CPCU 551 Exam Success in Plain English:

Commercial Property, Business Income, Crime & Inland Marine

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This sample includes selected chapters from *CPCU 551 Exam Success In Plain English*, a Plain English guide designed to help candidates understand commercial property coverage, causes of loss, and the core concepts that drive Business Income and Inland Marine protection. These chapters offer a preview of the book's clear explanations, intuitive frameworks, and practical approach to demystifying CPCU 551. You'll see how commercial property risks are structured, how the Building and Personal Property Coverage Form works, and how Causes of Loss forms define what is—and isn't—covered. The result is a sharper, more confident understanding of the material and a stronger path to passing the exam..

Chapter 1 — Commercial Property Risk Overview Plain English Edition

1. Why Commercial Property Risk Matters

Every business depends on physical property to operate — buildings, equipment, inventory, computers, tools, and even property belonging to others. When that property is damaged or destroyed, the business can lose far more than the cost to repair it. It can lose income, customers, market share, and the ability to function.

Commercial property insurance exists to protect businesses from these losses. To understand how the coverage works, you first need to understand the types of property, the types of losses, and the causes of loss that insurers evaluate.

Commercial property risk is the foundation for everything else in CPCU 551.

2. The Three Types of Property Loss

Commercial property losses fall into three categories. These categories appear throughout the course and on the exam.

A. Direct Loss

Damage to the property itself.

Examples:

- Fire destroys a building
- Windstorm damages a roof
- Theft of inventory

Direct loss is the starting point for all other property-related losses.

B. Indirect (Time-Element) Loss

Financial loss that results because a direct loss occurred.

Examples:

- Lost income while repairs are made
- Extra expenses to keep operating
- Loss of rental value

Indirect losses can exceed the cost of the direct damage.

C. Net Income Loss

The financial result of a time-element loss.

Net income loss occurs when:

- Revenues decrease
- Expenses increase
- Or both

Exam trigger: Direct loss → Time-element loss → Net income loss.

3. Types of Commercial Property Exposures

Businesses face three major categories of property exposure.

A. Real Property Exposure

Real property includes land, buildings, and structures.

Common exposures:

- Fire
- Windstorm
- Hail
- Vandalism
- Water damage

- Collapse

B. Personal Property Exposure

Personal property includes movable items.

Examples:

- Inventory
- Machinery
- Tools
- Office equipment
- Furniture
- Computers

C. Property of Others

Businesses often hold property they do not own.

Examples:

- Dry cleaner holding customer clothing
- Repair shop holding customer vehicles
- Warehouse storing goods for clients

Exam angle: Property of others is covered only if the insured selects it and includes a limit.

4. Causes of Loss (Perils)

Commercial property policies define which perils are covered. The three standard forms are:

A. Basic Form

Named perils such as:

- Fire
- Lightning
- Explosion
- Windstorm
- Hail
- Smoke
- Vandalism
- Sprinkler leakage

B. Broad Form

Includes all Basic perils **plus**:

- Falling objects
- Weight of snow, ice, or sleet
- Water damage from plumbing
- Limited collapse coverage

C. Special Form

Covers **all risks of direct physical loss** unless excluded.

Exam trigger: Special Form = open perils. Basic/Broad = named perils.

5. Financial Consequences of Property Loss

A property loss affects a business in several ways.

A. Property Damage Costs

Repairing or replacing damaged property.

B. Business Interruption

Lost revenue while operations are suspended.

C. Extra Expenses

Costs to continue operations after a loss.

Examples:

- Renting temporary space
- Leasing equipment
- Paying overtime

D. Contingent Losses

Losses caused by damage to suppliers, customers, or key partners.

Example: A manufacturer loses income because a supplier's plant burns down.

6. Risk Control Techniques for Property Loss

Risk control reduces the frequency or severity of loss.

A. Avoidance

Eliminate the exposure entirely.

B. Loss Prevention

Reduce the frequency of loss.

Examples:

- Employee training
- Security systems

C. Loss Reduction

Reduce the severity of loss.

Examples:

- Fire sprinklers
- Firewalls

D. Separation

Spread property across multiple locations.

E. Duplication

Backups, spare parts, redundant systems.

F. Diversification

Multiple suppliers, product lines, or markets.

7. Risk Financing Techniques

Risk financing determines how the business will pay for losses.

A. Retention

The business pays for losses itself.

Examples:

- Deductibles
- Self-insurance

B. Transfer

Insurance or contractual transfer.

C. Hybrid Approaches

Large deductible plans, captives, self-insured retentions.

8. The Role of Commercial Property Insurance

Commercial property insurance helps businesses:

- Protect physical assets
- Stabilize earnings

- Maintain operations
- Satisfy lender requirements
- Reduce financial volatility

The core policy is the **Building and Personal Property (BPP) Coverage Form**, supported by the **Causes of Loss Forms** and **Business Income coverage**.

9. Why This Chapter Matters for the Rest of CPCU 551

This chapter gives you the vocabulary and framework you'll need for:

- The BPP Coverage Form
- Causes of Loss Forms
- Business Income coverage
- Valuation methods
- Coinsurance
- Inland marine
- Equipment breakdown
- Crime coverage
- Risk control and risk financing

Everything in CPCU 551 builds on these foundations.

Chapter 2 — The Building and Personal Property (BPP) Coverage Form

1. What the BPP Form Does

The Building and Personal Property (BPP) Coverage Form is the core of commercial property insurance. It tells you:

- **what property is covered**
- **where it's covered**
- **how it's valued**
- **what conditions apply**

If you understand the BPP form, you understand the backbone of commercial property insurance. Everything else — Causes of Loss, Business Income, Inland Marine — builds on this foundation.

2. The Three Major Coverage Categories

The BPP form covers three types of property. These categories appear constantly on the exam.

A. Building

"Building" includes more than just the structure.

It includes:

- The building itself
- Completed additions
- Fixtures
- Permanently installed machinery and equipment
- Outdoor fixtures
- Building materials within 100 feet of the premises

Exam trigger: Permanently installed equipment = Building.

B. Business Personal Property (BPP)

This is the insured's movable property.

Includes:

- Furniture
- Machinery and equipment
- Stock (inventory)
- All other personal property owned by the insured
- Tenant improvements and betterments
- Leased property the insured must insure

Exam trigger: Tenant improvements are covered as BPP — even though they are attached to the building.

C. Personal Property of Others

Property belonging to someone else but in the insured's care, custody, or control.

Examples:

- Customer goods at a repair shop
- Client inventory stored in a warehouse

Coverage applies **only** if the insured selects it and sets a limit.

3. Where Coverage Applies

The BPP form is location-specific. Coverage applies:

- At the described premises
- Within 100 feet of the premises

- In or on a building or structure
- In the open (within 100 feet)

Exam angle: The 100-foot rule appears repeatedly in CPCU 551 questions.

4. Additional Coverages

These coverages are automatically included, usually with modest limits.

A. Debris Removal

Pays to remove debris after a covered loss.

Limit:

- 25% of the direct loss + deductible
- Additional $25,000 if needed

B. Preservation of Property

Covers property moved to protect it from loss.

Coverage applies for **30 days**.

C. Fire Department Service Charge

Pays up to **$1,000** unless a higher limit is selected.

D. Pollutant Cleanup and Removal

Pays up to **$10,000** per policy period.

E. Increased Cost of Construction

Applies when building codes require upgrades after a loss.

Limit: **$10,000** unless increased.

5. Coverage Extensions

Extensions apply **only if the insured carries 80% coinsurance or a value reporting form**.

A. Newly Acquired or Constructed Property

- New buildings: $250,000
- Business personal property: $100,000

B. Personal Effects and Property of Others

Up to **$2,500** — but **not** for theft.

C. Valuable Papers and Records

Up to **$2,500** for restoration.

D. Property Off-Premises

Up to **$10,000** for property temporarily away from the premises.

E. Outdoor Property

Up to **$1,000 total**, with a **$250 per-item** limit.

F. Non-Owned Detached Trailers

Up to **$5,000** if the insured is contractually responsible.

6. Property Not Covered

The BPP form excludes certain types of property entirely.

Common examples:

- Land
- Water
- Bridges, roads, patios
- Underground pipes
- Vehicles licensed for road use
- Aircraft and watercraft
- Money, securities, and electronic data
- Contraband

Exam trigger: Electronic data is not covered under the BPP form (except limited restoration costs).

7. Valuation: How Losses Are Settled

The BPP form uses **Actual Cash Value (ACV)** unless the insured selects **Replacement Cost (RC)**.

A. Actual Cash Value (ACV)

ACV = Replacement cost − depreciation.

B. Replacement Cost (RC)

Pays the cost to replace with new property of like kind and quality.

RC does **not** apply to:

- Stock
- Personal property of others
- Manuscripts
- Works of art

C. Stock Valuation

Valued at selling price, less discounts.

D. Coinsurance

Coinsurance requires the insured to carry a minimum percentage of the property's value (usually 80%, 90%, or 100%).

Penalty formula: Loss × (Amount carried ÷ Amount required)

Exam trigger: Coinsurance is one of the most heavily tested topics in CPCU 551.

8. Loss Conditions

These conditions explain how claims are handled.

A. Abandonment

The insured cannot abandon damaged property to the insurer.

B. Appraisal

Used to resolve disputes about the **amount** of loss, not coverage.

C. Duties in the Event of Loss

The insured must:

- Notify the insurer
- Protect property from further damage
- Separate damaged from undamaged property
- Provide inventories and records

D. Loss Payment

The insurer must pay within a reasonable time after receiving proof of loss.

E. Recovered Property

If stolen or lost property is recovered, both parties must cooperate to adjust the claim.

9. Additional Conditions

These conditions apply to valuation and coverage.

A. Coinsurance

Encourages the insured to carry adequate limits.

B. Mortgageholders Clause

Protects the mortgageholder even if the insured violates policy conditions.

C. Vacancy

If a building is **70% or more vacant**, coverage is reduced.

Vacancy penalties:

- No coverage for vandalism, sprinkler leakage, water damage, theft, or glass breakage
- Other losses reduced by 15%

10. Why This Chapter Matters for the Rest of CPCU 551

The BPP form is the backbone of commercial property insurance. You need it to understand:

- Causes of Loss Forms
- Business Income coverage
- Valuation and coinsurance
- Inland marine
- Equipment breakdown
- Crime coverage
- Risk control and risk financing

Everything else in CPCU 551 builds on the BPP form.

Chapter 3 — Causes of Loss Forms

1. Why Causes of Loss Matter

The BPP form tells you *what* property is covered. The Causes of Loss Forms tell you *what can happen to it*.

These forms define the perils — fire, wind, theft, water damage, and so on — that trigger coverage. They also define the exclusions that limit coverage. Understanding these forms is essential because:

- They determine whether a loss is covered
- They determine how broad or narrow coverage is
- They determine how insurers price property policies

There are three standard forms: **Basic**, **Broad**, and **Special**.

2. The Basic Form

The Basic Form is the narrowest of the three. It covers only the perils specifically listed.

A. Covered Perils

The Basic Form covers:

- Fire
- Lightning
- Explosion
- Windstorm or hail
- Smoke
- Aircraft or vehicles
- Riot or civil commotion
- Vandalism
- Sprinkler leakage
- Sinkhole collapse
- Volcanic action

These are the “traditional” property perils.

B. Key Limitations

- Vandalism does **not** include theft

- Windstorm does **not** cover interior damage unless the building envelope is first damaged
- Smoke does **not** include agricultural or industrial smoke

Exam trigger: Basic Form = named perils, narrow coverage.

3. The Broad Form

The Broad Form includes everything in the Basic Form **plus additional perils**.

A. Additional Covered Perils

Broad Form adds:

- Falling objects
- Weight of snow, ice, or sleet
- Water damage from plumbing
- Collapse (limited)

B. Falling Objects

Coverage applies only if the falling object first damages the roof or exterior.

Example: A tree branch breaks a skylight and damages equipment inside — covered.

C. Water Damage

Covers accidental discharge from plumbing, heating, or air-conditioning systems.

Does **not** cover:

- Flood
- Sewer backup
- Continuous leakage over 14 days

D. Collapse

Covered only if caused by:

- Hidden decay
- Hidden insect or vermin damage
- Weight of people or personal property
- Weight of rain on a roof
- Use of defective materials during construction

Exam trigger: Broad Form = Basic + four major added perils.

4. The Special Form

The Special Form is the broadest of the three. Instead of listing covered perils, it covers **all risks of direct physical loss** unless excluded.

A. What "Open Perils" Means

Coverage applies unless:

- The peril is excluded
- The loss is otherwise limited

This shifts the burden of proof to the insurer.

B. Common Exclusions

Special Form excludes:

- Ordinance or law
- Earth movement
- Governmental action
- Nuclear hazard
- Utility services failure
- War and military action
- Water (flood, surface water, sewer backup)
- Fungus, wet rot, dry rot, bacteria
- Mechanical breakdown
- Wear and tear
- Rust, corrosion, deterioration
- Settling, cracking, shrinking, or expansion

- Insects, birds, rodents
- Theft of building materials not yet attached

C. Theft Coverage

Special Form covers theft **except**:

- Dishonest acts by employees
- Voluntary parting
- Inventory shortages
- Theft of building materials during construction

D. Advantages of the Special Form

- Broadest coverage
- Fewer disputes about whether a peril is covered
- Better protection for complex operations

Exam trigger: Special Form = open perils, exclusions matter more than covered perils.

5. Concurrent Causation

Concurrent causation occurs when two perils cause a loss at the same time — one covered, one excluded.

Example: Wind (covered) + flood (excluded) damage a building.

A. Anti-Concurrent Causation (ACC) Clauses

Many exclusions include ACC language:

“Such loss is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.”

This means:

- If an excluded peril contributes in any way, the entire loss is excluded.

Exam trigger: ACC clauses override the normal rule that coverage applies if a covered peril is part of the chain of events.

6. Limitations in the Special Form

Limitations restrict coverage even when the peril is not excluded.

Common limitations:

- Interior rain damage unless wind or hail first damages the building
- Theft of building materials during construction
- Missing property with no physical evidence of theft
- Property transferred voluntarily due to fraud

These limitations prevent coverage for losses that are difficult to verify or prone to fraud.

7. Additional Coverages in the Special Form

The Special Form includes certain additional coverages not found in the Basic or Broad Forms.

A. Property in Transit

Limited coverage for property in transit.

B. Water Damage, Other Liquids, Powder, or Molten Material Damage

Covers damage caused by accidental discharge of these materials.

C. Glass Breakage

Covered unless excluded by endorsement.

8. How Insurers Use the Causes of Loss Forms

Insurers use these forms to:

- Price policies
- Underwrite risks
- Determine deductibles
- Apply exclusions
- Evaluate claims

Businesses choose the form that matches their risk tolerance and budget.

Examples:

- A small business may choose Basic Form to save money
- A manufacturer may choose Special Form for broad protection
- A business with heavy snow exposure may choose Broad Form for the added perils

9. Why This Chapter Matters for the Rest of CPCU 551

The Causes of Loss Forms determine:

- What triggers coverage
- What is excluded
- How claims are evaluated
- How Business Income coverage applies
- How coinsurance interacts with loss settlement
- How risk managers choose appropriate coverage

You cannot understand commercial property insurance without understanding these forms.

About the Author

James Whitaker, CPCU, is the publisher of Smarts Publishing and the author of the Plain-English Insurance Series. He has spent more than three decades helping insurance professionals understand complex topics through clear, accessible writing. His books, newsletters, and training materials are used by agencies, brokers, and carriers across the country.

With AI in Plain English, Whitaker continues his mission of making emerging insurance concepts understandable for everyday professionals. His work focuses on clarity, practicality, and real-world application — helping readers build confidence in a rapidly changing industry.

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