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- 1) **The Dwelling Policy (DP)** is a policy primarily designed to protect the consumer from financial losses due to sudden and accidental occurrences resulting in loss of or loss of use of property from a covered peril.

The policy will start with an agreement or insuring clause and a definitions section. The agreement simply states “we” will provide the insurance described in this policy in return for premium and compliance with all applicable provisions of the policy. The definitions section defines “we” as the carrier, and the term “you” as the named insured, including their spouse if they are a resident of the same household.

We will be reviewing all the coverages, both perils and property.

Causes of Loss Forms — These are property insurance forms that establish and define the causes of loss (or perils) for which coverage is provided. There are **three** causes of loss forms: basic, broad, and special causes of loss forms. The basic and broad causes of loss forms are **named-perils** forms; they provide coverage for loss from only the particular causes that are listed (or named) in the policy as covered. The special causes of loss form is an all-risks form; it provides coverage for loss from any cause, except those that are specifically excluded.

The property covered totally depends on what the client needs coverage for. This is not a comprehensive policy like homeowner policies are. You choose and pay for only what you need or want covered. There are additional coverages that are included at no additional cost, there are perils and property which are excluded. There are endorsements to cover some of the excluded items for a fee. Finally, the conditions section is important because it defines the rights and duties of both parties to the contract.

- a) **Characteristics**, the main characteristic of a dwelling policy (DP) is it is meant to cover the dwelling against any covered peril. A DP may be customized to fit a client’s needs by adding other coverages, although this is not always necessary. Known also as a landlord policy, it is designed to cover what the owner of the structure needs to be protected against in the event of a loss due to a covered peril. We will look at the perils shortly. There are different options to choose from, ranging from only a few perils to be covered to many perils to be covered.

- b) **Eligibility** for a dwelling policy is for:

- Residential premises only and **does not have to be owner-occupied**.
- Including single-family homes, townhomes or rowhomes, and homes under construction (A.K.A. Course of Construction form).
- A DP1 may be used to cover a mobile home that is permanently installed.
- **No retail sales** — Although some incidental businesses may be allowed. Incidental occupations can include a home office for an insurance producer, or other service-type businesses. The policy covers the structure, NOT the business liability or any professional liability.
- **5 boarders** maximum per unit or apartment, and
- **4 units or apartments** maximum.
 - *If there are 5 or more units, the owner must use a commercial policy.*
 - **Dwelling policies do not require owner occupancy.**

A **dwelling** policy is for the **dwelling**. Separate structures, personal property, etc. must be added to the base policy **if the client chooses to do so**.

A farmhouse must be covered under a Farm/Ranch policy due to the business exposures.

Although all Coverages “A” through “E” are preprinted in the DP policy form, the insured does not have to purchase each one. *For example, an insured who owns an unfurnished house that they rent to others might choose to purchase only Coverage “A” Dwelling and Coverage “D” Rental Value. Depending on the appliances, they may want to have coverage “C” Personal Property.*

An apartment building may be covered under a DP if there are no more than 4 units. 5 units or more require either a Business Owners Policy (BOP) or a Commercial Package Policy (CPP), both of which are commercial policies. A Business Owners Policy is designed for relatively small one-location businesses. Apartments up to 6 stories or 60 units maximum can be covered with a BOP. Beyond that, an owner needs a Commercial Package Policy.

c) Purpose: Dwelling Property coverage is designed to cover the dwelling. It protects the consumer against financial losses caused by a covered peril in return for premium.

- Other coverages may be added at the owner’s request.
- Dwelling Property Policies are also known as Landlord Policies.
- These are generally used to insure residential property that is rented to others for dwelling purposes.
- A dwelling policy may be used to cover a second home or vacation home. It covers the dwelling only. The personal property and liability may extend from a person’s homeowner policy, or both may be added to the DP.
- *It can also be used to insure a dwelling that is under construction, a.k.a. Course of Construction policy.*

d) Policy Definitions

- **Persons Insured** include:
 - The named insured,
 - All residents of the same household who are relatives of the named insured, and
 - Anyone who is under 21 years of age and in the care of any insured persons.
- **Replacement cost** is like for like. *(E.g., A 15-inch laptop for a 15-inch laptop, regardless of the original purchase price.)*
- **Actual Cash Value** is the replacement cost less depreciation. This can save money in premiums but will cost more out-of-pocket if there is a loss. *(E.g., A laptop purchased 5 years ago would have a greatly depreciated value. To replace it, the consumer needs to pay the difference.)*
- **Depreciation** is a reduction in the value of an item over time, due to wear and tear.

- **Deductible** is either a dollar amount or a percentage. A normal deductible of \$500 may be a part of a policy for most losses, but special coverages like earthquake, and in some parts of the country 'wind,' the deductible may be a percentage. This is the percentage of the total replacement cost, not the repair alone.
 - *E.g., many damages could have a \$500 deductible regardless, while a structure with a replacement cost of \$200,000 has a \$20,000 (or 10%) deductible for any earthquake.*

2) Coverage Forms Specifying Perils Insured Against

There are three Dwelling Property Forms: Basic (1), Broad (2), and Special (3). The Basic form is a named perils policy. It NAMES the perils that dwellings, other structures, and personal property are insured against. If the peril is not named, it is not insured against. The Broad form is also a named perils policy which expands coverage beyond the Basic form by adding additional perils. A Special (*a.k.a. Open Perils, All Perils, or Risks of Direct Physical Loss*) form lists the exclusions and covers all other perils. Homeowner and Commercial policies have almost identical perils.

On a named perils policy, only the named perils are covered. *For example, if a tree falls on an insured's rental and they purchased a Basic form DP (a.k.a. DP1), they have to pay for those repairs since the peril of falling objects is not picked up as a peril until a Broad form (a.k.a. DP2).*

- a) **DP1 - Basic Form** covers the dwelling and, optionally, other structures "B" or personal property "C" as well, for ONLY the perils named on the form. The perils of **fire, lightning, and internal explosion** are covered in any form. This is the minimum property policy that can be purchased. The term 'Fire Policy' can be used since fire is always covered (*as long as it is not intentionally set by the owner or at the direction of the owner*).

Example: The insured owns half of a duplex and rents it out. The water heater explodes! Internal explosion will cover the damage from the water heater exploding in my unit. Damage to the walls, floor, water damage, etc.

It will not cover the damage to their unit if the water heater next door explodes. If that unit is a rental and there is no liability, they will need to repair the walls and floors not just from the explosion but from the water damage caused by it. If they want that covered, buying a Basic form with extended coverage would take care of all the damage.

Basic extended coverage (EC) adds the acronym REV C SHAW + VMM to the perils of fire, lightning, and internal explosion. Damage from riot, explosion, vehicle and volcano, civil commotion, smoke, hail, aircraft, and wind are now covered. Also covered are vandalism and malicious mischief.

- b) **DP2 - Broad Form Named Perils** adds more named perils to the list.

Broad form coverage adds BIAFFECT: the perils of burglary damage (*damage to the structure, not items missing*), ice, accidental water damage (*from inside, not flood*), freezing, falling objects, and electrical (*sudden and accidental damage from artificially generated sources*). This includes the sudden and accidental cracking and tearing apart, burning, or bulging of a steam or water heater, AC system, etc.

- Theft and liability are not covered, although they may be added with an endorsement.

To simplify, Broad form adds coverage from electricity, falling objects, and all water damage except flood to the Basic extended coverages form. It is important to know these coverages well since the next form, Special form, is only special on the “A” and “B” structures, while the “C” personal property remains at Broad form coverage.

c) **DP3 - Special Form** provides the most complete coverage for the dwelling and the other structures. This may be known as Open Perils, All Perils, or Risks of Direct Physical Loss. Coverage for the dwelling and other structures “A” & “B” are provided against any risks that are **not excluded (Risks of Direct Physical Loss)**.

If coverage “C” was chosen, **personal property is covered on a Broad form named perils only.**

Know the perils. They are built upon for homeowner (and commercial).

Basic Form Named Perils	Broad Form Named Perils	Special Form Open Perils
<p><i>Fire, Lightning, and Internal Explosion</i></p> <p>REV C SHAW</p> <p>EC=Extended Coverage</p> <p>Riot</p> <p>Explosion</p> <p>Vehicle & Volcano</p> <p>Civil Commotion</p> <p>Smoke</p> <p>Hail</p> <p>Aircraft</p> <p>Wind</p> <p>Vandalism and malicious mischief</p>	<p>Includes all the Basic + EC form perils and adds:</p> <p>BIAFFECT</p> <p>B Burglary *</p> <p>I Weight of Ice, Snow, Sleet</p> <p>A Sudden and accidental discharge or overflow of water or steam from within plumbing or related systems</p> <p>F Falling Objects</p> <p>F Freezing of plumbing or related systems</p> <p>E Sudden and accidental damage from artificially generated electricity</p> <p>C Sudden and accidental cracking and tearing apart, burning, or bulging of a steam or hot water heater, AC system, etc.</p> <p>T</p>	<p>Coverage for all perils not specifically excluded</p> <p>A.K.A.:</p> <p>*All Perils</p> <p>*All Risk of Direct Physical Loss</p>

- **Burglary covers the damage from the breaking in or out. It does not cover the peril of theft.**

3) Property Coverages

a) **Dwelling - Coverage "A"** Includes

- ✓ The dwelling,
- ✓ Structures attached to the dwelling,
- ✓ Materials and supplies for use in construction or repair of the dwelling or other structure located next to the described dwelling, and
- ✓ Building equipment or outdoor equipment used to service the premises that is located on the premises.

If a house has an attached garage, it is covered under Coverage "A." Decks, sunrooms, and a fence attached to the dwelling are also under coverage "A."

Property coverage "A" is the base policy, and all a person needs to purchase. If more than the dwelling needs to be covered, there are more coverages available for purchase.

b) Other Structures - Coverage "B", (a.k.a. **appurtenant structures**), includes buildings on the premises but not attached to the dwelling such as a detached garage, set apart by a clear space or connected only by a fence.

This does **NOT** include:

- ✓ any structures rented to others who are not the tenant unless used solely as a private garage
- ✓ any other structures used for commercial purposes or farming ** exception** we do cover a structure that contains commercial, manufacturing, or farming property solely owned by you or a tenant other than gaseous or liquid fuel
- ✓ land
- ✓ gravemarkers including mausoleums

If a house has a detached garage, it is covered under Coverage "B." Cabanas, greenhouses, and fences separated from the dwelling by a clear space are covered under coverage "B."

c) Personal Property - Coverage "C" includes **property of the insured** other than "real" property (*e.g., land*) that belongs to an insured or any member of the insured's family residing at the insured location. After a loss and at your request, WE will cover the personal property of a guest or servant while the property is located on the described premises.

- property removed to a newly acquired principal residence is covered for the first of 30 days from when the move begins or the policy end date or the policy limits are paid.

A DP does not cover theft of personal property, only losses due to a covered peril. Theft can be endorsed on the policy. ***It does NOT cover the property of a boarder or renter.***

Personal property is covered for basic named perils or broad form named perils only. On a special form policy, coverages “A” and “B” are open perils. Personal property is still only covered for broad form named perils.

Something else to consider is while the structures are replacement cost or construction cost, the **personal property may be only covered at the actual cash value or depreciated cost.**

d) Rental Value - Coverage “D,” (*indirect loss or consequential loss*), will pay for rental income lost by the insured when the dwelling is uninhabitable for the renter from a *loss due to a covered peril*.

If there is fire damage, the damage is repaired, and the structure is restored. During that time, this coverage will pay fair market rental value to the insured.

If a civil authority prohibits the use of the dwelling because of direct damage to a neighboring location caused by a peril covered under this policy, we will cover the fair rental value for no more than 2 weeks.

However, if the client has a DP1 with extended coverage and a tree falls on the roof, leaving a large hole and the dwelling is untenable until it is repaired, this will NOT pay rent as the loss is NOT due to a covered peril.

Fair Rental Value is 20% of coverage “A” and is included in the policy limit for a DP1. It is in addition to the policy limit for a DP2 and DP3.

e) Additional Living Expenses - Coverage “E” (*indirect loss or consequential loss*), will pay extra expenses if the insured has to move for a short period of time due to a covered loss if the dwelling is uninhabitable. This coverage is important if the insured lives in the dwelling.

Coverages D and E dollar amounts will be not more than 20% of coverage A for both combined.

4) Additional coverages are available at no extra charge to the consumer. **The first list will use up the limit of liability the carrier will pay.**

- Debris Removal from loss due to a covered peril, usually limited to 5% of coverage “A”, not in addition to coverage “A” but a part of that payout.
- Worldwide coverage on all Personal Property “C” up to a limit of 10% of coverage “C” except rowboats and canoes.
- Reasonable repairs- pays to the insured to protect the dwelling from further damage. A large picture window is broken by a burglar- the insurer will pay for it to be boarded up before it can be replaced since the new window needs to be made.
- 30 days complete any and all perils coverage for property being removed from the premises to protect it from an endangering peril (5 on a DP1).

- Collapse — sudden and accidental — is covered in a DP2 or DP3 due to a covered peril or
 - hidden decay
 - insect or vermin damage
 - weight of contents, equipment, animals, or people
 - weight of rain collected on the roof.
- Loss to an awning, fence, patio, swimming pool, etc. are not covered under the peril of collapse.
- Glass.

The following additional coverages are paid out in addition to the limits of the policy.

- Improvements, alterations, or additions are covered if the dwelling is owner-occupied and the owner has made improvements: better lighting, granite countertops, etc. The insured may use up to 10% of coverage “C” amount.
- Trees, plants, and shrubs will be covered for up to \$500 per each up to a total of 5% of coverage “A” if they are lost due to a covered peril in additional coverage.
- Fire department service charge - this policy will pay up to \$500 for fees incurred by the insured from the fire department when the fire department is protecting property against a covered peril.
- Ordinance or Law - Ordinance or law is covered in the DP-2 and DP-3 only. For an insured who owns an insured location, up to 10% of the Coverage A limit may be used to cover increased costs of repair/rebuilding after a covered loss occurs due to the enforcement of any ordinance or law regulating construction, demolition, remodeling, etc.

5) Dwelling Policy Exclusions: Items that are excluded will not be paid for. There are property exclusions as well as excluded perils. These are items of property that will never be covered under personal property C. Keep in mind, a DP is generally a landlord policy, and the personal property is that of the renter. To cover that, the tenant needs renters’ coverage. The owner, if renting the dwelling out, may fully furnish the home or may want to cover the appliances, curtain rods, etc. Theft is still not a covered peril unless endorsed on to the policy.

a) Property Excluded: from a dwelling policy may be covered by another policy, depending on the item.

- accounts, bank notes, bills, bullion, coins (including coin collections), currency, evidence of debt, meals letters of credit, personal records, scrip, stamps, stored value and smart cards, manuscripts, money, passports
- animals, birds, and fish
- aircraft, including parts
- hovercraft and parts
- motor vehicles , including those in storage, and parts
- data
- credit cards, electronic fund transfer cards
- water or steam
- gravemarkers or mausoleums

b) Perils excluded: With a DP1 or a DP2, any peril or cause of loss that is not listed as covered is excluded from coverage. Keep in mind, intentional acts are never covered. Also worth noting is that many of these may be added to the policy by endorsement. In a DP3, or open perils policy, there will be a list of perils that are excluded, including:

- ordinance or law- if a fire breaks out and burns 40% of a building, the city code may require that the remainder be torn down, and the building entirely rebuilt. The insurance company does not carry that extra cost.
- earth movement including earthquake, landslide, sinkholes, and tremors before during or after volcanic eruptions.
- water - damage from outside sources, flood including sewer back up is not covered. Water damage because of a burst pipe is from an internal source and is covered.
- power failure
- neglect - moss on the roof, mold, the insured's lack of action to use all reasonable means to maintain the premises
- war
- nuclear hazard – including radiation and contaminants
- intentional loss
- government action – meaning the destruction or confiscation of the property by a government agency, *e.g., DEA. If the house needs to be torn down as a fire block to stop the spread of a fire it would be covered as though the loss was a fire loss.*

6) Dwelling Policy Conditions

The conditions explain the rights and obligations of both parties to the contract.

Policy Period	Generally a year and will start and expire at 12:01 A.M.
Mortgage Clause	Losses are payable to the mortgage company first in the amount of insurable interest they have. The mortgagee will be notified 10 days prior to cancellation or renewal or nonrenewal. This clause also allows the mortgagee to submit proof of loss in the event the insured fails to do so.
Liberalization Clause	If the policy provisions are made better for the insured at no extra cost, they are effective immediately.
Concealment or Fraud	In the event of concealment of a fraudulent intent the insurer may cancel the policy.
Recovered Property	If property is recovered by either party, that party must notify the other. The insured has the right to the recovered property and the claim will be adjusted.

Duties After a Loss

Notify the police if a law has been broken
 Notify the insurance company
 Protect the property from further loss
 Cooperate with any investigation
 Submit a ***proof-of-loss*** and inventory of damages within **60 days**
 Make the property available for inspection; and
 Submit to an examination under oath, if required.

Settlement Considerations

DP1 is paid at Actual Cash Value, Dwelling for DP2 and DP3 are indemnified at repair or replacement cost as long as the dwelling is insured at 80%.
 Personal Property is indemnified at Actual Cash Value.

Other Insurance and Service Agreement

These policies pay pro rata with other policies covering the same structure.

Loss Payable Clause

Similar to Mortgage Clause, but the loss payee is not a bank.

Legal Action Against Insurer

There is a 2-year statute of limitations to take the company to court.

7) Dwelling Policy Endorsements

Endorsements are items added to a policy to broaden the coverage of the base policy. These are some things that may be added to a Dwelling Policy.

a) Automatic Increase in Insurance /Inflation Guard Endorsement... Generally, if a home is not insured for at least 80% of its value, a co-insurance penalty will be applied, so the insured will receive less than the replacement cost if there is a loss. To prevent this, the homeowner can purchase an inflation guard endorsement, where the amount of the insurance is increased pro rata annually by an amount that the homeowner chooses—usually 4% or 6%. For instance, if a home is insured for \$100,000 and the insured chooses a 4% rate of increase, then if the insured suffers a complete loss in 6 months, the insurance will pay \$102,000; if the loss occurs 9 months later, then the payment will be for \$103,000; and if the loss occurs a full year later, the payment will be the full 4% annual increase — \$104,000.

b) Dwelling Under Construction

When a **Builder** builds a business, the policy is a **Builders Risk form**.

When a **Homeowner** builds a home, the policy is a dwelling policy with a **Course of Construction endorsement**.

The coverages are the same for the structure and it is a reporting form policy. This means the insured does not pay premiums on a dwelling worth \$500,000 when it is a hole in the ground. There is a deposit premium charged by the carrier. Once construction has commenced there is a report filed at regular intervals and the premium due is taken from the deposit premium made at the time of application and applied to the earned premium. The amount of coverage (and premium) increases as the structure is completed.

This endorsement adds liability coverage in a proportionate amount equal to the completed dwelling coverage.

c) Theft Coverage: Dwelling Property insurance covers direct and indirect losses to tangible property. ***Theft is not a covered peril*** but may be added by endorsement.

- Broad Theft Coverage provides for theft coverage *anywhere*.
- Limited Theft Coverage provides for theft from *the covered premises only*.

8) Personal Liability Supplement Identical coverage to that found under Section II of a homeowner policy for Bodily Injury and Property Damage, but is added to a Dwelling policy, or can be used on a monoline basis (written as a separate policy). Under the dwelling program, personal liability coverage is available using a *personal liability supplement*.

However, liability for the insured may be extended from the homeowner policy of the insured.

a) Coverage “L” - (Comprehensive) Personal Liability Insuring Agreement, obligates the insurer to pay all sums for bodily injury and property damage to others, for which the law holds the insured responsible because of an occurrence.

- The insurer will also defend the insured, with counsel of the insurance company’s choice, against any suit or claim. The company may also investigate, negotiate, or settle any suit (a.k.a. **settlement clause**).
 - The insurer will not be obligated to pay any claim or judgment or defend any suit if the limit of liability has already been exhausted.
 - Coverage L has a **standard limit of \$100,000** per occurrence. This amount may be increased by endorsement.
- I. **Bodily Injury** means bodily harm, sickness, or disease, including required care, loss of services (e.g., **wages, daycare** (related to the incident, e.g., while doing physical therapy), **landscaping, housekeeping, etc.**), and death that results.
- It **does not** mean a disease that is transmitted through sexual contact, nor the actual or alleged sexual molestation of a person, nor does it include physical or mental abuse.
- II. **Personal Injury (PI) is not included** in most ISO Homeowner policies. Personal Injury includes false arrest, malicious prosecution, libel (in writing), slander (verbal), defamation of character, invasion of privacy, and wrongful eviction or entry.

- III. **Property Damage** is defined as physical injury to tangible property, including all resulting loss of use of that property.
- IV. **Persons Insured** include the named insured and all residents of the same household who are relatives of the named insured, and anyone who is under 21 and in the care of any person insured. It also includes any loss caused by animals or watercraft owned by or in the care of the insured, except for any business uses.
- **Watercraft** means an *inboard or inboard-outboard* motor-powered boat owned by or rented to the insured that has *50 horsepower or less*; sailing vessels of 25 feet or less; and any boat powered by an *outboard motor of 25 HP or less*.

b) Coverage “M” - Medical Payments to Others, will pay the necessary medical expenses that are *incurred within three years from the date of an accident* that has caused bodily injury to a third party, regardless of fault. **This coverage does not pay benefits to the insured.**

Coverage applies to any person on the insured premises, and any person off the insured premises if the bodily injury is caused by: conditions on walkways adjoining the premise; the activities of an insured; a residence employee in the course of employment by an insured; or an animal owned by or in the care of an insured.

Medical (Coverage M) has a **standard limit of \$1,000 per person, per accident**. This amount may be increased by endorsement.

c) Additional Coverage: included with the policy and requires no additional premium by the insured):

- **Claims Expenses:** defense expenses and taxes; premiums for bonds required in a suit the insurer defends; pre-judgment or post-judgment interest on the amount of the judgment the insurer is obligated to pay; reasonable expenses incurred by an insured at the company’s request, including loss of earnings by an insured.
- **First Aid Expenses** reimburses the insured for expenses the insured incurs for giving first aid to others at the time of an accident. Note: *In Commercial General Liability, the first aid administered to others is covered under Medical Expense (Coverage C).*
- **Loss Assessment** *pays up to \$1,000 of the insured’s share of any loss assessment charged against the insured by a corporation or association of property owners when the assessment is made because of an occurrence to which this coverage applies, or the claim is based on the association’s liability arising out of an act of an unpaid elected director, officer, or trustee of the association.*