

By Robert J. Prah, CPCU

# OUTPUT POLICIES—A GOOD FIT FOR LARGE ACCOUNTS

Output policies are growing in popularity as a means of insuring large commercial accounts with multiple locations and transit exposures.

If the answer is “yes” to any of the following questions, your account will find a commercial output policy appropriate to meet its property insurance needs.

- Is your account a retailer or wholesaler with at least one large location or a stock of expensive merchandise?
- A retailer with many stores and a central warehouse?
- Are there large fluctuations in inventory?
- Does property travel between buildings or to or from other processors in the course of manufacture?
- Does your account install or repair machinery and equipment?
- Is the risk a large university or a municipality?

## What is a Commercial Output Policy?

A commercial output policy (COP) provides comprehensive protection by combining broad commercial property and inland marine coverages in a single form. This approach reduces the potential for coverage gaps that could occur when commercial property forms are packaged with inland marine floaters.

The COP’s predecessor, the manufacturers output policy (MOP), was developed in the 1950s as a means of insuring damage to stock (output) during the manufacturing process and while in transit. Over time, both coverage and eligibility for the MOP were expanded, encompassing many other commercial entities in addition to manufacturing. In an effort to more accurately reflect the broadened eligibility and to update the program, the policy was rewritten in 1994 and given the name Commercial Output Policy. Then, in 2000, the COP XL was developed as an additional program, designed for the largest commercial accounts.

Coverage for property in transit, computers, contractors’ equipment, builders risk/installation risks, and equipment breakdown (boiler and machinery) are built into the COP XL policy. Optional coverages are available for loss of income, crime, and spoilage exposures, and a variety of endorsements add even more versatility to the program.

Buildings and business personal property are covered on a blanket basis (meaning a single amount of insurance applies to all covered property at all locations). The many built-in coverages carry significantly higher sub-limits than typically are found in standard commercial property insurance. In addition, there is no coinsurance clause applicable, although one can be added.

## The COP XL

Building on its current commercial output policy, AAIS developed the COP XL to address the expectations and requirements of the largest commercial accounts. Larger accounts are demanding broader coverages, as broadening coverage has been the trend for the past several years. However, since not every commercial insured will need the broad coverages of the COP XL, the current COP policy has been retained, giving insureds a choice between the two programs.

## Key coverage features

Key coverage features of the COP XL include:

- Inclusion of equipment breakdown coverage in the base form
- Coverage for foundations, piers, and underground pipes is part of the building limit, rather than an additional coverage with a separate sub-limit
- Expansion of crime coverage
- Blanket or scheduled coverage
- No coinsurance provision
- Written as a monoline or package policy
- May be written in conjunction with AAIS, ISO, or independent general liability forms

Beyond these features, the expansion of coverage entails inclusion of more additional and supplemental coverages with higher limits.

A unique characteristic of output policies is the automatic inclusion of coverages in the base policy form that are typically provided as optional endorsements in standard commercial property insurance. The COP XL offers an expanded range of additional and supplemental coverages at significantly higher limits than in the current COP policy.

The inclusion of equipment breakdown as a covered peril in the base form makes the COP XL competitive with forms developed by factory mutual insurers to insure highly protected manufacturing risks.

Most businesses today are dependent on electronic equipment that could be subject to failure. As a result, more and more businesses are buying boiler and machinery insurance, which is increasingly called “equipment breakdown” coverage to reflect its growing application beyond boilers for heating and manufacturing equipment.

Crime coverage has been thoroughly rewritten and expanded in the COP XL. The COP includes two crime coverages: employee dishonesty and money and

## COP 2.0 / COP-XL COMPARISON — PROPERTY COVERAGE PART

COVERAGE FEATURES	COP	COP-XL
<b>Covered Locations</b>	Blanket coverage	Blanket coverage
<b>Coinsurance</b>	No coinsurance provision	No coinsurance provision
<b>Building Property</b>	<ul style="list-style-type: none"> <li>— Additions</li> <li>— Permanent equipment, outdoor fixtures</li> <li>— Building glass</li> <li>— Signs</li> <li>— Radio &amp; TV towers</li> <li>— Awnings, fences</li> <li>— Buildings in the course of construction</li> </ul>	<ul style="list-style-type: none"> <li>— Additions</li> <li>— Permanent equipment, outdoor fixtures</li> <li>— Building glass</li> <li>— Signs</li> <li>— Radio &amp; TV towers</li> <li>— Awnings, fences</li> <li>— Buildings in the course of construction</li> <li>— Foundations, piers, underground pipes</li> </ul>
<b>Building Personal Property</b>	<ul style="list-style-type: none"> <li>— Tenant improvements</li> <li>— Leased property</li> <li>— Interest in property of others(labor/materials)</li> <li>— Computers</li> <li>— Installation risks</li> <li>— Mobile equipment</li> <li>— Property of others</li> </ul>	<ul style="list-style-type: none"> <li>— Tenant improvements &amp; undamaged improvements</li> <li>— Leased property</li> <li>— Interest in property of others(labor/materials)</li> <li>— Computers</li> <li>— Installation risks</li> <li>— Mobile equipment</li> <li>— Property of others</li> </ul>
<b>Coverage Extensions / Supplemental Coverages</b> <ul style="list-style-type: none"> <li>— Accounts Receivable</li> <li>— Brand or Labels Expense</li> <li>— CFC Refrigerants</li> <li>— Consequential Loss</li> <li>— Damage From Theft</li>   <li>— Debris Removal</li> <li>— Defense Costs (equipment breakdown only)</li>   <li>— Computer Disturbance Coverage</li> <li>— Emergency Removal</li> <li>— Emergency Removal Expenses</li> <li>— Expediting Expenses</li> <li>— Fine Arts</li> </ul>	<ul style="list-style-type: none"> <li>\$50,000</li> <li>\$50,000</li> <li>Optional</li> <li>\$10,000</li> <li>Not covered</li>   <li>25% + \$5,000</li> <li>Optional</li>   <li>Optional endorsement</li> <li>10 Days</li> <li>No coverage</li> <li>No coverage</li> <li>\$50,000</li> </ul>	<ul style="list-style-type: none"> <li>\$100,000</li> <li>\$100,000</li> <li>\$50,000</li> <li>Covered</li> <li>Covered</li>   <li>25% = \$100,000</li> <li>Covered</li>   <li>Covered</li> <li>365 Days</li> <li>\$25,000</li> <li>\$50,000</li> <li>\$100,000</li> </ul>

securities. The COP XL additionally covers:

- Computer/telecommunications fraud
- Counterfeit currency/money orders
- Forged/alterd debit and credit cards and written instruments
- Forged/alterd checks

As with the COP, buildings and business personal property are covered on a blanket basis without a coinsurance clause. Insurers have the option of adding a coinsurance clause and providing coverage on a scheduled basis, if they wish.

Among the new coverages being provided in the COP XL are:

- Interruption of Web site (income coverage)
- Overseas transit coverage for sales samples, property on exhibition, and personal effects of the insured
- Loss of income involving loss to property in transit, on exhibition, or in custody of sales representatives
- Installment sales
- Emergency removal expenses
- Expediting expenses
- Contract penalty (income coverage)

- Pollutants cleanup (income coverage)
- Research and development projects (income coverage)

### Eligibility

Eligible classes include manufacturing, industrial, institutional, or commercial operations. Eligibility is broad, except that electrical generating stations and natural gas companies are ineligible.

Eligible risks under the COP XL are also subject to the following large risk criteria:

**COP 2.0 / COP-XL COMPARISON — PROPERTY COVERAGE PART (continued)**

COVERAGE FEATURES	COP	COP-XL
— Fire Department Service Charge	\$5,000	\$25,000
— Foundations, Pilings & Underground Pipes	\$250,000 or 10%	Covered
— Fraud and Deceit	Optional Endorsement	\$50,000
— Installment Sales	No coverage	\$100,000
— Inventory and Appraisals Expenses	\$50,000	\$100,000
— Off Premises Computers	Optional Endorsement	\$50,000
— Ordinance or Law Demolition of Undamaged Parts	\$50,000	Covered
— Ordinance or Law - Increased Cost to Repair - Cost to Demolish & Clear Site	\$50,000	\$250,000
— Overseas Transit and Location Coverage	Not covered	\$100,000
— Personal Effects	\$10,000	\$25,000
— Pollutants, Land or Water	\$25,000	\$50,000
— Pollutants, Covered Property	Optional endorsement	\$50,000
— Property in Transit	\$50,000	\$100,000
— Property on Exhibition	\$50,000	\$100,000
— Rewards	\$5,000 (arson only)	\$10,000 (arson, theft, vandalism)
— Recharge of Fire Extinguishing Equipment	\$10,000	\$50,000
— Sales Representative Samples	\$50,000	\$100,000
— Sewer Backup & Water Below the Surface	Optional endorsement	\$100,000
— Software Storage	Optional endorsement	\$100,000
— Utility Service Interruption	Optional endorsement	Covered
— Trees, Shrubs, and Plants	\$50,000	\$50,000
— Valuable Papers	\$50,000	\$100,000
— Newly Acquired Buildings	\$500,000	Covered, refer to scheduled locations endorsement
— Personal Property - Acquired Locations	\$250,000	Covered, refer to scheduled locations endorsement

- a. Total insured values must be in excess of \$10 million
- b. Total annual gross revenues must be in excess of \$10 million
- c. Total premiums must be:
  - 1) \$5,000 or more for property insurance;
  - 2) \$10,000 or more for general liability insurance; or
  - 3) \$15,000 or more for multi-peril insurance
- d. Four or more locations; or
- e. One or more locations outside the United States

**Rating/underwriting**

The COP XL uses deficiency point rating procedures for property, equipment breakdown, income coverage, and crime exposures. Like the COP, risks under the COP XL are rated based on individual risk characteristics. All locations and exposures are rated together instead of developing a separate rate for each individual location. The COP and COP XL rating procedures put the responsibility on an underwriter to know which coverages are incorporated into the program and to evaluate how each exposure affects the overall account.

Output policies are designed to be written by seasoned underwriters on accounts that demonstrate financial stability and a commitment to loss control, according to Robert Guevara, AAIS assistant vice president and principal developer of the COP line. The COP XL is very flexible in design, he adds, and it is up to the companies to select risks they want to compete on. ■

**The author**

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