

Commercial Property Insurance



Texas Department
of Insurance

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Get Help from TDI

To file a complaint about a workers' compensation claim, benefits, or workplace safety, call your local **Division of Workers' Compensation field office** at **1-800-252-7031**.

For questions or complaints about other types of insurance, call the **Texas Department of Insurance (TDI) Consumer Help Line** at **1-800-252-3439**. You can also visit our website at **tdi.texas.gov**.

Commercial property insurance helps businesses, including farms and ranches, pay to repair or replace property that was damaged by a fire, storm, or other event covered by the policy. It also pays to replace stolen or lost property.

Types of Commercial Property Policies

There are three types of commercial property policies in Texas. These policies protect against different causes of damage, known as “perils.”

- **Basic form policies** cover common perils like fires and storms.
- **Broad form policies** cover common perils, as well as water damage; structural collapse; sprinkler leakage; and damage caused by ice, sleet, or weight of snow.
- **Special form policies** cover all types of perils except those the policy specifically excludes. Typical exclusions include damages from flood, earth movement, war, terrorism, nuclear disaster, wear and tear, and insects and vermin.

Read your policy carefully. You may need to buy additional coverages or separate policies -- such as flood, windstorm, or crime coverage policies -- to fully protect your business.

You can buy a single policy to cover a business with more than one location, unless the locations have different functions and risk profiles. For example, you might have an administrative office at one location and a factory at another. If your business has operations at multiple locations, ask your agent if you need separate policies.

Note: Except in counties on the Texas coast, most commercial property policies cover damage from windstorms. Insurance companies may exclude windstorm and hail coverage from policies in the 14 coastal counties and parts of Harris County on Galveston Bay. If your business is in one of these counties, you might need a separate windstorm policy.

If you rent or lease a building, the property you own inside the building usually

won't be covered by the building owner's policy. You'll need to buy tenant coverage to insure your machinery, furniture, and merchandise. Tenant coverage usually costs less than building coverage because the policy covers only the contents of the building, and not the building itself.

Replacement Cost and Actual Cash Value Coverage

Most commercial property policies provide either replacement cost coverage, actual cash value coverage, or a combination of both.

- **Replacement cost coverage** will pay to rebuild or repair your property, based on current construction costs. Replacement cost is different from market value and doesn't include the value of your land.
- **Actual cash value coverage** will pay only the current value of the damaged part of your property, which is the cost to rebuild or replace your property minus depreciation. Depreciation is a decrease in value because of wear and tear or age. If you only have actual cash value coverage and your business is destroyed, your insurance company probably won't pay you enough to completely rebuild.

Commercial Property Coverages

Commercial property policies aren't standardized in Texas. This means coverages and policy terms will vary by insurance company and by policy. If a policy doesn't provide all the coverage you need, you can usually buy endorsements to add or increase coverage. Endorsements usually raise your premium.

The following are some typical commercial property coverages:

- **Building occupied by the insured coverage** insures a building that you regularly use but don't own. This coverage can be important if you lease or borrow a building.
- **Newly acquired or constructed buildings coverage** insures a new building if you add it to the policy in a timely manner -- usually 30 days after acquisition or the construction begins. Commercial property policies usually only cover buildings named in the policy.
- **Employees' personal property coverage** insures your employees' personal property if the property is on your premises. Generally, you must buy this coverage as an endorsement if you need more than a limited amount of coverage.
- **Off-premises property coverage** covers your property located off site. If a policy doesn't cover off-premises property, or provides only limited coverage, you might need an endorsement or a separate policy to cover it.

- **Business interruption coverage** pays for the income you'd lose if your business is damaged and you can't perform your normal business operations.
- **Extra expense coverage** pays any additional costs to return your business to normal after it's damaged.
- **Valuable papers coverage** provides limited coverage for your business records and other valuable papers. You might be able to increase the coverage amount with an endorsement.
- **Ordinance or law coverage** pays additional costs to repair or rebuild a facility to current building codes after it's damaged. Many policies provide limited ordinance coverage, but you can increase the coverage with an endorsement.
- **Boiler and machinery coverage** covers boilers, air conditioning units, compressors, steam cookers, electric water heaters, and similar machinery. Coverage is usually only for machinery listed in the policy and to losses caused by malfunctions of boilers or machinery, such as when a boiler explosion or water heater leak causes damage to other property. You can buy this coverage as an endorsement or a separate policy.
- **Inland marine coverage** insures goods in transit by land, air, or inland waterways. It also covers projects under construction and transportation and communications structures, such as bridges, tunnels, and communications towers.

Commercial multi-peril (CMP) policies combine several coverages -- such as commercial property, liability, inland marine, and commercial auto -- into a single policy. It's usually cheaper to buy a CMP policy than to buy the coverages individually. Business owners (BOP) policies combine property and liability coverage in one policy. BOP policies are primarily for small businesses.

Other Coverages to Consider

Crime Coverage

You can buy several types of coverage to protect your business from crime. These are some of the common types of crime coverages:

- **Loss of glass and money due to theft** pays for damage to glass and for a theft of money resulting from a break-in.
- **Robbery and safe burglary (property other than money)** is a more limited form of coverage that doesn't include a loss of money or securities.
- **Forgery or alteration** protects your business against forgery or alteration of checks, drafts, promissory notes, or other types of payments.
- **Theft, disappearance, and destruction coverage** insures money, securities, and

other property against losses, both on your premises and off premises in the custody of an employee or messenger.

A policy might pay losses from crime on either a loss-sustained or discovery basis.

- **Loss-sustained coverage** pays for losses that happened during the policy period.
- **Discovery coverage** pays for losses that happened at any time.

Both types of crime coverage require that you learn about the crime during the policy period or extended reporting period.

Flood Insurance

Some insurance companies include flood coverage in their commercial property policies for areas with a low flood risk. However, most flood insurance is available only through the federal National Flood Insurance Program (NFIP). The Federal Emergency Management Agency (FEMA) runs NFIP. Some insurance companies may provide flood coverage in addition to NFIP coverage.

You can buy flood insurance through licensed insurance agents. For a list of agents selling flood insurance in your area, call **NFIP** at **1-800-427-4661** or visit its website at **www.floodsmart.gov/floodsmart**. There is a 30-day waiting period after you buy a flood policy before it goes into effect.

Windstorm and Hail Insurance along the Texas Coast

Insurance companies may exclude windstorm and hail coverage from commercial property policies in Texas' 14 coastal counties and parts of Harris County. If your business is in one of these areas, you might have to buy a separate windstorm policy through an insurance company that sells wind and hail insurance along the Texas coast or through the Texas Windstorm Insurance Association (TWIA).

Buildings constructed, repaired, or remodeled before January 1, 1988, are eligible for TWIA coverage without a Certificate of Compliance (Form WPI-8). Those constructed, repaired, or remodeled after that date must pass a windstorm inspection. You'll have to get a Certificate of Compliance before TWIA will issue windstorm and hail coverage.

Texas Department of Insurance (TDI) inspectors will inspect some nonstructural components of your building for free if you call your local TDI windstorm inspections office before beginning construction or repairs. You must get the inspection done during construction. If TDI doesn't inspect your structure or if you are making structural changes to your building, you must hire a TDI-appointed qualified inspector to perform the inspection during construction. To get a Certificate of Compliance on construction or repairs that were completed without being inspected, contact TWIA.

You can get a list of appointed qualified inspectors on the TDI website and at TDI windstorm inspections offices. For more information, call **TDI's Windstorm Inspections Program** at **1-800-248-6032** or visit our website at www.tdi.texas.gov/wind/index.html.

If you buy wind and hail insurance through an insurance company other than TWIA, the Form WPI-8 and inspection requirements don't apply to your property.

For more information about your rights as a TWIA policyholder, contact **TDI's Coastal Outreach and Assistance Services Team (COAST)** at **1-855-35COAST (1-855-352-6278)** or online at www.tdi.texas.gov/consumer/coast/.

Understanding Commercial Property Rates

Insurance companies use a process called underwriting to determine how likely your business is to file a claim. The greater the likelihood of a claim, the higher the premium will be. If an insurance company determines that your business is at a high risk for a loss, it may decline to issue you a policy.

Fire risk is usually the primary factor that determines a business's commercial property rates. Insurance companies do inspections as part of the underwriting process. Fire inspectors use a standard rating system and weigh five factors to determine a structure's fire rating. The five factors are:

- **Construction materials.** Buildings made of potentially combustible materials will have higher premiums, while those made of fire-resistant materials could earn a discount. Additions to an existing structure might affect a fire rating, so it's a good idea to talk to your agent or insurance company before remodeling. Internal structural elements can also affect a fire rating. Using wood partitions, floors, and stairways in an otherwise fire-resistant building will likely nullify any rate reduction. Fire-resistant interior walls, floors, and doors can help maintain a good fire rating.
- **Location.** Buildings in cities or towns with good fire protection—as assessed by the Insurance Services Office typically cost less to insure than buildings outside a city or in areas with limited fire protection.
- **Occupancy.** A building's use also affects its fire rating. An office building will likely rate better than a restaurant or auto repair shop. In a building with multiple tenants, one hazardous occupant will negatively affect the fire rating of the entire building. If your business is in a building with a more hazardous tenant, your premiums will be higher.
- **Fire protection measures.** Automatic sprinklers can reduce a building's fire rating by as much as 50 percent. Buildings with fire extinguishers and automatic alarms and those within 500 feet of a fire hydrant will usually have lower ratings.

- **Exposure.** Nearby hazards increase a building's fire risk. Proximity to external fire hazards, such as a lumberyard or oil storage tank, will affect a fire rating even more. Other things that could affect your fire risk include cluttered buildings and grounds, heavy mechanical or electrical equipment, or volatile materials stored on site.

Shopping for Commercial Property Insurance

The following tips can help you find the best deal for your money:

- **Remove all possible hazards before applying for coverage.** Look at your business's premises and operations carefully to get rid of anything that could increase the likelihood of an insurance claim. Improving employee safety, security, and inventory management might reduce the amount you pay for commercial property insurance and other types of coverage. Most insurance companies also offer loss-control or risk-reduction services. Talk to your agent or insurance company about ways to find and eliminate hazards.
- **Get quotes from several companies.** When comparing prices, make sure you're comparing policies with similar coverage. A cheaper policy might provide less coverage.
- **Keep shopping if an insurance company says it won't cover your business.** Insurance companies have different underwriting criteria. If one company turns you down or is too expensive, try other companies.
- **Consider higher deductibles.** Almost all commercial property policies have a deductible, which is the amount you must pay toward the cost of a claim before the insurance company will start to pay. The higher your policy's deductible, the lower your premium. Keep in mind that you'll have to pay more out of pocket if you have a claim. Your policy will also have a policy limit, which is the maximum amount the insurance company will pay for any covered loss.
- **Check your agent's and insurance company's licenses.** Agents and insurance companies must be licensed to sell commercial property insurance in Texas. An unlicensed insurance company might not meet the state's minimum financial and regulatory requirements, meaning the company may not be able to pay your claim. To learn whether an agent or insurance company is licensed, call TDI's Consumer Help Line or use the Agent Lookup or Company Lookup features on our website.

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Texas Department of Insurance
PO Box 149091 | Austin TX 78714-9091
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