

Texas Windstorm Insurance Association

5700 South MoPac Expressway, Building C, Suite 300, Austin, Texas 78739
P.O. Box 99090, Austin, Texas 78709-9090
512-899-4900 / Fax 512-899-4950

Randy Wipf, CIC
Underwriting Manager

MEMORANDUM

Date: March 26, 2001
To: All Agents
Re: **Business Income Coverage**

Effective May 1, 2001 Business Income coverage will be available through Texas Windstorm Insurance Association (T.W.I.A.) for all commercial risks (excluding builder's risk and vacant buildings), as defined in the Texas Department of Insurance Manual of the T.W.I.A. This coverage is designed to supplement the insureds' income when they have sustained a loss of "Business Income" and/or "Rental Value" due to the necessary suspension of the "operation" during the "period of restoration", provided the suspension is the result of direct physical loss caused by windstorm or hail. Coverage may be provided on new applications or may be added to existing policies by endorsement.

We have enclosed the following:

- Blank copy of Form TWIA-17 application schedule for use when requesting Business Income coverage. This form may be reproduced as needed. A completed form must be submitted with each request to include Business Income coverage on a policy. Failure to provide this information will delay issuance.
- Completed example of Form TWIA-17 application schedule to guide you in submitting an application for Business Income coverage.
- Business Income coverage endorsement. This endorsement outlines the provisions of Business Income coverage, and will become a part of each policy where business income coverage has been added.
- Instructions & Guidelines, revised pages 17/18, which have been changed to add a section on Business Income. Please refer to page 17 for detailed information concerning qualifications and rating. Also, note that the coverage is fully earned when added to a policy. No premium will be returned unless the entire policy is cancelled.

Encl: Blank Form TWIA-17 Application Schedule and completed example
Form TWIA-17 Coverage Endorsement
Revised Instructions & Guidelines pages 17/18

TEXAS WINDSTORM INSURANCE ASSOCIATION

Business Income Coverage Endorsement

SCHEDULE

Policy # _____

Named Insured and
Business
Name _____

Type of
Operation(s) _____
(Apartments, Office, Mercantile, Church, Mfg./Production, and other)

Maximum Limit of Liability is \$100,000 per building per occurrence (\$10,000 Extra Expense coverage is in addition to the Limit of Liability provided by this Endorsement)

Daily Limit per Working Day per Building (\$50.00 per day min.)(\$1,000.00 per day max.)

Number of working days covered (60 days min.) (365 days max.)

The Daily Limit and number of working days covered is to be determined by the insured and their agent and submitted to TWIA with application for approval.

Building(s) Working (complete addresses)	Limit of liability per building	Daily Limit per building	No. Working days per week	Max. No. days Covered
1. _____				
2. _____				
3. _____				
4. _____				
5. _____				
6. _____				

For additional items, submit additional schedule

TEXAS WINDSTORM INSURANCE ASSOCIATION

Business Income Coverage Endorsement

SCHEDULE

Policy # 123456-02

Named Insured and
Business

Name George Adams dba High Dollar Apartments

Type of

Operation(s) 1. Apartments / 30 units, 2. Apartments / 25 units
(Apartments, Office, Mercantile, Church, Mfg./Production, and other)

Maximum Limit of Liability is \$100,000 per building per occurrence (\$10,000 Extra Expense coverage is in addition to the Limit of Liability provided by this Endorsement)

Daily Limit per Working Day per Building (\$50.00 per day min.)(\$1,000.00 per day max.)

Number of working days covered (60 days min.) (365 days max.)

The Daily Limit and number of working days covered is to be determined by the insured and their agent and submitted to TWIA with application for approval.

Building(s) Working (complete addresses)	Limit of liability per building	Daily Limit per building	No. Working days per week	Max. No. days Covered
1. <u>123 Beachside</u> <u>Corpus Christi, TX 78411</u>	<u>\$56,250</u>	<u>\$625.⁰⁰</u>	<u>7</u>	<u>90</u>
2. <u>125 Beachside</u> <u>Corpus Christi, TX 78411</u>	<u>\$46,875</u>	<u>520.⁸³</u>	<u>7</u>	<u>90</u>
3. _____				
4. _____				
5. _____				
6. _____				

For additional items, submit additional schedule

Texas Windstorm Insurance Association
P.O. Box 99090 Austin, Texas 78709-9090
Windstorm and Hail (All Commercial)

BUSINESS INCOME COVERAGE ENDORSEMENT AND EXTRA EXPENSE

IMPORTANT NOTICE

Premium is fully earned when written, except for
cancellation of an entire policy.

Attached to and forming part of Policy Number 28534001 of the Texas Windstorm Insurance Association issued at Austin, Texas.

Date Printed: 3/19/2001

James W. Oliver, Agent

Throughout this endorsement, the words "you" and "your" refer to the named insured shown on the declaration page. The words "we," "us" and "our" refer to the Texas Windstorm Insurance Association providing this insurance.

In consideration of an additional premium shown on the declaration page, this policy is extended to provide the following coverage:

A. COVERAGE

1. We will pay you the daily limit or a "prorata amount" of the daily limit specified in this endorsement if you sustain a loss of "business income" and/or "rental value" due to the necessary suspension of your "operations" during the "period of restoration," provided:
 - a. The suspension is the result of direct physical loss caused by windstorm or hail to property at the "building(s)" described in this endorsement, or in the open or in a vehicle or railroad car within 100 feet of the building; and
 - b. The loss occurs during the term of this policy.

2. We will pay:

- a. The daily limit shown in this endorsement for each "working day" during the suspension of your "operations;" or
- b. A "prorata amount" of the daily limit shown in this endorsement for each "working day" during a "partial suspension" of "operations" at the "building(s)" specified in this endorsement; and
- c. The reasonable expense incurred by you to reduce or prevent the suspension of "operations." The amount we pay for this expense is limited to the extent that any payment under paragraphs a. and b. is reduced.

3. Extra Expense

We will pay necessary extra expense you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property at the described "building(s)." The maximum amount that will be paid for "Extra Expense" coverage is \$10,000 and payment for "Extra Expense" does not affect the daily limit or the limit of liability specified in the attached schedule.

"Extra Expense" means expense incurred:

- a. To avoid or minimize the suspension of "operations" and to continue "operations:"
 - (1) At the described "building(s);" or
 - (2) At a replacement location(s) or at temporary building(s), including:
 - (i) Relocation expenses; and
 - (ii) Costs to equip and operate the replacement or temporary location(s);
- b. To minimize the suspension of "operations" if you cannot continue normal "operations;"
- c.
 - (1) To repair or replace any property, or
 - (2) To research, replace or restore the lost information or damaged valuable papers and records;

to the extent it reduces the amount of loss that otherwise would have been payable under this endorsement.

We will pay for "Extra Expense" that occurs within 365 consecutive days after the date of direct physical loss due to windstorm or hail.

Attached to and forming part of Policy Number 28534001 of the Texas Windstorm Insurance Association.

B. LOSS PAYABLE

The loss will be payable to you on a monthly basis or any other basis mutually agreed upon by you and the Texas Windstorm Insurance Association.

C. EXCLUSIONS

We will not pay for any loss or expense due to:

1. The suspension of "operations" that would not or could not have been carried on if the direct physical loss had not occurred;
2. Your failure to use due diligence and dispatch and all reasonable means to resume "operations" at the "building(s)" shown in this endorsement; or
3. The suspension, lapse or cancellation of a contract following a loss extending beyond the time "operations" could have resumed if the contract had not lapsed, been suspended or cancelled.

D. EXPIRATION

This coverage will cease on the earlier of the following:

1. When the property is restored and you are back in business; or
2. When the property should have been restored, with reasonable speed, to its condition prior to the loss; or
3. When the limit of business income coverage in this endorsement has been paid.

E. COINSURANCE

The coinsurance clause is not applicable to this coverage, but all other provisions of the policy remain in effect.

F. DEDUCTIBLE

Time Deductible

Texas Windstorm Insurance Association shall not be liable for any loss under this endorsement until 168 hours have expired after the direct physical loss caused by windstorm or hail to the property at the "building(s)" described in this policy. If there is a subsequent covered loss within the same policy period and the prior loss and "period of restoration" is still in progress at the time of the subsequent loss, the time deductible will be waived for the new loss. If the prior loss had been adjusted to a conclusion at the time of the subsequent loss, another deductible will be applied for the new loss.

G. CONDITIONS

The following conditions apply in addition to the policy conditions:

1. Payment Limits

Payment for loss or expense under this endorsement is subject to the following:

- a. The most we will pay for any on "working day" is the amount shown as the daily limit on the schedule in this endorsement;
- b. Our total payment for any one loss for suspension of "operations" will not exceed the total limit of liability shown on the schedule in this endorsement.
- c. Loss or expense under this coverage from a loss that occurs during the time this coverage is in force may continue beyond the expiration of this endorsement. Our liability for that loss or expense is not limited by the expiration of this endorsement.

2. Reducing Your Loss

As soon as possible after a loss you must

- a. Resume "operations," partially or completely;
- b. Make use of every available means including:
 - (1) Working extra time or overtime, either at the described "building" or at other building(s) you acquire to carry on the same operation;
 - (2) The property or services of other concerns; and
 - (3) Merchandise or other property, such as surplus machinery, duplicate parts, equipment, supplies and surplus or reserve stock you own, control or can obtain.

H. DEFINITIONS

1. "Business Income" - net income (net profit before income taxes) that would have been earned and continuing normal operating expenses incurred, including payroll.
2. "Net Profit" - the difference between all income and all expenses.
3. "Operations" - means:
 - a. Your business activities occurring at the building(s) described in this policy.
 - b. The tenantability of the described building(s) if coverage for business income and/or "rental value" applies.

Attached to and forming part of Policy Number 28534001 of the Texas Windstorm Insurance Association.

H. DEFINITIONS (*continued*)

4. "**Period of Restoration**" - means the period of time that
 - a. Begins with the date of direct physical loss of or damage caused by windstorm or hail at the "building(s)" described in this policy; and
 - b. Ends on the date when the damaged property at the described "building(s)" is repaired or replaced or should have been repaired, with reasonable speed, to its prior condition.

5. "**Prorata Amount**" (**Other than Production/Manufacturing**) - means if the insured operations has a "partial suspension," only a portion of the daily limit for each "working day" during the "period of restoration" will be paid. This will be calculated by determining the "net profit" made per "working day" during the "period of restoration" and deducting this amount from the daily limit. The difference is the "prorata amount" that will be paid and this amount could vary from "working day" to "working day."

6. "**Prorata Amount**" (**Production/Manufacturing**) - means if the insured operations has a "partial suspension," only a portion of the daily limit for each "working day" during the "period of restoration" will be paid. This will be calculated on a percentage of the loss of normal production of your finished product ready for packing, shipment or sale. The difference is the "prorata amount" that will be paid and this amount could vary from "working day" to "working day."

7. "**Prorata Amount**" (**Rental Value**) - means if the insured has a "partial suspension" of rental income, only a portion of the daily limit during the "period of restoration" will be paid. This will be calculated by deducting the actual rental income received during the "period of restoration" from the daily limit. Rent is normally paid by the month; therefore, the daily limit can be converted to a monthly limit by multiplying the daily limit amount times 30 days.

For example, the insured building is a 10 unit apartment complex with \$5,000 monthly rental income. The specified daily limit is \$100 or \$3,000 per month. The rental income after the loss is \$2,500 per month. Deduct \$2,500 from \$3,000 for a monthly net claim of \$500 or a daily claim of \$16.67 (\$500 divided by 30 days).

8. "**Building(s)**" - means the building(s) at the address(es) shown on the business income endorsement. There can be multiple buildings at the same premises.

9. "**Working Day**" - means a period of 24 consecutive hours beginning at 12:01 a.m. that your business would have normally been open.

10. "**Partial Suspension**" - means a decrease in "operations" during part or all of a "working day."

11. "**Rental Value**" - means the:
 - a. Total anticipated rental income from tenant occupancy of the "building(s)" described in the endorsement as furnished and equipped by you; and
 - b. Amount of all charges which are the legal obligation of the tenant(s) and which would otherwise be your obligations; and
 - c. Fair rental value of any portion of the described "building(s)" which is occupied by you.

This coverage is additional insurance. However, in no event will payment of a covered loss under this policy, including this endorsement, exceed the total maximum limit of liability established by law that can be insured by the Texas Windstorm Insurance Association.

COMMERCIAL ENDORSEMENTS:

1. Business Income Coverage Form TWIA-17:

Business Income coverage is applicable to all commercial risks (excluding builder's risk and vacant buildings), as defined in the Texas Department of Insurance Manual of the Texas Windstorm Insurance Association. Coverage may be provided on new applications or may be added to existing policies by endorsement.

- The available daily limit for any building location is \$50 minimum to \$1,000 maximum per day.
- The number of days covered must be between 60 and 365 days (in 30 day increments unless 365 days is requested).
- The maximum amount of Business Income coverage available is \$100,000. Combinations where the daily limit and number of days exceed \$100,000 are not permitted.
- Business Income coverage is not available on a stand-alone basis; the Association must also provide the direct coverage.
- The premium for Business Income coverage will be calculated using the 80% coinsurance building rate and will be based on the occupancy of the risk. The occupancy should be shown on the Form TWIA-17 Schedule.
- **The number of units per building must be shown when insuring apartments.**
- All Business Income premiums will be fully earned, except for cancellation of an entire policy.
- There will be a waiting period (deductible) of 168 hours (7 days) after the loss before the coverage applies.
- This coverage is additional insurance, however, in no event will payment of a covered loss, including this endorsement, exceed the total T.W.I.A. maximum limit of liability established by law.
- A maximum of \$10,000 "Extra Expense" coverage will be included when Business Income coverage has been selected. This pays for additional expense incurred to avoid or minimize the suspension of the operation. This payment does not affect the daily limit specified in the Business Income schedule.

Number of days covered	Apartment Buildings						MFG.	Other
	3-25 Units		26-50 Units		51-100 Units			
	Daily limit \$50-\$1000	Daily limit \$50-\$399	Daily limit \$400-\$1000	Daily limit \$50-\$399	Daily limit \$400-\$799	Daily limit \$800-\$1000		
365	.641	.673	n/a	.705	n/a	n/a	1.052	.708
330	.650	.682	n/a	.715	n/a	n/a	1.060	.717
300	.665	.698	n/a	.731	n/a	n/a	1.082	.731
270	.690	.725	n/a	.759	n/a	n/a	1.125	.756
240	.724	.761	.724	.797	.761	n/a	1.176	.790
210	.758	.796	.758	.834	.796	n/a	1.235	.833
180	.799	.839	.799	.879	.839	n/a	1.301	.883
150	.874	.917	.874	.961	.917	n/a	1.430	.956
120	.945	.993	.945	1.040	.993	.945	1.554	1.027
90	1.008	1.058	1.008*	1.109	1.058	1.008	1.641	1.133
60	1.148	1.205	1.148	1.263	1.205	1.148	1.873	1.269

Business Income Rating Example

- Frame class building
- Business Income Coverage \$90,000 (\$1,000 per day X 90 days)
- Occupancy category "Apartment with 30 units"
- Assumes rent per unit = \$1,000 per month

Sample Calculation

80% Coinsurance Building Base Rate (Rate table A)	.635
X .90	<u>x.90</u>
Adjusted EC Rate (Truncate to 3 decimal places)	.571
Adjusted EC Rate	.571
X BI Factor (per table above)	<u>1.008*</u>
Business Income Rate (Truncate to 3 decimal places)	.575
Business Income Insurance Amount (per \$100)	\$90,000
X Business Income Rate	<u>.575</u>
Business Income Premium	\$517.50 = \$518.00

RESIDENTIAL AND COMMERCIAL ENDORSEMENTS:

1. Increased Cost In Construction Form TWIA-430:

Increased Cost in Construction coverage is available for Commercial and Residential buildings, excluding Mobile Homes, to cover the increased cost in construction due to the requirement of meeting the Building Code for Windstorm Resistant Construction.

The coverage amount is determined by applying the appropriate factor, for the percentage option selected, to the amount of insurance on that item.

To calculate the additional premium for this coverage, you must apply the rates listed below, per \$100 of insurance, to the amount of insurance on the selected item.

Coverage Available	Rate per \$100 of Building Amount
5% of Building Amount	.02
10% of Building Amount	.035
15% of Building Amount	.05

Example:

**\$50,000 Amount of Insurance with
15% Increased Cost in Construction Coverage (Form TWIA-430)**

To calculate the additional premium for Increased Cost in Construction coverage you must multiply the appropriate rate listed above times the amount of insurance. The rates apply per \$100 of coverage. This calculation is independent of any other calculation, and the result is added to the final premium for each applicable item.

$$\$50,000 \times .05 = \$25.00 \text{ charge for Increased Cost in construction coverage}$$

DEDUCTIBLES:

1. Dwelling and Farm & Ranch Dwelling Deductibles:

- A. **Dwelling percentage deductible clause –**
 - 1% deductible, but not less than \$100
 - Applies to dwelling, personal property, and dwelling outbuildings
 - Applies on a per item basis

- B. **Dwelling \$100.00 deductible clause –**
 - Flat \$100 deductible
 - Applies to dwelling, personal property, and dwelling outbuildings
 - Applies on a per item basis

- C. **Dwelling \$250.00 deductible clause –**
 - Flat \$250 deductible
 - Applies to dwelling, personal property, and dwelling outbuildings
 - Applies on a per item basis

- D. **Dwelling Optional Large Deductible –**
 - Deductible Amounts of 1.5%, 2.0%, 2.5%, 3.0%, 4.0% or 5.0%
 - Applies to dwelling, personal property, and dwelling outbuildings
 - Applies on a per item basis