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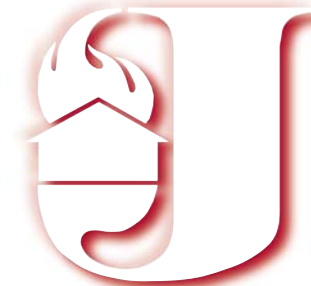
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# JANSEN Report

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## Business Personal Property Coverage as Defined by Insurance Policies

By Charles Dale, SPPA, Vice President of Operations

As a businessperson, you understand the critical importance of maintaining a commercial package policy of insurance for your business operation. Your insurance coverage is designed to transfer the financial consequences of specific loss exposures to your insurance company. The elements of a business's exposure can vary greatly depending on the type of business you are engaged in but typically the focus of loss exposure deals with tangible or intangible property.

A commercial package policy (CPP) policy can extend insurance coverage for property, general liability, auto, crime, inland marine and equipment breakdown. One component of the CPP form is the business personal property (BPP) form which extends coverage for buildings, business personal property and property of others under your control.

While an insurance professional could write a book on all of the aspects and conditions contained within the BPP portion of an insurance policy, the purpose of this article is to discuss what exactly is covered, what is not, and what extensions of coverage are available under the BPP component of insurance. This writer will try to simplify the definitions found in the BPP in an effort to educate an insured so that they may be better prepared in the event of a property loss and subsequent insurance claim. Knowledge and understanding of the BPP will allow you to navigate a complicated insurance claim more readily and hopefully help you avoid any unnecessary disputes with your insurance company when adjusting a property claim.

### Building-What is covered?

Basically, the coverage for your building will cover the structure itself, its mechanicals, fixtures, additions and permanently installed machinery and equipment. Simply stated, if you were able to turn your building upside down and empty its contents, all that does not fall out of your building would pertain to the

building structure portion of the BPP. It is important to note that one should consider this definition when placing insurance coverage due to valuations and possible under-insured penalties associated with co-insurance in your policy. For instance, if you consider a walk-in freezer's value under the business personal property/contents and do not include it on the building coverage where it belongs, you may actually under-insure the building and over-insure the contents. If you never suffer a loss and file a claim, it should not be a problem; however, numerous problems can arise after the fact in a claim if you are not properly insured to value.

When establishing the valuation of your building you should consider the cost it would take to replace your building with like kind and quality at today's value (assuming replacement cost coverage). This means that you take into consideration foundations, electrical requirements, special needs and fixtures for manufacturing equipment etc.

The building form of the BPP also includes coverage for property that one would not typically consider as part of the building. These are: fire extinguishing equipment, outdoor furniture, appliances used for laundering/cooking/dishwashing and any materials used to add to or modify the building that are stored within 100 feet of the building.

Improvements and betterments such as wall shelving, counters, and cosmetic improvements can be considered part of the building only if those betterments are owned by the building owner and are not the property of a tenant. Coverage for those betterments may revert



**Tangible property:** Property that has physical forms and characteristics.

**Example:** Your building, business personal property, and property of others under your control.

**Intangible property:** Property that lacks physical substance.

**Example:** Loss of income, customer goodwill, trademarks.

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## JANSEN Report



## Message From The CEO

On behalf of Jansen International, thank you for taking the time to read our newsletter. This newsletter is the third issue of many more to come. You are receiving this newsletter because you are one of our respected clients, because you are associated with risk management or because you are responsible for the management of real property.

This issue will attempt to simplify some of the more complicated definitions of commercial property coverage so that you can better understand what is covered and what is not. The average business person typically focuses on their day to day operations and relies on their insurance professional to secure proper coverage for their business personal property. However, no one knows your business better than you and hopefully this article will help you understand how insurance policies define coverage for structure and business personal property so you can work together with your broker or agent in securing the right kind, and amount of insurance coverage.

While our firm specializes in managing your property claim as the need arises, it is always better for you if you have proper coverage. We have seen instances where businesses fail because they were under-insured or did not have coverage for perils that they were exposed to in their course of business. We are often called upon to help our clients before a loss occurs to make certain replacement cost values are correct and coverage is in place. If you are over-insured, you are paying too much premium, if you are under-insured, your financial risk is greater and you expose your operation to unnecessary out-of-pocket expenses if you suffer a loss.

We hope you find this information helpful and, we remain available to assist with your insurance matters before or after a loss occurs.

Sincerely,

Arthur Jansen, Sr. SPPA CPPA  
Chief Executive Officer, Jansen International, LLC



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## Business Personal Property Coverage as Defined by Insurance Policies (continued)

back to the building owner if there are provisions in the lease agreement that indicates the property can not be removed by the tenant at the end of the lease term, thus becoming property of the building owner.

### Property Not Covered-Building

So, one can see that common sense will dictate what portions of a building are covered under the BPP form. Also, using common sense, the following are excluded items under the building coverage.

#### BPP BUILDING EXCLUSIONS

1. Land
2. Water
3. Bridges
4. Roadways, sidewalks patios and paved surfaces.
5. Retaining walls that are not part of the building.
6. Bulkhead, pilings, piers, wharves or docks.
7. The cost of excavations, grading and backfilling.
8. Foundations below the lowest basement floor.
9. Underground pipes, flues and drains.

While common sense may prevail, a business owner who is running a shipping company alongside water may be quite surprised if he suffers extensive hurricane damage to his wharfs and piers during a storm.

### Extensions of Coverage-Building

Extensions of coverage that are available relating to building coverage under the BPP are debris removal, preservation of property, fire department service charge, pollutant cleanup and removal and increased cost of construction/ordinance or law. Debris removal is usually calculated as a percentage of the loss damage amount, normally capped at \$ 10,000 and is an additional amount of insurance. For instance, if you have \$ 100,000 in coverage on your building, the most you could collect in event of a total loss would be \$ 110,000, the building covered amount and debris removal.

Preservation of property is not capped and is part of the aggregate amount of insurance. Preservation of property is the coverage that pays to protect the building

from further loss and damage and is typically controlled by the definition of "reasonable" expense. In other words, it does not make sense to spend thousands of dollars to protect property that is otherwise destroyed, or to spend an exorbitant amount of money to protect property with low values.

Increased cost of construction coverage associated with the increased cost to comply with ordinances or laws regulating the rebuilding or replacement of a covered building, is an additional BPP coverage typically capped at \$ 10,000. Although related, it should not be confused with an ordinance or law endorsement which covers the increased costs associated with law on the affected and unaffected portions of the building.

There is also an extension of coverage for newly acquired buildings, additional coverage in the amount of 250,000. This coverage is designed to cover buildings for a period of time (30 days) allowing time for the building owner to place insurance on the new building.

#### BUSINESS PERSONAL PROPERTY: What is covered

1. Furniture and fixtures
2. Machinery and equipment
3. Stock
4. All other personal property owned by you and used in your business.
5. Labor, materials or services furnished or arranged by you on personal property of others.
6. Your interest as a tenant in improvements and betterments.
7. Leased personal property for which you have contractual responsibility to repair.

### Business Personal Property-What is Covered

The box below outlines the definition of business personal property under seven specific categories.

Items 1 through 4 is property owned by the insured and used in your business. As stated in the building section of this article, it is important to define what is considered part of the building so that proper coverage amounts are secured. Machinery and equipment may be



considered building or contents depending on how it is installed and for what use it is intended.

Labor and materials coverage will cover labor and materials the insured has put into customers property if that property was destroyed. For example, if an insured was in the process of repairing a computer and had installed a new hard drive prior to a fire, this coverage would pay for the part (a hard drive) and the labor (without profit) expended in replacing the part.

As discussed under building, the improvements and betterments generally change the property and enhance its value; however, the lease agreement must be scrutinized prior to determining who has the coverage, the tenant or the landlord. Many tenants purchase coverage for betterments and improvements such as the restaurateur who has spent thousands of dollars equipping and decorating his lease space for a restaurant.

Coverage for leased property is extended under BPP only if the lease agreement shows that the renter is responsible for insuring the property when it is under his care and custody.

### Business Personal Property-What is not Covered

While the BPP coverage for contents can be considered broad coverage, intended to include all property, there are a few items that are not covered. They are plants and outdoor property (signs, fences, antennas, trees plants or shrubs) money securities and similar property, electronic data and valuable papers, vehicles, watercraft and aircraft and animals owned by you and not for commercial sale.

There is some disparity on property that is not covered in that in some coverage extensions discussed later, small amounts of coverage may be available depending on the type of peril the insured has suffered. This will be discussed in the next section.

### Extensions of Coverage- Business Personal Property

Like the extension under building, the BPP extends up to \$100,000 for newly acquired business personal property that is located at a newly acquired building. This is also coverage that is limited to thirty days.

In most cases, the insurance policy first giveth and then taketh away, however the BPP does allow an extension of coverage for valuable papers that was excluded in the earlier section. Although it is a very small extension amount (\$2500) when compared to the expense associated with this category, nonetheless, some coverage is extended.

This type of coverage usually covers the costs to research, replace or restore valuable papers. There is also an extension that permits the insured to cover up to \$ 2500 for personal property of others when under their care, custody or control. Many times a business will have property that is temporarily off premises (trade show displays, property away from premises for repair or modification) and the BPP contains a \$ 10,000 extension for this exposure. And finally, while earlier excluded, there is a \$ 1,000 extension for outdoor property such as fences, signs not attached to the building and antennas. This extension does not cover all perils and specially excludes loss caused by rain, wind or hail. Thus, when scrutinized, this extension does not truly offset exposure to financial loss.

The BPP form outlines what coverages are available, places limits of insurance on certain aspects of a possible exposure and, in the event of an insurance claim, is the driving force in determining how and how much the insurance company should pay for damages. As one can see, these definitions are spelled out quite clear in a policy and are structured to cover business's financial exposure to risk in a controlled format so the insurance company can offer coverage while making a reasonable profit.

Understanding what is covered and what is not covered in a CPP policy of insurance is the first step in navigating the complicated process of insurance claim adjustment.