BLANKET INSURANCE COVERAGE VS SPECIFIC COVERAGE

SPONSORED BY Liberty Mutual INSURANCE
Blanket Insurance Coverage vs. Specific Coverage

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This material has been designed for use in training programs for insurance industry personnel. It is not intended to be used as a complete reference resource on the programs and coverages outlined herein.

The programs use “standard” policy forms and endorsements for the purposes of discussing the exposures to loss that may exist, some of the coverage options available to treat them, and to provide a framework for discussions with carriers you represent concerning the programs they have available.

Coverages, rules and materials presented during this program may differ from those used by individual insurance companies. Contact individual carriers for details about interpretations of their eligibility requirements, particular insurance contracts and rates.

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TYPES OF LIMITS

Commercial property insurance limits are usually arranged on either a specific/scheduled or a blanket basis.

Specific Limit

A specific limit is a limit of insurance that applies one particular type of direct damage property.

Commercial Building is insured for $2,000,000

Valuation of Commercial Property – The limit can be based on one of the following valuations:

- Actual Cash Value (ACV)
- Replacement Cost

Coinsurance Definition – Most property coverage forms require that the insured carry a limit equal to some percentage of the 100% valuation.

Coinsurance is the insurance-to-value requirement wherein the insurer stipulates that the insured must carry an amount of insurance equal to a specified percentage of the value of the property (ACV or Replacement Cost)
TYPES OF LIMITS

Specific Limit

**Coinsurance Formula** – *If the insured’s limit is not sufficient at the time of a partial loss, the coinsurance formula will affect the loss payment.*

The Coinsurance Formula is a calculation used to determine the loss payment to an insured, but it is only used when the insured has not complied with the insurance-to-value requirement.

**Coinsurance Formula**

<table>
<thead>
<tr>
<th>Insurance Limit Carried**</th>
<th><strong>Insurance Required</strong></th>
<th>X Loss</th>
<th>= Loss Payment - Deductible</th>
</tr>
</thead>
</table>

**Insurance Carried is the limit on the Dec Page**

**Insurance Required is the 100% value of property at the time of the loss multiplied by the coinsurance percentage shown on the Dec page.**
TYPES OF LIMITS

Scheduled Limit

If limits are arranged on a scheduled basis, separate limits of insurance will apply to property at each location.

If limits are arranged on a scheduled basis, separate limits of insurance will apply to buildings and to personal property at each location.

Schedule Insurance

a. Two or more locations or two or more property at a single location
b. A specific limit applies to each type of property

Location #1 – Specific Limit for Each Item:

Building insured for $2,000,000
Personal Property insured for $1,000,000

Location #2 – Specific Limit for Each Item:

Building insured for $1,500,000
Personal Property insured for $500,000

All of the factors that apply to the specific limit would apply to each scheduled property.
TYPES OF LIMITS

Specific or Scheduled Limit

CHOOSING THE PROPERTY INSURANCE LIMIT:

STEP #1

Valuation

- Replacement
- Actual Cash Value

STEP #2

Methods of Estimating Property Insurance Values

- Using Professional Appraisals
- Market Value Appraisals
- Property Insurance Value Appraisals
- Using Indexed or Trended Original Cost Figures
- Using a Square Footage Multiplier Approach

STEP #3

Selecting the Direct Damage Limit

- Geographic spread of the insured locations
- Coinsurance requirements
- Type of limit that applies
- Fluctuations in the insured's property values
- Anticipated debris removal costs
TYPES OF LIMITS

Blanket Limit

A blanket limit is a single limit that applies to
1. more than one category of property
2. more than one location
3. both

Blanket limits can be arranged in three (3) different ways:

#1: A single blanket limit that applies to all property at all locations; this is the ideal arrangement

The statement values submitted to the carrier indicates the following:
- Location #1 Building: $5,000,000
- Location #2 Personal Property: $3,000,000
- Location #3 Building: $6,000,000

Blanket Limit for all property: $12,600,000
($14,000,000 X .90)
#2: One blanket limit covering all buildings at all locations and another blanket limit covering all personal property at all locations

The statement of values submitted to the carrier indicates the following:
- Location #1 Building: $5,000,000
- Location #1 Personal Property: $3,000,000
- Location #2 Building: $6,000,000
- Location #2 Personal Property: $3,000,000

Blanket Limit for all BUILDINGS: $9,900,000
\((11,000,000 \times .90)\)

Blanket Limit for all PERSONAL PROPERTY: $2,700,000
\((6,000,000 \times .90)\)
TYPES OF LIMITS

#3: One blanket limit covering both buildings and personal property at a particular location and another blanket limit covering both buildings and personal property at a second location.

The statement of values submitted to the carrier indicates the following:
   Location #1 Building: $5,000,000
   Location #1 Personal Property: $3,000,000

   Location #2 Building: $6,000,000
   Location #2 Personal Property: $3,000,000

   Blanket Limit for LOCATION #1: $7,200,000
       ($8,000,000 X .90)

   Blanket Limit for all LOCATION #2: $8,100,000
       ($9,000,000 X .90)
TYPES OF LIMITS

Blanket Limit

a. Explanation (CLM Rule 34-B)

- Blanket insurance is **one limit of insurance applying to two or more insured items.**
- The **total blanket limit is available to pay losses** regardless of what type of property is involved or what location is involved.

Types of Property:
1) **One type of property** in **more than one separately rated building,** or
2) **Two or more types of property** in **one or more separately rated buildings**

b. Examples (CLM Rule 34-B) of types of property are:

1) Building
2) Personal Property of the named insured
3) Personal property of others in the care, custody, or control of the named insured
4) Tenant’s improvements and betterments

c. Requirements:

1) A **minimum coinsurance of 90%** generally is required
2) A **Statement of Values listing each location and all items** to be covered must be signed
3) **Same Causes of Loss** must apply to all property
TYPES OF LIMITS

Compare Specific Limits to Blanket Limit:

Below are the 100% direct damage property values for two locations at policy inception date and throughout the policy term.

Location #1: Building: $5,000,000
              Personal Property: $3,000,000

Location #2: Building: $6,000,000
              Personal Property: $3,000,000

Comparison of Limits:

If the insured choose to purchase a single blanket limit the Dec page would indicate a single property limit of: $15,300,000 ($17,000,000 X .90)

If the insured scheduled the property, with an 80% coinsurance percentage, the policy limits would be:

Location #1: Building: $4,000,000
              Personal Property: $2,400,000

Location #2: Building: $4,800,000
              Personal Property: $2,400,000
TYPES OF LIMITS

Compare Specific Limits to Blanket Limit:

Covered Loss:

After the policy inception date the insured suffered a covered loss at Location #2 to their personal property. The night before the loss, the insured had moved some of their inventory from location #1 to location #2. Therefore, it was determined that the 100% value of the property at location #2, at the time of the loss, was $4,000,000. Using the limit information above, the policy would respond as follows:

**Blanket policy:** The blanket limit of $15,300,000 is available for any covered loss. The $4,000,000 loss would be covered, less any applicable deductible.

**Scheduled Limits policy:** The insured is underinsured at Location #2, at the time of the loss. The policy limit should have been $3,200,000 rather than $2,400,000. Therefore, they were only carrying 75% of the limit and will receive only 75% of the loss (less any deductible).

The coinsurance formula will affect the loss payment.

Coinsurance Formula

\[
\text{Insurance Limit Carried} \times \text{Loss} = \text{Loss Payment} - \text{Deductible}
\]

**Insurance Limit Carried**

**Insurance Required**

X Loss = Loss Payment - Deductible
TYPES OF LIMITS

Blanket Limit – THE MARGIN CLAUSE

Limitation on Loss Settlement—Blanket Insurance (Margin Clause)

This endorsement converts blanket limits to specific limits, by placing a maximum on the amount payable for loss to each building and to the contents for each building shown in the endorsement schedule.

The maximum is the amount shown for each building and the contents of each building on the latest statement of values provided to the insurer, multiplied by the margin clause percentage shown in the endorsement schedule for that property.

Since it imposes limits on loss recovery that otherwise would not apply, this endorsement is disadvantageous to the insured and should be avoided if possible.
LIMITATION ON LOSS SETTLEMENT – BLANKET INSURANCE (MARGIN CLAUSE)

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
CONDOMINIUM ASSOCIATION COVERAGE FORM
CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM
STANDARD PROPERTY POLICY

SCHEDULE

A. This endorsement applies to loss settlement on property that is subject to a Blanket Limit of Insurance.

A Blanket Limit of Insurance is a single Limit of Insurance that applies to any of the following as shown elsewhere in this policy: 1. Two or more buildings; 2. Building and contents; 3. Contents of more than one building; or 4. Contents at more than one premises.

B. Margin Clause

With respect to property that is subject to a Blanket Limit of Insurance, we will determine a maximum loss payable for each building and for the contents of each building or the contents at each premises. The maximum loss payable is determined by applying the applicable Margin Clause percentage indicated in the Schedule to the value of the property as shown in the latest statement of values reported to us. If the statement of values does not state individually the value of each building and the value of contents at each building or premises, we will determine individual values as a part of the total reported values prior to application of the Margin Clause percentage.

Actual loss payment will be determined based on the amount of loss or damage subject to all applicable policy provisions including the Limits of Insurance Condition, Coinsurance, Deductible and Valuation Conditions. But the actual loss payment, for each building, for the contents of each building or for the contents at each premises, will not exceed the maximum loss payable as described above and will not exceed the Blanket Limit of Insurance.

The Margin Clause does not increase the Blanket Limit of Insurance.
TYPES OF LIMITS

Blanket Limit

Margin Clause Example – included in CP 12 32:

- Buildings #1 through #3 are covered under a Blanket Limit of Insurance of $4,500,000.

- The combined value of these three buildings at the time of loss is $5,000,000.

- There is a Coinsurance requirement of 90% (.90 x $5,000,000 = $4,500,000); therefore no Coinsurance penalty.

- The value stated for Building #1 on the statement of values is $1,000,000.

- The Margin Clause percentage is 120%. The maximum loss payable for Building #1 is $1,200,000 ($1,000,000 x 1.20).

**Building #1 sustains a loss of $1,200,000 the deductible is $10,000.**

**Step 1:** Amount of loss minus Deductible ($1,200,000 – $10,000 = $1,190,000)

**Step 2:** Since $1,190,000 is not more than the maximum loss payable, we will pay $1,190,000.