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HOMEOWNER'S PROPERTY FORMS

There are generally three types of coverage available for three differing needs. Basic, Broad, and Special for Dwelling, Homeowner's, and Businesses. Basic coverage is *named perils*, Broad form coverage adds more *named perils* to that existing list, and Special form opens it up and covers everything unless it is listed as an exclusion.

On a named perils policy, only what is named is covered. For example, if a tree falls on your rental and you purchased a DP1, you are paying for those repairs yourself since the peril of falling objects is not picked up as a peril until a DP2.

	<u>BASIC</u> (Named Perils)	<u>BROAD</u> (Named Perils)	<u>SPECIAL</u> (Risks of Direct Physical Loss, a.k.a. Open Perils)
Dwelling Property (ISO Dwelling Program)	*DP 00 01 DP1	*DP 00 02 DP2	*DP 00 03 DP3
Homeowner's (ISO Homeowner's Program)	HO1 (No longer sold)	*HO 00 02 HO2	*HO 00 03 HO3 & HO5
Commercial (ISO Program)	Causes of Loss Basic	Causes of Loss Broad	Causes of Loss Special

Please remember that the state exam might refer to Dwelling and Homeowner's policy questions by using the longer number.

I.S.O. means Insurance Services Office ... A not-for-profit organization established by insurance companies to write and rewrite policy forms and compile rating information, etc. ISO is the principal rate-making organization for property and casualty insurers. The information in this material is ISO standard.

I. Homeowner Policies

A. Characteristics of a homeowner's policy include the fact that although most of the coverages deal with damage to the home it also covers liability issues caused by the insured. **There are 2 sections in a homeowner's policy.**

Section I covers Property Section II covers Liability.

Section I has four separate parts with separate coverage amounts. All except for HO4 and HO6 are based on the replacement cost of the home (Coverage A). An HO4 is a renters policy and an HO6 is for condo units. Neither of these offer coverage A since the tenant does not own the building.

Section II has two parts; liability (where you are legally liable for the damages to another) and medical payments. Med pay is NO FAULT. Med pay being paid out to a person does not imply liability.

B. Eligibility: The insurance must be for residential purposes, not for commercial exposures; four-unit maximum, no more than 2 boarders per unit, owner occupied in one of the units; no farm use is covered.

- A farmhouse must be covered under a Farm or Ranch policy due to the business exposures. It is considered a commercial policy but the portion providing coverage for the home is identical to the homeowners policies.
- Certain incidental business and professional occupancies are allowed. These operations must be conducted by the insured and include such occupancies as beauty parlors, photographic studios, and professional offices like insurance and real estate agents. Professional liability is excluded.

C. Purpose: Homeowner Policies are package policies because they include coverage for property and casualty (liability). The purpose of paying for a homeowner's policy is, in the event there is a loss caused by a covered peril, the homeowner does not have to pay for all the repairs or replacement out of pocket. They pay a deductible and the insurance company covers what is listed in the policy.

A **homeowner** may be held liable for damages arising from her home or yard, or for the actions of her children or pets. An individual can also be held liable for damages arising out of personal activities away from the home. All of these types of exposures are covered under Section II of the HO policy. A homeowner's policy is protection for the consumer against the financial impact of a loss.

D. Definitions in a homeowner's policy include:

a) 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 years of age and in the care of any persons insured.

b) Replacement Cost is like for like. e.g., a 15-inch laptop for a 15-inch laptop, regardless of the original purchase price.

c) Actual Cash Value is the depreciated value. A 15-inch laptop purchased 5 years ago would have a greatly depreciated value. In order to replace it the consumer needs to pay the difference. This can save money in premium but will cost more out of pocket if there is a loss.

d) Depreciation is a reduction in the value of an item over time, due to wear and tear.

e) Deductible is the amount paid by the consumer before the carrier pays. The purpose is to lower premiums, avoid overuse of the benefits by the insured, and avoid multiple small claims for the carrier. Is it a dollar amount or a percentage? A normal deductible of \$500 or \$1000 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.

f) Home-sharing coverage such as rental by a home-sharing occupant for up to 30 days may be added on your policy for limited coverage amounts.

II. Perils Insured Against The perils insured against are identical to a dwelling policy with the exception of theft being a covered peril without having to be endorsed

A. Basic Form (Named Perils) is a named perils policy, the company only pays if the loss is caused by a peril named in the form. **This coverage is no longer sold** as an HO1 but can be found as the perils covered in an HO8. Additionally, it is important to know these coverages which are identical to a DP1 since they are built on in an HO2.

Fire, lightning, and Internal explosion are **always** covered. EC or extended coverage consists of REV C SHAW, V MM. This is the acronym for extended coverage. Acronyms can help you to remember lists.

A basic form policy covers only damages from: riot, explosion, vehicle, volcano, civil commotion, smoke, hail, aircraft, and wind , as well as vandalism and malicious mischief.

B. Broad Form (Named Perils) HO2, adds more named perils to the list. The additional coverages deal with falling objects, Sudden & Accidental damage from artificially generated electricity, and water damage *other than flood*.

- If the pipes freeze – covered
- The radiator blows a gasket and there is steam damage – covered
- A client forgets the tub is on and answers the door, tub overflows flooding the home – covered
- Heavy rains cause the river to rise , floods a clients home - NOT covered.

C. Special Form (Open Perils); HO-3, This form provides the most complete coverage. Coverage for the dwelling and other structures "A" & "B" are provided against any risks that are **not excluded** (a.k.a. **Risks of Direct Physical Loss**).

- **Contents** - Coverage C personal property is covered on a **Broad Form** named perils only.

SPECIAL NOTES on HO Coverage Forms:

- **Special Form HO and Special Form DP:** covers (All) Risks of Direct Physical Loss or Open Perils coverage on the dwelling (coverage "A") and other structures (coverage "B"). The Personal Property (coverage "C") is insured on a broad form, named perils basis.

- o HO15 Endorsement: You can add the *Special Personal Property Endorsement* (HO15) to provide "Risks of Direct Physical Loss" on the personal property.
 - o The HO15 insures personal property items against "mysterious disappearance." An HO3 with an HO15 endorsement is similar to an HO5.
- Glass Breakage is always replacement cost and replaced up to "Code."
- Volcanic Action covers volcanic blast or airborne shock waves, ash, dust or particulate matter and lava flow. Volcanic Action **does not cover** damage to land, property in the open or in open sheds and buildings, and personal property in buildings not completely enclosed.
 - o All eruptions that occur within any 72-hour period will be considered the same volcanic eruption and subject to one deductible. *Volcanic Action does not cover earthquake, land shock waves or tremors.*

<u>BASIC</u> Form, HO1, Named Perils Rev C Shaw	<u>BROAD</u> Form, HO2, Named Perils IAFFECT	<u>SPECIAL</u> Form, HO3
<p>✓Fire and Lightning</p> <p>✓EC - Extended Coverage- (acronym)</p> <p>*****</p> <p><u>R</u>iot</p> <p><u>E</u>xplosion</p> <p><u>V</u>ehicle& Volcano</p> <p><u>C</u>ivil Commotion</p> <p><u>S</u>moke</p> <p><u>H</u>ail</p> <p><u>A</u>ircraft</p> <p><u>W</u>ind</p> <p>✓V & MM</p> <p>✓<u>Theft</u></p> <p>✓Glass Breakage</p>	<p>✓Includes ALL of the perils listed in the Basic Form, plus, (acronym) IAFFECT:</p> <p>(I) Weight of Ice, snow, or sleet</p> <p>(A) Sudden & Accidental discharge or overflow of water (Aqua) or steam from within plumbing or related systems</p> <p>(F) Falling objects</p> <p>(F) Freezing of plumbing, related systems</p> <p>(E) Sudden & Accidental damage from artificially generated Electricity</p> <p>(C & T) Sudden & Accidental Cracking, Tearing apart, burning, or bulging of a steam or hot water heater, AC system, etc.</p>	<p>✓Provides dwelling coverage (A & B) on risks on a direct, physical loss basis (a.k.a. Open Perils).</p> <p>✓Personal Property (C) is covered on a Broad Form basis (named perils).</p> <p>✓You can add the Special Personal Property Endorsement, HO 00 15 (HO15) to provide “Risks of Direct Physical Loss” on the personal property.</p> <p><u>NOTE</u>: An HO3 with an HO15 endorsement is almost identical to an HO5 (Comprehensive Form).</p>

III. Homeowner's Policy Coverage Forms:

<u>type of coverage</u>			<u>Coverages A and B</u>	<u>Pays</u>	<u>Coverage C</u>	<u>Pays</u>	<u>Coverage D</u>
<u>Form Number</u>		<u>Form Name</u>	<u>Dwelling and Other Structures</u>		<u>Personal Property</u>		<u>Loss of Use</u>
HO2	HO 00 02	Broad Form	Named Perils	RC	Broad Form Named Perils	ACV*	20% of Coverage A
HO3	HO 00 03	Open Perils	Open Perils	RC	Broad Form Named Perils	ACV*	20% of Coverage A
HO4	HO 00 04	Renters	--	--	Broad Form Named Perils	ACV*	20% of Coverage C
HO5	HO 00 05	Comprehensive Form	Open Perils	RC	Open Perils	ACV*	20% of Coverage A
HO6	HO 00 06	Condo/ unit owner	limited for interior walls	--	Broad Form Named Perils	ACV*	40% of Coverage C
(HO7)		Mobile Home	Named Perils or Open Perils	ACV	Broad Form Named Perils	ACV*	20% of Coverage A
HO8	HO 00 08	Modified Form	Basic Named Perils	ACV	Broad Form Named Perils	ACV*	20% of Coverage A
ACV - Actual Cash Value RC - Replacement Cost				*can be endorsed to replacement value			

A. HO1 – (Basic Form) HO1 is no longer sold. Coverages are identical to a DP1 and an HO8: Fire, lightening, internal explosion, and EC (extended coverage, REV C SHAW), vandalism and malicious mischief. The reason it is mentioned is the coverage on an HO2 builds on top of this coverage.

B. HO2 – (Broad Form), covers the dwelling, other structures, and personal property on a named perils basis. These perils are all the basic form perils and additionally IAFFECT.

C. HO3 – (Special Form), provides Risks of (Direct Physical) Loss (a.k.a. Open Perils) coverage on the dwelling and other structures. All perils are covered unless specifically listed as excluded. important to note:

- Coverage for the dwelling "A" and Other Structures "B" are Open Perils.
- Coverage for Personal Property "C" insures against losses caused by Broad Form named perils.
- *e.g., a raccoon breaks into my garage and nests, the damage to the structure is covered because raccoons are not excluded. The damage to my personal property is not covered as raccoons are not a named peril.*

D. HO4 – (Contents Broad a.k.a. Renters or Tenants), provides Named Perils coverage (same as on the HO2 "A" & HO3) for personal property "C." ***There is no dwelling coverage "A" and "B" because the insured doesn't own the premises.*** The HO2 Broad Form perils apply to the Renters Form.

E. HO5 – (Comprehensive Form), provides Risks of (Direct Physical) Loss (open perils) on the dwelling, other structures, ***and on personal property.*** ***This is considered the best Homeowner's policy today because it has the broadest coverage.*** Many companies today use the ***HO3 and add the HO15 endorsement*** to give the identical coverage as the HO5.

- *e.g., a raccoon breaks into my garage and nests, the damage to the structure is covered because raccoons are not excluded. The damage to my personal property is covered as raccoons are not a named EXCLUSION.*

F. HO6 – (Condominium Form A.K.A. Unit Owners), is the **same coverage as on a Renter's Policy**, with a little more. The dwelling coverage "A" & "B" is covered under the Condominium Owners Association's policy. Also, there is limited Dwelling "A" coverage for alterations and other owned building items. It can be increased, if necessary. Higher coverages are necessary compared to a renter's form because the insured owns the interior of the unit; all appliances, cupboards, tub, fixtures, etc.

G. HO8 (a.k.a. Modified Coverages) is the same as the HO1, except losses are paid on an ***actual cash value basis or construction cost***, not replacement cost. ***Owners of older homes or elaborate homes with detailed designs or decorative architecture*** might have a replacement cost far in excess of the ACV or market value of their home. The premium for such a home would be prohibitive. The HO8 provides a practical package of homeowner's coverage for owners of such dwellings. This also avoids creating a moral hazard. (A home is insured for a million dollars, the replacement cost is a million dollars, the market value is \$250,000. Do you sell it and move or not repair the wiring and let it burn down?) It is a basic named perils policy (see DP1 or HO1).

e.g., If there were a fire loss, the repair is for the same square footage with materials available today. A golden oak sunroom / library would be replaced with a sunroom / library but not paneled in golden oak.

IV. Section I - Property Coverage

Included in Every Homeowner's Policy:

A. Coverage "A" - Dwelling, (not included in HO4 & HO6), includes the dwelling, structures attached to the dwelling, and any material to be used to repair or build such structures when the material is located next to the dwelling.

B. Coverage "B" - Other Structures (a.k.a. Appurtenant Structures), (not included in HO4 & HO6), covers buildings separated from the dwelling by a clear space. These buildings may not be used for business purposes other than those described earlier under eligibility. **This is an additional 10% coverage of the policy limit of Coverage "A."**

C. Coverage "C" - Personal Property (Contents), **covers 50% of "A" in additional coverage.** Personal property owned or used by the insured is covered 100% anywhere in the world. ***An endorsement may be added to increase the percentage amount.***

D. Coverage "D" - Loss of Use, pays for increased living expenses if the insured cannot occupy the residence following a loss by a covered peril. The insured may be reimbursed for the *fair rental value* of the residence.

- Percentage of coverage:

20% of "A" on HO2 and HO3

20% of "C" on HO4

40% of "C" on HO6

SPECIAL NOTE: Coverage "E" Liability and Coverage "F" Medical are Section II coverages and are covered in the next few pages.

V. Additional Coverage INCLUDED: This coverage is included with the policy and requires no additional premium by the insured **for losses due to a covered peril** (see Dwelling Section for more detailed definitions):

- Debris removal is the same as on the Dwelling Property forms, 5% of coverage A
- Reasonable repairs
- Landscaping (*\$500 max. per/tree, shrub, and other plants, etc. up to 5% of policy limits*)
- Fire department service charge = **\$500**
- Property removed from the premises for up to 30 days to protect it from further loss, such as in a storage unit. This coverage is ALL perils, nothing is excluded, but limited to 30 days.
- Credit cards, fund transfer cards, forgery, and counterfeit money for up to **\$500**
- Loss assessment by property owner's association for \$1,000 for repairs made necessary by a covered peril
- Collapse

This is an example of how much could be paid out on a \$200,000 policy if there was a total loss:

A	structure		\$200,000
B	other structures	10%	\$ 20,000
C	personal property	50%	\$100,000
D	loss of use	20%	\$ 40,000
	Debris removal	5%	\$ 10,000
	Landscaping	5%	\$ 10,000
	Fire dept service charge		\$ 500
	Total so far		\$380,500

Specific (Internal) Property Limits on indemnification includes the following:

Money, coins, and precious metals other than tableware	\$ 200*
Securities, manuscripts, other valuable papers	\$ 1,500*
Watercraft, including the trailer and equipment (on the premises only!)	\$ 1,500*
Trailers	\$ 1,500*
Property on the premises used for business	\$ 2,500*
Property away from the premises used for business	\$ 500*
<i>Specific property limits for the peril of theft only:</i>	
Theft of jewelry, watches, furs, precious and semi-precious stones	\$ 2,500*
Theft of silver ware, gold ware and pewter ware	\$ 2,500*
Theft of firearms	\$ 2,500*

****These are TOTAL amounts, NOT per item!*** Students do not need to memorize these dollar amounts but should be able to list which items are limited in coverage in the policy, especially those items limited for the peril of theft. These coverage restrictions are designed to encourage the insured with personal property of high value or of a hard to value nature, to insure the property on a “stated value” basis, often on a ***Scheduled Personal Property Endorsement or on a Personal Article Floater (Inland Marine)***. These objects **with limits for the peril of theft** are targeted items of thieves.

VI. Section II (Liability Coverage)

A. Coverage “E” - (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 E **has a standard limit of \$100,000** per occurrence. This amount may be increased by endorsement.

a) Bodily Injury means bodily harm, sickness, or disease, including required care, loss of services, (i.e., **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 which is transmitted through sexual contact, nor does it include the actual or alleged sexual molestation of a person, nor does it include physical or mental abuse.

b) Personal Injury (PI) *is not automatically included* in most ISO Homeowners' policies, it may be added on by endorsement. Personal Injury includes false arrest, malicious prosecution, libel (in writing), slander (verbal), defamation of character, invasion of privacy, and wrongful eviction or entry.

c) Property Damage is defined as physical injury to tangible property, including all resulting loss of use of that property.

d) Persons Insured includes 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 "F" - Medical Payments to Others, will pay the necessary medical expenses that are **incurred within three years from the date of an accident** which 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 to any person off the insured premises if the bodily injury is caused by: conditions on walk-ways 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 F) has a **standard limit of \$1,000 per person, per accident**. This amount may be increased by endorsement.

C. Section II, 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 as a result of an occurrence to which Section II 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.*

VII. Homeowner's Policy Exclusions

A. PROPERTY Excluded, Section I

- Animals, including fish and birds
- ***Property of roomers, boarders or tenants not related to the insured***
- Motorized vehicles or aircraft, equipment, and accessories. *If a car were in storage and the garage burns down or parts were stolen, the vehicle is not covered. If you want coverage, you will need a comprehensive auto policy.*
 - **Special Note:** *Homeowner's policies do cover vehicles which are not subject to motor vehicle registration and which are used to service an insured's residence, or designed to assist the handicapped.*

- Land, including the land under the insured's residence
- Electronics that cannot be replaced with like kind and quality in the marketplace or any obsolete property (such as a broken down lawnmower or eight-track tape deck)
- Merchandise held as samples or for sale

B. PERILS Excluded on Special Form Policies, Section I

- Loss due to **ordinance or law** regulating construction, repair, or demolition.
- **Earth Movement** - means landslide, mudflow, earth sinking, rising, or lifting; and ***earthquakes***, including land shock waves before, during or after a volcanic eruption.
- Direct or Indirect Loss from **Water Damage**.....Water damage means loss caused or contributed by: sewer or drain backup, and water from below the ground including seeps or leaks through any part of the building, sidewalk, driveway, foundation, or swimming pool. Water damage includes **flood**, surface water, waves, tidal water, overflow of a body of water or spray from any of these, whether driven by wind or not.
- Loss due to power interruption whose source is **off** the premises.
- Loss due to **neglecting** to protect property after a loss.
- **War** and nuclear perils.
- **Theft** of personal property **does NOT include**:
 - o theft by an insured. *It is important to remember the definition of an insured here. If a child living with me sells a piece of jewelry to buy something else, that is not theft according to the insurance policy as the child is an insured.*
 - o theft from a portion of the premises used by a boarder
 - o property left in a building under construction
 - o **mysterious disappearance** (vanishing of property without any explanation)
- The coverage for discharge, overflow, vandalism and malicious mischief, theft, attempted theft, or damage to glass, is suspended whenever the dwelling has been *vacant* for more than **60 consecutive days**.
- Insurance is designed to cover sudden and accidental losses, therefore **gradual, preventable, or expected losses such as wear and tear, mechanical breakdown, smog, rust, or corrosion are excluded. *Mold, fungus, and wet or dry rot are also excluded.***
- **Intentional Loss or illegal activities** - any loss arising out of an act committed by or at the direction of an "insured" and with the intent to cause a loss.

- The **freezing peril** is suspended whenever the dwelling is vacant, unoccupied, or being constructed, *unless reasonable care was taken* to maintain heat in the building or to shut off the water supply, drain systems and appliances.
- Special Form policies exclude losses caused by faulty, inadequate, or defective planning, zoning, development, surveying, design specifications, workmanship, repairs, renovation, construction, remodeling, grading, or compaction.

The primary purpose of this exclusion is to avoid making the insurer a guarantor of work done or product sold by a builder, company, or worker, etc. Any damage caused by a builder to an insured home would need to be repaired by the builder, not the insurance company.

C. Liability Exclusions, Section II

- Liability or injury or damage which is expected or intended by an insured.
- BI or PD arising out of business pursuits or failure to render professional services.
- BI or PD arising out of the rental of any part of the premises.
- Liability arising out of ownership, maintenance, use of aircraft or motor vehicles.
- ***Exceptions** are made for the following *non-registered vehicles*, which are covered: vehicles in dead storage on the insured premises, **vehicles used exclusively for assisting the handicapped or which are used to service the insured premises**, a recreational motor vehicle owned or operated by the insured while **on the insured premises**, and *a golf cart while being used for golf*.
- Property Damage to property owned by, used by, or in the care of the insured.
- BI which is covered under Worker's Compensation.
- Bodily Injury for boats which do not meet the definition of a "watercraft." **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.
- Medical payments to residence employees or boarders of the insured premises.
- Liability arising out of the use, sale, making, delivery, transfer, or possession of a controlled substance (does not apply to the legitimate use of prescription drugs).

VIII. Property Conditions and Provisions

Property Loss Settlement (How We [the Insurer] Pay for Losses):

- **Deductible...** The deductible applies to all direct losses on an **occurrence basis**. The deductible usually **does not apply to indirect losses** (i.e., additional coverages).
- **DP1 and HO8** are settled on an **Actual Cash Value (ACV)** basis for all coverage. There is no co-insurance clause on an HO-8, it is removed since it would defeat the purpose of covering the dwelling for repair or replace using common construction materials and methods rather than like for like. i.e., no marble flooring, carved woodwork, etc.
- **HO2 & HO3** (Broad and Special) indemnification is the same, which is **Replacement Cost** on coverage "A" (Dwelling) and "B" (Other Structures).

Coverage "C" (Personal Property) is settled on an Actual Cash Value (**ACV**) basis.

The insurance company agrees to give the named insured a written notice within 30 days on how they intend to pay for the loss, after they receive a signed, sworn proof of loss statement from the named insured. ***The insurance company has the right to repair or replace any part of the damaged property with like property, or make a cash settlement.***

- Notify the police if a law has been broken.

Loss Payment... The insurance company agrees to pay the loss within 60 days after receiving the proof of loss statement from the named insured and there is an agreement with the named insured on the settlement amount.

a) Insurable Interest and Limit of Liability means when more than one person has an insurable interest, the amount payable for loss will be no greater than the insured's interest at the time of loss, subject to the limit in the policy.

- Suppose Mr. H and his cousin each own 50% of a \$200,000 duplex. The duplex is insured under a \$200,000 HO policy when it burns down. If there is no mortgage, Mr. H and his cousin would each receive \$100,000 (their insurable interest).

b) Co-Insurance Clause (purpose) encourages the insured to insure her property for its full value by imposing a **penalty** on indemnification amounts if the property is insured for less than a given percentage of its value (usually 80%).

- *Unless otherwise stated, expect an 80% coinsurance clause in any exam question.*
- The **penalty** is the fact that if the insured only carries a fraction of what is needed, the insurance only covers a fraction of the total loss. That fraction is determined by the amount of insurance carried compared to the full replacement value.
- If a client carries 80% of the replacement cost, the policy actually pays 100% of the loss up to the policy limits. If a client carries 50% of the *amount required*, the insurance company only pays 50% of the loss. **The amount required for the insured to carry is 80% of the total replacement cost.**
- If there is a total loss the policy pays up to the policy limits, no more.
- This may lower premiums for the consumer but if there is any loss, the company pays a fraction and the consumer pays the balance.

How much (What percentage) are they covered for?

Step A

What IS the amount of insurance they have?

Step B

What is the replacement cost? 80% of the total replacement cost is the amount of insurance needed, a.k.a. 'should be'

Step C

Is / Should Be = The proportionate amount paid

Step D

The amount of the loss is multiplied by the proportionate amount paid to come up with how much the company will pay towards the loss.

For example: If a house has a \$400,000 replacement cost and the policy has an 80% co-insurance clause, the insured would be expected to carry at least \$320,000 of coverage. (80% of 400 is 320) As long as the amount of insurance is \$320,000 or more, all losses up to the policy limit would be paid.

If the coverage is only \$160,000 and a loss occurs, the policy will pay only one half of the loss (see below). Let's say the loss is \$20,000

A: \$160,000 is the insured amount \$160,000

B: \$400,000 is the replacement cost -----

(\$400,000 x 80%) = \$320,000 \$320,000

\$320,000 is the amount of insurance needed

C: $\$160,000 / \$320,000 = 1/2$ or 50%

D: $\frac{1}{2} \times \$20,000$ (the loss) = \$10,000

Subtract deductible if one is shown

- If the coverage is \$160,000 and a **total loss** occurs, the policy *limit* of not more than \$160,000 will be paid.
- Remember the **3 P's** – Peril, Policy, Pay
 - Is the Peril something that is insured against?
 - Does the Policy cover the item or location?
 - How do they pay?

If a slight earthquake damaged the garage, the insured has a policy for \$60,000 and a replacement cost of \$100,000, how much does the policy pay?

The correct answer is Zero, earthquakes are not covered unless endorsed.

If the numbers are the same and there is a \$20,000 loss due to fire, this policy would pay \$15,000.

has- \$60,000 replacement cost – \$100,000 should have \$80,000

$60/80 = \frac{3}{4} = 75\%$

$\frac{3}{4}$ or 75% of \$20,000 is \$15,000

c) The Subrogation Clause (a.k.a. Transfer of Right of Recovery Against Others) allows the *transfer to the insurance company of the insured's rights of recovery from a third party* when the insurer pays for the losses. ***Relates to indemnification.***

d) The Appraisal Provision states that if the insurer and the insured cannot agree on an indemnification amount, either party may request an appraisal:

- Each party retains and pays for their own appraiser
- If the appraisers do not agree, they select an umpire and the cost is split between the insured and the insurer
- When agreement is reached between any two, the matter is settled

e) Assignment is the transfer of the policy rights to someone other than the policyholder. ***Assignment is valid only with the written consent of the insurance company***

f) Other Insurance applies when there is more than one policy covering a loss. This prevents ***“over indemnification”***. The policy will usually pay its **pro rata share** of a loss if there is more than one insurer covering the loss or will pay for a loss on an excess or primary basis if the duplicate coverage is with the same insurance company.

- **Pro rata liability** means the ***distribution*** among several insurance companies for payment of a claim. For example, if an insured has an auto policy of equal coverage with company A and company B and a loss occurs, each company will pay 1/2 of the loss.
- If a building is insured for \$1,000,000 with company A and \$2,000,000 with company B, company A will pay 1/3 of any covered loss, company B will pay 2/3. Since company A has ***1/3 of the total coverage***, they will pay 1/3 of the total loss.

g) Insurer's Option is the right to ***repair, replace or give a cash settlement***. **Loss payment** is the insurer's statement that they will pay the loss to the insured and/or mortgagee, and agrees to ***pay the claim within 60 days after settlement*** with the insured.

h) Your Duties After a Loss include (**Notice of Claim**): notify the insurance company **immediately** after a loss; notify the police if a law has been broken, protect the property from further damage; 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.

i) Pair and set clause states that in the case of loss or damage to a pair or a set, the insurer can either repair or replace any part to restore the value if the set or pay the difference between the actual cash value of the property before and after the loss.

j) Mortgage Clause (a.k.a. Mortgagee or Lien Holder)... A provision attached to a property policy covering mortgaged property stating that the loss must be payable to the mortgagee as his interest may appear and that the mortgagee's right of recovery may not be refused by any act of the insured.

- **A copy of any renewal, nonrenewal or cancellation notice sent to the named insured is required to be sent to the Mortgagee.**
- **Duties of the Mortgagee:** 1) file **proof of loss** within 60 days if the insured fails to do so; 2) **pay any premium not paid by the insured**; and 3) notify the insurance company of an increase in hazards (or if the risk has changed substantially).

k) Cancellation Condition... Cancellation means termination of an insurance policy by the insured or the insurance company during the policy period.

The named insured may cancel at any time by returning the policy or by giving written notice to the insurance company. Either approach provides the insurer with written documentation proving that the policyholder (named insured) initiated the cancellation. The policy places no restraints on the policyholder's (named insured) ability to cancel the policy.

The insurance company may cancel a policy with a minimum of a 10-day written notice for non-payment of premium and with a 10-day written notice within the first 60 days of underwriting. After the policy has been in force for over 60 days, the insurance company may cancel only for cause and with a **minimum of a 30-day (ISO) written notice.**

Common Cancellation Reasons (Cause):

1. **Concealment or misrepresentation of a material fact**
2. **If the risk has changed substantially since the policy was issued**
3. If the building is vacant or unoccupied for more than 60 consecutive days

4. If repairs to the dwelling have not been in a progression of completion 60 days after receipt of funds from the insurer
5. Not furnishing heat, electricity, water, or sewer, for 30 consecutive days

Cancellation Premium Refunds:

1. **FLAT RATE** cancellation means that the policy will be canceled ***back to its effective date when coverage began***. A full refund (100% of premiums paid) must be sent to the insured within 45 days from the cancellation. This is not very common.
2. **SHORT RATE** basis refunds are made if the insured cancels the policy. All *unearned* premium minus a service fee must be **returned to the insured within 30 days from the date of the cancellation**. *S for Short/ S for Service Fee*
3. **PRO RATA** basis refunds are made if the insurer cancels the policy. All *unearned* premiums must be **returned within 45 days** from the date of the cancellation. No service fee is allowed.

If a client has a policy with a \$365 annual premium and it is cancelled 100 days in:

- *A Flat Rate refund would be \$365.00*
- *A Short Rate refund would be \$228.50*
 - *365 premium – 100 earned premium – a service fee of a 10% (\$36.50)*
- *A Pro Rata Refund would be \$265.00*

Nonrenewal means that coverage will be continued through to the policy's expiration date, but not beyond. The **nonrenewal** of a policy requires a **minimum 30-day** (ISO) written notice.

Renewal of a policy requires the insurer to give a **20-day** (ISO) notice of intention to renew.

Notices: Any written notice from the insurance company to cancel, renew or non-renew an insurance policy must be sent to all of the following:

1. *named insured*
2. *mortgage company* (lien holder)
3. *producer of record*

IX. Section II - Liability Conditions:

a) Limit of Liability means the insurance company will not be obligated to pay any more than the limit set in the declarations page for **any one occurrence** for Coverage "E", regardless of the number of claims. The limit for Coverage "F" (Medical) will pay **per person**, but up to the limit on the declarations page.

b) Severability of Insurance means each person insured is treated as if each has separate coverage under the policy. However, the limit of liability stated in the policy is not cumulative, regardless of how many claims or suits are brought.

c) "Your" Duties After a Loss: promptly

- *give the insurer written notice;*
- promptly forward every notice, demand, or other process relating to the accident or occurrence;
- assist the insurer at their request; and
- *submit a sworn statement under oath if required by the insurer.*
- The insured will not voluntarily make payment, assume obligations, or incur expenses, other than to extend first aid to others.
- Notify the police if a law has been broken

d) Medical Payments Made to Others is not an admission of liability.

e) Suit Against "Us" is allowed only if the insured has met all of the policy provisions. There is a one-year limitation to file the suit.

X. Common Property Endorsements

a) Ordinance or Law: Most property insurance coverage forms exclude losses resulting from enforcing current building codes or laws regulating repair or replacement. If an older building is damaged to a certain extent, current code may require the building be demolished and rebuilt. Insurance will not cover the demolition or cleanup of the site.

b) Windstorm Coverage Endorsement can be written as a separate policy to cover sudden damage to insured property due to **Wind or Windstorm** for those individuals and businesses.

- **Wind** is usually an insured peril on most property forms. However, some insurance companies are now excluding **Wind** damage if the insured property is located in a part of the United States which has seasonal tornados and hurricanes.

c) Earthquake Coverage Endorsement may be endorsed with any of the forms and covers damage caused by earthquake. **The deductible is usually 10%. The 10 % is of the amount of coverage.** So, a home with a replacement cost of \$200,000 would have an earthquake deductible of \$20,000.

The insured may insure the dwelling only or may cover both the dwelling and personal property. The deductible applies to the dwelling and personal property separately. All earthquakes that occur within any 72-hour period will be considered the same earthquake and subject to only one deductible.

The sale of earthquake insurance will be suspended by an insurance company following an earthquake. The reason for this is that some people might wait for a small earthquake then rush to purchase coverage, thinking that a bigger quake is about to occur.

d) Business Pursuits/Home Business Endorsement Many people operate a business from their home. The standard policy has a limit for business property and legal liability for the business is specifically excluded. The **home business endorsement** increases the coverage for property damage to the limits of Coverage C of the homeowner's policy, which is 50% of the coverage for the main residence, and includes coverage for accounts receivable, records, and lost income and extra expenses when the business must be suspended because of a covered loss.

- The liability coverage includes bodily injury, property damage, and personal injury. *However, this coverage does not include professional liability.* Thus, if an insurance **agent** worked from a home office, he would still have to purchase errors and omissions insurance.

e) Home Day Care Endorsement It is an unfair practice in most States for any insurer to deny or terminate homeowner's insurance for the reason that an insured is engaged in an incidental day care operation at the insured location. However, this rule *does not prevent* an insurer from excluding coverage for losses arising out of the operation of day care. An insured can add the Home Day Care endorsement to include coverage for losses arising out of the day care operation.

f) Identify Theft Endorsement Identity fraud occurs when a criminal uses personal information, such as a Social Security Number or credit card account number, to steal financial resources.

Homeowner's policies do not cover this type of loss. Identity theft victims often have to spend their own money and a considerable amount of time and energy to clear their credit histories and correct their financial records. By adding the Identity Theft endorsement coverage as an optional endorsement under a homeowner, renter, condominium / unit owner, manufactured home, or farm and ranch policy, the insured will have expense reimbursement and personal help for the recovery process.

g) 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.

h) Personal Property Replacement Cost Endorsement Personal Property "C" pays for the loss on an actual cash value (depreciated) basis. With the Replacement cost coverage endorsement, you can receive up to the cost required to replace the lost item once you submit a receipt for the purchase of the item.

For example, someone steals your Nintendo game systems and all the old games. You will receive ACV for the systems and the games. As you replace – and only if you replace – the insurance company reimburses the difference between the ACV already paid and the actual cost for replacing the items.

i) Watercraft is often needed because homeowner's policies restrict coverage for watercraft (\$1,000 on the premises) and also restrict the liability coverage. People who own boats, especially larger boats, may need a separate watercraft or boatowner policy.

Watercraft - An endorsement to a liability policy or homeowner's insurance that provides coverage for boats one owns or uses. For example, if you own a boat not covered under your other insurance and it sinks, a watercraft endorsement would pay for the replacement boat. As with all insurance, you must pay a premium to receive the coverage.

The Boatowners' Policy combines property, liability, and medical payments coverage. Most boatowners' policies are similar to auto policies. Coverage includes:

1. **Hull Damage** (covers physical damage to the boat)
2. **Trailer Coverage** (covers the trailer for physical damage)
3. **Liability** (covers bodily injury and property damage to others)
4. **Medical Payments** (coverage is available, similar to that under auto)

j) Scheduled Personal Property Endorsement (same as the *Personal Articles Floater*) provides insurance beyond the limits established in the Homeowner's policy. The items must be listed by description and value on the application.

Examples include Jewelry (***most commonly used***), Furs, Cameras, Musical Instruments, Golf Equipment, Silverware, Fine Arts, Coins, Stamps, Collectibles, and Memorabilia.

- This endorsement provides coverage on a **risks of direct physical loss** basis. (a.k.a. open perils). Picks up **mysterious disappearance** losses.
- The SPP endorsement is **not** subject to any deductible.
- Establishes the value of the property **before the loss**. *Keep in mind the value is determined at the time of the loss.* The company will indemnify the insured for the lesser of ***the amount for which the insured could be expected to repair or replace the property with a substantially identical item, but never more than the stated amount of insurance.***

k) Personal Injury Is harm other than bodily injury to a third party that the insured may be legally liable for. Personal Injury includes false arrest, malicious prosecution, libel (in writing), slander (verbal), defamation of character, invasion of privacy, and wrongful eviction or entry.

Comparison of ISO Homeowner Forms

<u>Section I – PROPERTY</u> Coverage & Limits	HO1 is no longer sold. The coverages are part of the HO2 form as well as an HO8	<u>Broad Form HO2</u>	<u>Special Form HO3</u>	<u>Compre-hensive Form HO5</u>	<u>Renters/ Condo HO4 / HO6</u>
A-Dwelling		Covered	Covered	Covered	---
B-Other Structures		10% of A	10% of A	10% of A	---
C-Personal Property		50% of A	50% of A	50% of A	Covered
D-Loss of Use (indirect loss)		20% of A	20% of A	20% of A	20% of C - Rent. 40% - C -Condo
Additional Coverage:	Removal coverage for 30 days; Costs for reasonable repairs; Fire Department charge \$500; \$500 per tree, plant, and shrub; Debris removal; Credit card, forgery & counterfeit money coverage, and home improvements	Same as HO1, plus collapse of a building	Same as HO1, plus collapse of a building	Same as HO1, plus collapse of a building	---
PROPERTY EXCLUDED:	See text				
PERILS COVERED:	Fire, Lightning, E.C. (REV C SHAW), V&MM, Theft & Glass	Same as HO1, plus IAFFECT	Risk of Loss, Special Form, coverage for Dwelling – A & Other Structures - B Broad Form perils for part C Personal Property	Risk of Loss (Special Form) coverage for (A, B, & C) Dwelling, Other Structures, and Personal Property	Broad Form perils for Personal Property
PERILS EXCLUDED:	See text				
INDEMNIFICATION : Insurance company will give notice within 30 of a proof of loss of intentions on how they will pay for the loss. Upon agreement with the insured on the amount, the company will pay within 60 days of agreement.					
Replacement Cost for A & B Actual Cash Value for C	✓	✓	✓	Replacement cost for C	✓
<u>Section II – LIABILITY</u> Comprehensive Personal Liability	All forms are identical coverage and limits				
Primary Coverage	Coverage E – Personal Liability \$100,000 per occurrence Coverage F – Medical Payments to Others \$1,000 each person				
Additional Coverage	Claim Expenses, First-Aid, Loss Assessment (\$1,000 per occurrence), and Duty to Defend .				