attached to this bulletin is the Advisory Notice to be attached to all property policies on renewal based on the information provided below.

The forms are in Coverall.

State	Effective Date
Arizona	Policies written August 1, 2002
Colorado	Policies written August 1, 2002
Indiana	Policies written August 1, 2002
Iowa	Policies written August 1, 2002
Kentucky	Policies written August 1, 2002
Massachusetts	Policies written August 1, 2002
Michigan	Policies written August 1, 2002
Montana	Policies written August 1, 2002
Nevada	Policies written August 1, 2002
North Carolina	Policies written September 1, 2002
Ohio	Policies written August 1, 2002
Pennsylvania	Policies written August 1, 2002
Tennessee	Policies written August 1, 2002
Utah	Policies written August 1, 2002
West Virginia	Policies written August 1, 2002
Wisconsin	Policies written August 1, 2002
Wyoming	Policies written August 1, 2002

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ADVISORY NOTICE OF POLICYHOLDERS

This is a summary of the major changes in your Commercial Property Coverage Part. No coverage is provided by this summary nor can it be construed to replace any provisions of your policy. You should read your policy and review your declaration page for complete information on the coverages you are provided. If there is any conflict between the policy and this summary, THE PROVISIONS OF THIS POLICY SHALL PREVAIL.

The areas within the policy that broaden, reduce or clarify coverage are highlighted below. The material is organized by coverage forms and endorsements; however, not all coverage forms or endorsements are included in a particular policy.

PROPERTY DAMAGE COVERAGE FORMS

I. CHANGES IN COVERAGE – ELECTRONIC DATA (CP 00 10, CP 00 17, CP 00 18, CP 00 99)

In the revised policy, electronic data (which is defined) is characterized as Property Not Covered, except as provided under Additional Coverage – Electronic Data. [The characterization of electronic data as Property Not Covered is not a comment on the essential nature of electronic data. Rather, Property Not Covered is designed to address situations which serve as exceptions to Covered Property or simply need to be identified as being outside the purview of coverage or full coverage.]

Under the Additional coverage – Electronic Data, coverage is provided for the cost of replacing or restoring electronic data which has been destroyed or corrupted by a Covered Cause of Loss. The Covered Causes of Loss in this situation are certain named perils, including computer virus as limited. The Electronic Data coverage is subject to an annual aggregate limit of \$2,500 per policy, which applies regardless of the number of occurrences, premises, locations or computer systems involved.

Reduction in coverage: The new annual aggregate limit of \$2,500 per policy represents a reduction in coverage with respect to losses that would have been covered in the past under Valuable Paper and Records- Cost of Research. The previous coverage was in the amount of \$2,500 per premises for each occurrence, unless the Declarations showed a higher limit.

Potential broadening of coverage. As revised, the policy explicitly provides coverage under certain circumstances for corruption of electronic data, a type of loss which was not explicitly addressed in the policy in the past. The revised policy also makes it explicit that a computer virus is a covered cause of loss in many circumstances. To the extent that such losses would not have been covered in the past, the Additional Coverage – Electronic Data represents a broadening of coverage

II. CLARIFICATION OR PROCEDURAL CHANGES

- INCREASE COST OF CONSTRUCTION (CP 00 10, CP 00 17)

The Additional Coverage – Increased Cost of Construction currently contains an exclusionary provision relation tot pollution. Text is added to make it explicit that the exclusion regarding pollution affects all aspects of the Increase Cost of Construction coverage.

- VALUABLE PAPERS AND RECORDS (OTHER THAN ELECTRONIC DATA)
(CP 00 10, CP 00 17, CP 00 18, CP 00 99)

Valuable papers and records (other than electronic data) are addressed in a Coverage Extension of that title. There is no change in coverage.

III. POTENTIAL REDUCTION OF COVERAGE

- INCREASED COST OF CONSTRUCTION (CP 00 10, CP 00 17)

The Additional Coverage – Increased Cost of Construction is revised to specify that such coverage does not respond to losses related to enforcement of laws which require, for example, demolition or repair of property due to fungus, wet rot, dry rot or bacteria, or the assessment or clean up of fungus, wet rot, dry rot or bacteria.

- ELECTRONIC DATA – LEGAL LIABILITY AND MORTGAGEHOLDERS ERRORS AND OMISSIONS (CP 00 40, CP 00 70)

Under revised Legal Liability Coverage Form CP 00 40, Covered Property does not include electronic data.

In revised Mortgageholders Errors and omissions Coverage Form CP 00 70, under Coverage A (Mortgageholders Interest) and Coverage B (Property Owned or Held In Trust), Covered Property does not include electronic data.

BUSINESS INTERRUPTION COVERAGE FORMS

I. CHANGED IN COVERAGE – INTERRUPTION OF COMPUTER OPERATIONS (CP 00 30, CP 00 32, CP 00 50)

In the past, coverage for business income loss due to damage to electronic media and records was limited to the longer of 60 days or the time needed to restore other property (unless a greater number of days was provided via endorsement CP 15 29). These time limitations, including amendment via CP 15 29, no longer apply.

In the revised policy, under an Additional Coverage – Interruption of Computer Operations, coverage is provided for business income loss and/or extra expense (depending on the Coverage Form used in a particular policy) arising from a business interruption caused by destruction or corruption of electronic data by a Covered Cause of Loss. The Covered Causes of Loss in this situation are certain named perils, including computer virus as limited. The Interruption of Computer Operations coverage is subject an annual aggregate limit of \$2,500 per policy, which applies regardless of the number of occurrences, premises, locations or computer systems involved.

Reduction in coverage: In comparison to the time limitation used in the past, the new aggregate dollar limit represents a reduction in business income coverage. Coverage is also reduced for extra expense, because the aforementioned time limitation did not affect extra expense; the new aggregate limit affects business income and extra expense.

Potential broadening of coverage: As revised, the policy explicitly provides coverage under certain circumstances for corruption of electronic data, a type of loss which was not explicitly addressed in the policy in the past. The revised policy also makes it explicit that a computer virus is a covered cause of loss in many circumstances. To the extent that business interruptions related to such

losses would not have been covered in the past, the Additional Coverage – Interruption of Computer Operations represents a broadening of coverage.

II. CLARIFICATION OR PROCEDURAL CHANGES

- RENTAL VALUE (CP 00 30, CP 0032)

The definition of rental value has been revised to emphasize that continuing normal operating expenses are included and non-continuing expenses are deducted in computing loss of rental value.

- EXTRA EXPENSE COVERAGE (CP 00 30, CP 00 50)

The Extra Expense coverage grant, as revised, omits explicit reference to the expense of replacing valuable papers and records. The new limitations on electronic data, discussed above, affect valuable papers and records stored as electronic data. There is no particular restriction (and no change in coverage) relating to valuable papers and records in the paper medium.

The Extra Expense coverage grant is revised to clarify that repair or replacement of property is cover only to the extent that it reduces the amount of loss that otherwise would have been payable under the Coverage Form (CP 00 30 or CP 00 50).

CAUSES OF LOSS FORMS (AND CAUSES OF LOSS SECTIONS OF CP 00 70 AND CP 00 99 AS LISTED IN INDIVIDUAL ITEMS)

I. CLARIFICATION OR PROCEDURAL CHANGES

- UTILITY SERVICES EXCLUSION
(CP 10 10, CP 10 20, CP 10 30, CP 00 70, CP 00 99)

A statement has been added to the Utility Services exclusions, explaining that failure of power or other utility services includes lack of sufficient capacity and a reduction in the supply of the service.

II. REDUCTION OF COVERAGE

- LOSSES INVOLVING FUNGUS, WET ROT, DRY ROT OR BACTERIA
(CP 10 10, CP 10 20, CP 10 30, CP 00 70, CP 00 99_

In the past, coverage for loss caused by fungus (including mold, wet rot and dry rot) was provided when the fungus resulted from a Covered Cause of Loss. Under property damage forms, the Limit of Insurance on the affected property was the maximum payable for the total of all damages (by the covered cause of loss and fungus) to the covered property. Under business interruption forms, the period of restoration, as defined in the forms, applied with out exception to a suspension of operations involving fungus. Such coverage, for property damage and business interruption, still applies when fungus results from a fire or lightning loss.

As revised, the policy provides limited coverage when fungus results from a Covered Cause of Loss other than fire or lightning (Forms CP 10 10, CP 10 20, CP 00 99) or a specified cause of loss other than fire or lightning (as defined in forms CP 10 30, CP 00 70). Property damage coverage is subject to a \$15,000 annual aggregate limit per policy (unless such limitation is increase via endorsement CP 04 31). The \$15,000 (or higher) limit, which does not increase

the amount of insurance on the affected property, represents a reduction in coverage. Under business interruption coverage (provided that a particular policy includes such coverage), when a business interruption is attributable to fungus, the period of restoration is limited to 30 days (not necessarily consecutive days). When fungus prolongs a business interruption that is attributable to other damage, a delay of up to a total of 30 days is covered (regardless of when the delay occurs during the period of restoration). In each case, the 30-day period (or a longer period if endorsed via CP 04 31) represents a reduction in coverage.

III. POTENTIAL REDUCTION OF COVERAGE

- EXCLUSION OF CONTINUOUS OR REPEATED SEEPAGE OR LEAKAGE OF WATER OR STEAM (CP 10 10, CP 10 20, CP 10 30, CP 00 99)

This exclusion has been revised by adding reference to the presence or condensation of humidity, moisture or vapor. The exclusion addresses conditions which persist over a period of 14 or more days.

ENDORSEMENTS

I. CLARIFICATION OR PROCEDURAL CHANGES

- CP 04 05 ORDINANCE OR LAW COVERAGE ENDORSEMENT
- CP 1531 ORDINANCE OR LAW INCREASED PERIOD OF RESTORATION ENDORSEMENT

These endorsements contain an exclusionary provision relating to pollution. In the revised endorsements, text has been added to make it explicit that such exclusion affects all aspects of the Ordinance or Law coverage.

- CP 15 45 UTILITY SERVICES – TIME ELEMENT

The revised endorsement includes a paragraph explaining the function of the Schedule entry for a Limit of Insurance. The title of that Schedule entry is revised to make it more explicit.

- CP 15 08 BUSINESS INCOME FROM DEPENDENT PROPERTIES – BROAD FORM
- CP 15 09 BUSINESS INCOME FROM DEPENDENT PROPERTIES – LIMITED FORM
- CP 15 34 EXTRA EXPENSE FROM DEPENDENT PROPERTIES

Under these endorsements, contributing locations (a property that delivers materials or services to the insured) do not include suppliers of water, communications service or power. In the revised endorsements, there is explicit mention that services relating to Internet access (or access to any electronic network) fall under communication supply services.

- CP 11 05 BUILDERS RISK REPORTING FORM
- CP 13 10 VALUE REPORTING FORM

New language has been added to the Premium Adjustment section of these forms, stating that the due date for any additional premium is the date shown on the bill as the due date.

II. BROADENING OF COVERAGE

- CP 04 30 ELECTRONIC COMMERCE (E-COMMERCE)

This new, optional endorsement addresses certain exposures related to use of the Internet in conducting business. Coverage, as described and limited in the endorsement, applies to restoration of electronic data and loss of income arising out of interruption of e-commerce activities.

- CP 04 32 BUSINESS PERSONAL PROPERTY –LIMITED INTERNATIONAL COVERAGE

This new, optional endorsement provide proerty damage coverage on business personal property during a business trip to a foreign territory.

- CP 04 33 PROPERTY IN PROCESS OF MANUFACTURE BY OTHERS – LIMITED INTERNATIONAL COVERAGE

This new, optional endorsement extends property damage coverage on business personal property to raw materials and goods while in the process of manufacture in a foreign territory (outsourcing).

- CP 15 01 BUSINESS INCOME FROM DEPENDENT PROPERTIES – LIMITED INTERNATIONAL COVERAGE

- CP 15 02 EXTRA EXPENSE FROM DEPENDENT PROPERTIES – LIMITED INTERNATIONAL COVERAGE

Under these new, optional endorsements, the dependent properties are contributing or manufacturing locations in a foreign territory. Each location must be identified.

III. POTENTIAL REDUCTION OF COVERAGE

- CP 04 05 ORDINANCE OR LAW COVERAGE ENDORSEMENT

- CP 15 31 ORDINANCE OR LAW – INCREASED PERIOD OF RESTORATION ENDORSEMENT

These endorsements are revised to specify that ordinance or law coverage does not respond to losses related to enforcement of ordinances or laws which required, for example, demolition or repair of property due to fungus, wet rot, dry rot or bacteria, or the assessment of clean up of fungus, wet rot, dry rot or bacteria.

- CP 15 08 BUSINESS INCOME FROM DEPENDENT PROPERTIES – BROAD FORM

- CP 15 09 BUSINESS INCOME FROM DEPENDENT PROPERTIES – LIMITED FORM

- CP 15 34 EXTRA EXPENSE FROM DEPENDENT PROPERTIES

As revised, coverage under these endorsements does not apply when the only damage at the premises of the dependent property is damage to electronic data. If the dependent property suffers damage to electronic data and other property, resulting in a suspension of operations at the insured's premises, coverage under these endorsements will not continue after such other property is repaired or replaced.

- CP 04 17 UTILITY SERVICES – DIRECT DAMAGE

Loss or damage to electronic data, caused by an interruption in utility service, is not covered.

- CP15 45 UTILITY SERVICES – TIME ELEMENT

Coverage under this endorsement does not apply to business income loss or extra expense related to an interruption in utility service which causes loss or damage to electronic data.