Chapter 18 Commercial Inland Marine

Chapter Objectives

- Understand the Nationwide Definitions of coverage
- Learn the difference between "controlled" and "uncontrolled" forms
- Become familiar with types of transportation policies
- Know the bailee forms
- Study the types of equipment floaters
- Review the business floaters
- Fully understand the coverages and exclusions of the jewelers block policy
- Review the commercial inland marine conditions form
- Study the general conditions and the common exclusions

I. Introduction to Marine Insurance

Inland Marine Insurance was first developed as an extension of Ocean Marine coverage, to provide coverage for cargo traveling over land instead of by sea. Usually, the characteristic that makes property eligible for marine coverage is an element of portability. There are exceptions, but as a general rule, marine forms do not cover stationary property. To help identify which risks would be covered under Inland and Ocean Marine, the insurance industry in our country developed the Nationwide Definitions of coverage. The definition lists six categories of eligible risks under Marine insurance:

- I. Imports;
- 2. Exports;
- 3. Domestic shipments;
- 4. Instrumentalities of Transportation or Communication;
- 5. Personal Property Floater Risks;
- 6. Commercial Property Floater Risks

Imports and exports are covered by Ocean Marine insurance policies and will be discussed later in the text. Here we will discuss coverage for domestic shipments, instrumentalities of transportation or communication, and commercial property floater risks. Personal property floater risks are discussed in another chapter of this course.

II. Commercial Inland Marine Policies

Inland Marine coverages may be categorized as "controlled" or "uncontrolled". A controlled line is written using a standardized form that is filed for uniform use. An uncontrolled line is one that can be written by individual companies using their own form and varying it for the individual risk. When an uncontrolled form is used, the policy language, coverage rules and the rates charged will vary among insurance companies.

Certain controlled, or standardized, classes of Inland Marine can be written as a part of the Commercial Package policy. When written as a part of the CPP, the following forms are required:

- I. Common Policy Declarations;
- 2. Common Policy Conditions;
- 3. Commercial Inland Marine Declarations form;
- 4. Commercial Inland Marine General Conditions form; and
- 5. One or more of the controlled Inland Marine coverage forms.

Commercial Inland Marine Forms covering Domestic Shipments

- Annual Transit Policy is an uncontrolled form of protection for the frequent shipper of goods. An insured making relatively small shipments on a regular schedule can arrange coverage on a flat annual premium basis. Larger shippers will find the annual transit policy more practical when written on a reporting form basis, with reports made annually, quarterly, or monthly. Coverage can be written on an open perils basis or a named perils basis, protecting against losses such as fire, windstorm, collision, or theft. Protection is for incoming as well as outgoing shipments.
- **Trip Transit Policy** is an uncontrolled form designed to protect single shipments of specifically described property. The coverage applies while the goods are in transit from the point of departure to the point of destination, including while the package is in temporary storage along the way.
- Motor Truck Cargo Policy is an uncontrolled form which covers cargo while it is being transported in a truck. It protects the carrier, instead of the shipper, for liability for loss to domestic shipments in transit. The carrier has a responsibility to deliver goods entrusted to it unharmed. There are only a few things, such as acts of God (floods, tornadoes) or the shipper's own neglect (poor packing), for which the carrier is not liable. The carrier is no longer responsible when the cargo is unloaded at its final destination and the goods have been inspected and accepted by the shipper. This form is sometimes known as the Motor Truck Cargo Truckers form.

Coverage for Instrumentalities of Transportation & Communication

This coverage is uncontrolled and provides for damage to bridges, tunnels, dams, pipelines, piers, docks, radio and TV towers. While this property is not portable, it does have a direct connection with transportation or communication, and is subject to many of the same perils.

Commercial Property Floaters Risks

The final category under the Nationwide Definition is the Commercial Property Floaters Risks and provides several coverage forms.

I. Equipment Floaters

Contractor's Equipment Coverage Form – An uncontrolled form designed to insure various types of construction equipment used by contractors. Depending on the nature of the risk, coverage may be written on a named perils or an open perils basis at the insurer's discretion. The type of equipment used by contractors varies with the nature of the project on which the contractor is working. The forms can be tailored to the specific situations of individual insureds. The premium charged for contractors' equipment coverage would depend on the variables of the risk. Generally, the items of equipment insured under a contractors' equipment floater are scheduled; each item and its insurable value are specifically listed. However, a blanket amount may also be included on the policy to cover low-valued items such as wheelbarrows, hand tools, etc.

A number of exclusions apply to contractors' equipment coverage, whether it is written on a named perils or an open perils basis. Since the form is uncontrolled, the underwriter may be willing to delete some of these exclusions. Usually the open perils form of the contractors' equipment floater contains exclusions common to most other inland marine policies. Some of these common exclusions are wear and tear, gradual deterioration and latent defect.

- **Commercial Articles Coverage Form –** may be used to insure the interests of the owner of commercial cameras, musical instruments and related equipment. Covered property under these uncontrolled forms includes cameras, projection machines, films and related equipment and accessories, musical instruments and related accessories, and similar property of others that is in the insured's care, custody or control. An additional coverage is provided for loss involving collapse of a building or structure, when caused by the perils specified.
- **Physicians and Surgeons Equipment Form –** covers equipment owned by those in the medical, surgical, or dental professions on an open perils basis both on and off the premises.

2. Business Floaters

- Accounts Receivable Coverage Form a controlled form which covers sums due the insured from customers that are not collectible due to loss, damage, or destruction of accounts receivable records. The coverage also applies to expenses to reestablish the records, if possible, and collection expenses that are in excess of normal. This form contains an extension of coverage for loss of records when removed from the premises to protect them from imminent danger.
- Valuable Papers and Records Form a controlled form which provides coverage for inscribed, written, or printed documents, manuscripts or records, including abstracts, books, deeds, drawings, films, maps or mortgages. These items may be the property of the insured or the property of others in the care, custody or control of the named insured.
- Installation Coverage Form a controlled form which covers property sold by the insured that must be transported to another location and installed before the purchaser accepts it. In some cases, this can take weeks or even months to complete. Machinery, equipment, building materials and supplies are the types of property considered installation risks and may consist of elevators, air conditioning equipment, boilers and similar building equipment. An installation floater may also be used to cover other types of valuable property such as marble counters, chandeliers, and similar items. The coverage may be written on either a named perils or an open perils basis; the open perils form is more often used.
- **Sign Coverage Form** A controlled form exists for insuring the value of signs, including neon, fluorescent, automatic or mechanical signs. On the sign coverage form, covered property means the named insured's signs and similar property of others in the care, custody or control of the named insured.
- Electronic Data Processing (EDP) Forms An increasingly important coverage today is insurance for electronic data processing equipment and media. This coverage can be very important since it covers both hardware and software, which are often sizable investments to a business. Perils that may do minimal damage to other business property can do major damage to computer systems and programs. While most commercial property policies do not specifically exclude all computer-rated losses, standard insurance policies are simply not designed to cover this potentially severe exposure. EDP coverage is usually provided on a broad "open perils" basis.

3. Bailee Forms and Dealers Policies

- **Bailees Forms -** A bailment is the delivery of property, by the owner, to someone else to be held by the bailee for some special purpose, and then returned to the owner. If the property is damaged while in the custody of the bailee, the bailee will be held liable for damages. Examples of such policies, commonly referred to as "bailee forms", are:
 - Cleaners, Dyers and Laundries polices provide coverage to dry cleaners and laundries;
 - A Furriers policy provides coverage to fur storage facilities; and
 - A Warehouseman's policy provides coverage for damage to customer's property while it is being stored.
- Jewelers Block Coverage Form A bailee form which covers the insured's merchandise held for sale and customers' property. But it has some additional features as well, such as multiple types of transit coverage and coverage for property in showcases. An extension of coverage is provided for theft damage to buildings. The Jewelers Block Coverage Form covers:
 - The insured's stock in trade, which includes jewelry, precious and semi-precious stones, precious metals and alloys, and other stock used in the business;
 - Such property that is sold but not delivered;
 - Similar property of others who are not in the jewelry trade in the insured's care, custody or control; and
 - Similar property of others in the jewelry trade in the insured's care, custody or control, but only to the extent of the insured's legal liability for the property or the amount of money actually advanced by the insured.

The form does not cover property:

- Sold under a deferred sales payment agreement after it leaves the insured's premises;
- At an exhibition promoted or financially assisted by a trade association or public authority;
- Exhibited in showcases or show windows away from the premises; or
- While being worn by the insured, an employee or a family member of either (does not apply to watches worn solely for purposes of adjustment).
- In transit by:

- Mail (unless sent by registered mail).
- Express carriers, railroads, or waterborne or air carriers (does not apply to property accompanied by a passenger and transported by passenger parcel or baggage services); or
- Motor carriers (does not apply to shipments by a carrier operating exclusively as a merchant's parcel delivery service, by an armored car service or by parcel transportation or baggage services of passenger bus lines).

The Jewelers Block coverage form contains two optional coverages. **Show Windows Coverage** covers theft of stock from a show window when the window is cut or smashed. **Money Coverage** covers theft of money from locked safes or vaults on the insured's premises. The form also covers collapse of a building or structure when it is caused by one of the perils specified in the form and damage caused by theft or attempted theft to the building.

In addition to the exclusions common to Commercial Inland Marine forms, the Jewelers Block coverage form excludes:

- Earthquake (But if earthquake results in fire, payment will be made for the direct loss or damage caused by that fire, if the fire would be covered under the coverage form. This exclusion only applies to property while at the insure premises);
- Water damage to property at the insured's premises;
- Theft from any vehicle unless the insured, an employee or other person whose only duty is to attend the vehicle is actually in or on the vehicle when the theft occurs (does not apply to property in the custody of the post office or other carriers);
- Unexplained disappearance;
- Shortage found upon taking inventory;
- Shortage of property claimed to have been shipped when the package is received in good condition with the seals unbroken;
- Dishonest or criminal acts committed by the insured, his or her employees or anyone else to whom the property is entrusted;
- Insufficient or defective packing; or
- Breakage of fragile articles.

In the event of loss, the value of the property is determined at the time of loss and is the lesser of:

- Actual cash value;
- Cost to restore the property to its condition immediately before the loss;
- Cost to replace the property; or
- The lowest figure listed in the insured's inventories, stock books, stock papers, or lists existing at the time of loss.

Antique or historical value is not considered in the value of the property.

The insured must maintain any protective safeguards (such as a security service or automatic fire alarm system) that were in effect at the beginning of the policy period. If the insured fails to keep these safeguards in working condition and in operation when the business is closed, coverage at that location is suspended until the protective safeguards are back in operation.

The insured must take a physical inventory at least once every 12 months and maintain detailed records of inventory, purchases, sales, property of others, and property off-premises. These records must be retained for three years after the policy ends.

Other Dealers Forms – policies written for specific types of dealers include: furriers, art, coin and stamp, musical instrument and equipment dealers. These policies cover merchandise on an all risk basis, both on and off the premises, while in transit, and in the custody of employees. Coverage may extend to the insured's property as well as to property of others.

III. Commercial Inland Marine Conditions

The commercial inland marine conditions apply in addition to the common policy conditions and any applicable conditions included in the individual inland marine coverage forms. There are two groups of conditions, loss conditions and general conditions.

Loss Conditions

- Among the loss conditions, the first states that there can be **no abandonment** of insured property to the insurer.
- The appraisal condition states that if the insured and insurer disagree on the value of property or the amount of loss, either may make a written demand for an appraisal. This is a standard property insurance provision also found on other commercial property forms. Each party will select an appraiser. The two appraisers will then select an umpire. If they cannot agree on an umpire within 15 days, either party may request a judge of the court to make the selection. If the two appraisers cannot agree, the differences will be submitted to the umpire. An agreement of any two of them will be binding. The insured and insurer each pay the cost of their own appraiser, and share the cost of the umpire. If the insurer submits to an appraisal, it still retains its right to deny the claim.
- The insured's duties in the event of loss are similar to what is found on other property forms. The insured must:
 - Notify the police if a law has been broken;
 - Give the insurer prompt notice of the loss, and describe the property involved;

- As soon as possible, give the insurer a description of how, when and where the loss occurred;
- Take all reasonable steps to protect the property from further damage, set damaged property aside if feasible, and keep a record of expenses related to the loss;
- Make no statement that assumes any obligation or admits any liability without consent of the insurer;
- Permit the insurer to inspect the property and records proving loss;
- If requested, submit under oath to questioning by the insurer on matters relating to the claim, with all answers signed by the insured;
- Within 91 days after receipt of a request from the insurer, send a signed, sworn statement of loss containing the information requested (forms will be supplied by the insurer);
- Promptly send the insurer any legal papers or notices received concerning the loss; and
- Cooperate with the investigation or settlement of the claim.
- The next condition concerns insurance under two or more coverages (a type of other insurance clause). If two or more of the policy's coverages apply to the same loss, the insurer will not pay more than the actual amount of loss. Loss payment will be paid, or the insurer will "make good" on the claim, within 30 days after reaching agreement with the insured, or the date of entry of a final judgment, or the date an appraisal award is filed. The insurer is not liable for any part of a loss that has been paid or made good by others. If the insured has other insurance covering the same loss as insurance under this coverage part, the insurer will pay only the "excess" over what the insured should have received from the other insurance whether collectible or not.
- If a loss involves only part of any *pair, set or parts*, the insurer may repair or replace any part to restore the pair or set to its value before the loss, or pay the difference between the value of the pair or set before and after the loss. In case of loss to any part of property consisting of several parts when complete, the insurer will only pay for the value of the lost or damaged part.
- In the event of loss involving property of others in the care, custody or control of the insured, the insurer has the privilege to adjust with the owner. The insurer may settle with the owners of the property, and will provide a defense at its own cost for any legal proceedings brought against the insured.
- Any recovery or salvage on a loss will accrue entirely to the benefit of the insurer, until the sum it has paid has been recouped.
- Another condition calls for the reinstatement of limit after a loss. The limit of insurance will not be reduced by payment of any claim, except for a total loss of a scheduled item, in which event the insurer will refund the unearned premium on that item.

If any person or organization for which the insurer makes payment under the insurance, has rights to recover damages from another party. Those *rights of recovery* are transferred to the insurer. The person or organization for which payments are made must do everything necessary to secure these rights of recovery, and must do nothing after loss to impair these rights.

General Conditions

The general conditions are brief and are all common conditions in the property insurance field.

- 1. The commercial inland marine coverage part will be void in any case of fraud by the named insured relating to the insurance. It is also void if the named insured intentionally committed concealment or misrepresentation of a material fact concerning this coverage part, the covered property, or the named insured's interest in covered property.
- 2. No one may take legal action against the insurer under the inland marine coverage part unless there has been full compliance with all the terms of the coverage part, and the action is brought within two years and one day after the insured first has knowledge of the loss.
- 3. The coverage will provide no benefit to a bailee. No person or organization, other than the named insured, having custody of covered property will benefit from the insurance.
- 4. The policy period is that shown in the Declarations, and the coverage only applies to "loss" commencing during the policy period. A valuation clause says that, in the event of loss, the value of property will be determined as of the time of loss, and the value will be the least of the following amounts:
 - The actual cash value of that property;
 - The cost of reasonably restoring that property to its condition immediately before loss;
 - The cost of replacing that property with substantially identical property.

IV. Common Exclusions

The exclusions that are common in Commercial Inland Marine policies are:

- I. Government Action;
- 2. Nuclear Hazard;
- 3. War and warlike action;
- 4. Delay, loss of use, loss of market or other consequential loss,

- 5. Dishonest or criminal acts by the insured, or the insured's partners, employees, directors, trustees or representatives, or anyone else entrusted with property (but this exclusion does not apply to a carrier for hire, or to acts of destruction by employees);
- 6. Voluntary parting with any property if induced to do so by any fraudulent scheme, trick, device or false pretense;
- 7. Unauthorized instructions to transfer property to any person or any place.

Any of the following causes (but if loss by a covered cause of loss results, that additional loss will be covered):

- weather conditions;
- acts or decisions, or the failure to act or decide, of any person, group, organization or government body;
- faulty, inadequate or defective planning, zoning, development, design, workmanship, repair, construction, building materials, or maintenance;
- collapse, other than as provided in the additional coverage; and
- wear and tear, any quality in the property that causes it to damage or destroy itself, gradual deterioration, insects, vermin, or rodents.

Review Quiz

- 1. Common carriers are responsible for damage to customer goods they transport except for damage resulting from:
 - A. Acts of God
 - B. Traffic Accidents
 - C. Load shifting
 - D. Poor vehicle maintenance
- 2. Which of the following commercial inland marine coverage forms covers sums due the insured from customers which are uncollectible due to loss or damage of records?
 - A. Equipment dealers
 - B. Electronic data processing
 - C. Valuable papers and records
 - D. Accounts receivable
- 3. The commercial inland marine coverage form "jeweler's block" excludes loss resulting from:
 - A. Earthquake
 - B. Shortage found upon taking inventory
 - C. Unexplained disappearance
 - D. All of the above
- 4. The commercial inland marine coverage form "valuable papers and records" includes coverage for:
 - I. Money and securities
 - II. Deeds, drawings and maps
 - III. Books, files and mortgages
 - A. I and II
 - B. I and III
 - C. II and III
 - D. Il only

- 5. The ______is an ideal form of protection for the frequent shipper of goods.
 - A. Trip transit policy
 - B. Annual transit policy
 - C. Monthly transit policy
 - D. Common Carrier motor truck cargo policy
- 6. Mr. Jones owns a jewelry store. His wife takes a very valuable necklace and wears it to a party. It is stolen. How will the jeweler's block policy respond to cover this loss?
 - A. The policy will cover the loss.
 - B. The loss will be denied
 - C. The policy will pay the loss on an actual cash value basis
 - D. The policy will pay replacement cost less depreciation
- 7. The XYZ road construction company has a fleet of equipment that consists of bulldozers, backhoes, and road scrapers. The owner desires physical damage coverage to cover the equipment. Which of the following types of insurance contracts would be appropriate to provide the proper coverage?
 - A. Commercial property coverage
 - B. General liability coverage
 - C. Auto physical damage coverage
 - D. Contractors equipment floater
- 8. Savage construction has delivered and installed a large boiler in a commercial building. The owner has not yet accepted nor paid for the work. What type of policy should Savage construction company purchase to cover the work until accepted?
 - A. Builders risk
 - B. Installation floater
 - C. Dealer floater
 - D. Transportation floater

- 9. Community cleaners is a new dry cleaning and laundry service business. They have vehicles that pick up customer's property to be processed and then delivered back to the customer. What type of policy would you recommend they purchase to cover the customer's property?
 - A. A business owners policy
 - B. A commercial property policy
 - C. A bailee policy
 - D. A trip transit policy
- 10. Global electronics has a large piece of equipment that needs to be transported from their plant to their customer. They are using a rented U-Haul truck and one of their drivers is to make the delivery. What type of policy would be needed to cover this one time trip exposure?
 - A. A trip transit policy
 - B. An annual trip policy
 - C. Motor truck cargo
 - D. Bailee policy

Answer Key

- I. A. Common carriers are not generally held responsible for "acts of God". That creates the need for the shipper to obtain their own coverage for perils that are excluded under the carrier's form of coverage.
- 2. D. The accounts receivable form is used to cover the exposure to the loss of accounts receivable records, caused by an insured peril.
- 3. D. All of these are exclusions of the jeweler's block policy.
- 4. C. The valuable papers and records policy does not cover loss of money and securities. Crime coverage is needed to cover this type of loss.
- 5. B. Those that regularly ship goods should purchase the annual transit policy.
- 6. B. The policy has an exclusion for this type of claim. The policy is designed to cover property on the premises and not that which is worn by the insured, employees or family members.
- 7. D. A contractor's equipment floater is designed to cover contractor's equipment for physical damage.
- 8. B. An installation floater is designed to cover property and work performed by contractors that has been completed by not yet accepted by the owner of the building or project.
- 9. C. A bailee policy would be the type of policy needed by this insured. It would cover the customer' property on the insured's premises and also in the course of transportation. In addition, the form provides some additional perils that are broader than standard commercial property policies.
- 10. A. Those insureds that are not frequent shipper of goods normally purchase a trip transit policy to cover their transportation exposures.