



# HOW TO HANDLE A LOSS

Tension-easing, dollar-saving tips from  
the experience of Factory Mutual adjusters

**Factory  
Mutual  
System**

# HOW TO HANDLE A LOSS

## Suggestions for the Insured



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## YOU HAVE A QUESTION, SIR?

Doubtless you do . . . probably many.

At most Factory Mutual insured plants, losses are few and far between. In fact, a majority of our plants go year after year without having a loss large enough dollar-wise to justify reporting it to us.

Hence, when you do have a loss, it's something out of the ordinary in your business . . . something you don't handle just every day . . . and questions are bound to come to mind regarding how a loss would be handled should it "happen to you!"

In the following pages, we are going to discuss loss-handling. We will do our best to answer questions that may be in your mind. Accept this discussion in the spirit in which it is offered . . . an informal discussion of many of the problems which may confront you and the adjuster in handling a loss under a fire insurance policy.

Though the Factory Mutuals provide Boiler and Machinery, Inland Marine and other forms of insurance, this booklet is slanted primarily towards the fire and extended-coverage field. However, basic loss-handling procedures vary little between different types of property-damage and business-interruption insurance.

With insurance, as with most everything, the proof of the pudding is in the eating. When you became a Factory Mutual member, you joined an organization committed to loss prevention . . . yet at the same time, you became a member of a group just as firmly committed to affording you maximum equitable recovery in the event of loss.

\* \* \*

Please bear in mind that each loss is different from any other. Each must be handled in the light of its own set of facts and circumstances. Each poses its own specific problems which must be worked out by you and the adjuster.

Just as you could never hope to cover in a few printed pages every contingency which might arise in your business operations, we do not try to be all-inclusive. But we can give you a good general background of our procedures.

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## WHEN THE LOSS OCCURS

### First steps to remember

In scanning these tips on how to handle a loss, perhaps you may wish to keep in mind that many are applicable to losses other than fire-insurance losses. You do have uninsured losses in your plant . . . such as flood, back-up of sewers or drains, equipment failures . . . as well as losses covered by other types of insurance such as separate boiler and machinery policies. These same procedures, generally, will stand you in good stead in handling all types of losses.

#### Notification

Naturally, we want to know promptly of losses under our policies. To be of maximum service to you, we must know of your trouble. Keep readily available the addresses and telephone numbers of the main office of your insurance company, your company contact man, and of our various main and district engineering offices where adjusters may be contacted.

You may wish to keep a similar list of your own personnel to notify. We realize that practically every business does keep a small list of emergency-notification numbers, but almost all could be expanded. For instance, your personnel director may be rather deeply concerned about arrangements to be made in case of a sizable loss and he'll appreciate fast notice. Your sales manager may be on the brink of launching a promotion and, again, prompt notice of trouble will be appreciated. Many other staff members may also be affected.

#### Speed of Action

When it comes to keeping the loss at a minimum and getting back into production promptly, speedy action is the key. We hope that in any emergency, you will proceed just as you would if you had no insurance coverage. Don't wait for the arrival of one of our representatives. After all, you are the world's best authority on your own business . . . you know it from stem to stern. Of course, we can and want to help you, but it'll take us time to get there! . . . don't delay!

#### Salvage

One section of this discussion will be devoted to salvage . . . damage control. However, don't let it be overlooked in the first stages of any loss. That's when the greatest saving can be made . . . before rust starts, before staining begins, before moisture penetrates.

#### Limiting Business Interruption

Limiting the business interruption is also something to start planning even before the fire's out! A later section will be given over to this topic, but you should keep it in mind.

#### Cost Accounting

It's well to pass word promptly to your comptroller's office or your plant accounting department to set up special account numbers to identify charges resulting from your loss. If they do this immediately, their jobs will be simplest in the end. Under the section titled "So You Have A Claim" we'll go into this matter of accounting in detail.

## SALVAGE

This will save many dollars

Salvage is saving ... through damage-control methods.

It's important to all of us. We Americans have quite a reputation as wasters ... yet all of us know that in the competition of business, profit margins may be very close and we simply can't afford to overlook any opportunity to save. Property conservation ... a fundamental Factory Mutual objective ... when applied to your loss handling, means lower costs to you. Your insurance company's outlay in loss payments plus their expenses must be met in premiums paid by you. Hence, it stands to reason that damage control will mean lower insurance costs to you in the long run!

However, there's another aspect equally important to you. That is that these same methods of conservation and damage control teach your personnel good work habits. Here's just one way in which this can pay off. Though you seldom have insurance losses, you frequently do have other, uninsured losses ... spillage, breaking of service or production piping, back-up of drains, flood or routine production-type losses as when a worker dumps the wrong kind of thinner into a paint-dip tank or a lathe operator takes too deep a bite on the stock in his machine. All of these are losses just as real to your financial statement as is a fire or an explosion. Now, we like to think that if you have in your plant an organization trained to handle insured losses effectively and promptly, these same people will handle the uninsured losses in the same thrifty manner, much to the joy of your treasurer or comptroller! Some of the biggest names in American industry work that way and are most happy with the results.

All of us have both contractual and moral obligations to conserve and salvage property. All insurance contracts place these three specific obligations upon any insured:

... to take all reasonable precautions at the time of a loss and thereafter to prevent further damage.

... to separate promptly the damaged and the undamaged property. This is to prevent additional loss due to contamination, as well as to provide a necessary first step in handling the damaged items.

... to remember that there can be no abandonment of property to the insurance company. Certainly, we will work with you every step of the way in handling your property, but the principal obligation remains with the Insured.

Now, good salvage or good conservation practices have their beginnings long before a loss occurs. We like to divide this matter of salvage up into three parts ... before the loss ... during the loss ... and after the loss.

### Before the Loss

Proper salvage before the loss basically includes such measures as adequate sprinkler protection, good arrangement of occupancies, proper skidding of water-damageable stock, and many other points. But let's just look at preparation for salvage in case a loss occurs.

Just ask yourself the question, "If we had a loss tomorrow, what problems in salvage would face us and how would we meet them?" Planning and the training of personnel are

keys to the answer. Remember, each plant has its own peculiar salvage problems. The foundry operator will tell you that water won't hurt his castings ... he stores them out of doors in many cases. The manufacturer of fine furniture knows that water is poison to his fine kiln-dried lumber stocks. Many manufacturers specialize in the finest tolerances of machine parts which can't stand rust. Photographic-paper manufacturers have a product highly sensitive to humidity if not in sealed packages.

Only you can properly evaluate the problems you will face in salvage operations. But you will agree that advance planning is necessary if the job is to be done right. Certainly supplies should be available and personnel trained to use them. Waterproof covers or tarpaulins for equipment, wiping rags, sawdust, oil, rust inhibitors and other items should be on hand, and probably are somewhere in your plant. The important thing is to be certain that the proper people know where to find them. Portable lighting equipment and portable pumps for basement areas may be desirable. And don't overlook a supply of extra sprinkler heads and a few extinguisher recharge kits!

### When Fire Starts

When fire starts, salvage starts in earnest! A prompt alarm should be followed immediately by a check to make sure that all sprinkler-control valves are open. Stationing a man by each valve is an excellent idea if personnel are available. Remember that sprinklers will do the job with less water ... less water damage ... than hose streams, so make sure that they're operating properly. When using hose, shutoff nozzles and adjustable nozzles which permit the use of spray are great economizers. When extinguishers are used, employment of the correct type is very important. For example, carbon-dioxide extinguishers will not harm fine metal contacts and parts, whereas water-base extinguishers may damage such surfaces.

While a fire is in progress, much can be done by available personnel to limit the amount of loss or damage. If personnel safety permits, stock and equipment can be moved out of the exposure area. Waterproof covers or tarps can be thrown over equipment in the area and in stories below where water leaking through floors may cause damage. If water is spreading on floors to other areas, a good trick is to provide sawdust or dirt dams at doorways to limit the flow. If floor scuppers are provided, make certain they're unobstructed and doing their job.

Also, while the fire is in progress, plans can be made for work as soon as the area is safe. Rushing things? Not at all! We say of fire fighting that the first five minutes are more important than the next five hours. Likewise, in damage control and in restoring the property, speed counts. If the loss is on a week end, it may take time to round up personnel to come in and start work, so the sooner such effort is started, the better the results. Calling in outside repair personnel or contractors may be indicated. Remember, you're going to want to get your plant back to normal pronto, whether or not you carry business-interruption coverage. Your customers want your product.

### After the Fire Is Out

That's the sad time ... after the fire is out. Any of you who have had a sizable loss at your plant ... be it fire, explosion, flood or other cause ... know that right after the loss, things look terrible! Smoke, dirt, water and debris are everywhere. Even the strong man has an urge to say, "Let's knock off and come back in the morning!" But, this is just the time when everyone must really dig in and work.

## THE FIRE IS OUT, BUT THE DAMAGE IS INCREASING EVERY MINUTE!

First of all, get as much protection back in service as possible. Get fused sprinklers replaced, broken branch lines capped off and protection restored. You'd be amazed at the number of times a fire rekindles and is nipped in the bud because protection has been restored promptly after the first fire.

Next, concentrate on getting things aired out and dried out. Smoke dissipates rapidly if given a fair chance to get out. Moisture is a killer to most equipment and stock and should be attacked promptly. Brooms, squeegees and mops will get rid of the bulk of water. Provision of heat coupled with good ventilation will help in completely drying things out. Naturally if weather is inclement and if windows, walls or roof have been damaged, the provision of temporary closures is a must.

With these items under way, work should start on the separation and removal of exposed stock and machinery to safe areas as necessary. If large quantities are involved, plant space may be at a premium and arrangements will have to be made for rental of storage space nearby to accommodate the property.

In many organizations, it is most important to make sure that representatives of various departments involved are on hand during all these and subsequent operations. These representatives are expert with respect to the property of their own divisions and can assist immeasurably. Further, it will help reduce any subsequent internal friction over the measures taken during the emergency!

At this stage, it is well to point out that we have been suggesting a lot of work and expenditure of money. You may be asking who's going to foot the bill. Simply stated, the insurance company will pay all costs which reduce your loss... be it a property loss or a business-interruption loss which is insured against. In other words, we're happy to spend a dollar if it saves at least a dollar. Naturally, neither you nor we are going to be interested in spending two dollars to save one. Included in expenditures so authorized are:

1. Cleanup.
2. Salvage work on any insured property, including labor, supplies, and parts.
3. Temporary protection needed to prevent additional damage, such as boarding up windows, rigging tarpaulin covers, temporary roofing and similar items.
4. Overtime charges where needed... a big dollar saver, particularly in the first stages of loss-salvage work.
5. Debris removal costs.

Now let's get down to the detail work of salvaging equipment and stock.

### Salvaging Machinery and Equipment

Machinery and other metal equipment should be cleaned, dried, and oiled. As a good precautionary measure, such equipment should be re-wiped and re-oiled several times. After this, each item should be tested for mechanical performance. When other than minor repairs are needed, we usually recommend calling in the manufacturer's representative. After all, it's his machine and he knows best how to rehabilitate it.



Electric motors which have been wet need thorough drying in ovens. After this, insulation should be tested with a megger. Motors which have been fire damaged will probably need rewinding. Unless the fire has been severe, the motor frame and iron will be undamaged and this is roughly one-half the value of a motor. Hence, rewinding to restore a motor is usually economical. Fractional horsepower motors frequently do not justify the expense of rewinding.

Electrical apparatus, including transformers, switchgear, wiring, starters and the like should never be energized until thoroughly checked out by the electricians. Watch for water which has found its way into electrical conduits or raceways.

Watch for possibility of corrosion when a fire has involved a chlorinated hydro-carbon as in trichlorethylene degreasers, certain refrigerants, and the like. These break down when overheated or exposed to flame, forming hydrochloric acid in the presence of moisture. Prompt ventilation plus washing with oakite or similar compound, followed by drying and thorough oiling is the answer. Speed is vital to prevent damage!

### Salvaging Stock

Raw stock presents a wide range of problems, depending upon the materials involved.

Sheet and bar stock of metals need wiping, oiling, and perhaps pickling.

Textile raw stocks which cannot be run through processing promptly require drying and, in the case of wool, normally scouring.

Wood and wood products need prompt drying.

Many items of raw stock, particularly chemicals, food products, material for precision machines, etc., will require quality-control tests before passing as first quality.

Damage to stock in process may call for re-running through the production line.

Finished stock may require only clean-up and testing or re-cartoning. More extensive damage will require reprocessing.

### Who Handles the Salvage?

Normally, you are the people best fitted to handle the salvage work. You can do the best and the most economical job. Further, this procedure keeps control of the product in your own hands and in your own plant where you like to have it.

There will be occasions, such as when goods are damaged at a remote warehouse where you do not have personnel or facilities available, where your handling of the damaged stock will not be economical. Here the adjuster can assist. The material may be shipped back to your plant or he may have the salvage done by professional salvors in the area. Likewise, the adjuster will work with you on salvage at your own plant, helping with salvage know-how which he has picked up in his general experiences.

### Radioactive Contamination

Increasingly, we find radioactive isotopes being used in industry, schools, hospitals, and laboratories. If these substances escape from their normal containment, you are faced with

a very special problem in damage control. Here especially you face a problem for experts, including the qualified health physicist. However, you should keep in mind a few fundamentals which will greatly help in holding to a minimum any property damage as well as personnel exposure.

First: Speed is not as important as guarding against spread of contamination. If you prevent spread, you can plan further measures calmly, efficiently, and carefully.

Second. Do not allow any personnel to leave the affected area. Get them out of the immediate exposure area and retain them until they can be monitored for radioactivity and then safely released or otherwise cared for.

Third. Seal off the exposed area to prevent spread of contamination. Manage any ventilating system in such manner that air-borne contamination will not be carried to other areas.

Fourth. Notify your fire and liability insurers immediately so that they may give you maximum assistance, even though you may not have radioactive-contamination insurance coverage.

Fifth. Carefully plan the decontamination procedures needed, making full use of expert advice.

Lastly, it may not be amiss to caution discretion with respect to publicity. An uninformed reporter may blow up such an incident out of all proportion to its real danger and thus do a considerable disservice to the cause of scientific and industrial progress.

## LIMITING THE EFFECT ON PRODUCTION

Another dollar saver!

After a loss the critical need is to restore production promptly . . . whether or not you carry business-interruption insurance. Your customers will buy elsewhere if you can't supply them.

The following discussion assumes you carry this coverage, but the basic principles are the same if you don't.

The key to this effort is speed. Next comes ingenuity. Behind both is prior planning if the job is to be done right when the emergency comes. You hear a lot about disaster planning these days. This usually concerns area disasters, such as enemy attack and hurricanes. In a large fire or explosion, you have a point disaster. This is as critical from your company's standpoint. In either case, prior planning and good executive control serve similar needs.

Restoration of your plant facilities can be speeded by observing some precautions in advance planning. Once disaster strikes, management is faced with the decision to rebuild . . . either exactly as the facility existed before or incorporating certain changes. If the plant is relatively new, very likely it would be rebuilt just as it was. In this case, it is most important to have the building plans and specifications available. It's surprising how many times these are stored unprotected within the plant. The plans should be carefully safeguarded. Even if the plant would not be rebuilt as it existed before, the plans are needed as a basis for your insurance and tax claims on estimated costs for reconstruction.

If buildings and equipment are old, management has doubtless planned certain reconstruction, rehabilitation, relocation or other future improvement. After a disaster, such plans could be implemented. The secret is to keep future planning current and on paper, with such plans as exist carefully safeguarded. In this way, steps are taken to insure a relatively quick and sound management decision on how to rebuild.

Machinery and equipment layouts should be kept current and safely stored. It is most important to have shop drawings of machinery and equipment. Sometimes a plant feels that since a machine is standard, all that is needed is to reorder it. This is not often possible. Most machines have varying special features such as attachments, right- or left-hand controls, special tensions or speeds or gear boxes or the like. The manufacturer will not even start to fill an order for replacement until he holds the approved shop drawings. Having these on hand can be another big time-saver.

Frequently, a plant has developed and handmade a machine or the equipment for a process. Much vital time and know-how have gone into the development. Keep complete plans and operating instructions in a safe place. In our experience, one plant that developed such a process carelessly kept the only set of plans and instructions at the process location. An explosion and fire destroyed equipment, plans, and instructions and put the designer in the hospital for months. As a result, a vital money-making process long awaited recovery of the designer so that he could laboriously redesign the whole layout, then have it remade. What a waste!

Here's another tip. . . . Have your people develop good capable contracting and service contacts and keep a record of who the people are. This would include an architect, a large

contractor, an electrical installation and repair contractor and services in other needed trades. Have these people "on tap" just as at home you have posted phone numbers of the fire and police departments, your doctor and others to call in an emergency. Plant contacts should be developed in the same manner.

In minimizing business interruption, the key is being prepared to go ahead full-speed in restoring facilities. A quick decision is needed as to the manner of rebuilding and this will be forthcoming if proper plans are available as suggested. Next, you should consider the advisability of working on a cost-plus contract rather than the much slower method of laboriously drawing specifications and invitations, advertising for bids, and awarding normal contracts. Perhaps a combination may be used by cost-plusing debris removal, site-clearing and foundation work, and putting the remainder on the competitive bid basis. In this way, work will be going ahead while contracts are being let for the bulk of the work.

To soften the impact of a plant disaster, it may be possible to develop or use alternate facilities. Perhaps you have other plants of your own. If so, disaster planning should include the emergency use of such facilities, perhaps operating extra shifts with personnel from the damaged facility. Sometimes, use of the facilities of your competitors can be arranged. Competitors are often broad minded enough to welcome a chance to help. Newspaper publishers are known for this type of cooperation. Part of disaster planning can be the forming of such mutual-help agreements. If a part of the plant is destroyed but the remainder is in good shape, using job shops or otherwise farming out parts of production can be arranged. Even setting up business in temporarily leased quarters with hurriedly procured replacement machinery and equipment has saved many a business from loss of customers whereas failure might otherwise have resulted. Again we say, thinking about disaster planning ahead of time is a vital part of continued industrial life!

In these days of automation, numerical control and automatic programming for tools, and computers for everything from scheduling and inventory-control to keeping the accounts receivable, give a thought to your electronic data processing and similar equipment. First, protect it against loss. Then make things doubly safe by keeping duplicate master and program tapes and similar media at a safe location off premises. Thus, if your equipment is damaged, you have something to use at computer service offices nearby or at a plant where you have cooperative agreements worked out ahead of time.

Finally, in your planning, bring into the act all of your departments or divisions. For instance, your sales division has as much interest as the production manager; the financial man as much as the personnel director. Just from the standpoint of records, the sales manager may wish to safeguard customer and contact lists, the personnel manager to protect his employee rosters having the home addresses and phone numbers for prompt contacts, and the purchasing director the names of suppliers and his contact man with each. All of their suggestions can be considered and worked into the master plan. It's a team effort and each member has his role and a stake in the job.

In reducing business interruption after a loss, the adjuster is well equipped to render you valuable service. He is handling problems like yours every day of his working life, whereas to you a loss is a rare occasion.

Use the adjuster . . . work with him . . . trust him. You are paying for this service, so why not take advantage of it?

Also, during this period you are faced with many decisions . . . alternate ways of doing things, some costing more than others. Sometimes, a calculated risk looks as if it might

pay off but you hesitate to take the gamble. This is a natural for the adjuster. He will look over the facts with you and agree upon a course of action and tell you just what part of the expense will be considered recoverable. We don't want you to have to take unilateral risks. With the adjuster working at your side, you don't have to. This kind of cooperation has the further advantage of "working out your claim" as you go along.

Handling losses every day, the adjuster picks up a world of know-how. He can use experience acquired from countless other losses, and this is of great value to you.

## PROPERTY DAMAGE INSURANCE

### The basic coverage

Property damage is the basic type of insurance coverage, carried by almost all of us on homes, plants, automobiles and almost everything else of real value. There are different plans for writing this coverage, at varying costs, and with varying methods of recovery in the event of loss.

#### Actual Cash Value

Historically, actual-cash-value or sound-value insurance has been the more common variety of coverage, although decreasingly so. With it, you buy insurance with the actual or sound value of the property in mind. If your plant is 30 years old, the buildings may be considered, depending on many variable factors, as worth \$1,000,000 today, even though it would cost \$2,000,000 to duplicate new. Not only are age, physical condition, and maintenance involved, but there are additional factors such as poor location with reference to markets or labor supply, or such physical characteristics as multistory construction vs a more desirable one-story layout. Considering your machinery, it may have an Actual Cash Value of only 60% of its Replacement Cost. This is because of wear and tear, obsolescence, unavailability of spare parts and other factors. Naturally, stock and supplies are usually current in value unless you have some obsolete items on your shelves. When purchasing ACV insurance, generally you are asked to buy insurance to a certain percentage of your total sound value of the property insured, usually 80% or 90% depending upon the building construction.

A fact to remember about ACV property-damage insurance is that, in the event of loss, unless your property is brand new, you can't replace the property for what you recover from insurance. This is due to the depreciation and obsolescence deductions for which you did not buy coverage and for which you can't recover. Hence, unless you have depreciation reserves set up to take care of this factor, you'll need funds in addition to your insurance settlement to rebuild in the event of a serious loss.

#### Repair or Replace Coverage

Repair or replace does give you the recovery to permit rebuilding from insurance proceeds, but you pay more for the coverage. Usually you purchase at least 90% of the replacement value of your property. Caution: If you have a single property insured on this basis and you carry only 90% of replacement value, you obviously won't have sufficient funds to replace the property after a total loss. In such cases, you need to carry 100% of replacement value plus a reasonable additional amount to cover debris removal and site clearing, which can run into a few thousand dollars for the average plant.

Before going further, let's point out that R or R coverage does not mean that if you have property damaged, you automatically get new property in its place. If property can be repaired, it must be, and this cost is the measure of loss. However, you are guaranteed within the limits of your coverage that you will have your property repaired or replaced,

as needed, without deduction for depreciation. In certain states, it is a statutory requirement that the destroyed property be rebuilt within the state and within a certain time limit in order to recover on this basis.

### Fixed Amount and Reporting Coverages

Now let's look at the dollar amount of insurance you buy, and think of fixed amount vs reporting coverages. Many businesses have quite level operations. Values of real property, machinery, and stock and supplies remain reasonably constant. Such an insured will usually buy a fixed amount of insurance. He will examine his amount periodically, preferably annually, and increase or decrease it as indicated by his current review of insurable values.

In other businesses values fluctuate considerably and insurance must be adjusted accordingly, particularly on stock and supplies. For such insured, reporting policies are set up, with a provisional amount of insurance set high enough for safety. Periodically, reports on actual values for the past reporting period are sent to the insurance company. Premium costs are based on such reports. The insured in this situation has maximum protection but costs are computed on actual values exposed, as indicated in his reports. Your Factory Mutual sales engineer will be glad to counsel you as to the plan best for you.

### Floater Coverage

Floater coverage is available for those who have property at many locations from time to time and who can't keep exact track of it well enough to report it to the insurance company in time to have it properly covered. This coverage is bought in fixed amounts sufficient to cover the values expected at unnamed locations at any time. Such coverage is usually placed on a reporting basis or, if not, it may be subject to a co-insurance clause or an annual review provision to impress the importance of fully reporting values exposed to loss. Bear in mind that floater coverage is insurance against the same perils covered by the normal property-damage policy and is not all-risk coverage. If so-called all-risk coverage is desired, your FM sales engineer can arrange it for you on inland-marine policy forms.

### Automatic Coverage

Automatic coverage is now included in limited form on all fixed-amount property-damage policies. It covers property, both real and personal, at newly acquired locations for a period of 90 days from date of acquisition unless otherwise insured. Such property must be rented or owned, and the coverage is for \$100,000 or 1% of the face of the policy, whichever is the lesser. This provision allows the insurance manager a little time to catch up with recently acquired locations and place specific coverage on them.

### Values

It is most important to report values realistically, whether you have ACV or R or R coverage, whether fixed amount or reporting. Insurance is just about the cheapest thing on the market for the industrial buyer. Too little insurance can be terribly expensive. The Factory Mutuals can give much help to the buyer in setting his proper amounts of coverage. For

example, FM appraisal service is a help to the insurance buyer in this regard. Periodic cost data is placed in the hands of your insurance-company field representative to aid in counseling you. Make use of these services.

One of the big areas for possible error in reporting values is that of stock and supplies. You should report on the same basis as you expect to receive recovery in the event of loss. Reporting is your responsibility. Look at the Value-of-Stock clause in your policy. Understand it. Then report values consistent with its terms. The standard clause used in most cases reads:

"Value of Stock. Unless otherwise endorsed hereon, adjustment of loss under this Policy shall be: (1) on stock in process, the value of raw materials and labor expended, plus the proper proportion of overhead charges; (2) on finished goods manufactured by the Insured, the regular cash selling price at the location where the loss occurs, less all discounts and charges to which the merchandise would have been subject had no loss occurred; (3) on raw materials, supplies and other merchandise not manufactured by the Insured, the replacement cost; all to be computed as of the time of the fire or other casualty insured against by this Policy."

There is good reason for reproducing the wording of the value-of-stock clause ... it's very important. It spells out the way you'll recover in the event of loss, and hence it classifies how you should report your values in buying insurance.

Note that on stock in process, you are entitled to the value of raw materials plus labor plus proper overhead to the point of manufacture. Your cost accountants keep track of this information and can supply you with average in-process values.

Item number two, relating to finished goods, merits special attention because this is the one that causes the most misunderstanding. On finished goods manufactured by you, you recover the selling price at the location of the loss, less any unincurred costs at that point. For example, if you normally ship from your warehouse, and finished goods there are destroyed, you will not have the costs for packing and shipping and for salesmen's commissions and similar items. Hence, these are not included in your claim in the event of loss. In buying insurance, you should deduct these same charges. Also, watch that you report the selling price ... less the above deductions ... and not the manufacturing or some other in-stream cost figure.

The third item, covering raw materials, etc., means that you recover the cost price to replace the stock. This is not only the actual cost of the goods, but can include additional expenses in laying the goods down in warehouse. If this is what it costs you to lay down stock in your plant, you should so report it and get your recovery in the same manner in case of loss. In other words, you ought to recover on the same basis as you buy your insurance.

#### Perils Insured Against

Loss, to be recoverable, must be caused directly by one of the perils insured against. These are completely enumerated and described in your policy.

We respectfully suggest that you take time to read your policy. A whale of a lot of work has gone into making your policy the best on the market for you. We think you'll be favorably impressed and pleased with it. If you don't understand any portion, let your Factory Mutual sales engineer know. He will be glad to explain in detail.



## BUSINESS-INTERRUPTION COVERAGE

### What it does for you

Do you carry business-interruption insurance, sometimes called use-and-occupancy insurance? If you do, the following will be of interest in giving you our ideas on what this coverage is intended to do for you. If you don't now, stay with us for the next several pages and perhaps you'll change your mind!

Before 1930, this type of insurance wasn't too generally written. Today, however, a large segment of American industry feels the need of this insurance to be adequately protected . . . to protect the stockholders who look to management for continuity of profits and dividends!

When you obtain property-damage coverage, you are assured that your loss of physical plant will be recouped in the event of destruction by a peril insured against, and your extended coverage includes the normal perils causing catastrophe losses. However, rebuilding a plant takes many months; twelve to eighteen months is not unusual for a total loss. During those months, your firm is not producing to earn its keep! There are no profits. Skilled workers and key personnel may obtain other employment. Certain costs such as officers' salaries, pay of salaried personnel, advertising contracts, sales forces, interest, and a host of others are continuing. These losses are not reimbursable by property-damage coverage, but they must be met . . . or the business may fail.

Business-interruption insurance is designed to take up where property-damage coverage leaves off . . . doing for the Insured what the business would have done, had no loss occurred. Properly written in adequate amounts, this type of coverage will do just that. In countless cases, it has carried a business over a long impairment and left it a vital unit in its industrial field. On the contrary, lack of such coverage has spelled ruin for scores of firms, even though their property-damage loss was recouped 100%.

Of course, insurance can never make you whole after a loss, really. There will always be portions of your loss which no insurance will cover. The cost of a policy which would cover you for any type of loss would be prohibitive.

### NOW LET'S SEE JUST HOW BUSINESS-INTERRUPTION INSURANCE OPERATES

First, let's stress that the usual forms of business-interruption coverage, like insurance in general, are designed to reimburse you for actual loss sustained. It isn't a gamble in any sense. If your business was booming at the time of loss, your dollar loss will be large and you should and will recoup on this basis. If, due to economic conditions, your business wasn't making a dime you won't collect any lost profit. Even so, there are certain fixed charges which you may be earning and can collect and these alone may again spell the difference between resuming operations after the loss or going into liquidation.

Second, let's remember that, under business-interruption coverage, you probably won't have a very small loss. Why? Well, principally because, in planning your production schedule, you have wisely taken into consideration the fact that you will have minor kinks in the normal course of business . . . shutdowns of short duration for adjustments, minor break-

downs, maintenance, and the like. To cushion their impact, you've established in-process banks or other means of taking up the slack. Hence, if a small shutdown due to loss by an insured peril occurs, you can take it in stride. A good test is this: If the loss, dollar-wise, is so small you have to hunt for it . . . then it isn't the kind of loss you bought business-interruption coverage to handle!

Third, let's look at what we call the "business-interruption chain," which will probably simplify our understanding of this insurance. It looks like this:

- I. There must be physical damage to
- II. insured property
- III. caused by an insured peril which causes
- IV. business interruption. Then the policy covers the
- V. actual loss sustained of profits and fixed or continuing expenses
- VI. for the minimum restoration period required to restore property.

One missing link will normally mean that none of the loss is recoverable. However, there are exceptions. Perhaps the best thing to do is look at each "link" closely.

#### I. Physical Damage

Business-interruption insurance is normally tied in directly to covering losses wherein the Insured is deprived of the use of his facilities. Hence, this usually connotes physical damage to such facilities. This is the normal kind of loss and almost invariably physical damage to the Insured's productive plant is needed to qualify the loss as recoverable. However, there is an exception if the Insured is forced to vacate or is otherwise deprived of the use of his plant by order of competent civil authority stemming from action of an insured peril in the vicinity . . . as for instance if the fire department orders the plant vacated when fire on the adjoining premises threatens to involve an oil-storage tank and so endanger lives. Business interruption so caused is recoverable under most circumstances, within a limitation of two weeks.

#### II. Insured Property

The damage must be to property covered under the policy and specifically named by location. This does not mean that such property need be owned by the Insured but merely used by him in his business. For instance, the Insured may be a tenant on the 10th floor of a building. Fire damages the elevator motors and prevents use of the elevators by the Insured in his business and he must close down operations while they are being repaired. Such business interruption is recoverable even though the Insured did not own the elevators; he used them in his business and they were on the described premises. A similar case is found when the Insured uses transformers that are located on the premises but are owned by the public utility.

An important extension of our policy deals with property which is both not owned by you and is off-premises. This is the so-called "electrical-equipment clause" which gives recovery for business-interruption loss due to damage to electrical, steam, or gas lines and to electrical equipment outside the premises but within 500 feet.

As in property-damage coverage, there is an automatic coverage clause which provides business-interruption coverage at newly rented or purchased locations in the United States or Canada, if not otherwise insured. The limit is \$100,000 or 1% of the face amount of the policy -- whichever is smaller -- and for a period of 90 days from the date of acquisition.

### III. Insured Peril

The physical damage must be by a peril insured against, such as fire, lightning, explosion, sprinkler leakage or wind. A loss due to flood would not be recoverable, since flood is not an insured peril under the policy. If wind damages property and prevents use of it but at the same time a flood occurs, business-interruption loss is not recoverable since the premises could not have been used because of the flood waters, regardless of wind damage.

Similarly, if damage by an insured peril rendered the plant inoperable on Thanksgiving Day, such loss would not be reimbursable since the plant would not have operated, regardless of the damage by the peril insured against. However, if the repairs are not finished and the plant isn't able to operate as scheduled on the following day, then the production lost on the scheduled day qualifies as recoverable. The point is that no recovery is allowable for any day during which the plant wouldn't have produced had the peril insured against not occurred.

### IV. Business Interruption

The physical damage must cause an interruption to your business . . . an interruption of your production if you are a manufacturer . . . an interruption of your sales activity if you're running a mercantile business . . . or an interruption of your services if you operate a laundry. It is quite possible to have a recoverable loss under your property-damage insurance policy and yet have no loss whatsoever under your business-interruption coverage. For instance, assume that a fire in your plant yard damages the outside surface of the brick wall, spalling the brickwork. You would have a clear claim under your property-damage policy, but none under your business-interruption contract, since your production was not interrupted but went right on while some of your yard personnel put out the fire. On the other hand, small fire damage to a vital production machine may mean only a few dollars property damage but a very sizable production loss under your business-interruption coverage!

Now, granted that you have Physical Damage (I) to Insured Property (II) by a Peril Insured Against (III), resulting in Business Interruption (IV), then the policy affords you recovery for your:

### V. Actual Loss Sustained

Note the phrase "Actual Loss Sustained." This is actual loss of profits and fixed or continuing charges, plus ordinary payroll if you include this as part of your business-interruption insurance. It ties the contract down to one of indemnity, removing it from the category of a gamble in any sense. If your loss has been high, your recovery will be large. If your actual loss has been small, so will the recovery. Next, let's note the word "profits." These are the net profits, before deducting income taxes, which would have been earned upon the production which was lost, had the casualty not occurred. If you operate a mercantile or a service business, it's the net profit, before deducting income taxes, which

would have been earned by the sales or services which couldn't be made or rendered because of the casualty.

Now the item of fixed or continuing charges. These are the host of expenses which continue even though you don't turn out a single unit of product or make a single sale. Included are administrative expenses of your general plant office, salaries of officers and key personnel in advertising, promotion, and sales, interest on indebtedness, taxes, insurance, minimum charge for heat, light, and power, and the like. These are all recoverable to the extent to which they would have been earned by the business had no loss occurred. Normally, these charges are all earned, plus something left over for profit. However, a business can be in a cycle during which no profit is being earned and not all of the fixed charges are being earned. We will illustrate this in more detail later.

In determining the actual loss sustained in profits and fixed and continuing charges, we need a yardstick. For the purposes of adjustment of losses, it has become common to measure the loss by the actual experience of the business before the casualty and the probable business after the loss. This, too, will be discussed in more detail later.

It should be noted here that there is also "valued" business-interruption coverage. Under its provisions, there is a set daily (or weekly) dollar-recovery figure, rather than computation on an actual-loss-sustained basis. Since this coverage is not widely used, this discussion is confined to the prevalent actual-loss-sustained insurance.

#### VI. Minimum Restoration Period

Naturally, there must be some limit to the period for which the Insured may claim business-interruption loss. This is the minimum restoration period defined as the period from the time of loss or damage to the time when, with the exercise of diligence, the property could have been restored and made ready for normal operations. It is expected that the Insured will bend every effort toward prompt restoration of the facilities. It is to their advantage to do so. Why, then, do we use the words "could have been restored"? Because the Insured, in rebuilding or restoring his property may wish to change it . . . or enlarge it . . . or install different machinery; any of which might lengthen the period of business interruption. For loss-calculation purposes, the Insured would use the time period during which he could have restored the facilities as they were at the time of loss. Also, in large losses, the Insured may decide not to rebuild a certain facility at all. Hence, his recovery must be on an estimated basis, using a competent estimate of the time within which the restoration could have been accomplished. There are many situations in which the adjuster and you will use this kind of estimated-time basis.

The policy also provides recovery for any additional time necessary to bring manufacturing operations, i. e. stock in process, back to the same point as they were at the time of loss, plus the time, if any, required to replace raw stock which was destroyed. These additional allowances are spelled out in detail in the policy.

#### Keeping the Loss to a Minimum

In accordance with the policy-of-indemnity thinking, you are expected, of course, to do all in your power to keep the loss at a minimum. Such steps include making use of other facilities available to you. This often results in the use of warehouse stocks to tide you over the production impairment when such stocks can be recouped in a reasonable length of time. Naturally, this applies only if you can do so without subsequent loss. Another means is making up lost production by overtime or extra-shift operation if feasible. Still

another is the use of overtime work on physical repairs which will speed the restoration of your production.

We expect to reimburse you for extra costs incurred in holding your loss to a minimum. The policy clearly indicates that extra expenses are completely recoverable to the extent that a loss otherwise payable is reduced.

But there are exclusions. Broad as business-interruption coverage is, there are limitations, and we want you to be aware of them. As our discussion proceeds, we will point them out to you. Some have already been mentioned as limiting factors. The following are important enough to justify special mention.

#### Finished Goods

The business-interruption policy allows no recovery in connection with loss of or damage to finished goods. This type of coverage is geared to production and the loss of productive facilities. Finished goods are not in the scope of such coverage. Normally, you will insure these goods under your property-damage policy at sale price and, if the property is destroyed, you'll recover your profit and fixed charges in that same sales price.

#### Consequential Losses

As previously mentioned, all of your loss just won't be recovered in many cases. This matter of consequential loss is a good example. For instance, if you have a serious fire and a long production impairment, many of your employees may leave and take jobs elsewhere, leaving you with a real loss even after your production facilities are restored! However, this is a consequential type of loss and not recoverable. Of course, you can protect against this type of loss by carrying payroll coverage which provides funds to pay these persons in your employ during the impairment.

Another example of a consequential loss is the cancellation of a lease or contract. Either may cause you a loss which isn't recoverable under your normal business-interruption policy.

Still another situation is created when local building codes prohibit reconstruction of a building as it was prior to the loss, but force the use of a different kind of construction taking longer to erect.

For almost every type of consequential loss, there is coverage of a special nature available. Should you see the possibility of such a problem, discuss it with your insurance company's representative.

#### Loss During Periods When You Couldn't Have Operated

Loss during periods when you couldn't have operated regardless of the insured peril, is not recoverable. Let's consider a couple of examples.

If you have a wind loss which damages your plant but at the same time all power lines are down in the area because of the same wind, you do not recover for business-interruption loss because you could not have operated anyway without power.

In another case, you have wind damage to the plant but at the same time have flood damage which itself would prevent operation. Again, there is no recovery because you wouldn't have operated even had you suffered no wind damage.

A fire shuts you down for ten days but you have raw stock only for five days of operation because of supplier shortages. Hence, you recover for only five days' loss since five days is all you could have operated had no fire occurred.

Loss due to the operation of building codes and similar laws regulating repairs or reconstruction is not recoverable. For example, a code provides that all plants like yours must have special smoke-control equipment. Your plant doesn't have it and you are permitted to operate under a "grandfather" clause in the ordinance. However, once you have a loss, the city requires this equipment. It's hard to get on short notice and you are forced to remain out of production two weeks longer than otherwise would have been necessary. Even though this is a result of your having had a fire, the additional time lost is not recoverable.

There are many other more or less "odd-ball" situations which might arise. We can't list them all. Many of these exclusions can be taken care of by special coverages which your Factory Mutual sales engineer can arrange. If you think your plant is vulnerable, talk it over with him.

## SO YOU HAVE A CLAIM TO PREPARE

Here's how to organize it

Maybe this is your first loss or the first of sufficient size to merit submitting a claim to your insurance company. You may be wondering what the insurance adjuster may request in the way of support for your claim. While the insurance policy defines your responsibilities in the event of loss, you would like to know in more detail and in simple language just how to organize your record of the charges, the better to expedite the adjustment.

The following are general comments we think might be helpful.

First of all, remember that your insurance company needs essentially the same information that you yourself would be looking for in an invoice presented to you, say, by a contractor who had done some work for you, perhaps on a cost-plus basis. You would want sufficient word description so that the items could be visualized and evaluated properly. Vendors' codes and account numbers by themselves normally mean very little to purchasers. Also, you would want the description to convey some idea of the size or scope of the item. The adjuster, likewise, will need to have the larger items in the claim broken down so that they are in digestible-size subdivisions. Clean-up costs, for example, should be segregated from other items and the gross number of labor hours stated opposite the dollar amount being claimed. When such labor items become very large related to the overall claim, a further breakdown is helpful, either by character or location of the work done or even by days or weeks.

### Buildings

On building repairs performed by outside contractors, it will be found that the contractor can easily subdivide his invoices into the usual building trades because this is the way he keeps his records. Small items can be grouped into a single figure if small percentage-wise. Where repairs are done by your own mechanics, the labor subdivision into the usual trades can be readily assembled from your own time cards and employee classifications. Outside purchases of materials can be supported by copies of the invoices. Materials withdrawn from plant stores can be stated and described separately, with check-out slips being saved for support. If competitive bids or several estimates are obtained before awarding the work to outside contractors, copies of the unsuccessful bids or estimates should be retained.

### Machinery & Equipment

Repairs and replacements of machinery and equipment follow the same pattern as for buildings insofar as claim support data are concerned.

### Stock and Supplies

The portion of a claim involving stock and supplies can best be broken down as follows:

1. Raw materials, supplies, and stock not manufactured by you;
2. Work or stock in process;

3. Finished goods manufactured by you.

The two main problems arising with respect to this type of property are:

1. Determining the quantity damaged or destroyed.
2. Determining the value of the above.

#### Determining the Quantity Damaged or Destroyed

If the items are damaged but not destroyed, quantities can be determined by physical inventory. The stock should then be kept in such a way that you and the adjuster can most easily verify the quantities involved.

If stock and supplies have been destroyed and hence cannot be inventoried, the problem becomes more difficult. It then becomes necessary for you to use all available records to support the quantities for claim purposes.

Many firms maintain perpetual inventories and they are helpful in determining quantities of stock lost. If these records are up-to-date and frequently verified, the difference in quantities between the perpetual inventory and a physical inventory of quantities on hand immediately following the loss would certainly be a good starting point. In other cases, a "book inventory" can be made up by starting with the last physical inventory available and adjusting these figures by posting transactions, in and out, between that date and the date of the casualty. Then this book inventory may be compared with a physical inventory taken after the loss.

Circumstances vary widely depending upon how normal records are kept. In case of a sizable claim, it is a good idea to discuss with the adjuster the proposed method of arriving at the amounts of goods lost. Then, possible future problems may be avoided.

It should be pointed out that comparisons of perpetual or book inventories with physical inventory after the loss do not provide conclusive evidence of loss due to the casualty insured against. Many other factors may have contributed to the differences between figures. One typical example is normal inventory shortage or overage. Another relates to goods charged off inventory as obsolete but still present at time of loss and having some value. Still another involves a combination of insured and uninsured perils as when part of the damage is due to flood and part to fire. The comparisons nevertheless provide a good basis for further adjustments up and down.

#### Determining the Value

The second problem, valuing the property destroyed, must now be undertaken.

Raw materials, supplies, and other goods not manufactured are normally valued at their replacement cost as of the date of the loss. This means the cost delivered to you and laid down in your warehouse or other point where it was damaged. In determining this replacement cost, trade discounts should be deducted as well as cash discounts. Freight in should be added if you pay it. If prices vary with quantity ordered, use the price for the quantity you normally order. If any portion of the stock is obsolete or shopworn, a corresponding deduction in value should be entered.



Work or stock in process should be valued at the cost of the raw-material content at its replacement value plus labor expended to the time of damage, at labor rates current at time of loss plus the proper proportion of overhead to the same point in manufacture. If you maintain actual or standard cost-accounting records, it should be easy to determine the value of work in process. If you use actual-cost records, these can be used for claim purposes after any necessary adjustments for raw material, labor, or overhead rates. When standard costs are in use, these must be adjusted for material and manufacturing variances as well as the adjustments made in the actual-cost records above. If no cost-accounting records are kept, they may be built up through bills of materials, labor figures, etc. In such case, overhead rates may be arrived at by pre-loss experience of the relationship of manufacturing overhead to direct labor.

Rejects which have been destroyed are valued after considering whether they could have been salvaged through re-working, in which case they are worth the same as goods in process, less re-work costs. If they would have been scrapped, their worth is the scrap value.

Finished goods manufactured by the Insured are normally valued at the net cash selling price at the location of the loss, less all discounts and other charges to which the merchandise would have been subject had no loss occurred. Hence, you start with the list or quoted selling price and deduct trade, quantity, and cash discounts and other allowances given the regular customers. If you are responsible for freight out to your customers, this should be deducted as well as unincurred packing or crating charges, commissions, bad debts, etc.

If your selling price varies with the quantity ordered, we suggest that you prepare your claim on the basis that your insurer is in the category of your largest customer, since payment will be fast and sure, and there are no selling costs and no returns! Naturally, any finished goods which are in the category of obsolete, returns, rejects, etc., should be appropriately reduced in value.

#### You and the Adjuster

You can assume, in assembling your property-damage claim, that the adjuster who will review it is a person of considerable experience, particularly in the more common building items, nonspecialized machinery and equipment, and staple products. He will require no more detail than is usual to the trade for such items. For highly specialized items, he will need more information.

The larger the loss, the more frequent will be the contacts between you and the adjuster. The matter of organizing claim data will be discussed and agreed upon very soon after the loss has occurred.

In addition to the mechanics of claim preparation, questions as to the recoverability of certain items may arise in your mind. On the larger losses, your close contact with the adjuster will enable such questions to be resolved as they arise. On other losses, don't hesitate to drop him a line or phone him to discuss the matter. He is working for you. By working closely together, you are not being asked to take unilateral risks on decisions to be made. You will know immediately what costs are recoverable, and to what extent.

#### BUSINESS-INTERRUPTION CLAIMS

The following comments may assist you in reaching a better understanding of business-interruption coverage. The better you understand the problems involved in determining

the amount of loss, the easier and quicker it will be to reach a mutually satisfactory settlement.

These comments are not intended to cover the seldom-used valued-policy and gross-profits forms. If you have one of these types of coverage, we'll be glad to furnish you special comments pointing up the differences between it and the more usual forms.

The procedures outlined here relate to the so-called "two-item" form, although with mere changes in words, they apply equally to the "gross-earnings" forms. Both insure against actual loss sustained in net profits before taxes and in fixed charges, with ordinary payroll coverage optional. We will discuss claim preparation in this order.

### Determining Loss in Net Profits

The first step is to pinpoint the length of time during which production or business operations were interrupted because of the insured casualty. This is not necessarily the same as the time during which your operations were shut down. You may have restored the damaged facilities in a different manner than they existed prior to the loss. Any lengthening of time through such optional changes should be deducted. You may have had a combination of insured and uninsured perils, and so the time during which you could not have operated even had no insured peril occurred should be deducted.

The second step is to determine the number of units of product which were not produced during the above period of impaired production. First compute what the plant would have normally produced, had there been no loss. Then see how many units were actually produced. The difference should be the production lost.

Following this, the business experience should be examined. Was it reasonable due to the short duration of the impairment, to keep deliveries moving by using warehouse stocks which can later be recouped within a reasonable length of time, perhaps through overtime operations? Or, during the impairment, did you merely delay shipments, to be made up as soon as production is restored? If so, such number of production units should be deducted from the figure arrived at above. The reason is apparent when we remember that the business-interruption policy is an actual-loss-sustained policy. There will be no loss in connection with such deferred deliveries or filling orders from stock, except possible extra costs after the restoration of production. These costs will be discussed later.

To the net figure of units of production lost is applied the unit-sales value to arrive at the net sales value of lost production . . . or of business operations, if yours is a mercantile or service organization.

Now we can arrive at the net-profit loss. We do this by referring to your records for the period just prior to the loss and determining the percentage of profit earned per dollar of sales. This, multiplied by the sales value of lost production, gives this portion of the claim figure.

### Determining Fixed Charges

Fixed charges are the costs which continue even though there is a complete shutdown of production. Some, such as officers' salaries, continue at the same rate regardless of production. Others, such as heat, light and power, continue at a reduced rate. They are in contrast to noncontinuing charges such as ordinary labor, raw materials, etc., which stop as soon as production stops. The Insured is entitled to recover all of his loss in fixed

charges not earned because of the impairment, to the extent that these charges would have been earned had no loss occurred.

In the case of a complete shutdown of operations for a period as a result of a loss, it is relatively easy to go over your books and list the charges which have continued through the shutdown period. They are recoverable, assuming that they would have been earned by the business had it not been for the loss. An examination of the financial records of the business will show whether all of the charges were being earned by operations before the loss or, if not, what percentage was.

In the case of a partial shutdown of operations, arriving at the amount of recoverable fixed charges is more difficult. These charges by their very nature do not vary in proportion to the amount of production. Some are nonvariable and some semivariable with reference to production levels.

Two methods of determining the recoverable charges can be suggested.

The first is to convert the period of partial shutdown to its equivalent of full shutdown. For example, ten days of half-production equals five days of complete shutdown. Then proceed as in the case of a total impairment.

The second method is more detailed but more accurate, and is better to use in the event of a sizable loss. It follows these steps:

- a. Determine the percentage of fixed expenses earned in relation to sales value of production for the immediate pre-loss period.
- b. Determine the sales value of production during the impairment.
- c. From your books, figure the actual amount of fixed charges incurred during the impairment period.
- d. Multiply a x b to determine the amount of fixed charges earned during the impairment period.
- e. Subtract d from c. The difference will be the fixed charges recoverable.

In a relatively small partial shutdown of a plant making a variety of products and having a number of departments, it is frequently satisfactory and simple to use product or department accounting figures rather than over-all company figures.

#### Extra Expenses Incurred to Reduce Loss

We have already pointed out that sometimes you can avert a business-interruption loss by making shipments from stock or by deferring shipments until after the operations are restored, and then making up the lost production. Other ways are possible in certain situations. Usually, however, these methods incur extra expenses to recoup production, to restore warehouse stock levels, or to expedite the work. Such extra expenses are recoverable fully to the extent that a loss otherwise payable under the policy is reduced. In certain cases, there may be a real question as to whether such expenditures equal the savings. Calculated risks sometimes should be taken. In such event, discuss the situation and the possibilities with the adjuster. In this way, you won't be taking a unilateral risk.

## Payroll Coverages

If you carry payroll coverage for your ordinary-payroll employees, the following will be of interest.

Ordinary-payroll coverage is usually written with a 90-day limit, though it may be carried for shorter or longer periods. It compensates you for payments made to employees coming under the heading of ordinary payroll during the period of business interruption. These are employees, other than officers and key personnel, who ordinarily wouldn't be kept on the payroll during a shutdown, but for whom you wish to provide wage payments to keep from losing them or for other reasons. Officers and certain key employees are covered under the fixed-charges category discussed above.

Ordinary-payroll recovery is governed by the following principles:

1. The moneys must actually have been paid to the employees.
2. It includes payroll taxes, workmen's compensation premiums, etc., to the extent actually paid.
3. Recovery is allowed for payments only to the extent that the employees paid are needed to resume the same levels of plant production as existed immediately before the loss.
4. This type of coverage is normally subject to a coinsurance clause, usually between 80 and 100%. Hence, be sure to carry adequate amounts of coverage.
5. If you carry payroll coverage for a short-period time limit and have an extended shutdown, you can make reduced payments to your employees and make the payments over a correspondingly longer time, as long as the total amount of coverage carried is not exceeded. For example, you carry 90-day payroll. Your shutdown is 180 days. You can pay your ordinary payroll people 50% for the 180 days.

## SUBROGATION

Why . . . and how it benefits you

You may be interested in steps which may be taken when a loss at your plant is caused by the negligence of an outsider, a so-called third party. Your plant is particularly vulnerable to loss when outside contractors or installers are working there. As a general rule, we find that the workmen of such parties have not been trained to the same high standards as employees of the insured plant. Gross carelessness is noted frequently, and in many cases this lack of normal good safety practice leads to a fire or explosion loss. In some such cases, plant management has repeatedly warned the contractor of the unsafe practices being followed. It is reasonable for the Insured and for us to look to the negligent contractor or installer to foot the bill, usually through his own liability insurance carrier. We do not expect the Insured to fight our battles for us and, if the third party doesn't settle up after claim is presented to him, we pay our Insured and then pursue recovery from the wrongdoer through legal action if necessary. This procedure is known as subrogation.

While the Factory Mutuals have never been subrogation-conscious, and relatively small losses do not justify the cost of pursuing this course, we have found that our Insured are most cooperative in helping put the loss where it rightly belongs, thus holding their own insurance costs down insofar as practicable. Further, holding the wrongdoer responsible for his carelessness tends to make him more careful and less likely to be a repeat offender at your or other properties. It goes without saying that we do not employ this procedure without the consent and cooperation of the Insured.

Perhaps an example will clarify this procedure and the steps involved. Let us assume that you have a contractor working in your plant. In the course of their work the contractor's men are cutting and welding steel beams. They are careless and do not take the needed precautions. A fire results, causing \$50,000 damage to your property. You have a \$5000 deductible clause in your property-damage policy. We pay you \$45,000. You have no business-interruption coverage and this loss causes you a production loss of \$10,000 which you can't make up. This leaves you out of pocket the \$5000 deductible and the \$10,000 uninsured business-interruption loss. We are out of pocket \$45,000.

The contractor has liability-insurance coverage to protect him in the event his employees cause damage through negligence. Knowing that his men were negligent, you make claim first upon the contractor, who refers the matter to his liability insurer. The liability carrier denies liability and refuses payment. Then, we pay the loss and get from you an assignment of your rights to the extent that we have paid for your loss.

Since you have an interest as well as we, we solicit your joining us in taking action against the contractor and, through him, against his insurer. We agree that any recovery allocated to property damage will be prorated between us in the same proportion as our respective losses. You get all of any recovery allocated to business interruption. Expenses and attorney's fees are prorated likewise.

In transferring subrogation rights to us, we ask for signature of loan receipts. This is a document treating the loss payment as a loan but one repaid only if recovery is had against the wrongdoer. It permits us to file the action in your name which is a tactical courtroom advantage since juries may be prejudiced against insurance companies. The loan receipt

specifies that all expenses and conduct of the case are the responsibility of the insurance company.

We man the laboring oar in this action, using attorneys we know to be skilled in this kind of case. You are consulted all the way, and settlements in which you have an interest are not made without your being in on the matter.

In taking this action, we're trying to place the loss where it belongs. If the wrongdoer is paying premiums for liability coverage, his insurer might just as well share in the loss along with your insurance company!

## OTHER TYPES OF INSURANCE WHICH MAY OVERLAP FIRE COVERAGE

### How we deal with them

There are many kinds of property-damage and business-interruption coverages. Some of these basically different forms are:

Fire insurance with extended coverage. Fire insurance with certain extended coverages omitted. Boiler-and-machinery insurance. Inland-marine insurance. Plate-glass coverage. Valuable-papers policies. Difference-in-conditions policies (D.I.C.), and many more.

A serious attempt is made by underwriters of all these coverages to limit their liability to their own respective field. In this way, the customer won't be paying two premiums for one hazard's coverage. However, overlaps of coverage will occur and these can be troublesome.

We had better note that if you have two fire policies, they should be concurrent, that is, be written on like forms and with like terms and conditions. This is basic and we're not discussing this type of problem here.

Fundamentally, the Factory Mutual policy is drawn so that if there is one of the other types of insurance covering a loss, our policy is considered as excess and does not apply until such other policy has paid its limit. This is because our coverage is written at reduced rates in comparison to other specific coverages and should not be called upon until such other policies have paid their share of the loss.

An exception is made in overlapping coverage with boiler-and-machinery policies. In such cases, we follow an "agreement of guiding principles" which has been subscribed to by most large fire and boiler insurers. These agreements are designed to give an insured his maximum possible recovery and allot the loss equitably among the participating fire and boiler carriers.

In the event a loss is covered by us and by a different form of insurance, for instance inland marine, and both policies are worded so as to be excess, a problem exists. In such cases, we are always willing that both excess clauses, ours and the other policy's, be thrown out, and that the allocation of loss be computed under the generally accepted "limit of liability rule" which usually results in each insurer picking up 50% of the loss.

Suffice to say, in such matters, we endeavor to keep you, the insured, out of the controversy and to settle the matter between insurers.

We recommend you avoid possibility of conflict in coverage by placing all of your coverage through or in consultation with your Factory Mutual sales engineer. He can place most kinds of insurance for you through sources which he has available.

## TIPS FROM OUR EXPERIENCE

### The Small Loss

You'd probably be surprised at the number of very small loss claims which we receive in the course of a year . . . hundreds. Now, each of these takes as much effort and cost to process as a loss involving hundreds of dollars. Not only do they cost us, administratively, but they cost you . . . in two ways. First, you inevitably pay our expense as part of your insurance premiums. Second, it's expensive for you to report these losses to us, keep track of them, submit claims, and maintain bookwork on them! Perhaps you have already set some limit under which you don't report a loss. If not, you may want to think about it.

Another alternative is to purchase your coverage on a deductible basis. The Factory Mutuals are the leaders in deductible coverages. Here you get a rate credit, plus a bonus in administrative savings. You still get the same engineering service, the same loss-prevention and conservation assistance.

### Claims Examination

You will find that our adjusters examine your claims carefully, just as you verify your own accounts payable before writing your checks. This is business-like procedure and in no way reflects upon you or your people. You'd be amazed at the number of sizable honest errors, unintentional errors, we find in claims. These range from simple arithmetic or transcription errors on to plain misunderstanding as to which items belong in the claim. We have auditors just as you do, and we must have file material, including copies of invoices, etc., to justify our loss settlements. Also, our examination often uncovers errors in your favor and these are brought to your attention!

### Losses Involving Doubtful or No Liability

There will be losses which are not recoverable under our policies. We pride ourselves on liberal policy forms and their interpretation. However, certain perils just aren't covered and some are hard to find coverage for, anywhere, except at confiscatory rates. Should you have such a loss, it is understandable that you won't be overjoyed at learning that you have no insurance covering it. However, we ask that you work with your adjuster, develop the facts in full, and then examine your policy coverage with him. He will be happy to work with you to the end that you are satisfied that you've received a square deal.

### Consultants Used by the Adjuster

Your adjuster has broad experience, but he still can't be an expert in every phase of work encountered. He will, at times, bring with him a consultant in some special field as accounting, specialized machinery, or the like, to work with him and with your people. The adjuster will retain his adjustment functions, using the consulting services of the other man. This is part of our service to you . . . bringing to bear the best talent we can on solving your problems with you. We do our best to use only the highest type of consultants for this service and many an insured has been so favorably impressed as to use the same person later when faced with problems not relating to a loss!



### Policy Loss Payable Provisions

Frequently, we run into policies which necessarily have a number of interests covered in one policy. Sometimes, loss settlement checks must, under those circumstances, be made payable to as many as 15 to 20 payees. This puts you to great inconvenience in securing the needed endorsements for negotiating the check. If you have a policy like this, we suggest your arranging with your insurance company to make up a special loss-payable clause. This can provide, for example, that losses under say \$5000 be paid solely to one payee, with losses over this amount paid to all interests. In this way, at least the smaller losses won't inconvenience you from this standpoint, yet all interests are fully protected on the loss of a size which really matters.

## FINALLY

When a loss occurs, our staff of adjusters stands ready to help you to the utmost, and the adjuster "sits on your side of the table." Just as manufacturing or running a mercantile business is your field, so adjusting is his . . . and he's well trained to help you in our common problems.

You'll appreciate your negotiations with him, since he is dealing with businessmen like yourself day in and day out. We suggest that you treat him as one of your own department heads, sitting down and discussing the problem informally. Expect in him the same business-like approach to a problem you'd look for in one of your own staff. The fewer men in an adjustment negotiation, the better . . . it cuts down markedly the number of possible "solutions" to chew over!

Our adjusters have a man-sized job in making sure your money is being dispensed wisely in loss adjustments . . . it is your money, you know . . . yours and that of other Factory Mutual members throughout North American industry. We want you to be convinced that we are competent stewards of these funds.

Lastly, we can't guarantee that there'll never be a difference of opinion between you and the adjuster. You and he are dealing with a lot of money and, frequently, with situations in which honest differences in opinion are likely to occur. Even within your own organization, when some new plan or idea is under discussion in a staff meeting, you'll probably agree that differences of opinion, honest and healthy, are often rife! Yet, out of the discussion comes a perfected plan which spells continued success for your company. Likewise, this is the true sense of the word "adjustment" . . . the negotiating of differing views to the end that a mutually satisfactory decision is reached.

And, when the loss is settled, our 125 years of experience leads us to feel confident that you'll again be reassured of the wisdom of your choice of Factory Mutual membership.

## FACTORY MUTUAL ADJUSTMENT OFFICES

**BOSTON DISTRICT** Norwood, Massachusetts 02062, 1151 Boston-Providence Turnpike  
Telephone (617) 762-4300, Telex 92-4415

**MONTREAL** Cote St.-Luc H4W 2W8 PQ, 5757 Cavendish Boulevard, Suite 550  
Telephone (514) 488-2511, Telex 055-66287

**NEW JERSEY DISTRICT** Florham Park, New Jersey 07932, 30 Vreeland Road  
Telephone (201) 822-2010, Telex 13-6319

**NEW YORK DISTRICT** Syosset, New York 11791, 6800 Jericho Turnpike  
Telephone (212) 895-8485, (516) 921-5290, Telex 96-7882

**PHILADELPHIA DISTRICT** Philadelphia, Pennsylvania 19106, 510 Walnut Street, 11th Floor  
Telephone (215) 922-8080, Telex 83-4281

**TORONTO DISTRICT** Toronto M4W 3K2, Ontario, Suite 1201, Manulife Center, 55 Bloor Street West  
Telephone (416) 925-5967, Telex 065-24177

**ATLANTA DISTRICT** Atlanta, Georgia 30338, 12 Perimeter Center ENE, Suite 1200  
Telephone (404) 393-4700, Telex 70-7404

**CHARLOTTE DISTRICT** Charlotte, North Carolina 28210, 5445 Seventy-Seven Center Drive, Suite 60  
Telephone (704) 525-9000, Telex 57-5124

**CLEVELAND DISTRICT** Lakewood, Ohio 44107, 14600 Detroit Rd, Suite 1000  
Telephone (216) 228-7300, Telex 98-5252

**DALLAS DISTRICT** Dallas, Texas 75251, 12700 Park Central Drive  
Telephone (214) 661-9202, Telex 73-2634

**DETROIT DISTRICT** Southfield, Michigan 48034, 26200 Lahser Road  
Telephone (313) 357-1600, Telex 23-5461

**PITTSBURGH DISTRICT** Pittsburgh, Pennsylvania 15220, 3 Parkway Center, 875 Greentree Road  
Telephone (412) 922-4835, Telex 86-6528

**CHICAGO DISTRICT** Rolling Meadows, Illinois 60008, 10 Gould Center, 2850 Golf Road, Suite 400  
Telephone (312) 640-8100, Telex 72-6468

**LOS ANGELES DISTRICT** Orange, California 92668, 505 City Parkway West, Suite 400  
Telephone (714) 634-4888, Telex 69-2442

**MILWAUKEE DISTRICT** Milwaukee, Wisconsin 53222, 3333 North Mayfair Road  
Telephone (414) 771-8400, Telex 2-6636

**ST. LOUIS DISTRICT** Maryland Heights, Missouri 63043, 100 Progress Parkway, Suite 123  
Telephone (314) 434-6830, Telex 44-7254

**SAN FRANCISCO DISTRICT** San Rafael, California 94901, 1000 Fourth Street, Suite 700  
Telephone (415) 459-1400, Telex 3-4391

**SEATTLE** Bellevue, Washington 98004, Seattle Trust Building, 10655 Northeast 4th Street, Room 707  
Telephone (206) 454-3931, Telex 32-9619

**PROPERTY ALSO COVERED**NEW  
BUILDINGS  
AND  
ADDITIONS

1. If this Policy covers real property, it shall also cover:

(A) New buildings and other structures, and additions, now in process of erection or hereafter erected on the described premises, including alterations and repairs to buildings and structures herein insured; also (1) materials and supplies therefor, and (2) equipment, machinery and apparatus for the service thereof, all when on such premises or within 150 meters thereof;

(B) All contractors' interests in such property to the extent that the Insured has agreed, prior to loss, to keep such interests insured, or for which the Insured is liable.

CONTENTS OF  
NEW  
BUILDINGS  
AND  
OTHER  
CONTENTS

2. If this Policy covers personal property, it shall also cover while on the described premises:

(A) Personal property not otherwise excluded herein in new buildings, additions and other structures described under 1(A) above;

(B) Money and stamps (other than National Insurance Stamps) for an amount not exceeding the equivalent of U.S. \$1,000;

(C) National Insurance Stamps (including any liability for destruction or damage by fire or any other peril herein insured against established upon the Insured) unless more specifically insured;

(D) Bullion;

(E) Exposed film, records, manuscripts and drawings for an amount not exceeding their value blank plus the cost of transcription;

(F) Media, data storage devices and program devices for electronic and electro-mechanical data processing and production equipment for an amount not exceeding the cost of reproduction from duplicates or from originals of the previous generation of the data;

PROPERTY  
LOCATED  
UNDERGROUND

3. If this Policy covers buildings, machinery or structures, it shall also cover tanks, flues, pipes, drains, tunnels, wiring or other equipment and passageways located underground on premises containing the property described herein and appurtenant thereto. The Policy is further extended to cover foundations of buildings, machinery and structures, whether or not underground.

PROPERTY  
OUTSIDE OF  
BUILDINGS

4. This Policy also covers property appurtenant to the business of the Insured and similar to property herein insured (not otherwise insured or not excluded by this Policy) outside of buildings and railroad cars: (a) when on the described premises or (b) if personal property, when within 150 meters thereof.

ROLLING  
STOCK

5. This Policy also covers Railroad Rolling Stock and, if this Policy covers personal property, the contents of such Railroad Rolling Stock and other vehicles, all when at the risk of the Insured and while on the described premises, or within 150 meters thereof.

PROPERTY  
OF  
EMPLOYEES

6. This Policy also covers personal property, other than motor vehicles, of officers and employees of the Insured while such property is on the described premises or in the open within 150 meters thereof.

PROPERTY  
OF OTHERS

7. Unless otherwise provided herein, if this Policy covers personal property owned by the Insured, it shall also cover while in the custody of the Insured on the described premises or in the open within 150 meters thereof; (a) personal property of others which the Insured is under obligation to keep insured; (b) the interest of the Insured in and legal liability for loss or damage by any of the perils herein insured against to personal property belonging to others. It is understood and agreed that the coverage provided by this clause shall not attach to any property of others which is of a kind or character specifically excluded under any other conditions of this Policy.

DEBRIS  
REMOVAL

8. This Policy also covers expense of removal from the described premises of debris remaining after any loss hereby insured against, except that there shall be no liability assumed for the expense of removal of: (a) any foundations, other than damaged portions which must be removed for repair or rebuilding; (b) any building or part thereof, the removal of which is required by any ordinance or law regulating construction or repair.

PROPERTY  
REMOVED  
FROM  
DESCRIBED  
PREMISES

9. This Policy also covers property appurtenant to the business of the Insured when removed from the described premises to any location in the Country in which the premises herein insured are located for the purpose of being repaired, serviced, exhibited, or in order to avoid threatened damage from flood, excluding (a) property otherwise insured, (b) property excluded from the insurance under this Policy or (c) property removed from the described premises for normal storage or processing or preparation for sale or delivery. Liability under this clause is limited to an amount not exceeding the equivalent of U.S. \$50,000, or the face amount of the Policy, whichever is smaller, and to a period of 60 days from date of removal. No coverage is provided under this clause on property in transit.

AUTOMATIC  
COVERAGE

10. Unless such property is otherwise insured, this Policy also covers up to a limit equivalent to U.S. \$100,000 or 1% of the face amount of the Policy, whichever is smaller, and for a period of 90 days from date of acquisition of the location, property at any location rented or purchased by the Insured after the inception date of this Policy in the Country in which the property herein insured is located. No coverage is provided under this Clause on property in transit.

The provisions of the preceding clauses 1-10 shall not increase any amounts or limits of insurance provided by this Policy.

**SUPPLEMENTARY COVERAGES AGAINST ADDITIONAL PERILS**

The conditions and limitations of the Fire Insurance Policy to which this Form is attached shall, unless otherwise herein provided, apply to each of the perils herein insured against to the same extent as though the designations of such other perils were respectively substituted for the word "fire" therein; provided that the limit of risk assumed under this Policy and all riders and supplementary coverages attached hereto shall not exceed in the aggregate the amount of fire insurance stated in this Policy.

**This Policy also covers any direct loss or damage to the herein insured property caused by the perils hereinafter defined:**

WIND  
OR  
HAIL

1. Direct action of wind or hail, including expense necessarily incurred by the Insured for removal of debris or other property not covered by the terms of this Policy, blown by wind upon said premises, but this Company shall not be liable for any loss or damage:

(A) Caused by rain, sleet, snow, sand, or dust except that liability is assumed hereunder for loss or damage caused thereby when such rain, sleet, snow, sand, or dust shall enter buildings through openings concurrently broken open by:

- (1) direct force of the wind,
- (2) substance driven by the wind,
- (3) hail;

however, if flood ensues or occurs coincident therewith, then the liability assumed hereunder for loss or damage due to such rain, sleet, snow, sand, or dust is limited to the damage above the flood high-water mark.

(B) Caused when weight of snow, rainwater, ice or sleet is a contributing factor to the fall or collapse of a building or structure or any part thereof.

(C) To the following property .....

SPRINKLER  
LEAKAGE

2. Sprinkler leakage, meaning thereby loss or damage due to water or other substance discharged from any part of the fire protective equipment for the described premises or adjoining premises.

The term "fire protective equipment" shall be held to include tanks, water mains, piping, hydrants, or valves, and any other equipment whether used solely for fire protection or jointly for fire protection and for other purposes but shall not be held to include:

- (A) branch piping from a joint system where such branches are used entirely for purposes other than fire protection;
- (B) any underground water mains or appurtenances located outside of said premises and forming a part of the public water distribution system;
- (C) any pond or reservoir in which the water is impounded by a dam;
- (D) any aqueduct, penstock or their associated surge tanks.

In the event of such loss or damage, liability is also specifically assumed for the cost (with due allowance for depreciation) of restoring the damaged portion of the fire protective equipment if such equipment is insured under the terms of this Policy, except that liability for restoring the damaged portion of such fire protective equipment is limited to the cost of restoring only that portion from which the water or other substance causing the loss or damage was discharged.

Liability is also specifically assumed for:

- (a) the collapse, rupture or fall of tanks forming part of such fire protective equipment or the component parts or supports of such tanks;
- (b) damage to such fire protective equipment due to freezing.

LIQUID  
DAMAGE

3. Accidental discharge, leakage, backup, or overflow of liquids from within piping, plumbing systems or tanks located on the described premises in excess of U.S. \$25,000 for each occurrence, but there shall be no liability under the terms of this clause for: (a) loss of or damage to such escaped liquids, (b) the cost of repairing the fault that permitted such escape, (c) property in transit, (d) the cost of removing or recovering such escaped liquids, (e) loss or damage resulting from the escape of liquids into or from piping or vessels contained within other piping or vessels, (f) loss or damage due to water or other substance discharged from any part of "fire protective equipment" as defined in the Sprinkler Leakage Clause of this policy, or (g) the following property: .....

EXPLOSION

4. Explosion, but this Company shall not be liable under the terms of this clause for any loss or damage occasioned by or incident to explosion in or of the following equipment, owned, operated or controlled by the Insured:

- (A) steam boilers, steam turbines, steam engines, and steam pipes interconnecting any of the foregoing;
- (B) moving or rotating machinery or parts thereof when such direct loss or damage is caused by centrifugal force or mechanical breakdown;
- (C) combustion gas turbines;
- (D) any product manufactured by the Insured or other property attached thereto or forming or to form a part thereof undergoing pressure tests to the extent of the loss to such property.

**EXPLOSION  
(Cont'd)**

Liability is specifically assumed for loss or damage resulting from:

(a) the explosion of accumulated combustible gases or unconsumed fuel within the furnace of a boiler or pressure vessel, other than combustion gas turbines, or within the flues or passages which conduct the gases of combustion therefrom;

(b) a combustion explosion outside of any equipment excluded above even though such combustion explosion may have been the direct result of the explosion of such excluded equipment.

The following are not explosions within the intent or meaning of this clause:

(a) electric arcing or any coincident rupture of electrical equipment due to such arcing;

(b) bursting or rupture caused by freezing;

(c) sonic shock waves, generally known as "sonic boom".

**RIOT  
CIVIL  
COMMOTION  
VANDALISM  
MALICIOUS  
MISCHIEF**

5. Riot, Civil Commotion, Vandalism and Malicious Mischief, including loss or damage:

(A) done by strikers;

(B) done secretly by a foreign enemy or agent of any government (de facto or otherwise) and not in connection with operations of armed forces in or against the country where the described premises are situate;

(C) from theft, pillage or looting during and at the immediate place of a riot or civil commotion or "sit-down" strike;

(D) caused by burglars to buildings and structures excluding, however, pilferage, theft, burglary or larceny.

This Company shall not be liable under the terms of this clause for loss or damage resulting from:

(a) increased cost of operation or maintenance;

(b) depreciation, delay, deterioration, change in temperature, humidity or atmospheric conditions, interference with customary operations, loss of market, or any other consequential or indirect loss of any kind, whether or not loss due to such contingency is covered by this Policy as to other perils;

(c) inability of Insured to carry on normal operations because of strike or loss caused by the deliberate slowing down or the interfering with business operations on the part of any employee or employees;

(d) operations of armed forces in or against the country where the described premises are situate.

**CIVIL  
AUTHORITY**

6. Acts of destruction at the order of civil authority or military or usurped power at the time of and for the purpose of preventing the spread of fire, provided such fire did not originate from any of the perils herein specifically excluded.

**VEHICLES**

7. Impact of vehicles, other than aircraft, while moving on land or tracks, except that this Company shall not be liable by the terms of this clause:

(A) for loss or damage caused by any vehicle owned or operated by the Insured or by any tenant of the described premises or by any employee of either except that liability is specifically assumed for direct loss or damage to buildings or structures covered under this Policy;

(B) for any loss or damage to any vehicle or parts thereof causing the loss whether or not otherwise covered by this Policy;

(C) for ordinary wear and tear or accumulative damage to property.

**AIRCRAFT**

8. Impact of aircraft or missiles or objects falling therefrom or meteorites. However, this Company shall not be liable by the terms of this Clause for loss or damage caused by any aircraft when being taxied or towed inside or outside of buildings, except that liability is specifically assumed for direct loss or damage to buildings or structures covered under this Policy.

**SONIC BOOM**

9. Sonic shock waves, generally known as "sonic boom," except that in event of loss or damage to buildings or structures covered under this Policy, this Company shall be liable only for such loss or damage as may exceed U.S. \$5,000 for each such occurrence.

**SMOKE**

10. Smoke, except accumulative damage, resulting from the sudden, unusual and faulty operation of any stationary furnace located on the described premises.

**MOLTEN MATERIAL**

11. Heat from molten material which shall have accidentally escaped from equipment, but there shall be no liability assumed by the terms of this clause for:

- (A) loss or damage to such escaped material;
- (B) the cost of removing or recovering such escaped material;
- (C) the cost of repairing the fault which permitted such accidental escape.

**RADIOACTIVE CONTAMINATION**

12. Sudden and accidental Radioactive Contamination, including resultant radiation damage in excess of U.S. \$5,000 for each occurrence, from material used or stored or from processes conducted on the described premises, provided that at the time of such loss there is neither a nuclear reactor capable of sustaining nuclear fission in a self-supporting chain reaction nor any new or used nuclear fuel on the described premises.

**COLLAPSE**

13. Collapse of buildings, structures or a material part thereof in excess of U.S. \$25,000 for each occurrence, except that there shall be no liability for loss or damage caused by or resulting from flood, earthquake, landslide, subsidence or any other earth movement. Collapse shall not mean settling, cracking, shrinking, bulging, or expansion of pavements, foundations, walls, floors, ceilings or roofs. This Company shall not be liable under the terms of this clause for any loss or damage to: (a) property in transit, (b) property located underground, or (c) the following property: .....

.....  
 .....

**VOLCANIC ERUPTION**

14. Loss or damage to insured property resulting from lava or other material expelled by volcanic action. There shall be no coverage provided by this clause for earthquake, subsidence or other earth movement.

**EXCLUSIONS****This Company shall not be liable for loss or damage:****MOTOR VEHICLES**

1. To motor vehicles when such loss or damage is otherwise insured in whole or in part, nor for the Insured's legal liability therefor, except that if this Policy covers personal property, liability is specifically assumed for the Insured's legal liability (if not otherwise insured) for loss or damage from the hazards hereby insured against to motor vehicles while in the custody of the Insured and on the described premises:

- (A) if the product of the Insured, sold but not delivered, or held for the account of others;
- (B) for experimentation, adjustments or repairs; or
- (C) for the purpose of loading or unloading materials or supplies.



ELECTRICAL  
CURRENT  
FLOOD

2. Caused by electrical current artificially generated except for loss by fire ensuing therefrom; electrical arcing itself is not a fire within the intent or meaning of this Policy.

3. Resulting from flood or the release of water from natural or man-made bodies of water, whether or not caused by or contributed to by an insured peril. However, liability is specifically assumed for additional loss or damage by ensuing fire, sprinkler leakage, or explosion, all as defined and limited elsewhere in this Policy, resulting from flood or the release of water from natural or man-made bodies of water. For the purpose of this Policy, flood includes but is not limited to tidal wave or seismic sea wave, wave wash, high water, or overflow, surface or rising water, all whether or not driven by wind.

LAW OR  
ORDINANCE

4. Resulting from any law or ordinance which regulates construction, repair, replacement, use, or which necessitates demolition of any undamaged portions of property on the premises described herein.

NUCLEAR  
PERILS

5. Caused by nuclear reaction or nuclear radiation or radioactive contamination, all whether directly or indirectly resulting from an insured peril under this Policy, except as provided in the Radioactive Contamination Clause under the caption "Supplementary Coverages." However, if fire or sprinkler leakage ensues, liability is specifically assumed for direct loss by such ensuing fire or sprinkler leakage but not including any loss due to nuclear reaction, nuclear radiation or radioactive contamination.

**GENERAL CONDITIONS**

**Permission is Given:**

- (1) For other insurance.
- (2) To store and use any and all materials usual and incidental to the business or occupancy.
- (3) To alter and repair the described premises.
- (4) To cease operations and for the premises to be vacant or unoccupied for sixty (60) consecutive days, and for more than sixty (60) consecutive days providing the same degree of fire protection and watch service is maintained as existed at the time of the discontinuance of normal operations.
- (5) To operate the establishment all hours, day and night.

OCCURRENCE  
DEDUCTIBLE

In each case of loss or damage from the hazards insured against by this Policy this Company shall not be liable unless the Insured sustains a loss in excess of U. S. \$..... and then only for its share of such excess. Whether this Policy covers one or more locations, the deductible amount shall apply against the total loss from the perils insured against suffered by the insured in any one occurrence. If two or more deductible amounts in this Policy apply for a single occurrence the total to be deducted shall not exceed the largest deductible amount applicable unless otherwise provided in this Policy. If this Policy insures against Property Damage and Business Interruption losses, the deductible amounts as shown in this Policy shall apply separately to each such coverage, even if both are involved in a single occurrence, unless otherwise provided in this Policy.

OTHER  
INSURANCE

It is a condition of this Policy that if at time of loss there is other insurance, whether collectible or not, covering any property included under this Policy against any of the hazards insured against by this Policy, the liability of this Company shall not exceed that proportion of the loss which the amount of fire insurance under this Policy bears to the total fire insurance in force on any of the property covered under this Policy limited by the following:

OTHER  
INSURANCE  
(Cont'd)

1. If such other insurance is not written upon the same plan, terms, conditions and provisions as those contained in this Policy then this Policy shall apply (except as to motor vehicles, loss or damage to electrical apparatus by fire caused by an electrical current artificially generated and loss or damage by explosion) only for the difference between the amount for which such other insurance would be liable if insurance provided by this Policy did not exist and the total amount of such loss.

2. If at the time of loss caused by explosion or by fire due to electrical current artificially generated there is insurance other than fire insurance or fire insurance with extended coverage applicable to such loss, the loss, to which both the insurance provided by this Policy and such other insurance applies, shall be known as a "Joint Loss." In the event of such "Joint Loss":

(A) this Company shall be liable under this Policy only for the proportion of the said Joint Loss that the amount which would have been payable under this Policy on account of said Joint Loss, had no insurance other than fire insurance or fire insurance with extended coverage existed, bears to the combined total of the said amount and the amount that would have been payable under all other insurance on account of said Joint Loss had there been no insurance under this Policy, but

(B) in case the Policy or Policies, other than fire insurance or fire insurance with extended coverage, do not contain provisions similar to those in (A) above, then this Company shall not be liable under this Policy for any loss or damage caused (1) by explosion, (2) by fire to the equipment in which the loss originated when caused by electrical current artificially generated.

3. If this Policy is divided into more than one item, the foregoing conditions shall apply to each such item separately.

BRANDS  
AND  
LABELS

It is understood and agreed that if branded or labeled merchandise covered by this Policy is damaged and this Company elects to take all or any part of such merchandise at the value established by the terms of this Policy, the Insured may, at his own expense, stamp "salvage" on the merchandise or its containers, or may remove or obliterate the brands or labels, if such stamp, removal or obliteration will not physically damage the merchandise, but the Insured must re-label the merchandise or containers in compliance with the requirements of law.

VALUE  
OF STOCK

Unless otherwise endorsed hereon, adjustment of loss under this Policy shall be:

(1) on stock in process, the value of raw materials and labor expended plus the proper proportion of overhead charges;

(2) on finished goods manufactured by the Insured, the regular cash selling price at the location where the loss occurs, less all discounts and charges to which the merchandise would have been subject had no loss occurred;

(3) on raw materials, supplies and other merchandise not manufactured by the Insured, the replacement cost;

all to be computed as of the time of the fire or other casualty insured against by this Policy.

CONSEQUEN-  
TIAL  
DAMAGE

It is understood and agreed that in the event of direct damage to any property situate on the described premises by reason of any peril insured against by this Policy, and such damage, without the intervention of any other independent cause, results in a sequence of events which causes physical damage to other property insured by this Policy, then this Policy will cover such resulting loss or damage.

The liability of this Company includes only the loss incurred during such period as would be required with the exercise of due diligence under normal conditions to repair or replace the damaged property, and does not include any liability resulting from inability of the Insured to make repairs or replacements because of strikes or labor disputes. Nothing in this clause shall be deemed to extend this insurance to property which is otherwise specifically excluded from coverage by the terms of this Policy.

CONSEQUEN- TIAL DAMAGE (Cont'd)	Liability is not assumed for loss or damage resulting from lack of incoming electricity, fuel water, steam or refrigerant caused by an occurrence off the premises described in this Policy unless specifically endorsed herein. However, if the lack of such a service causes an insured peril to occur on the described premises, this Policy shall cover the resulting damage.
NO CONTROL	This Policy shall not be invalidated by increase in hazard in any portion of the premises over which the Insured has no control.
DIVISIBLE CONTRACT	If the premises described in this Policy include two or more buildings or the contents of two or more buildings, the breach of any condition of this Policy in respect to any one or more of the buildings insured or containing the property insured, shall not prejudice the right to recover for loss occurring in any building insured or containing the property insured where, at the time of the loss, a breach of condition does not exist.
SUBROGATION	This Company may require from the Insured an assignment of all right of recovery against any party for loss to the extent that payment therefor is made by this Company, but this Company shall not acquire any rights of recovery which the Insured has expressly waived prior to loss nor shall such waiver affect the Insured's rights under this Policy.
NO REDUCTION BY LOSS	It is mutually understood and agreed that any loss hereunder shall not reduce the amount of this Policy.
UNDERLYING POLICY	If the premises described in this Policy include property in more than one Country, it is understood that separate policies underlying this Policy may be issued in compliance with laws of the Country and that this Policy is subject to the conditions of the Fire Insurance Policy of the Country in which the individual properties are located. It is further understood, however, that such underlying policies are not to be considered as additional insurance but as duplicates only.
LIBERALISA- TION	If any authorised endorsement or filed rules or regulations affecting this Policy are revised by statute or otherwise so as to broaden the insurance without additional premium charge, such extended or broadened insurance shall inure to the benefit of the Insured hereunder, effective as of the date of the change.
LOSS PAYABLE	Unless otherwise provided herein, loss, if any, is to be adjusted with and payable to the Insured named in this Policy.
PLANS	Reference is hereby made to plan(s) on file in the office of this Company for further description and location of property herein described.

Attached to and forming a part of Policy Contract No. ....

.....  
Authorised Signature



**Arkwright-Boston  
Insurance**

Executive Offices:  
225 Wyman Street  
Waltham, Massachusetts 02154



**Allendale Insurance**  
**Arkwright-Boston Insurance**  
**Philadelphia Manufacturers Insurance**  
**Protection Mutual Insurance**  
*System Associates:*  
Factory Mutual International  
FM Engineering and Research