CAUSES OF LOSS – EARTHQUAKE FORM

A. COVERED CAUSES OF LOSS

When Earthquake is shown in the Declarations, Covered Causes of Loss means the following:

1. **Earthquake.**
   
2. **Volcanic Eruption,** meaning the eruption, explosion or effusion of a volcano.

All Earthquake shocks or Volcanic Eruptions that occur within any 168-hour period will constitute a single Earthquake or Volcanic Eruption. The expiration of this policy will not reduce the 168-hour period.

B. EXCLUSIONS

1. We will not pay for loss or damage caused directly or indirectly by any of the following. Such loss or damage is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.
   
   a. **Ordinance or Law**
      
      The enforcement of any ordinance or law:
      
      (1) Regulating the construction, use or repair of any property; or
      
      (2) Requiring the tearing down of any property, including the cost of removing its debris.

      This exclusion, Ordinance or Law, applies whether the loss results from:
      
      (1) An ordinance or law that is enforced even if the property has not been damaged; or
      
      (2) The increased costs incurred to comply with an ordinance or law in the course of construction, repair, renovation, remodeling or demolition of property, or removal of its debris, following a physical loss to that property.

   b. **Governmental Action**
      
      Seizure or destruction of property by order of governmental authority.

c. **Nuclear Hazard**

   Nuclear reaction or radiation, or radioactive contamination, however caused.

d. **Utility Services**

   The failure of power or other utility service supplied to the described premises, however caused, if the failure occurs away from the described premises.

   But if the failure of power or other utility service results in a Covered Cause of Loss, we will pay for the loss or damage caused by that Covered Cause of Loss.

e. **War and Military Action**

   (1) War, including undeclared or civil war;

   (2) Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or

   (3) Insurrection, rebellion, revolution, usurped power, or action taken by government authority in hindering or defending against any of these.

2. We will not pay for loss or damage caused by or resulting from:

   a. **Artificially generated electrical current,** including electric arcing, that disturbs electrical devices, appliances or wires.

   b. **Fire,** explosion (other than volcanic explosion), landslide, mine subsidence, tidal wave, flood, mudslide or mudflow, even if attributable to an Earthquake or Volcanic Eruption.

   c. **Any Earthquake or Volcanic Eruption** that begins before the inception of this insurance.
3. Special Exclusions
The following provisions apply only to the specified Coverage Forms.

a. Business Income (And Extra Expense) Coverage Form, Business Income (Without Extra Expense) Coverage Form, or Extra Expense Coverage Form
We will not pay for:
(1) Any loss caused directly or indirectly by the failure of power or other utility service supplied to the described premises, however caused, if the failure occurs outside of a covered building. But if the failure of power or other utility service results in a Covered Cause of Loss, we will pay for the loss resulting from that Covered Cause of Loss.
(2) Any loss caused by or resulting from:
   (a) Damage or destruction of "finished stock"; or
   (b) The time required to reproduce "finished stock". This exclusion does not apply to Extra Expense.
(3) Any loss caused by or resulting from direct physical loss or damage to radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers.
(4) Any increase of loss caused by or resulting from:
   (a) Delay in rebuilding, repairing or replacing the property or resuming "operations", due to interference at the location of the rebuilding, repair or replacement by strikers or other persons; or
   (b) Suspension, lapse or cancellation of any license, lease or contract. But if the suspension, lapse or cancellation is directly caused by the suspension of "operations", we will cover such loss that affects your Business Income during the "period of restoration".
(5) Any Extra Expense caused by or resulting from suspension, lapse or cancellation of any license, lease or contract beyond the "period of restoration".
(6) Any other consequential loss.

b. Leasehold Interest Coverage Form
(1) Paragraph B.1.a., Ordinance or Law, does not apply to insurance under this Coverage Form.
(2) We will not pay for any loss caused by:
   (a) Your cancelling the lease;
   (b) The suspension, lapse or cancellation of any license; or
   (c) Any other consequential loss.

c. Legal Liability Coverage Form
(1) The following Exclusions do not apply to insurance under this Coverage Form.
   (a) Paragraph B.1.a., Ordinance or Law;
   (b) Paragraph B.1.b., Governmental Action;
   (c) Paragraph B.1.c., Nuclear Hazard;
   (d) Paragraph B.1.d., Utility Services; and
   (e) Paragraph B.1.e., War and Military Action.
(2) The following additional exclusions apply to insurance under this Coverage Form:
   (a) **Contractual Liability**
       We will not defend any claim or "suit", or pay damages that you are legally liable to pay, solely by reason of your assumption of liability in a contract or agreement.
   (b) **Nuclear Hazard**
       We will not defend any claim or "suit", or pay any damages, loss, expense or obligation, resulting from nuclear reaction or radiation, or radioactive contamination, however caused.
C. LIMITATION

We will not pay for loss of or damage to exterior masonry veneer (except stucco) on wood frame walls caused by or resulting from Earthquake or Volcanic Eruption. The value of such veneer will not be included in the value of Covered Property or the amount of loss when applying:

1. The Deductible applicable to this form; or

2. The Additional Condition, Coinsurance, applicable to this Coverage Part.

This limitation does not apply if:

1. The premises description in the Declarations specifically states "Including Masonry Veneer"; or

2. Less than 10% of the total outside wall area is faced with masonry veneer (excluding stucco).

D. DEDUCTIBLE

1. The provisions of Section D.2. of this endorsement are applicable to all Coverage Forms except:
   a. Business Income (And Extra Expense) Coverage Form;
   b. Business Income (Without Extra Expense) Coverage Form;
   c. Extra Expense Coverage Form.

2. The Deductible, if any, in this Coverage Part is replaced by the following with respect to Earthquake and Volcanic Eruption:
   a. All Policies
      (1) A Deductible is calculated separately for, and applies separately to:
         (a) Each building, if two or more buildings sustain loss or damage;
         (b) The building and to personal property in that building, if both sustain loss or damage;
         (c) Personal property at each building, if personal property at two or more buildings sustains loss or damage;
         (d) Personal property in the open.

(2) We will not pay for loss or damage until the amount of loss or damage exceeds the applicable Deductible. We will then pay the amount of loss or damage in excess of that Deductible, up to the applicable Limit of Insurance, after any reduction required by any of the following: Coinsurance Condition, Agreed Value Optional Coverage, Additional Condition – Need for Adequate Insurance or Additional Condition – Need for Full Reports.

(3) When property is covered under the Coverage Extension for Newly Acquired or Constructed Property: In determining the amount, if any, that we will pay for loss or damage, we will deduct an amount equal to a percentage of the value(s) of the property at time of loss. The applicable percentage for Newly Acquired or Constructed Property is the highest percentage shown in the Declarations for any described premises.

b. Calculation of the Deductible – Specific Insurance Other than Builders Risk
   (1) Property Not Subject to Value Reporting Forms
      In determining the amount, if any, that we will pay for loss or damage, we will deduct an amount equal to a percentage (as shown in the Declarations) of the Limit(s) of Insurance applicable to the property that has sustained loss or damage.

   (2) Property Subject to Value Reporting Forms
      In determining the amount, if any, that we will pay for loss or damage, we will deduct an amount equal to a percentage (as shown in the Declarations) of the value(s) of the property that has sustained loss or damage. The value(s) to be used are the latest value(s) shown in the most recent Report of Values on file with us.
However:

(a) If the most recent Report of Values shows less than the full value(s) of the property on the report dates, we will determine the deductible amount as a percentage of the full value(s) as of the report dates.

(b) If the first Report of Values is not filed with us prior to loss or damage, we will determine the deductible amount as a percentage of the applicable Limit(s) of Insurance.

c. Calculation of the Deductible – Blanket Insurance Other than Builders Risk

(1) Property Not Subject to Value Reporting Forms
In determining the amount, if any, that we will pay for loss or damage, we will deduct an amount equal to a percentage (as shown in the Declarations) of the value(s) of the property that has sustained loss or damage. The value(s) to be used are those shown in the most recent Statement of Values on file with us.

(2) Property Subject to Value Reporting Forms
In determining the amount, if any, that we will pay for property that has sustained loss or damage, we will deduct an amount equal to a percentage (as shown in the Declarations) of the value(s) of that property as of the time of loss or damage.

d. Calculation of the Deductible – Builders Risk Insurance

(1) Builders Risk Other than Reporting Form
In determining the amount, if any, that we will pay for property that has sustained loss or damage, we will deduct an amount equal to a percentage (as shown in the Declarations) of the actual cash value(s) of that property as of the time of loss or damage.

(2) Builders Risk Reporting Form
In determining the amount, if any, that we will pay for loss or damage, we will deduct an amount equal to a percentage (as shown in the Declarations) of the value(s) of the property that has sustained loss or damage. The value(s) to be used are the actual cash value(s) shown in the most recent Report of Values on file with us.

However:

(a) If the most recent Report of Values shows less than the actual cash value(s) of the property on the report date, we will determine the deductible amount as a percentage of the actual cash value(s) as of the report date.

(b) If the first Report of Values is not filed with us prior to loss or damage, we will determine the deductible amount as a percentage of the actual cash value(s) of the property as of the time of loss or damage.

3. The following is applicable only to the Coverage Forms specified below:

a. Business Income (And Extra Expense) Coverage Form;

b. Business Income (Without Extra Expense) Coverage Form;

c. Extra Expense Coverage Form.

For buildings over 4 stories in height we will only pay for loss you sustain after the first 168 hours after direct physical loss or damage caused by or resulting from Earthquake or Volcanic Eruption.

E. EXAMPLES – APPLICATION OF DEDUCTIBLE IN D.2.:

Example #1 – Specific Insurance
(D.2.b.(1))
The amount of loss to the damaged building is $60,000.
The value of the damaged building at time of loss is $100,000. The Coinsurance percentage shown in the Declarations is 80%; the minimum Limit of Insurance needed to meet the coinsurance requirement is $80,000 (80% of $100,000).
The **actual** Limit of Insurance on the damaged building is $70,000.
The Deductible is 5%.

Step (1): $70,000 ÷ $80,000 = .875
Step (2): $60,000 X .875 = $52,500
Step (3): $70,000 X 5% = $3,500
Step (4): $52,500 – $3,500 = $49,000

The most we will pay is $49,000. The remainder of the loss, $11,000, is not covered due to the Coinsurance penalty for inadequate insurance (steps (1) and (2)) and the application of the Deductible (steps (3) and (4)).

**Example #2 – Specific Insurance**
(D.2.b.(1))

The amounts of loss to the damaged property are $60,000 (building) and $40,000 (business personal property in building).

The value of the damaged building at time of loss is $100,000. The value of the business personal property in that building is $80,000. The Coinsurance percentage shown in the Declarations is 80%; the minimum Limits of Insurance needed to meet the coinsurance requirement are $80,000 (80% of $100,000) for the building and $64,000 (80% of $80,000) for the business personal property.

The **actual** Limits of Insurance on the damaged property are $80,000 on the building and $64,000 on the business personal property (therefore no Coinsurance penalty).

The Deductible is 10%.

**Building**

Step (1): $80,000 X 10% = $8,000
Step (2): $60,000 – $8,000 = $52,000

**Business Personal Property**

Step (1): $64,000 X 10% = $6,400
Step (2): $40,000 – $6,400 = $33,600

The most we will pay is $85,600. That portion of the total loss not covered due to application of the Deductible is $14,400.

**Example #3 – Blanket Insurance**
(D.2.c.(1))

The sum of the values of Building #1 ($500,000), Building #2 ($500,000) and Building #3 ($1,000,000), as shown in the most recent Statement of Values on file with us, is $2,000,000.

The Coinsurance percentage shown in the Declarations is 90%; the minimum Blanket Limit of Insurance needed to meet the coinsurance requirement is $1,800,000 (90% of $2,000,000).
The **actual** Blanket Limit of Insurance covering Buildings #1, #2, and #3, shown in the Declarations, is $1,800,000 (therefore no Coinsurance penalty).

Buildings #1 and #2 have sustained damage; the amounts of loss to these buildings are $40,000 (Building #1) and $60,000 (Building #2).

The Deductible is 5%.

**Building #1**

Step (1): $500,000 X 5% = $25,000  
Step (2): $40,000 – $25,000 = $15,000

**Building #2**

Step (1): $500,000 X 5% = $25,000  
Step (2): $60,000 – $25,000 = $35,000

The most we will pay is $50,000. That portion of the total loss not covered due to application of the Deductible is $50,000.

**Example #4 – Blanket Insurance (D.2.c.(1))**

The sum of the values of Building #1 ($500,000), Building #2 ($500,000), Business Personal Property at Building #1 ($250,000) and Business Personal Property at Building #2 ($250,000), as shown in the most recent Statement of Values on file with us, is $1,500,000.

The Coinsurance percentage shown in the Declarations is 90%; the minimum Blanket Limit of Insurance needed to meet the coinsurance requirement is $1,350,000 (90% of $1,500,000).

The **actual** Blanket Limit of Insurance covering Buildings #1 and #2 and Business Personal Property at Buildings #1 and #2, shown in the Declarations, is $1,350,000. Therefore there is no Coinsurance penalty.

Building #1 and Business Personal Property at Building #1 have sustained damage; the amounts of loss are $95,000 (Building) and $5,000 (Business Personal Property).

The Deductible is 10%.

**Building**

Step (1): $500,000 X 10% = $50,000  
Step (2): $95,000 – $50,000 = $45,000

**Business Personal Property**

Step (1): $250,000 X 10% = $25,000  
The loss, $5,000, does not exceed the deductible.

The most we will pay is $45,000. The remainder of the building loss, $50,000, is not covered due to application of the Deductible. There is no loss payment for the business personal property.