

Three Insurance Policy Types or Forms: Basic, Broad and Special

Basic Form

The Basic Form is the least comprehensive of the three, covering only Named Perils. This means that if a coverage is not specifically named in the policy, there is no coverage. Named Peril coverages included in a typical Basic Form policy are:

- Fire
- Lightning
- Windstorm or Hail
- Explosion
- Smoke
- Vandalism
- Aircraft or Vehicle Collision
- Riot or Civil Commotion
- Sinkhole Collapse
- Volcanic Activity

Broad Form

Broad Form coverage is more extensive than Basic Form coverage, but it also covers only Named Perils. It covers all the hazards included in a Basic Form policy plus several more, but only those that are specifically listed. The Broad Form is designed to cover the most common forms of property damage. In addition to Named Perils covered by the Basic Form, the Broad Form also covers:

- Burglary/Break-in Damage
- Falling Objects (e.g., tree limbs)
- Weight of Ice and Snow
- Freezing of Plumbing
- Accidental Water Damage
- Artificially Generated Electricity

Special Form

In a Special Form policy, all perils are covered except for those exclusions specifically detailed in the policy. All unlisted perils are covered perils. A Special Form policy is much more comprehensive than a Basic or Broad Form policy.

SPECIAL HAZARD FACTORS: WIND AND HAIL CONSIDERATIONS¹

In the past, wind damage was covered only through an Extended Coverage (EC) endorsement when insuring commercial buildings. Today, wind damage is covered automatically—even under the most fundamental level of coverage—through the Basic Form policy. Wind is typically grouped with hail as a Named Peril (windstorm or hail) in Basic and Broad form insurance policy plans.

The policy that offers the most comprehensive coverage is the Special Cause of Loss form. Coverage is provided for the risk of direct physical loss unless the cause is excluded or limited. Unlike the Basic and Broad forms, which only cover what is listed, the Special Cause of Loss form covers everything except what is listed in the policy's exclusions, limitations and conditions. Exclusions, limitations and conditions are various ways insurers modify or eliminate coverages.

Over the past two decades, wind and hail losses (especially due to catastrophes) have increased. While earthquakes are often considered the most terrifying of natural disasters, windstorms, including hurricanes and tornadoes, produce greater annual losses than those of earthquakes. Prior to 2011, many insurers considered losses from wind and hail a cost of doing business. However, the increase in the frequency and severity of windstorm-related losses has led insurers to rethink this financial risk.

The increase in wind and hail losses has led the industry to use two ways to control its financial risk. The first is through a Windstorm or Hail Deductible Percentage, typically 1%, 2% or 5% of the insured value. The percentage depends on the hazard probability for that location. Hail limitation language is found in states with a high hail risk (the central U.S., especially the Great Plains). Windstorm limitations (percent of deductibles or exclusions) are found in coastal states with a hurricane risk exposure.

Increased deductibles are tied to the occurrence of specific storm types. A Hurricane endorsement applies a percentage deductible only to National Weather Service-declared hurricanes, while a Named Storm endorsement applies to both tropical storms and hurricanes.

¹The Metal Building Manufacturers Association (MBMA) provides these insurance bulletins as informational guides. The information contained in these bulletins is general in nature and is not intended to serve as legal advice. Readers are advised to consult with their own counsel and/or insurance broker on matters specific to them.

Why Wind Matters:

Of all of the insured perils, wind damage (hurricanes, tornadoes and hail) generates the most losses for the insurance industry. Statistics from the Insurance Information Institute show that, for each 20-year rolling period since 1989, windstorm losses accounted for almost three quarters or more of insured claim payments (excluding National Flood Insurance claims).

See Figure 1. A windstorm deductible is the broadest and, depending on jurisdiction, may apply to most weather events characterized by high wind.

The second way insurers control risk is through the use of an exclusion, specifically Commercial Property Form CP 10 54 06 07, which is used to modify the Basic, Broad and Special Cause of Loss policies. When windstorm coverage is excluded from a policy it may only be available through other sources such as Wind Only & Excess Wind coverage policies available from a state-run insurance association or from an excess lines carrier. Excess & Surplus lines (E&S) are specialty insurance providers that insure risks that standard insurers will not cover.

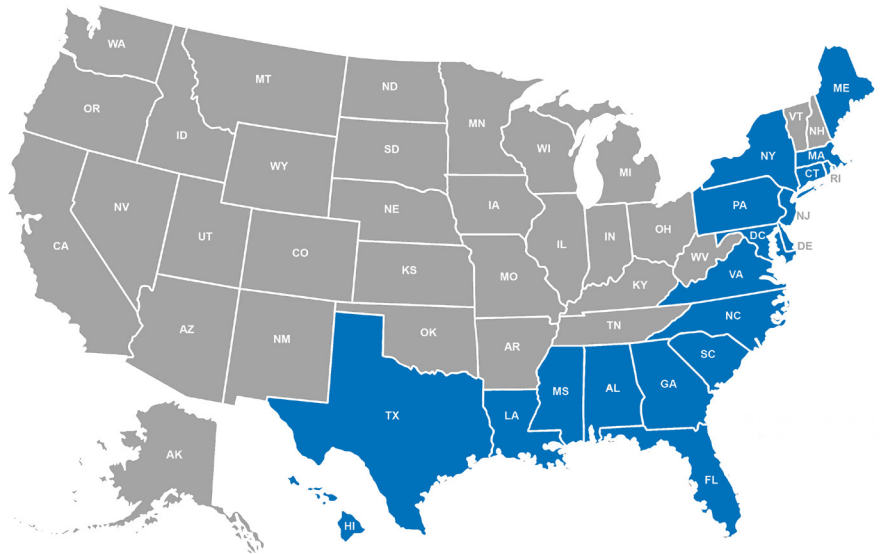


Figure 1: The 18 states on the Atlantic seaboard and Gulf Coast, plus the District of Columbia and Hawaii, where hurricanes, “named” storms and other high wind event endorsements are used.

Because wind has become such a significant loss for insurers, advisory organizations such as ISO and the American Association of Insurance Services (AAIS) have developed advisory rating loss cost (LC) adjustments to assist insurers as they develop their premiums. The ISO program provides a series of credits and debits based on 40 risk characteristics, such as building features, geographic location and environmental factors. The data that informs the LCs includes detailed construction information, building code information, distance to coast, terrain type and other exposure information. The ISO Enhanced Wind Rating Program combines data from weather-related models, building inspection engineering information, as well as from the ISO insurance premium and loss databases.

Use of the ISO Enhanced Wind Rating Program is dependent on the geographic risk from wind. ISO has grouped the United States into four wind hazard zones: low, medium, high and severe. The zone (location), combined with the building size, is used to estimate a building’s wind resistance and vulnerability. Only buildings of a certain size are rated using the Enhanced Wind Rating Program. Those include structures larger than 10,000 square feet when located in an ISO-designated

severe wind exposure hazard zone, those greater than 25,000 square feet when located in a high wind exposure hazard zone, and buildings greater than 50,000 square feet located in a medium wind exposure hazard zone.

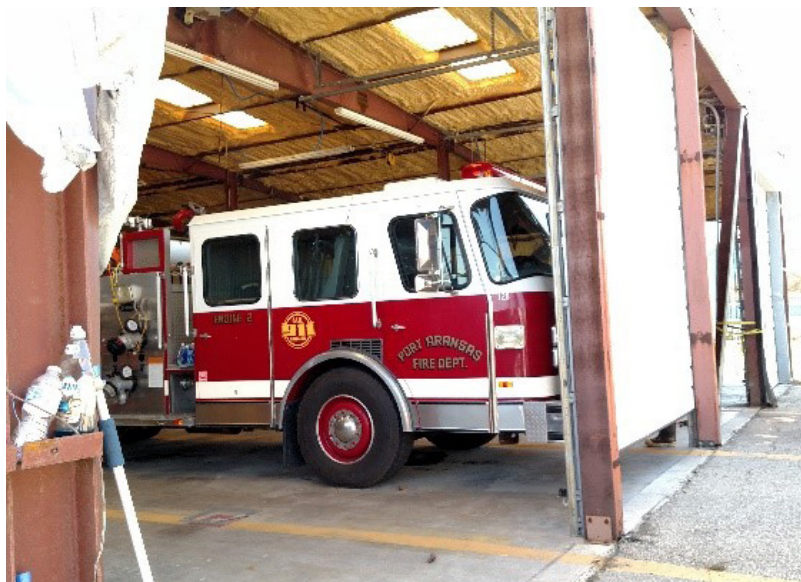


Figure 2: Hurricane Harvey Damage, Port Aransas, Texas

Enhanced LC data is available for eligible risks in ISO Estimated Loss Cost Quote Reports and Loss Cost Quote Reports. ISO, as well as other advisory organizations, has begun utilizing automated systems to provide insurers with “what if” scenarios to discuss with their clients.

This type of service is also available from the Property Insurance Association of Louisiana (PIAL), a state rating bureau. PIAL representatives meet with insureds, architects and agents to discuss building construction details prior to buildings being built. They assist with construction details, fire wall ratings and sprinkler systems specifications to “keep the property insurance rates as low as possible.” This allows PIAL to provide estimated, tentative rates for proposed or unrated buildings.

ISO (formerly the Insurance Services Office) is an insurance advisory organization that provides statistical and actuarial information to insurance companies. ISO is a wholly-owned subsidiary of Verisk.

Insurance rates may be adjusted for strategic business reasons and are influenced by the business goals of the insurer, not solely by the characteristics of the building and the relevant risks. For example, insurers may set rates somewhat lower for regular customers or types of buildings that they have decided to pursue as a matter of business strategy. Any rates used herein are for comparison purposes only and should not be treated as actual rates that might apply within any rating jurisdiction.