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## BULLETIN 18-03

Date: December 31, 2018

To All Member Companies and Their Authorized  
Mississippi Agents  
To Whom it May Concern:

Mississippi Commercial Fire & Allied  
Commercial Flood Endorsement & Misc.  
SERFF #MSSR- 131709724  
SERFF #MSSR-131709796  
SERFF #MSSR-131709869  
SERFF #MSSR-131708984  
Company Tracking #s listed below

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On behalf of member companies, the Mississippi State Rating Bureau filed commercial flood rules and loss costs to accompany the existing flood coverage endorsement to the commercial fire and allied lines program. It also includes various revised & new commercial property changes. These filings are now approved by the Mississippi Department of Insurance with a new and renewal effective date of 6-1-2019. Filed and approved tracking numbers are:

MSSR-131709724:

CF-2018—RRUFL MS

MSSR-131709796:

CF-2017-RFLLC

MSSR-131708984:

CF-2018-OFRFL

MSSR-131709869:

CF-2016-RLC16

The SERFF tracking numbers are provided above to allow any member company access to the filing materials via the NAIC SERFF filing system. If needed, MSRB staff can provide copies of the filing materials on request. Copies of the related ISO explanatory memorandums are attached.

Mississippi State Rating Bureau Member companies can file through the Mississippi Department of Insurance to adopt this approved change. Member companies can also file to non-adopt this change, or file for approval of some amended version (rules, loss costs, forms or effective date).

If there are any questions, please call the Mississippi State Rating Bureau (phone 601-981-2915) and ask for a management representative (Assistant Managers Brad Little, Tony Parker), or Manager Joe Shumaker). Explanatory materials are attached, and changes will be added to ISO Net publications by ISO/Verisk.

***Mississippi State Rating Bureau Management***

# Commercial Property Multistate Rules Revision Including Rules Relating To Flood Coverage

## About This Filing

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

In addition, this filing revises Commercial Lines Manual (CLM) Division Five – Fire And Allied Lines, to introduce rating information for the existing Flood Coverage Endorsement.

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.

## Related Filing(s)

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

- ◆ CF-2018-OFRFL (Forms)
- ◆ CF-2017-RFLLC (State-specific Flood Loss Costs)
- ◆ CF-2016-RLC16 (Multistate Unmanned Aircraft 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-2018-OFRFL, 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-2018-OFRFL, 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:

Beginning of the Period of Restoration	Current Rate Modification Factor	Revised Rate Modification Factor
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-2018-OFRFL, 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-2018-OFRFL, 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. Because Mississippi was not on the 9-14 version of the multistate rules revised under CL-2016-ODNPR at the time we submitted this filing, we introduced Additional Rule A12. Unmanned Aircraft in the state exception pages. The content of the Additional Rule was identical to the approved multistate rule. We subsequently eliminated A12. under filing CF-2016-REQRU and as a result multistate Rule 29 went into effect. At that time, the multistate rule indicated that rating provisions would be implemented by the company in accordance with any applicable regulatory requirements.

### Explanation of Changes

We are now revising multistate 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.

## Rules Relating to Flood Coverage

### Introduction

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The private flood insurance market for commercial insurance appears to be poised for significant expansion, propelled by the availability of analytic tools and reinsurance capital as well as the historically limited capacity of the National Flood Insurance Program to address the large exposures inherent in commercial properties.

In recognition of this emerging market, ISO has developed the rating information addressed in these companion Rules and Loss Costs filings.

### Explanation of Changes

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**Rule 33.** is revised to:

- ◆ Indicate that the various deductible options addressed therein do not apply to Flood. Flood deductibles are addressed within Rule 76., Flood Coverage Endorsement; and
- ◆ Make an unrelated editorial change to Paragraph D., explicitly referencing fixed dollar deductibles.

**Rule 76.** is revised to provide:

- ◆ Detailed rating information supporting property damage coverage, time element coverage, and a combined blanket for property and time element coverages. The related Rating Example Appendix provides an example illustrating the aforementioned combined blanket scenario;
- ◆ Tables of rate modification factors, which vary based on deductible, property value, and insurance-to-value level. Development of the factors is addressed in companion Loss Costs filing CF-2017-RFLLC; and
- ◆ Community Rating System information and rate modification factors. Development of the factors is addressed in companion Loss Costs filing CF-2017-RFLLC.

### Revised Rules

We are revising the following rules:

- ◆ Rule 33., Deductible
- ◆ Rule 76., Flood Coverage Endorsement

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

## **New Rule**

We are introducing:

- ◆ Rating Example Appendix for Rule 76.

## **Related Information**

Loss costs are provided in companion filing CF-2017-RFLLC.

The companion forms filing CF-2018-OFRFL is incidental. The form to which the rating rule will apply, Flood Coverage Endorsement CP 10 65, is not being revised and therefore is not a part of this filing series.



# Mississippi – Commercial Property – Flood Loss Costs

## About This Filing

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This filing revises Commercial Lines Manual (CLM) Division Five – Fire And Allied Lines, to introduce rating information for the existing Flood Coverage Endorsement.

### New Loss Costs

We are introducing loss costs relating to:

- ◆ Rule 76., Flood Coverage Endorsement

### Actuarial Support for Factors in Companion Rule Filing

This filing provides the actuarial support for:

- ◆ Deductible and Insurance to Value Factors
- ◆ Community Rating System (CRS) Credits
- ◆ Aggregate Annual Limit Factor

which are filed in CF-2018-RRUFL.

## Related Filing(s)

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The following companion filings are being filed with a concurrent effective date:

- ◆ CF-2018-OFRFL (Forms)
- ◆ CF-2018-RRUFL (Rules)

**Note:** The aforementioned Forms filing is incidental. The form to which these loss costs will apply, Flood Coverage Endorsement CP 10 65, is not being revised and therefore is not a part of this filing series.

## Introduction

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The private flood insurance market for commercial insurance appears to be poised for significant expansion, propelled by the availability of analytic tools and reinsurance capital as well as the historically limited capacity of the National

Flood Insurance Program to address the large exposures inherent in commercial properties.

In recognition of this emerging market, ISO has developed the rating information addressed in these companion Rules and Loss Costs filings.

## **Explanation of Changes**

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### **Loss Cost Overview**

- ◆ The purpose of this filing is to provide base loss cost by flood zone and construction. The expected loss costs were generated based on AIR Inland Flood (Touchstone Version 4.2) and AIR Hurricane (Touchstone Version 4.2) models. The model output was complemented by a loading factor to include a provision for flood losses resulting from non-modeled sources.

### **Flood Deductible and Insurance-To-Value Options**

- ◆ At present, the base deductible for Commercial Fire and Allied Lines is \$500. Current deductible tables provide factors for deductibles up to \$75,000. For Flood, in order to provide deductible and insurance-to-value factors suited for pricing coverage in excess of an underlying NFIP policy, factors are provided for deductibles up to \$1,000,000.
- ◆ Because flood coverage is often provided at a lower limit relative to the property value, and the impact of a deductible varies based on the limit, a single table is provided with factors that reflect both deductible and insurance-to-value options. The insurance-to-value percentages are listed as one through four percent, then in increments of five from five percent through eighty percent. 90% and 100% coinsurance levels are also reflected on the table.

### **Community Rating System**

- ◆ The Community Rating System (CRS) is a voluntary program for National Flood Insurance Program (NFIP) participating communities. Communities are encouraged to take actions that reduce flood damages to insurable property, strengthen and support the insurance aspects of the NFIP, and encourage a comprehensive approach to floodplain management. For CRS participating communities, discount factors are provided to reflect the lower expected losses in these communities.

### **Annual Aggregate Limitation**

- ◆ A factor is provided for the Annual Aggregate Limitation option.

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## Company Decision

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We encourage each insurer to decide independently whether the judgments made and the procedures or data used by ISO in developing the enclosed loss costs are appropriate for its use. Some calculations included in this filing involve areas of ISO staff judgment. Each insurer should carefully review and evaluate its own experience in order to determine whether the ISO advisory loss costs are appropriate for its use.

The material has been developed exclusively by the staff of Insurance Services Office, Inc.

## Attachment(s)

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- ◆ Section A - Manual Loss Cost Page
- ◆ Section B - Actuarial Justification of Flood Zone Loss Cost
- ◆ Section C - Actuarial Justification of Factors and Miscellaneous Rules
- ◆ Appendix A - AIR Inland Flood Model
- ◆ Appendix B - AIR Hurricane Model

# Commercial Property Multistate Revision: New And Revised Forms Multiple-Deductible Endorsements Revised To Recognize Flood

## About This Filing

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This filing provides revisions to various Commercial Property forms and introduces several new forms.

In addition, this filing revises certain endorsements which enable differentiation of deductibles by peril to reflect that these endorsements do not apply to Flood.

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

- ◆ Section I: Explanatory Memoranda

This section provides explanatory material concerning revised, new and withdrawn forms.

- ◆ Section II: Copies of Forms

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

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

All of the new and revised forms will carry an edition date of **09 17** with the exception of the Deductible endorsements which will carry a **04 18** edition.

## Related Filing(s)

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

- ◆ CF-2018-RRUFL (Rules)
- ◆ CF-2017-RFLLC (State-specific Flood Loss Costs)
- ◆ CF-2016-RLC16 (Multistate Unmanned Aircraft Loss Costs)

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## Water Damage

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### Background

Currently, Causes of Loss - Special Form CP 10 30 excludes wear and tear, but provides that, if wear and tear results in a "specified cause of loss," such resulting loss is covered. "Specified causes of loss," a defined term, includes, in part: "accidental discharge or leakage of water or waterborne material as the direct result of the breaking apart or cracking of a water or sewer pipe that is located off the described premises... caused by wear and tear." Current language specifies that such pipes must be part of a municipal potable water supply system or municipal sanitary sewer system.

### Explanation of Changes

We are revising the language relating to such incidents, to include reference to the section of pipe that is connected to the water supply or sewer system. Further, the language is revised to remove reference to municipal systems in favor of reference to potable water supply systems and sanitary sewer systems operated by a public or private utility service provider pursuant to authority granted by the state or governmental subdivision where the described premises are located.

### Impact

These changes broaden coverage.

### Revised Forms

We are revising the following form:

- ◆ CP 10 30 10 12 Causes Of Loss - Special Form

We have used a format of ~~striking through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes from the above-referenced edition to the **09 17** edition. Concurrent with implementation, the **09 17** edition will supersede the prior edition.

## **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, Building Glass - Tenant's Policy.

### **Explanation of Changes**

New endorsement CP 14 01 modifies a tenant's policy by adding certain building property as insured property, on a scheduled basis. Under this endorsement, building property means the building glass, building fixtures and permanently installed machinery and equipment described in the Schedule.

New endorsement CP 14 02 modifies a tenant's policy by adding certain building property as insured property, on an unscheduled basis. When a Limit of Insurance is shown for Building Glass, insurance is provided for building glass that is part of the building shown in the Schedule. When a Limit of Insurance is shown for Building Property Other Than Glass, insurance is provided for building fixtures and permanently installed machinery and equipment that are part of the building shown in the Schedule.

Under both endorsements, the Causes of Loss, type of Valuation, Coinsurance (if applicable), Deductible and Limit are accommodated in the Schedule. A Deductible is optional for building glass (as it is currently under CP 14 70), in recognition of having that option in past ISO glass insurance forms.

Endorsement CP 14 70 is being withdrawn because the option to cover building glass is included in new endorsements CP 14 01 and CP 14 02.

### **Impact**

Endorsement CP 14 01 broadens coverage by adding certain building items as insured property under a tenant's policy that is so endorsed.

Endorsement CP 14 02 broadens coverage by adding certain building items as insured property under a tenant's policy that is so endorsed.

## **New Forms**

We are introducing the following forms:

- ◆ CP 14 01 09 17 Scheduled Building Property - Tenant's Policy
- ◆ CP 14 02 09 17 Unscheduled Building Property - Tenant's Policy

## **Withdrawn Form**

We are withdrawing the following form:

- ◆ CP 14 70 10 12 Building Glass- Tenant's Policy

## **Protective Safeguards**

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### **Background**

An insurer's acceptance of a risk may be conditioned on the use of protective safeguards to mitigate or avoid fire or theft losses. Endorsements CP 04 11 (relating to fire protective safeguards) and CP 12 11 (relating to theft protection) convey the conditional aspect of coverage. Accordingly, both endorsements exclude coverage for the related peril if, prior to the loss event, the insured failed to take certain actions concerning maintenance and notification of suspension or impairment of a protective safeguard.

### **Explanation of Changes**

#### **Endorsement CP 04 11**

The requirements that are currently addressed in the exclusions in Paragraph B are moved to Paragraph A. New Paragraph B restates the exclusions as failure to comply with the conditions set forth in A.

A new condition is added to Paragraph A: An automatic fire alarm or other automatic system listed in the Schedule must be actively engaged and maintained in the "on" position at all times. This explicit requirement is in reaction to claims scenarios in which automatic alarm systems were not activated and creative arguments were advanced by policyholders asserting that inactivation does not equate to suspension or impairment of a protective safeguard. Clearly, a protective safeguard that is not activated does not provide protection and as such does not fulfill the expectation that is integral to the insurer's acceptance of the risk.

#### **Endorsement CP 12 11**

The requirements that are currently addressed in the exclusions in Paragraph B are moved to Paragraph A. New Paragraph B restates the exclusions as failure to comply with the conditions set forth in A.

A new condition is added to Paragraph A: An automatic burglary alarm or other automatic system listed in the Schedule must be actively engaged and maintained in the "on" position during all non-work hours and whenever the premises are unoccupied. This explicit requirement is in reaction to claims scenarios in which automatic alarm systems were not activated and creative arguments were advanced by policyholders asserting that inactivation does not equate to suspension or impairment of a protective safeguard. Clearly, a protective safeguard that is not activated does not provide protection and as such does not fulfill the expectation that is integral to the insurer's acceptance of the risk.

A related condition enables use of the Schedule to specify additional requirements for activation of an automatic burglary alarm or other automatic system, or parts thereof. For example, some retail establishments and museums might have valuable property in display cases that are to be protected even during business hours.

With respect to the requirement to notify the insurer of suspension or impairment of the protective system (a current requirement as indicated above), we have introduced an exception. The exception provides that notification is not necessary with respect to suspension or impairment of an automatic burglary alarm or other automatic system if protection can be restored within 48 hours and the insured provides at least one watchperson or other means of surveillance during non-work hours and whenever the premises are otherwise unoccupied (and during work hours if so required in the Schedule).

## Impact

The additional condition is consistent with our understanding of the traditional application of these endorsements. However, with respect to insurers that have provided coverage in situations in which protective systems were in working order but not actively engaged, the explicit requirement for active engagement represents a potential reduction in coverage.

Under CP 12 11, the exception to the notification requirement broadens coverage.

## Revised Forms

We are revising the following forms:

- ◆ CP 04 11 10 12 Protective Safeguards
- ◆ CP 12 11 10 00 Burglary And Robbery Protective Safeguards

We have used a format of ~~striking through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes from the above-referenced editions to the **09 17** editions. Concurrent with implementation, the **09 17** editions will supersede the prior editions.

## Utility Services - Time Element Waiting Period Options

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### Background

Prior to the 1995 edition of CP 15 45, this endorsement imposed a 12-hour waiting period for time element losses arising out of an interruption in utility service. In the 1995 edition of the underlying time element policy forms (CP 00 30 and CP 00 32), a 72-hour waiting period on Business Income losses was introduced by means of a period of restoration definition, and endorsement CP 15 45 was modified to remove reference to the waiting period. The explanatory memorandum for the 1995 edition of CP 15 45 conveyed that the 12-hour waiting period was removed because the policy's new 72-hour waiting period would apply (flow through) to utility services coverage under CP 15 45. Subsequent editions of the time element forms and endorsement CP 15 45 have continued that approach. (The underlying policy can be written with no waiting period or a 24-hour waiting period, instead of 72 hours.)

### Explanation of Changes

We have revised 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. This approach provides flexibility in underwriting and managing the utility services exposure. This is potentially an important feature since that exposure is markedly different from the scenario of physical damage and attendant restoration of property at the insured premises, which the base time element policy relates to from the perspective of the inception of the period of restoration. Further, addressing the waiting period within CP 15 45 enables expressing it in terms that fit the utility services interruption scenario more explicitly.

In the companion Rules filing, 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.

## Impact

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- ◆ There is no impact on coverage with respect to continuation of the 72-hour base waiting period.
- ◆ There is no impact on coverage with respect to continuation of the 24-hour waiting period and no-waiting-period options, for policies that were previously written with those same options.
- ◆ The new options for a 12-hour waiting period and 48-hour waiting period would broaden Business Income utility services coverage that was previously written subject to the 72-hour base waiting period.
- ◆ The new waiting period options of 96, 120, 144 and 168 hours would reduce Business Income utility services coverage that was previously written subject to the 72-hour base waiting period.

Rate modification is addressed in the companion Rules filing.

## Revised Form

We are revising the following form:

- ◆ CP 15 45 10 12 Utility Services - Time Element

We have used a format of ~~striking-through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes from the above-referenced edition to the **09 17** edition. Concurrent with implementation, the **09 17** edition will supersede the prior edition.

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

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### **Background**

Currently, Ordinance Or Law Coverage Endorsement CP 04 05 (property damage) and Ordinance Or Law - Increased Period of Restoration Endorsement CP 15 31 (time element) explicitly relate to coverage for complying with an ordinance or law that is in force at the time of loss. That provision also applies to the ordinance/law provisions within Functional Building Valuation Endorsement CP 04 38.

### **Explanation of Changes**

#### **Endorsement CP 04 05**

- ◆ We are revising CP 04 05 to add an option to include 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.
- ◆ Coverage A (loss to the undamaged portion of the building) is included within the Limit of Insurance that applies to the building. In the Coverage A grant and in the Loss Payment provisions addressing Coverage A, reference to the Limit of Insurance is being elaborated upon to recognize that the building limit might appear in the Declarations or elsewhere in the policy. Further, the aforementioned Loss Payment clause is revised to explicitly convey the information that the building limit in the event of earthquake or flood loss (if such perils are endorsed to the policy) may be lower than the limit that otherwise applies. Such elaboration is being made in light of the fact that it is not uncommon in the marketplace for earthquake and flood, if covered, to be written at a sub-limit, a situation addressed in current ISO endorsements pertaining to earthquake and flood.
- ◆ We are making editorial revisions and changes to format throughout CP 04 05 to accommodate the new post-loss option and enhance the flow of text. In some areas, reference to property is replaced with reference to the building to more precisely reference the subject of coverage. Further, the provision appearing in Paragraph G. of the current endorsement is moved to B.7.

### **Endorsement CP 04 38**

- ◆ We are revising CP 04 38 to add an option to include 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.
- ◆ We are making editorial revisions and changes to format in the sections of CP 04 38 that address Ordinance Or Law Coverage, to accommodate the new post-loss option and enhance the flow of text.

### **Endorsement CP 15 31**

- ◆ We are revising CP 15 31 to align the description of an ordinance or law with the description in CP 04 05, and to add an option to include 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.
- ◆ The coverage grant in CP 15 31 is streamlined by referring to a suspension of operations covered under the policy and incorporating the substance of what is currently the closing paragraph of the period of restoration definition in this endorsement. That definition is eliminated within CP 15 31 as the remaining portion is identical to that in the underlying policy.
- ◆ Under Paragraph A, certain references to property are replaced with reference to the building to reflect the subject of the ordinance or law.

## **Impact**

The new option addressing post-loss promulgation/revision of building codes is a broadening of coverage. Other revisions have no impact on coverage.

## **Revised Forms**

We are revising the following forms:

- ◆ CP 04 05 10 12 Ordinance Or Law Coverage
- ◆ CP 04 38 10 12 Functional Building Valuation
- ◆ CP 15 31 10 12 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 from the above-referenced editions to the **09 17** editions. Concurrent with implementation, the **09 17** editions will supersede the prior editions.

## Tenants Improvements And Betterments: Ordinance Or Law Coverage

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### Background

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.

### Explanation of Changes

We are introducing Endorsement CP 04 26 to provide OLC under a tenant's policy for improvements and betterments. This new endorsement provides options for the same types of coverage addressed in CP 04 05, that is:

- ◆ Coverage A, pertaining to loss in value of undamaged property;
- ◆ Coverage B, pertaining to the cost of demolition of undamaged property; and
- ◆ Coverage C, pertaining to the increased cost of construction arising out of compliance with building codes.

With the exception of terminology relating to improvements and betterments specific to this endorsement, and provisions recognizing the situations in which building codes may impact such property, the scope of Coverage A, Coverage B and Coverage C in new endorsement CP 04 26 is equivalent to that of CP 04 05. (As such, Endorsement CP 04 26 includes the option for inclusion of post-loss building code changes as addressed in the explanatory memorandum in this filing titled Ordinance Or Law Coverage - Post-Loss Change To Building Code.)

In part, applicability of Coverage A and Coverage B is subject to the following circumstances:

- ◆ The improvements and betterments are damaged and the ordinance or law requires demolition of the undamaged parts of such property; or
- ◆ The undamaged improvements and betterments, or undamaged parts of the improvements and betterments, are demolished or damaged in the course of demolition or repair of the building or part of the building where such property is located, as a consequence of the ordinance or law. (But coverage does not apply to the extent that improvements and betterments could be removed from the building, without incurring damage to such improvements and betterments, prior to demolition or repair of the building.)

Loss Payment provisions, such as the following, are tailored to improvements and betterments:

- ◆ There is no loss payment to the extent that others pay for loss or damage to improvements and betterments.
- ◆ Under Coverage A, when the improvements or betterments are being repaired or replaced, loss is valued at replacement cost or actual cash value, depending on the valuation condition applicable to the base policy. When the improvements and betterments are not being repaired or replaced, loss is valued at a proportion of the original cost of the improvements and betterments. Payment in any case will not exceed the applicable Limit of Insurance.
- ◆ Under Coverage C, if the improvements and betterments are repaired or replaced at the same premises, loss payment is based on the increased cost of construction at such premises, subject to the applicable Limit of Insurance. If the tenant relocates to other premises, valuation is based on the increased cost of construction at the new premises, subject to the applicable Limit of Insurance.

## Impact

This endorsement broadens coverage under a policy to which it is attached.

## New Form

We are introducing the following form:

- ◆ CP 04 26 09 17 Ordinance Or Law Coverage For Tenant's Interest In Improvements And Betterments (Tenant's Policy)

# Multiple-Deductible Endorsements Revised To Recognize Flood

## Introduction

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The private flood insurance market for commercial insurance appears to be poised for significant expansion, propelled by the availability of analytic tools and reinsurance capital as well as the historically limited capacity of the National Flood Insurance Program to address the large exposures inherent in commercial properties.

In recognition of this emerging market, ISO has developed the rating information addressed in the companion Rules and Loss Costs filings.

This Forms filing, CF-2017-OFLFR, is incidental to this initiative. The form to which the Flood Rules and Flood Loss Costs will apply – Flood Coverage Endorsement CP 10 65 – is not being revised and therefore is not a part of this filing series.

## Explanation of Changes

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Endorsements CP 03 20 and CP 03 29 provide for different flat dollar deductible amounts for different causes of loss. The options within these forms relate to deductibles for:

- ◆ "All Covered Causes of Loss"
- ◆ "All Covered Causes of Loss except Windstorm or Hail"
- ◆ "All Covered Causes of Loss except Theft"
- ◆ "All Covered Causes of Loss except Windstorm or Hail and Theft"
- ◆ "Windstorm or Hail"
- ◆ "Theft"

Although both endorsements state that their provisions do not apply to Earthquake, or to Windstorm/Hail percentage deductibles, they do not reference Flood deductibles. Flood deductibles are in fact accommodated by current Flood Schedule CP DS 65, which is used in conjunction with current Flood Coverage Endorsement CP 10 65. We are revising CP 03 20 and CP 03 29 to state explicitly that these endorsements do not apply to Flood.

Since we anticipate that current Flood endorsement CP 10 65 will be written more frequently now that we are introducing advisory prospective loss costs and

related supplementary rating provisions, this is an opportune time to make a more explicit distinction among the various cause-of-loss deductibles.

## Revised Forms

We are revising the following forms:

- ◆ CP 03 20 10 92 Multiple Deductible Form (Fixed Dollar Deductibles)
- ◆ CP 03 29 10 12 Deductibles By Location

We have used a format of ~~striking-through~~ deletions, underlining additions and inserting a revision bar in the left margin to indicate changes from the above-referenced editions to the **04 18** editions. Concurrent with implementation, the **04 18** editions will supersede the prior editions.

# Commercial Property: Unmanned Aircraft Loss Costs

## About This Filing

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This filing introduces loss costs for rating unmanned aircraft written under the ISO Commercial Property policy.

### New Loss Costs

We are introducing loss costs under:

- ◆ Rule 29., Unmanned Aircraft

## Related Filing(s)

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The following companion filings will be implemented with a concurrent effective date:

- ◆ CF-2018-RRUFL (Rules)
- ◆ CF-2018-OFRFL (Forms)

**NOTE:** The Forms filing referenced above is a concurrent filing but does not relate to the loss costs in this filing. The Forms filing (and initial Rules filing) for unmanned aircraft were submitted in the Spring of 2016 and were implemented on December 1, 2016 in most states. The Rules filing referenced above modifies the initial Rule by adding rating information. (The initial unmanned aircraft filings are CL-2016-ODNPF and CL-2016-ODNPR.)

## Introduction

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Unmanned Aircraft coverage was recently introduced under the Commercial Property Program as a new, optional coverage. This document details the development of the pricing for coverage provided under the optional endorsement. Since no direct historical experience data is available for Drones, our proposed loss costs are based on loss costs for similar classes provided under Commercial Property for Basic Group I, Basic Group II, and Special Causes of Loss, plus a provision for collision.

## Actuarial Support

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Following is an explanation of the development process to support our pricing methodology.

### Loss Costs Development for Ordinary Risk Drones Classes

The loss cost for ordinary drones was selected as 1.625.

First, we calculated multistate exposure weighted average loss costs for Commercial Property classes that were best suited for rating Drones. For BG I we used class 0570 (Mercantile -Sole Occupancy Only - Not Otherwise Classified - High Susceptibility), because that is the class code for electronic devices for sale. For BG II we used special class 1190 (Aircraft Stored in the Open). This selection considered a balance: that the risk would be higher than open storage when in use, but lower when in indoor storage. For Special Causes of Loss we used category 14 (Contractors), considering that the nature and use of drones is more similar to the use of contractors' equipment than to property in the other categories.

The following loss costs by sub-line were selected based on the averages:

Basic Group I:	0.150
Basic Group II:	0.900
Special Causes of Loss:	0.275

### Development of Collision Loss Cost:

Coverage for collision is provided under the newly introduced Unmanned Aircraft endorsements, but collision is not contemplated in the pricing for BG I, BG II, or Special Causes of Loss. As such we needed to develop an additional collision loss cost component. We calculated the proposed loss cost by multiplying a selected expected frequency by a selected expected severity. The expected frequency and severity values were estimated as follows:

For expected frequency we selected 2%. This is the same selection that was used in developing the current Collision loss costs for Off-Premises Interruption of Business - Vehicles and Mobile Equipment under the ISO Commercial Property program.

To estimate expected claim severity, we began by looking at historical ISO Commercial Property Contents data. The multistate average loss as a percentage of the limit of insurance is 15%.

The selected expected frequency of 2% and an expected severity of 15% produce a Collision loss cost of \$0.30 per \$100 of insurance.

So, the overall loss cost for Ordinary Risk drones is 1.625 (.150 + .900 + .275 + .300).

### **Loss Costs Development for High Risk Drones Classes**

We recently introduced multiple classes related to drones in our Commercial Property statistical plan. Of these, classes 9102 (Search and Rescue Drones), 9103 (Firefighting Drones), and 9107 (Weather and Environmental Data Collection Drones) are logically high risk drone operations, and we expect these classes to be more susceptible to loss. In order to reflect the increased vulnerability to the various perils, we adjusted the loss costs for each sub-line.

Without any additional data available, we selected BG I and Collision loss costs for these classes twice as high as for ordinary Drones. This selection balances the likely increase in frequency and severity for these classes (including strong likelihood of a total loss given an occurrence while airborne), while assuming that drones used in a disposable manner, due to the lack of fortuity, are not considered in pricing this coverage. Therefore, the selected High Risk loss cost for BG I is 0.300; the selected High Risk loss cost for Collision is .600.

To estimate the additional BG II risk for High Risk drones, we did not want to make a selection that is twice as high as ordinary drones, due to the loss cost already being a higher absolute dollar amount and because some of the effects of adverse airborne conditions are similar to ground-based conditions contemplated by the special class 1190 (Aircraft Stored in the Open) BG II loss cost.

We therefore selected a BG II ratio of high risk to ordinary risk loss costs of 1.5, which we used to calculate the BG II High Risk loss cost as follows:

$$\text{BG II High Risk Loss Cost} = 0.900 * 1.5 = 1.350.$$

As the Special Causes of Loss category is predominantly reflective of theft, we did not believe any increase to be appropriate for High Risk drones, so the Ordinary Risk drones loss cost component of 0.275 was preserved.

So, the overall loss cost for High Risk drones is 2.525 (.300 + 1.350 + .275 + .600).

## **Impact**

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This filing introduces loss costs for a recently-introduced coverage option.

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## Company Decision

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We encourage each insurer to decide independently whether the judgments made and the procedures or data used by ISO in developing the enclosed loss costs are appropriate for its use. Some calculations included in this filing involve areas of ISO staff judgment. Each insurer should carefully review and evaluate its own experience in order to determine whether the ISO advisory loss costs are appropriate for its use.

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