



## VACANT FACILITIES

# Is Your Property Covered During Renovations?

COMMERCIAL PROPERTY owners are often surprised to learn how strict insurance policies can be once a building is considered vacant.

Under commonly used property insurance forms developed by the Insurance Services Office, coverage for certain types of damage can be sharply limited if a building has been vacant for more than 60 consecutive days.

At the same time, those ISO forms — and decades of court rulings — recognize an important exception: a building that is under construction is not treated as vacant. Just as important for property owners planning upgrades, that exception has been extended to buildings under renovation as well.



### How vacancy exclusions work

Most ISO-based commercial property policies include a “vacancy loss condition.” If a covered building has been vacant for more than 60 consecutive days before a loss, coverage is either reduced or eliminated for certain causes of loss.

For buildings vacant beyond that 60-day window, ISO forms typically provide:

- No coverage for vandalism, sprinkler leakage (unless protected against freezing), building glass breakage, water damage and theft or attempted theft.
- Reduced coverage for other covered causes of loss, usually a 15% reduction in the amount paid.

What counts as “vacant” depends on who is insured. For tenants, vacancy generally means the space does not contain enough business personal property to conduct customary operations. For building owners, vacancy usually turns on whether at least 31% of the total square footage is rented or used for normal operations.

These provisions are designed to address higher risk. Empty buildings are more vulnerable to vandalism, undetected water leaks and theft because fewer people are present to spot problems early.

### Construction and renovation exemptions

ISO forms carve out an important exception: buildings under construction are not considered vacant, even if they would otherwise meet the definition of vacancy.

Construction sites usually have workers present, materials moving in and out and regular activity that reduces the risks vacancy exclusions are meant to address.

Over time, courts have extended that same reasoning to renovation work on existing buildings. A key case is *TRB Investments, Inc. v. Fireman's Fund Ins. Co.*, decided by the California Supreme Court in 2006. In that case, the court ruled that a policy's exception for buildings “under construction” also applied to a building undergoing renovation.

The court reasoned that renovation activity can involve just as much — or more — daily presence as new construction. From a risk standpoint, it would not make sense to treat a building undergoing renovation as vacant while protecting one under construction.

That reasoning is now reflected directly in ISO's commercial property forms.

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## CONSTRUCTION COVERAGE

# A Surety Bond Is a Contractor's Seal of Approval

IN TODAY'S competitive market, a surety bond is a valuable commodity for a contractor. Obtaining a surety bond shows your company's best face to both potential customers and lending institutions.

That's because a surety bond amounts to a seal of approval from an independent third party, the surety bond company, which has evaluated your work. The bond that the surety company issues shows that it believes in your ability to perform.

In addition to providing an endorsement of your abilities, a relationship with a surety underwriter and bond producer offers other advantages.

These professionals have access to a variety of resources. They interact with a cross-section of the construction industry and can assist a contractor in finding construction accountants, lenders and attorneys.

For contractors involved in private construction, having these surety relationships in place can sometimes mean the difference between bankruptcy and solvency.

For example, many contractors have faced bankruptcy because they did not verify the project owner's funding.

The surety bond company will usually request the name of the funding source and then validate the adequacy of funds before it will commit to bonding a project.

They will also review contracts to identify terms, general condition requirements or irregularities in the specifications or bond forms that may add unnecessary risk.

The surety industry wants to help new and emerging contractors obtain their first bond and increase their bonding capacity.

In addition to the above resources, the Small Business Association's [Office of Surety Guarantees](#) has helped contractors who have the necessary knowledge and skills, but don't have the experience and finances to obtain a bond through traditional sources.

The SBA guarantees the bid, performance or payment bond issued to the contractor, and reimburses the surety a percentage of loss if the contractor defaults. This government guarantee allows sureties to write bonds for contractors who would not otherwise meet their minimum standards.

Check out these resources and use them to put your company in the best competitive position possible, with the seal of approval that a surety bond provides.

## Resources that can help

- The Surety Information Office provides [free information and materials](#) for contractors who want to learn more about the use of surety bonds in public and private construction.
- The Surety and Fidelity Association of America has developed a [Model Contractor Development Program](#) to educate contractors about surety bonds and help them to become bondable. Information on this program can be found in the "Development and Diversity" section of the SFAA's Web site.



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## If Planning a Renovation, Call Us for a Policy Review

### The takeaway

Vacancy exclusions are one of the most misunderstood parts of commercial property insurance. ISO forms and court decisions offer meaningful protection for buildings under construction or renovation, but that protection depends on real activity taking place.

Before you start a renovation, call us for a review of your policy language to confirm how your policy defines vacancy and to discuss whether supplemental coverage makes sense. Doing so can help ensure that a temporary period of renovation does not turn into an unexpected coverage problem after a loss.

## COMMERCIAL AUTO INSURANCE

# Are Your Employees Covered Behind the Wheel?



EVEN IF you have company cars or a fleet of vans, occasions may arise that require an employee to run an errand in their personal vehicle or one of your employees needs to rent a car while on a business trip visiting a client.

In these circumstances if you don't have the proper coverage, you could be leaving your organization exposed to liability if an employee injures a third party in an accident. There are two types of insurance that are vital in these situations: Non-owned auto coverage and hired auto insurance.

It is important to understand each to ensure you find the policy that is right for your operation:

**Non-owned auto coverage** — This insurance protects your company if sued as a result of an auto accident that you or one of your employees has in a personal vehicle while on company business.

**Hired auto coverage** — This provides your company with liability insurance for vehicles that you rent, hire or borrow on a short-term basis for business purposes. If you or an employee get in a car accident while driving one of these vehicles for work, hired auto insurance can help pay for your liability costs.

Consider these two coverage options if your company ever rents cars or vans for business purposes or if employees use their personal vehicles to run company errands.

These important coverages are usually added to a general liability policy or a commercial auto policy as an endorsement or a rider.

When there are no vehicles titled in the company name, this additional coverage will serve to meet the contract requirement for commercial auto coverage in most states.

## How the coverages work

Both hired and non-owned auto insurance are a type of liability insurance, meaning they will only cover property damage and injuries to third parties, as well as any legal fees, settlements or court judgements relating to third party claims. Hired and non-owned auto insurance helps cover:

- Physical damage to a third party's vehicle,
- Bodily injuries and medical expenses if a third party is hurt in an accident with you or one of your staff, and
- Legal expenses if your business gets sued for negligence.

However, these policies won't help with:

- Property damage to your business's hired or non-owned vehicle.
- Medical bills if you or your employee get hurt in an accident while using rented or personal vehicles.
- Liability coverage, property damage or bodily injury from an accident while you or your employee drive for personal reasons that are not related to your business.

## Do you need coverage?

If your business rents or borrows vehicles to do work or if your employees use their personal vehicles on business, hired and non-owned auto coverage is crucial to managing your risk.

It can help pay for any property damage that you or your employees cause while on company business in rented or personal vehicles. It also covers vehicles used for your business if they cause bodily injury to another driver in a car accident.

## HOMEOWNER'S INSURANCE

# Legislation Tackles Post-Disaster Claims Handling

STATE LEGISLATORS have introduced three new bills that aim to address major insurance issues that were exposed after last year's Malibu and Altadena fires, particularly inadequate policy limits and living cost provisions that run out before a home is rebuilt.

The proposals focus on what happens after a declared disaster. When homeowners are displaced, rebuilding costs spike and many people discover their coverage falls short.

One bill would require insurers to pay policyholders the full cash value of their home, regardless of policy limits after a total loss. This is in response to many homeowners learning after the fact that they were underinsured and their limits were not high enough to cover rebuilding costs in the wake of the fires.

The other two bills focus on notification and payment timeliness.

Here's a look at the three bills, what they would do and how they may affect policyholders if they become law.

## SB 876: EXPANDED COVERAGE

If passed and turned into law, the bill would:

- Expand additional living expense coverage by 100% during a declared disaster.
- Require insurers to pay the actual cash value of the structure and the undisputed portion of replacement cost quickly after the loss. Interest would accrue on late payments.
- Require insurers to make a mandatory offer of extended and guaranteed replacement cost coverage when writing a new policy. Insurers would also have to provide regular, updated replacement cost estimates to new customers and during policy renewals.
- Apply mandatory building code upgrade coverage at the time of rebuild rather than at the time of loss. This aims to address another issue: building codes often change after major disasters, which can lead to higher costs for homeowners rebuilding months or years later.

## The other two bills

SB 877 would require insurers to provide claims-related documents to policyholders within 15 days.

For homeowners juggling contractors, public adjusters and local rebuilding requirements, quicker access to documents may reduce confusion and potential disputes.

Under the final bill, SB 878, insurers that fail to meet claims payment deadlines would be required to pay interest at an annual rate of 20% on late payments.

Backers say the bill would strengthen existing prompt-payment rules by giving insurers a stronger incentive to meet deadlines. Insurers counter that steep penalties could increase costs.

## The takeaway

Supporters say the changes would give homeowners more certainty and liquidity at the moment they need it most.

The insurance industry has come out against SB 876, saying it would add unaccounted-for costs to insurance policies and likely raise premiums.

The bills were just introduced and have yet to see their first hearings. If they become law, we'll keep you posted here.

