

Commercial Insurance Update

Topics Affecting Buyers of Commercial Insurance

MSP C 03/98 – “All Risk” Property Coverage: There’s No Such Thing!

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“All Risk” Property Coverage: There’s No Such Thing!

Commercial property insurance in the United States is written in one of two ways: on a “named peril” basis or on a “special peril” basis.

“Named Peril” Policy

As the name implies, a “named peril” policy only covers those perils named in the policy. A typical broad form named peril policy would cover fire, windstorm, hail, aircraft, riot, vandalism, explosion and smoke. When coverage is written on a named peril basis, it is up to the *insured* to prove that one of the named perils caused the loss.

“Special Peril” Policy

“Special Perils” coverage used to be called “all risk” coverage. This was due to the fact that “all” perils were covered unless they were specifically excluded. One judge felt that the name was misleading, and he suggested that if, in fact, the policy was an “all risk” policy, it should cover all risks. This was not the insurance industry’s intent, and they renamed this coverage “Special Perils.”

Under a special perils form policy, the *insurance company* must prove that the peril causing the damage is not excluded; otherwise, coverage applies. Since the exclusions and limitations are the key to determining what coverage is provided by a

special peril form, a better name might be “named exclusions” coverage. There are three basic reasons for exclusions:

Coverage is available under another type of policy.

Examples would include boiler explosion or accident, electrical disturbance to electrical devices or mechanical breakdown, which is commonly available under a “boiler & machinery” policy. Likewise, employee dishonesty losses can be insured under an “employee dishonesty” policy.

Exposures that are generally considered to be uninsurable.

Certain perils are considered to be so hazardous that the insurance industry has determined that they are uninsurable. These include war, nuclear hazards and governmental seizure of property.

Coverage is available by endorsement for an additional premium.

Examples would include off-premises utility service interruption, building ordinance loss, flood and earthquake.

Very few insurance policies are identical. Although many contain standard forms, they are often modified by either standard endorsements or manuscript endorsements. In order to correctly determine what your policy covers, it is imperative to read the policy itself along with the endorsements. ♦

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Summary of Typical "All Risk" Exclusions

- War and nuclear
- Earth movement
- Water damage; flood, mudslide, seepage and sewer backup
- Governmental seizure or destruction of property
- Off-premises utility service interruption
- Building ordinance
- Electrical damage to electrical devices
- Delay, loss of use and loss of market
- Smoke, vapor or gas from agricultural or industrial operations
- Wear and tear; rust, corrosion, fungus, decay, deterioration, hidden or latent defect smog; settling, cracking, shrinking, or expansion; nesting, infestation or release of secretions by insects, birds, rodents or animals
- Mechanical breakdown
- Theft of building materials and supplies not yet attached to buildings
- Pollution
- Collapse coverage applies only to collapse resulting from: the specified causes of loss; hidden decay, insect or vermin damage; weight of people or personal property or rain that collects on a roof, and faulty workmanship or materials if loss occurs during construction or renovation. There is no coverage for collapse due to faulty workmanship or materials once work is complete, or for collapse due to design error at any time.
- Covered only for damage by specified causes of loss; valuable papers and records; animals; builder's machinery, tools and equipment off premises; breakage of fragile articles.
- Subject to limitations on loss recovery; furs; jewelry; patterns, dies and molds; stamps, tickets, letters of credit, and building glass.✧
- Rain, snow, ice or sleet damage to personal property in the open
- Dampness, dryness, changes or extremes of temperature, and marring or scratching, all with respect to personal property only
- Boiler explosion
- Loss to steam and hot water equipment from any condition within the equipment
- Seepage or leakage of water over a period of 14 or more days
- Employee dishonesty
- Theft by trickery; voluntary parting with property and unauthorized transfer of property
- Weight of snow, ice or sleet on gutters and downspouts
- Damage to building interiors by rain, snow, sleet, ice, sand, or dust unless the roof or walls are first damaged – except damage by thawing of snow, ice or sleet
- Missing property when the only evidence of loss is inventory shortage