



COVERAGE INSIGHTS

Provided by Connor & Gallagher OneSource

Optional Commercial Property Coverage Offerings Under the BPP

Commercial property insurance provides much-needed financial protection if an organization's property is directly damaged or destroyed by a covered peril (e.g., fire, theft, vandalism, wind and lightning). Specifically, this coverage can help reimburse property repair or replacement expenses in the event of a covered loss. When securing commercial property insurance, organizations may utilize the building and personal property coverage form, also known as the BPP. This form, which was established by the Insurance Services Office Inc., is one of the most commonly used coverage forms for insuring commercial buildings and their contents.

The primary insurance agreement provided within the BPP states that the insurance carrier will cover losses stemming from direct physical damage to the policyholder's commercial property, as long as the damage resulted from a covered peril and took place at an insured location. Additionally, this form includes provisions for four optional coverage offerings: agreed value, inflation guard, replacement cost and replacement cost for the personal property of others.

With this in mind, it's important for organizations using the BPP to better understand this form and consider its optional coverage features, thus ensuring their commercial property insurance addresses their unique exposures. This article provides more information on the BPP and gives an overview of the form's four optional coverage offerings.

The BPP Explained

Organizations may utilize the BPP as a standalone coverage for their commercial property or as one of several categories of coverage contained in their commercial package policies (CPPs). A CPP combines multiple types of coverage, including property and

liability insurance, under a single policy.

Organizations may consider purchasing CPPs rather than securing several individual policies as a way to bundle their commercial insurance portfolios and foster greater coverage flexibility.

In any case, the BPP provides coverage for the following types of commercial property:

- **Buildings**—This includes commercial buildings, structures and completed property additions at insured locations. It may also include certain indoor and outdoor fixtures, permanently installed machinery and equipment, and some types of personal property that are utilized to service or maintain commercial buildings or their surrounding premises (e.g., fire extinguishing tools, large appliances, floor coverings, outdoor furniture and lawn mowers).
- **Business personal property**—This refers to business-related contents located within commercial buildings or their surrounding premises. Such contents may also be covered while they are within 100 feet of an insured location. Examples of business personal property include inventory, furniture, movable machinery and equipment, and office supplies.
- **The personal property of others**—This consists of property owned by another person or organization that's currently in the care, custody or control of a policyholder or otherwise stored at or within 100 feet of an insured location. It's worth noting that the BPP usually applies special sublimits to the personal property of others, therefore restricting overall coverage capabilities for this property.



Optional Commercial Property Coverage Offerings Under the BPP

Optional Coverage Offerings

In addition to the previously mentioned protection provided by the BPP, this form also includes the following optional coverage offerings:

- **Agreed value**—Coinsurance clauses are included in many commercial property policies. Such a clause requires a policyholder to maintain a minimum amount of coverage (usually between 80% and 90% of the value of their insured property). If the policyholder submits a claim and an inspection reveals that their coverage doesn't meet the minimum amount, the insurance carrier will penalize the policyholder by paying a reduced percentage of the claim. Agreed value coverage allows a policyholder to suspend the coinsurance clause for some or all insured property. Instead, the policyholder and the insurance carrier will reach an advance agreement on the value of the property being covered. When a loss occurs, the insurance carrier will pay the same proportion of the claim as the ratio of the coverage limit to the previously agreed value of the affected property.
- **Inflation guard**—During periods of economic inflation, property values often rise. This can result in commercial buildings and their contents being undervalued and pose possible coinsurance penalties and underinsurance concerns following losses. Inflation guard coverage can help combat these concerns by automatically increasing a policyholder's coverage limits for insured property based on a predetermined annual percentage. Altogether, this coverage reduces the need for a policyholder to continuously monitor their property values and related coverage limits amid high inflation.
- **Replacement cost**—With replacement cost coverage, a policyholder will be reimbursed for the cost of replacing damaged or destroyed property with a new (but comparable) alternative using today's prices. Without this offering, the policyholder will be subject to actual cash value coverage, which relies on the depreciated value of the affected property when providing a payout. Especially as it pertains to older or more dated property, replacement cost coverage may provide greater financial protection than its actual cash value counterpart. Yet, it should be

noted that the coinsurance clause still applies to replacement cost coverage.

- **Replacement cost for the personal property of others**—This offering allows policyholders to extend their replacement cost coverage to the personal property of others. Such coverage can be particularly valuable when an organization leases property from other parties (e.g., computers, phone systems, printers and copiers), and the lease agreements for such property state that the organization is responsible for replacing or repairing it in the event of damage or destruction.

If a policyholder selects any of these optional coverage offerings, it will be indicated on their commercial property policy's declarations page, alongside any relevant details (e.g., agreed values for insured property, the annual percentage increase being applied to coverage limits or the property receiving replacement cost protection).

Keep in mind that agreed value, inflation guard and replacement cost coverage can be applied to buildings only, business personal property only, or both types of property. Alternatively, replacement cost for the personal property of others coverage can only be applied to another party's property while it's at or near an insured location.

Conclusion

The BPP is a useful form that can assist many organizations in securing adequate commercial property insurance. By reviewing the protection this form provides and considering its optional coverage offerings, organizations can tailor their commercial property policies to their particular needs.

Contact us today for more insurance solutions.