

# ISRB CIRCULAR

## IDAHO COMMERCIAL FIRE & ALLIED LINES MULTISTATE FINALIZED RULES CHANGES.

Rules

June 19, 2017

2017-CF-2

SERFF # ISRB-131051666

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### BACKGROUND

This information is intended exclusively for Idaho Surveying and Rating Bureau, Inc. affiliated companies.

Bureau staff has received and reviewed revisions to some of the Commercial Property Multistate Rules. Based on staff's evaluation of this review, the Bureau will implement the following changes to Commercial Fire and Allied Lines in Idaho effective November 1, 2017.

The Idaho Department of Insurance has accepted this filing.

### CHANGES

#### CF-2016-RRU16

Revised Rules

Rule 29. Unmanned Aircraft

Rule 30.C.5. Building Glass And Other Building Property – Tenant's Policy

Rule 32. Tenants Improvements And Betterments

Rule 38.D. Ordinance Or Law Coverage

Rule 38.R. Functional Building Valuation

Rule 54.A. Ordinance Or Law – Increased Period Of Restoration

Rule 54.B. Utility Services

Rule 54.D. Business Income Changes – Beginning Of The Period Of Restoration

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### EFFECTIVE DATE

**The effective date for these changes will be November 1, 2017.**

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### COMPANY ACTION

All correspondence with the Idaho Department of Insurance should refer to **CF-2016-RRU16**.

If you have authorized us to file on your behalf and decide:

☐ To use our revision and effective date, you are not required to file anything with the Idaho Department of Insurance.

☐ To use our revision with a different effective date, to use our revision with modifications or to not use our revision, then you must make an appropriate submission with the Idaho Department of Insurance.

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# Commercial Property Multistate Rules Revision

## About This Filing

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This filing revises Commercial Lines Manual Division Five - Fire And Allied Lines in support of various new and revised Commercial Property endorsements.

The filing consists of a Table of Contents and two sections:

- ◆ Section I: Explanatory Memoranda

This section provides explanatory material concerning revised and new rules.

- ◆ Section II: Copies of Rules

This section contains a copy of the affected sections of revised rules, depicting the changes addressed in Section I, as well as a copy of new rules in their entirety. In addition, we are making various changes in punctuation, capitalization and format, as shown.

In all exhibits, we have used a format of ~~striking through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes and new material.

**NOTE:** Some material in this multistate part of the filing may not apply in a given jurisdiction. Please refer to the State Supplements for exceptions to the multistate material.

## Related Filing(s)

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The following companion filings will be implemented concurrently with this filing:

- ◆ CF-2016-OFR16 (Forms)
- ◆ CF-2016-RLC16 (Loss Costs)

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## Building Items Coverage For Tenants

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### Background

Commercial tenants may have a contractual obligation, under the lease agreement for their rental space, to insure (or assume responsibility for reimbursement of damage to) certain property that is part of the building, such as HVAC equipment. Dating back to the 2007 edition of the ISO Commercial Property program, we addressed a similar issue with respect to insuring building glass under a tenant's policy, currently insurable under Endorsement CP 14 70.

Under companion Forms filing CF-2016-OFR16, we are introducing new endorsements CP 14 01 and CP 14 02, which modify a tenant's policy by adding certain building property as insured property, on a scheduled or unscheduled basis, respectively. Coverage can be written under these endorsements for building glass that is part of the designated building, and for building fixtures and permanently installed machinery and equipment that are part of the designated building.

In the same filing, we are withdrawing endorsement CP 14 70 because the option to cover building glass is included in new endorsements CP 14 01 and CP 14 02.

### Explanation of Changes

We are revising Rule 30.C.5. by adding reference to the new endorsements and a description of the expanded coverage options. References to the withdrawn endorsement are being removed from this rule.

The building rate will continue to apply to building glass. The building rate will also apply to other building items covered under the new endorsements.

### Impact

As indicated above, the additional insured property will be rated using the building rate.

### Revised Rule

We are revising the following rule:

- ◆ Rule 30.C.5. Building Glass - Tenant's Policy [The revised title is Building Glass And Other Building Property - Tenant's Policy.]

We have used a format of ~~striking through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes.

# Utility Services - Time Element Waiting Period Options

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## Introduction

In companion filing CF-2016-OFR16, we are revising Endorsement CP 15 45 to enable selection of an independent waiting period for Business Income losses arising from utility services interruption, that is, a waiting period which could be different from the policy's waiting period.

## Explanation of Changes

In Rule 54.B., we are providing rating information supporting the following waiting period options for Business Income coverage under endorsement CP 15 45: no-waiting-period; 12 hours; 24 hours; 48 hours; 72 hours; 96 hours; 120 hours; 144 hours; 168 hours. Thus the waiting period options range from no waiting period to a waiting period of one week.

The newly introduced rate modification factors will be applied to the current Utility Services rates. (Since the Utility Services rates reflect a Business Income waiting period of 72 hours, that waiting period serves as the base.)

The selected rate modification factors are as follows:

Waiting Period (hours)	Rate Modification Factor
No waiting period	1.15
12	1.12
24	1.10
48	1.05
72 (base)	(1.00)
96	0.96
120	0.93
144	0.90
168	0.88

## Actuarial Support

### Source Data

The Program draws information mainly from ISO Commercial Statistical Plan (CSP) and Commercial Minimum Statistical Plan (CMSP).

The analysis was based on over 22 years of multistate time element loss data by coverage type and accident year from January, 1994 through March, 2016.

The analysis was based on estimating the duration (in days or hours) of a time element loss based on the ratio of each loss amount to the corresponding annualized limit. Business income coverage limits were adjusted to an annual basis by dividing reported limit by the coinsurance percentage. The current ISO Business Interruption coverage forms have a 72 hour waiting period before losses are covered. For losses that were reported since the 72 hour waiting period was introduced, a portion of the limit corresponding to 72 hours or three days was added to the losses in order to calculate losses from the date of accident.

### Rating Factor Development

Each loss was evaluated at each of the waiting period options. The factor for each waiting period was then estimated by calculating the ratio of the sum of the losses evaluated as of that waiting period to sum of the losses evaluated as of the base waiting period of 72 hours.

## Impact

There is no change in the rating of Utility Services coverage that is subject to the base 72-hour waiting period.

The other Utility Services waiting period options, including the credits and charges represented by the respective rate modification factors, are newly added as independent options.

## Revised Rule

We are revising the following rule:

### ◆ Rule 54.B. Utility Services

We have used a format of ~~striking-through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes.



# Revised Rating Of Period Of Restoration Options

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## Introduction

In conjunction with developing waiting period options for utility services coverage, as outlined in the filing module titled Utility Services - Time Element Waiting Period Options, we undertook a review of data impacting the 24-hour and no-waiting-period options for the beginning of the period of restoration that pertains to Business Income coverage in the policy itself (CP 00 30 or CP 00 32). The policy's base waiting period is 72 hours.

## Explanation of Changes

In Rule 54.D., we are revising the rate modification factors relating to the beginning of the period of restoration for Business Income coverage, as follows:

<b>Beginning of the Period of Restoration</b>	<b>Current Rate Modification Factor</b>	<b>Revised Rate Modification Factor</b>
No waiting period	1.11	1.15
24 hours	1.05	1.10

## Actuarial Support

### Source Data

The Program draws information mainly from ISO Commercial Statistical Plan (CSP) and Commercial Minimum Statistical Plan (CMSP).

The analysis was based on over 22 years of multistate time element loss data by coverage type and accident year from January, 1994 through March, 2016.

The analysis was based on estimating the duration (in days or hours) of a time element loss based on the ratio of each loss amount to the corresponding annualized limit. Business income coverage limits were adjusted to an annual basis by dividing reported limit by the coinsurance percentage. The current ISO Business Interruption coverage forms have a 72 hour waiting period before losses are covered. For losses that were reported since the 72 hour waiting period was introduced, a portion of the limit corresponding to 72 hours or three days was added to the losses in order to calculate losses from the date of accident.

### Rating Factor Development

Each loss was evaluated at each of the waiting period options. The factor for each waiting period was then estimated by calculating the ratio of the sum of the losses evaluated as of that waiting period to sum of the losses evaluated as of the base waiting period of 72 hours.

## **Impact**

Rates are increased as noted for the no-waiting-period and 24-hour options, based on a review of the latest available data.

## **Revised Rule**

We are revising the following rule:

- ◆ Rule 54.D. Business Income Changes - Beginning Of The Period Of Restoration

We have used a format of ~~striking-through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes.

# Ordinance Or Law Coverage - Post-Loss Change To Building Code

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## Introduction

In companion filing CF-2016-OFR16, we are revising Endorsements CP 04 05, CP 04 38 and CP 15 31, which address Ordinance Or Law coverage, to add an option to include coverage for complying with an ordinance or law that is promulgated or revised after the loss but prior to commencement of reconstruction or repair, provided such ordinance or law requires compliance as a condition precedent to obtaining a building permit or certificate of occupancy.

That option, titled Post-Loss Ordinance Or Law Option, is activated by entry in the Schedule of each of the aforementioned endorsements.

## Explanation of Changes

Rules 38.D., 38.R. and 54.A. are revised to recognize the Post-Loss Ordinance Or Law option, including a rate modification factor of 1.02.

In addition, under Rule 38.D., Paragraph 4.a.(1) is revised to incorporate the substance of Paragraph 4.b., for the purpose of consolidating the current rating provisions applicable to Coverage A.

## Impact

The Post-Loss Ordinance Or Law rate modification factor of 1.02 is a nominal charge intended to reflect the enhanced coverage provided under this option.

## Revised Rules

We are revising the following rules:

- ◆ Rule 38.D. Ordinance Or Law Coverage
- ◆ Rule 38.R. Functional Building Valuation
- ◆ Rule 54.A. Ordinance Or Law - Increased Period Of Restoration

We have used a format of ~~striking-through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes.

# Tenants Improvements And Betterments: Ordinance Or Law Coverage

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## Introduction

Under a tenant's policy, coverage is provided for the tenant's use interest in improvements and betterments, which are described in the policy as fixtures, alterations, installations or additions made a part of the building occupied by the tenant and which the tenant acquired or made at their expense but cannot legally remove. In the event of damage to the building, enforcement of building codes can have an impact on losses to improvements and betterments which although a part of the building, may be the tenant's responsibility to insure. Traditional Ordinance Or Law Coverage (OLC), such as is provided under Endorsement CP 04 05, pertains to the building owner's interest in the building.

## Background

In companion Forms filing CF-2016-OFR16, we are introducing Endorsement CP 04 26 to provide OLC under a tenant's policy for improvements and betterments.

## Explanation of Changes

We are revising Rule 32. to address new endorsement CP 04 26. The rating provisions for OLC on tenants' improvements and betterments are the same as those which apply to OLC on a building.

## Impact

This is a new coverage option.

## Revised Rule

We are revising the following rule:

- ◆ Rule 32. Tenants Improvements And Betterments

We have used a format of ~~striking-through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes.

# Unmanned Aircraft

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## Background

In filings CL-2016-ODNPF and CL-2016-ODNPR, made in the Spring of 2016, we introduced an endorsement providing the means of insuring unmanned aircraft under the ISO Commercial Property program, along with a corresponding rule. At that time, the rule indicated that rating provisions would be implemented by the company in accordance with any applicable regulatory requirements.

## Explanation of Changes

We are revising Rule 29., Unmanned Aircraft, to add rating information. Some of the noteworthy provisions are:

### Property Damage Rating

- ◆ Deductible options are rated in accordance with the existing manual rules addressing lower and higher deductibles.
- ◆ The no-deductible option is rated by applying a factor of 1.15 to the unmanned aircraft rate. This is the same factor currently provided under Rule 30.C.5. for the Special and Other Causes of Loss categories with respect to the no-deductible option for tenants' building glass.
- ◆ The option for newly acquired property is rated by applying a factor of 1.05 to the unmanned aircraft rate. Under this option, newly acquired unmanned aircraft are covered for a period of up to 30 days. The 30-day coverage period is one-twelfth of a year, which translates to a factor of 1.083. That factor was tempered to 1.05 based on the assumption that acquisition of additional unmanned aircraft during a particular policy year is not a certainty.
- ◆ Coinsurance flows through from the policy. A coinsurance level other than 80% is rated by using the adjustments applicable to the Special Causes of Loss Form. (The unmanned aircraft endorsement is compatible only with Special Form policies.)
- ◆ Limit of Insurance relativity factors do not apply to unmanned aircraft rating.
- ◆ Adjustments for additional or excluded causes of loss are rated in accordance with existing manual rules.

### Time Element Rating

- ◆ Certain time element rating factors applicable to the base policy also apply to unmanned aircraft rates.
- ◆ Base rate adjustment factors do not apply to unmanned aircraft rates.

- ◆ Waiting period options are rated in accordance with existing manual rules.
- ◆ Extension of the period of indemnity for business income is rated in accordance with existing manual rules.
- ◆ Adjustments for additional or excluded causes of loss are rated in accordance with existing manual rules.

#### Other Information

The following options remain company rated subject to compliance with any applicable regulatory requirements:

- ◆ Limited expansion outside the coverage territory
- ◆ Modification of the aggregate limit on electronic data
- ◆ Modification of the aggregate limit on interruption in computer operations

## **Impact**

This filing introduces supplementary rating information for a recently-introduced coverage option.

## **Revised Rule**

We are revising the following rule:

- ◆ Rule 29., Unmanned Aircraft

We have used a format of ~~striking-through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes.

## **Related Information**

Loss costs are provided in companion filing CF-2016-RLC16.



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## 29. UNMANNED AIRCRAFT

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### A. Description Of Coverage

This coverage insures against direct physical loss or damage to certain unmanned aircraft, including that which occurs while the unmanned aircraft are used in specified unmanned aircraft operations, such as aerial photography or pipeline surveillance. Some noteworthy features of this insurance include the following:

1. The unmanned aircraft includes equipment designed for and used exclusively with it, provided the equipment is essential for operation of such aircraft or for executing the specified unmanned aircraft operations.
2. If the policy covers Your Business Personal Property, coverage under this endorsement applies to such property while airborne as part of the specified unmanned aircraft operations. However, there is **no** coverage for conveyance of merchandise or goods for delivery to others, even if such property is part of Your Business Personal Property.
3. Coverage includes the expense of removing debris of the unmanned aircraft, within the limit of insurance applicable to the unmanned aircraft.
4. If the policy covers business interruption with respect to the described premises, the Business Interruption option for unmanned aircraft operations off the described premises can be elected.
5. Coverage under this endorsement applies on and off the described premises, throughout the policy's Coverage Territory. As an option, coverage can be extended to also apply with respect to flight between points in the Coverage Territory.
6. With respect to unmanned aircraft manufactured, processed, warehoused or held for sale by the insured, coverage under this endorsement applies only while such unmanned aircraft are in flight. Coverage for such aircraft when not in flight is addressed under an exception to the Commercial Property policy's Property Not Covered provision concerning aircraft.

### B. Form

Use Limited Coverage For Unmanned Aircraft (Scheduled And/Or Blanket Coverage) Endorsement **CP 04 14**.

Attach this endorsement to one or more of the following Coverage Forms:

1. Builders Risk Coverage Form **CP 00 20**
2. Building And Personal Property Coverage Form **CP 00 10**
3. Condominium Association Coverage Form **CP 00 17**
4. Condominium Commercial Unit-owners Coverage Form **CP 00 18**

(This endorsement also addresses the business interruption coverage forms, but is not designed to be attached to a policy that insures only business interruption.)

### C. Eligibility

1. Endorsement **CP 04 14** is designed to be used **only** on policies that provide coverage subject to Causes Of Loss – Special Form **CP 10 30**.
2. Endorsements in the policy that add or modify the causes of loss (such as flood coverage or theft exclusion, for example) also apply to the coverage provided under Endorsement **CP 04 14**. However, if the Equipment Breakdown Cause of Loss is endorsed to the policy, it does **not** apply to the coverage provided under Endorsement **CP 04 14**.
3. The unmanned aircraft must be owned by the insured, or rented or leased to the insured if the insured has a contractual responsibility to insure. (There is **no** coverage for loss that occurs while an unmanned aircraft is rented, leased or loaned to others.)
4. This endorsement is **not** designed to apply to (and explicitly excludes losses arising during) unmanned aircraft operations that convey merchandise or goods for delivery to others. Such exclusion applies even if such property is part of the insured's business personal property.

### D. Rules

The Schedule of Endorsement **CP 04 14** addresses information relating to the risk and coverage, as follows:

1. Indicate the described premises;
2. Enter a description of unmanned aircraft operations, such as aerial photography or pipeline surveillance. Operations do **not** include delivery of merchandise or goods to others;
3. Indicate whether or not the Limited Expansion Outside Coverage Territory applies. If yes, then property covered under this endorsement as part of the specified unmanned aircraft operations is also insured while airborne between points in the policy's Coverage Territory.



4. For each unmanned aircraft covered on a scheduled basis, enter a description of the unmanned aircraft, the corresponding Limit of Insurance and the Valuation (actual cash value or replacement cost);
5. With respect to unmanned aircraft covered on a blanket basis, enter the Blanket Limit of Insurance and Valuation (actual cash value or replacement cost);
6. Enter a Deductible, or leave blank if no Deductible applies to unmanned aircraft;
7. When coverage for unmanned aircraft is written on a scheduled basis, indicate whether or not the Coverage Extension For Newly Acquired Property Including Temporary Substitute Property applies. Coverage under the Extension can apply for up to 30 days. For replacement property and temporary substitute property, the amount of coverage is the same as that which applies to the original; for additional property, the amount of coverage is the amount which applies to the most similar scheduled unmanned aircraft;
8. The Schedule includes an entry for writing a dedicated annual aggregate limit applicable to loss or damage sustained by electronic data in the course of the specified unmanned aircraft operations. If no such limit is entered in the Schedule, then the policy's \$2,500 annual aggregate limit for electronic data applies under this endorsement, but in such case any payment made under this endorsement for electronic data would reduce the amount of the policy's annual aggregate limit on electronic data.
9. Indicate if business interruption coverage is to apply, and if so, enter a corresponding Limit Of Insurance For Interruption In Unmanned Aircraft Operations. (Business interruption coverage can be written under this endorsement only if the policy includes such coverage at the described premises.)
10. If business interruption coverage applies, extended business income (60 days) and the beginning of the period of restoration (72 hours) can be modified by entering a different number of days or hours, respectively, in the Schedule.
11. The Schedule includes an entry for writing a dedicated annual aggregate limit applicable to interruption of computer operations (due to destruction or corruption of electronic data in the course of the specified unmanned aircraft operations). If no such limit is entered in the Schedule, then the policy's \$2,500 annual aggregate limit for interruption of computer operations applies under this endorsement, but in such case any payment made under this endorsement for such interruption would reduce the amount of the policy's annual aggregate limit on interruption of computer operations.

#### E. Premium Determination

~~Refer to rating provisions implemented by the company in accordance with any applicable regulatory requirements.~~

##### 1. Property Damage

- a. Refer to Rule 29.E.1.a. in the multistate loss costs. Select the appropriate loss cost based on the type of unmanned aircraft operation.
- b. The unmanned aircraft loss costs reflect the base deductible. Refer to Rule 33.C. for a lower deductible option. Refer to Rule 81. for higher deductible options. Under Rule 81., use the "Other Causes Of Loss" column of factors and select the factor based on the lowest amount of insurance range for the selected deductible, but if the limit of insurance on the unmanned aircraft exceeds that amount, then select the factor based on the actual limit of insurance on the unmanned aircraft. If coverage for unmanned aircraft is written without a deductible, multiply the unmanned aircraft rate by a factor of 1.15.
- c. The policy's coinsurance level applies to the unmanned aircraft unless otherwise indicated in the Declarations. Adjust the unmanned aircraft rate accordingly based on the coinsurance adjustment used for the Causes of Loss – Special Form.
- d. If the option for newly acquired property applies in accordance with Paragraph D.7., multiply the unmanned aircraft rate by a factor of 1.05.
- e. Multiply the adjusted rate by the limit of insurance in hundreds to determine the premium for each unmanned aircraft. Limit of Insurance relativity factors do not apply to unmanned aircraft rating. (If property damage coverage for unmanned aircraft is written on a blanket basis, determine the blanket rate and premium in the usual manner in accordance with the rules in this manual.)
- f. As indicated in Paragraph C.2., if the policy is endorsed to cover additional causes of loss (such as earthquake or flood), or to exclude certain causes of loss (such as windstorm/hail, theft or vandalism), those changes apply to unmanned aircraft. Determine the related rate adjustments or premium in accordance with the rules in this manual addressing those causes of loss.

##### 2. Time Element

- a. Refer to Rule 29.E.1.a. in the multistate loss costs. Select the appropriate property damage loss cost based on the type of unmanned aircraft operation. Multiply the rate by the appropriate time element factor from Rule 50. (which relates to business income coverage with or without extra expense) or Rule 52. (which relates to extra expense coverage only), subject to the following exceptions:

(1) If the Maximum Period of Indemnity or Monthly Limit of Indemnity applies in accordance with Rule 51.E. or 51.F., use the appropriate factor from that rule instead of Rule 50. (These indemnity options may apply when time element coverage is written under Form CP 00 30 or CP 00 32).

(2) If expanded limits on loss payment apply in accordance with Rule 53.A., use the appropriate factor from that rule instead of Rule 52. (This loss payment option may apply when time element coverage is written under Form CP 00 50).

The base rate adjustment factors in the state exceptions are not applicable to unmanned aircraft rating.

b. When the beginning of the period of restoration is modified in accordance with the information in Paragraph D.10., multiply the unmanned aircraft rate by the applicable factor from Rule 54.D.

c. When extended business income is increased in accordance with the information in Paragraph D.10., multiply the unmanned aircraft rate by the appropriate extended period of indemnity factor in Rule 51.D.4.

d. Multiply the adjusted rate by the limit of insurance in hundreds to determine the premium.

e. As indicated in Paragraph C.2., if the policy is endorsed to cover additional causes of loss (such as earthquake or flood), or to exclude certain causes of loss (such as windstorm/hail, theft or vandalism), those changes apply to unmanned aircraft. Determine the related rate adjustments or premium in accordance with the rules in this manual addressing those causes of loss.

### 3. Other Options

For the following options, refer to rating provisions implemented by the company in accordance with any applicable regulatory requirements:

a. Limited Expansion Outside Coverage Territory (Paragraph D.3.);

b. Modification of aggregate limit on electronic data (Paragraph D.8.); and

c. Modification of aggregate limit on interruption in computer operations (Paragraph D.11.).

### 30. BUILDING

\* \* \* *The rest of the rule remains unchanged* \* \* \*

#### C. Rules

##### 5. Building Glass And Other Building Property – Tenant's Policy

###### a. Description

The endorsements indicated in Paragraph ~~b. Building Glass – Tenant's Policy Endorsement CP 14 70~~ may be used to provide coverage for building glass, building fixtures and/or permanently installed machinery and equipment, provided that:

- (1) The insured is a tenant and the Building is not otherwise covered under the policy; and
- (2) The tenant has a contractual responsibility to insure ~~the building glass~~ such property, or a contractual responsibility to pay for loss or damage to that property.

###### b. Form

Use Scheduled Building Property ~~Building Glass – Tenant's Policy Endorsement CP 14 70.01~~ or Unscheduled Building Property – Tenant's Policy Endorsement CP 14 02.

###### c. Rules

###### (1) Schedule

Indicate the following in the Schedule of ~~the Endorsement CP 14 70~~:

- (a) The location of the Building;
- (b) A description of the ~~Building Glass~~ building property if coverage is written on a scheduled basis;
- (c) The applicable Causes Of Loss form (and any related endorsements);
- (d) The applicable limit(s) of insurance ~~for Building Glass Coverage~~;
- (e) The applicable deductible(s) ~~for Building Glass Coverage~~;
- (f) Actual cash value or replacement cost; and
- (g) A Coinsurance percentage, if the policy's Coinsurance Condition is to apply.

###### (2) Rating

- (a) Use the applicable building rate.
- (b) Refer to Rules 33., 81. and 82. for information on the base deductible and higher and lower deductible amounts.
- (c) If coverage for building glass is written without a deductible, use the appropriate factors from Table 30.C.5.c.(2)(c).

Basic Group I	Basic Group II	Special	Other
1.10	1.10	1.15	1.15

Table 30.C.5.c.(2)(c) Factors For Building Glass – Tenant's Policy – No Deductible

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**32. TENANTS IMPROVEMENTS AND BETTERMENTS**

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*\* \* \* The rest of the rule remains unchanged \* \* \**

**F. Ordinance Or Law Coverage For Tenants Improvements And Betterments**

1. Ordinance Or Law Coverage can be provided for a tenant's improvements and betterments by adding Endorsement **CP 04 26**, Ordinance Or Law Coverage For Tenant's Interest In Improvements And Betterments (Tenant's Policy). Refer to Rule **38.D**. for information about Ordinance Or Law Coverage, including a description of Coverages **A**, **B** and **C**.
2. When Endorsement **CP 04 26** is added to the policy, do **not** write improvements and betterments as part of an item also covering personal property under a blanket amount.
3. Determine the premium for Endorsement **CP 04 26** in accordance with the rating provisions set forth in Rule **38.D**.

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**38. BUILDING AND PERSONAL PROPERTY COVERAGE OPTIONS**

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*\* \* \* The rest of the rule remains unchanged \* \* \**

**D. Ordinance Or Law Coverage**

**1. Description Of Coverage**

The following coverages respond to losses that result from a requirement to comply with ordinances or laws regulating demolition and/or restoration of a building following physical damage to that building by a covered cause of loss. The ordinance or law must be in effect at the time of loss unless the Post-Loss Ordinance Or Law Option applies (refer to Paragraph D.3.).

In the situation where the underlying property damage losses were caused by covered and excluded causes of loss, loss payment for ordinance or law coverages may be proportioned accordingly.

Coverage does not include loss due to an ordinance or law with which the insured was required to comply before loss and failed to comply. Further, coverage applies only in response to the minimum requirements of an ordinance or law.

**a. Coverage A – Loss To The Undamaged Portion Of The Building**

The undamaged portion of a building will suffer a loss in value if an ordinance or law requires demolition following direct physical loss to another part of the building. Coverage **A** covers the loss in value of the undamaged portion of the building. (Coverage **A** does not cover the demolition costs. For such coverage, refer to Coverage **B**.)

Example of Coverage **A**:

Coinsurance: 80%

Value of the building at time of  
loss: \$100,000

Limit of Insurance: \$80,000

Amount of loss attributable to direct  
physical damage (e.g., fire): \$60,000

Actual loss: Entire building (due to  
ordinance which requires demolition  
of the building)

Without Ordinance Or Law Coverage Endorsement **CP 04 05**, only the \$60,000 loss would be covered, subject to all applicable policy provisions including coinsurance and the deductible. Under Endorsement **CP 04 05**, Coverage **A** covers the remaining loss of value, up to the limit of insurance on the building, subject to all applicable policy provisions. In this example, the policy endorsed with Endorsement **CP 04 05** would pay \$80,000.

**b. Coverage B – Demolition Cost**

Coverage **B** covers the costs to demolish the undamaged portions of the building.

**c. Coverage C – Increased Cost Of Construction**

- (1) Following a physical loss to the building, Coverage **C** covers the increased expenses to repair, replace, reconstruct or remodel the damaged or undamaged parts of that building so that it complies with current building, zoning or land use laws or ordinances.
- (2) For each described building covered under the policy, Building And Personal Property Coverage Form **CP 00 10** and Condominium Association Coverage Form **CP 00 17** include coverage for the Increased Cost of Construction up to the lesser of \$10,000 or 5% of the building's limit of insurance (under blanket insurance, the 5% criterion applies to the building's value times the coinsurance percentage). Such coverage applies only to **damaged** parts of the property. This limited coverage should be taken into account when selecting a limit of insurance for Coverage **C** under Endorsement **CP 04 05**.

**2. Form**

Use Endorsement **CP 04 05**.

### 3. Rules

#### a. Schedule Entry

(1) Indicate in the Schedule of Endorsement **CP 04 05** which coverage(s) apply:

~~(1)(a)~~ Coverage **A** only; or

~~(2)(b)~~ Coverage **C** only; or

~~(3)(c)~~ Coverages **A** and **B**; or

~~(4)(d)~~ Coverages **A**, **B** and **C**.

(2) Also indicate in the Schedule whether or not the Post-Loss Ordinance Or Law Option applies. This option broadens coverage by including an ordinance or law promulgated or revised after the loss but prior to commencement of reconstruction or repair provided that such ordinance or law requires compliance as a condition precedent to obtaining a building permit or certificate of occupancy. When this option is selected, it automatically applies to all selected Coverages indicated in the Schedule of Endorsement **CP 04 05**.

#### b. Limits Of Insurance

##### (1) Coverage A

Coverage **A** is not subject to a separate limit of insurance and does not increase the limit of insurance on the building. When Coverage **A** applies to a loss, the limit of insurance on the building (as shown in the Declarations) covers the physical damage and the loss in value of the undamaged portion to the building.

##### (2) Coverages B And C

(a) In the Schedule of Endorsement **CP 04 05**, enter individual limits of insurance for Coverage **B** and/or Coverage **C**; or

(b) A combined limit of insurance may be written for Coverages **B** and **C**, in lieu of individual limits. Enter the combined limit in the Schedule of Endorsement **CP 04 05**.

#### c. Coinsurance

(1) Minimum coinsurance of 80% applies to the building when Endorsement **CP 04 05** is used. If the policy's Replacement Cost Optional Coverage applies (whether or not Coverage **C** also applies), this coinsurance requirement is based on the replacement cost of the current building. If the Replacement Cost Optional Coverage does not apply to the building, the coinsurance requirement is based on the actual cash value of the current building.

(2) The Coinsurance condition does not apply to the limit(s) of insurance selected for Coverages **B** and **C**.

#### d. Replacement Cost Coverage

When Coverage **C** applies to a building, activate the Replacement Cost Coverage of the underlying property damage coverage form, for that building. The Replacement Cost Coverage is activated by entry in the Declarations of the policy.

#### e. Additional Covered Property

Coverage **C** includes the increased cost of construction for the following (but such coverage does not increase the Coverage **C** Limit of Insurance):

(1) Cost of excavations, grading, backfilling and filling;

(2) Foundation of the building;

(3) Pilings; and

(4) Underground pipes, flues and drains.

### 4. Rate Modification

#### a. Causes Of Loss ~~Other Than Earthquake~~

##### (1) Coverage A – Coverage For Loss To The Undamaged Portion Of The Building

Multiply the 80% or higher coinsurance building rates by 1.15 for each covered cause of loss except earthquake. (For earthquake, multiply the building rate by 1.85.) The resulting rates are the rates for Building Coverage including Coverage **A**. In determining the rate for a cause of loss for which limit of insurance relativity factors apply, as indicated in individual rules in this Division, select such relativity factor based on the limit of insurance which applies to the building.

**(2) Coverage B – Demolition Cost Coverage**

Use the 80% coinsurance building rates. In determining the rate for a cause of loss for which limit of insurance relativity factors apply, as indicated in individual rules in this Division, select such relativity factor based on the limit of insurance which applies to the building. Multiply the rates by the limit of insurance in hundreds for Demolition Cost Coverage to obtain the additional premium for each covered cause of loss. Make no rate modifications for coinsurance or for other coverage options.

**(3) Coverage C – Increased Cost Of Construction Coverage**

Use the 80% coinsurance building rates. In determining the rate for a cause of loss for which limit of insurance relativity factors apply, as indicated in individual rules in this Division, select such relativity factor based on the limit of insurance which applies to the building. Multiply the rates by the limit of insurance in hundreds for Increased Cost Of Construction to obtain the additional premium for each covered cause of loss. Make no rate modifications for coinsurance or for other coverage options.

**(4) Post-Loss Ordinance Or Law Option**

When this option applies, increase the rates developed under Paragraphs (1), (2) and (3) by applying a factor of 1.02.

**~~b. Earthquake~~**

~~Use the same procedures as in Paragraph a., except change the factor in Paragraph a.(1) to 1.85.~~

**eb. Rating Example**

See the Rating Examples Appendix.

**5. Coverage Example**

**a. Assume the following:**

- (1)** An insured building of masonry construction has a replacement cost value of \$400,000 and an actual cash value of \$350,000.
- (2)** This building is located in an area now zoned for superior construction. The owner knows that substantial damage to the building – assume 50% destruction – will trigger the local ordinance and the entire building will have to be destroyed.
- (3)** Estimated cost of demolition of 50% of the structure (the undamaged portion) is \$30,000.
- (4)** The additional cost to replace the building with a new structure to comply with the local ordinance and land use laws is \$200,000.

**b. For purposes of illustration, the following are possible ways of developing the limits of insurance necessary when the Ordinance Or Law Coverage Endorsement is attached.**

**c. Example 1:**

Replacement Cost Coverage Option applies.

To provide coverage for:

- (1)** Replacement cost value of the current building (including loss of value of the undamaged portion), choose a Building limit of \$400,000.
- (2)** Additional cost to replace the building to comply with an ordinance or law, choose an Increased Cost of Construction limit of \$200,000.
- (3)** Cost to demolish the undamaged part of the existing building, choose a Demolition Cost limit of \$30,000.

**d. Example 2:**

Replacement Cost Coverage Option Does **NOT** apply.

To provide coverage for:

- (1)** Actual cash value of the current building (including loss of value of undamaged portion), choose a Building limit of \$350,000.
- (2)** Cost to demolish the undamaged part of the existing building, choose a Demolition Cost limit of \$30,000.

\* \* \* \* \*

## R. Functional Building Valuation

### 1. Description Of Coverage

Functional Building Valuation Endorsement **CP 04 38** provides coverage for specifically scheduled buildings which can be replaced with similar property that performs the same function as currently used but that is less costly. Coverage is provided:

- a. On a functional replacement cost basis when repair or replacement is contracted for within 180 days of the loss or damage.
- b. On a market value basis if repair or replacement is not contracted for within 180 days of the loss or damage.

Ordinance or Law Coverage is also provided. Refer to Paragraph **D.1.** for a description of this coverage.

### 2. Forms

Attach Endorsement **CP 04 38** to Form **CP 00 10**, or Form **CP 00 17**.

### 3. Eligibility

Applicable to buildings.

### 4. Rules

#### a. Schedule

(1) Indicate the following in the Schedule or on the Declarations for each item to be covered:

~~(4)~~(a) A specific description of the property and its location.

~~(2)~~(b) The Limit of Insurance.

(2) Also indicate in the Schedule whether or not the Post-Loss Ordinance Or Law Option applies. (This option broadens Ordinance Or Law Coverage by including an ordinance or law promulgated or revised after the loss but prior to commencement of reconstruction or repair provided that such ordinance or law requires compliance as a condition precedent to obtaining a building permit or certificate of occupancy.)

#### b. Coinsurance

Not applicable.

#### c. Blanket Insurance

Not applicable.

#### d. Other Insurance

(1) If other insurance on the building is subject to the same plan, terms, conditions and provisions as this Functional Building Valuation insurance, then the amount contributed by this Functional Building Valuation insurance is determined on a pro rata basis.

(2) If there is other insurance which does not meet the criteria in Paragraph (1), then the Functional Building Valuation insurance is excess.

### 5. Premium Determination

a. Determine the premium for Functional Building Valuation for each cause of loss by multiplying the 80% coinsurance building rate by 1.30.

b. When the Post-Loss Ordinance Or Law Option applies, increase the rates developed under Paragraph a. by applying a factor of 1.02.

### 6. Coverage Example

a. Assume the following:

- (1) The building to be insured is an old, fully equipped factory building, with a replacement cost of \$2,000,000, which the insured uses as a warehouse.
- (2) The insured could build a new building to be used for the same purpose for \$1,000,000.
- (3) Substantial damage to the building (50% destruction) will trigger a local ordinance and the entire building will have to be destroyed.
- (4) Estimated cost of demolition of 50% of the building (undamaged portion) is \$30,000.
- (5) Additional cost to install sprinklers to comply with a local ordinance is \$200,000.



- b. For purposes of illustration, the following is a possible way to develop the Functional Building Valuation Limit of Insurance.

To provide coverage for:

- (1) The cost to replace the existing building with a building that is functionally equivalent ... \$1,000,000.
- (2) Cost to demolish the undamaged part of the existing building after loss occurs ... \$30,000.
- (3) Additional cost to comply with ordinance ... \$200,000.

Functional Building Valuation Limit of Insurance would be \$1,230,000 (\$1,000,000 + \$30,000 + \$200,000).

**\* \* \* *The rest of the rule remains unchanged* \* \* \***

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## 54. COMMON TIME ELEMENT OPTIONS

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### A. Ordinance Or Law – Increased Period Of Restoration

#### 1. Description Of Coverage

The Business Income (And Extra Expense) Coverage Form **CP 00 30**, Business Income (Without Extra Expense) Coverage Form **CP 00 32** or Extra Expense Coverage Form **CP 00 50** may be extended to cover additional loss for the time necessary to replace or repair the damaged building to conform with current building laws or ordinances.

The ordinance or law must be in effect at the time of loss unless the Post-Loss Ordinance Or Law Option applies. This Option broadens coverage by including an ordinance or law promulgated or revised after the loss but prior to commencement of reconstruction or repair provided that such ordinance or law requires compliance as a condition precedent to obtaining a building permit or certificate of occupancy.

#### 2. Form

Use Ordinance Or Law – Increased Period Of Restoration Endorsement **CP 15 31**.

Indicate in the Schedule whether or not the Post-Loss Ordinance Or Law Option applies.

#### 3. Rate Modification

##### a. Causes Of Loss Other Than Earthquake

Multiply the time element rate by 1.2.

##### b. Earthquake

Multiply the time element rate by 2.0.

##### c. Post-Loss Ordinance Or Law Option

When this Option applies, increase the rates developed under Paragraphs a. and b. by applying a factor of 1.02.

### B. Utility Services

#### 1. Description Of Coverage

Time Element Coverage may be extended to cover loss at the described premises resulting from the failure of utility services.

#### 2. Form

Use Utility Services – Time Element Endorsement **CP 15 45**.

#### 3. Rules

##### a. Use the Schedule of Endorsement **CP 15 45** to indicate the following utility property:

- (1) Properties providing water supply, wastewater removal, communication supply and/or power supply services;
- (2) Overhead power transmission and/or overhead communication lines.

##### b. For each described premises at which coverage applies, enter show the following in the Schedule:

- (1) a limit of insurance. This limit of insurance is the only limit of insurance applicable to coverage under Endorsement **CP 15 45**; and
- (2) Enter the applicable waiting period for Business Income. Leave blank if no waiting period applies to Business Income, or if Business Income coverage does not apply. (Business Income coverage does not apply when Endorsement **CP 15 45** is used with Extra Expense Coverage Form **CP 00 50**.) Refer to Paragraph **B.4.e.** for Business Income waiting period options.

#### 4. Rate Modification

##### a. Rule

The rates shown in the multistate rates apply only to Public Utilities. Refer to company for rates to be used with Other Than Public Utilities.

##### b. Power Supply, Water Supply And Wastewater Removal Properties

- (1) Use the rates shown in the multistate rates.
- (2) Make a separate charge for each type of property to which coverage applies: power supply, water supply and/or wastewater removal.

##### c. Communications Supply Properties

Use the rates shown in the multistate rates.

**d. Overhead Power Transmission And Communication Lines**

- (1) If coverage applies, add the rates shown in the multistate rates to the rates applicable to Paragraphs **b.** and/or **c.**
- (2) If coverage for both Overhead Power Transmission and Communication Lines applies, make a separate charge for each.

**e. Business Income Waiting Period**

The Utility Services rates reflect a Business Income waiting period of 72 hours. If a different Business Income waiting period applies, or if no waiting period applies to Business Income, modify the rates by the appropriate factor in the following table:

<b>Business Income Waiting Period</b>	<b>Factors</b>
168 hours	0.88
144 hours	0.90
120 hours	0.93
96 hours	0.96
48 hours	1.05
24 hours	1.10
12 hours	1.12
No Business Income Waiting Period	1.15

**Table 54.B.4.e. Business Income Waiting Period Factors**

**5. Premium Determination**

For each described premises at which coverage applies, multiply the applicable rates, as determined from described in Paragraphs 4.b., 4.c., and 4.d., and 4.e., by the limit of insurance shown in the Schedule of Endorsement **CP 15 45**.

**C. Loss Adjustment Endorsement**

**1. Description**

The endorsement establishes procedures to facilitate payment of loss to the insured and settlement among companies in cases where Commercial Property Insurance and Boiler & Machinery Insurance are provided by different companies. The endorsement applies when there is a difference of opinion between the insurers as to the amount each should pay in the event of loss to covered property covered by both types of insurance.

**2. Form**

Use Joint Or Disputed Loss Agreement Endorsement **CP 12 70**.

**3. Rules**

- a. The provisions of Endorsement **CP 12 70** apply only if the Boiler & Machinery Insurance contains substantially the same provisions as Endorsement **CP 12 70**.
- b. There is no premium charge or credit for the use of Endorsement **CP 12 70**.

**D. Business Income Changes – Beginning Of The Period Of Restoration**

**1. Description Of Coverage**

Business Income (And Extra Expense) Coverage Form **CP 00 30** and Business Income (Without Extra Expense) Coverage Form **CP 00 32** may be amended to provide that the 72-hour time period contained in the "period of restoration" definition and in the Civil Authority Additional Coverage is eliminated or replaced by 24 hours.

**2. Form**

Use Business Income Changes – Beginning Of The Period Of Restoration Endorsement **CP 15 56**. Indicate in the Schedule of Endorsement **CP 15 56** whether the 72-hour time period is being eliminated or replaced by 24 hours.

**3. Rating**

- a. If the 72-hour time period is being eliminated, multiply the time element rate by a factor of ~~4.44~~1.15.
- b. If the 72-hour time period is being replaced by 24 hours, multiply the time element rate by a factor of ~~4.05~~1.10.

**\* \* \* The rest of the rule remains unchanged \* \* \***