

COMMERCIAL PROPERTY INSURANCE CLAIMS PROCESS

Outlines of topics to be discussed:

1. What can be insured
2. Perils / Risks that can be covered
3. Property All Risk Insurance vs Named Peril Policy
4. Sound Value vs Replacement Value
5. Insuring Stocks and Goods
6. How deductible is computed
7. Average clause and under insuring
8. Claim documents needed

What can be insured or covered?

1. **The Physical Structure of the Warehouse including machinery and equipment, office equipment, contents and improvements in the facility.** If you're renting then you can insure the stocks and goods and other assets you own which are contained within the premises.
2. **Goods and Stocks**

What perils can be covered?

Most basic is **Fire** and **Lightning Insurance**

Other extensions that can be covered would include the ff:

Earthquake, Typhoon and Flood, Broad Water Damage / Bursting of Water Pipes, Plate Glass Insurance, Riot Strike Malicious Damage, Falling Aircraft

Property All Risk Insurance

Everything is covered except a list of exclusions that are detailed in the policy.

Securing an All Risk Policy is more ideal than a named peril policy.

It is more difficult to be able to secure an All Risk Policy as there is more risk exposure for the insurance company.

Warehouse or Office Insurance

You can insure via Sound Value or Replacement Value

Sound Value = depreciated value

Replacement Value = cost to rebuild at current prices

How do you determine the Value of a Building ?

Most accurate way is to request an appraisal of the property.

Sound value - you can do an estimate via the age of the building in relation to current price to build. If the building is above 40 years old without any renovation done then it is possible that structure is fully depreciated.

Replacement Value - Insurers will require an Appraisal Report

Replacement Value is more expensive as the sum insured will be higher vs. sound value/ depreciated value

Value of Stocks

Stocks - Generally based on actual cost or the acquisition cost from the supplier. In some cases, Insurance companies allow stocks to be insured for the selling price.

Important to have receipts, purchase orders and other docs to validate actual cost of inventories affected.

Incomplete records will affect your ability to claim the full and accurate value of items affected/damaged .

Claims Process for Stocks

Insurance adjuster will be assigned to determine proximate cause of the loss and also compute the loss amount.

The value of the items and stocks damaged will be determined by the adjuster by gathering data from the assured .

Insurance adjuster will request the following information :

Purchase Order from Suppliers

Purchase Order from clients

Inventory records

Stocks dispatched records

Use of Technology to validate value of stocks lost and damaged

Insurance adjusters now request for records and access to the company's inventory software, PO Software. The records in the software can eliminate the manual process of detailing all the paper files.

Systems Audit will be undertaken and will be required

Software records are also important in case paper records are damaged. Important to have soft copy records.

Insured name of the Stocks

If Freight Forwarder under terms and conditions of the contract is required by Principal/ Owner of Stocks - Insurance Company will allow the policy to be under name of Freight Forwarder FAO name of the client who owns the stocks.

Insurance for the Warehouse or Office in case you own the facility :

Itemize the insured values accordingly:

- Building
- Contents and Improvements
- Machinery and Equipment

Deductible rates applied

Fire - no deductible

Earthquake, Typhoon, Flood and other Acts of Nature - 2% of affected item

Broad Water Damage/ Bursting of Water Pipes - Usually a fixed amount of around P20K to P30K

Example of Deductible Computation

Building - P80,000,000

Contents and Improvements - P10,000,000

Machinery and Equipment - P10,000,000

Stocks - P20,000,000

Total Sum Insured : P120,000,000

There was a flood that resulted in damage of stocks amounting to P2,000,000

Deductible - $2\% \times P10,000,000 = P200,000$

* you will be able claim $P2,000,000 - P200,000 = P1,800,000$

Average Clause

If you are under insured then average clause will apply.
By under insuring, the assured is in effect the co-insurer.

Example :

If your total inventory of stocks in the insured facility is worth P20,000,000
you insured the stocks for just P10,000,000.

There is flood claim amounting to P2,000,000

You are under insured by 50% and you will only be able to claim 50% of the total
loss. You can only claim P1,000,000.

Insurance Companies are now stricter in accepting risks for property insurance.

Fire Protection readiness is a key factor for insurance companies in accepting a risk.

Water Sprinkler, fire extinguisher, water supply, hydrant system, mobile fire extinguisher are among the items that an insurance underwriter will look at before acceptance of the account.

Use of technology to determine geohazard risks in the area. Flood prone area, near a fault line, Volcano are evaluated.

Requirements to claim for fire insurance:

A. General Requirements

1. Sworn Statement of Fire Claim (form provided to claimant)
2. Non- Waiver Agreement (form provided to claimant)
3. Fire Certification / Fire Investigation Report
4. Sworn Statement of witnesses, if any
5. Pictures;
6. Affidavit of Loss stating:
 - a. date and time loss
 - b. location of insured property
 - c. extent of damage and salvage value
 - d. liens and encumbrances
 - e. for building claim, year the building was constructed and original construction cost.
State also the details of the renovations / improvements, if any.
 - f. nature of ownership of the property insured
 - g. any information relative to the loss

B. Building (in addition to the general requirements)

1. A civil engineer's or architect's detailed estimate (obtained at the expense of the insured) to place the building in the same state of repair as before the loss. (no contemplated improvements may be included and a proper allowance for age and depreciation, etc. must be allowed
2. Certified copy of Building Permit
3. Certified copy of Declaration of Real Property
4. Copy of plan of the building or sketch prepared by an engineers / architect
5. Transfer certificate of title

C. Stocks (in addition to the general requirements)

1. A detailed inventory of the articles damaged and undamaged stocks, showing the cost price of each, extent of loss and salvage value
2. Proof of costing
3. Latest inventory of merchandise filed with the BIR
4. Copies of Income Tax Return and Audited Financial Statement for the last three (3) years filed with the BIR
5. Certification from suppliers
6. Registration papers
7. Purchase / Sales Invoices
8. Bank Statements

D. Machineries and Equipment, Furniture, Fixture and Fittings (in addition to the general requirements)

1. A detailed list of the articles damaged or destroyed showing the cost price of each and date acquired.
2. Records, invoices, receipts, if any
3. Detailed repair estimate or quotation if the items involved are repairable, or if already repaired, the actual cost of repair
4. Latest appraisal report or property records, if any