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PRELICENSING:

PROPERTY

INSURANCE

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**IT IS RECOMMENDED THAT YOU READ
SECTIONS II AND III FIRST
AND THEN REVIEW SECTION I (POLICY TYPES).**

READ THIS PAGE FIRST

Read through all materials pertaining to the license you wish to obtain (life, accident & health, property, casualty or personal lines).

Complete the "NONSUPERVISED" exam in an open book fashion. THIS EXAM WILL BE GRADED BY DOHRN INSURANCE TRAINING. The "NONSUPERVISED" exam is the first exam in the EXAM SECTION located in the read of your text (immediately following the gold sheet in this manual). You must score 70% or better on any life, accident & health, property or casualty NONSUPERVISED exam in order to pass your prelicensing course! If you fail this exam you will be sent a make-up exam. If you fail the make-up exam you must take a prelicensing course from a different provider and attempt to pass their course. **THIS IS AN OPEN BOOK EXAM! LOOK UP THE ANSWER IF UNCERTAIN – DO NOT GUESS!**

YOU MUST PASS YOUR PRELICENSING COURSE before your license can be issued. Upon passing this prelicensing course, Dohrn Insurance Training will report your course completion date via the Internet to the Illinois Department of Insurance. **We report course completions one time per week (Tuesday).** Upon successful course completion **we will send you a confirmation letter** showing your completion date plus a list of incorrectly answered questions. **Once the Department of Insurance receives our report IT WILL TAKE THEM AN ADDITIONAL WEEK TO DOWNLOAD THE REPORT AND KNOW THAT YOU HAVE PASSED A PRELICESNING COURSE.**

ALL NONSUPERVISED EXAM ANSWER SHEETS must contain your name AND signature or your request for course completion cannot be honored. You also need to complete the reverse side of the exam answer sheet so that DOHRN knows how to contact you with NONSUPERVISED exam results in a timely fashion.

If you provide us with the proper information we will grade your exam, contact you and provide you with a list of all incorrectly answered NONSUPERVISED exam questions. Please review all missed questions, since these will probability indicate any weakness you may have.

AFTER COURSE COMPLETION, BUT BEFORE TAKING THE STATE EXAM:

1) AFTER YOU RECEIVE YOUR NONSUPERVISED EXAM RESULTS FROM DOHRN, REVIEW ALL STUDY MATERIALS AND NOTES AGAIN.

2) **The final practice tests for you to complete are the ones marked "SIMULATED".** The answers are provided and these exams should be completed and scored by you about one or two days before you sit for the state exam. Take this exam in "closed book" fashion. By reviewing all missed questions and analyzing the reason you selected an incorrect answer, you will learn from mistakes before they actually count.

SUGGESTED FOR PROPERTY INSURANCE:

IT IS RECOMMENDED THAT YOU READ SECTIONS II AND III FIRST AND THEN REVIEW SECTION I (POLICY TYPES).

ABOUT SCHEDULING FOR THE STATE EXAM:

*** YOU SHOULD PASS THIS PRELICENSING COURSE BEFORE YOU TAKE THE STATE TEST.

*** DON'T FORGET: IF YOU SCHEDULE YOURSELF AND DO NOT SHOW FOR THE PROMISSOR EXAM, YOU WILL PAY THE FEE ANYWAY UNLESS YOU CANCEL OR RESCHEDULE AT LEAST 4 BUSINESS DAYS IN ADVANCE.

PROMISSOR test centers are located throughout the state (as well as in Schererville, IN and St. Louis, Mo) but the main locations are

•Downtown Chicago • Schaumburg, • Oakbrook • Springfield.

TO REGISTER FOR YOUR STATE EXAM WITH PROMISSOR CALL

800-274-0402

FOR OTHER INFORMATION CALL 800-274-1257.

You can access all test information, including online registration information by going to the PROMISSOR website at:

<http://www.promissor.com/>

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Remember....Don't say "Darnit!"

...GO TO DOHRNIT!

STRUCTURE OF THE PROMISSOR INSURANCE EXAMINATIONS

This page illustrates how the testing company THE STATE OF ILLIOIS has contracted with, PROMISSOR, formats insurance exams. Use the handy reference chart, below, to identify the actual number of questions for which you will be held responsible for each exam and part.

Each of the five insurance exams (Life, Accident & Health, Property, Casualty or Personal Lines) **are divided into two parts** called PART I and PART II. **PART I is referred to as the “multi-state”** section of the course and the questions pertain to generic insurance concepts relating to the particular testing subject (i.e. Life, Accident & Health, Property or Casualty). The material upon which the questions are based would be similar from state to state. **PART II, however, is state specific law** and question here pertain only to the insurance law of your particular testing state (i.e. Illinois).

YOU MUST PASS BOTH PART I AND PART II OF A PARTICULAR INSURANCE EXAM IN ORDER TO BE ENTITLED TO APPLY FOR THE LICENSE. Should you fail one part but pass another, you may return within 90 days and retake only the part you failed without being required to retake the part you originally passed. However, a full test fee will be charged for any exam retake.

NUMBER OF TEST QUESTIONS, PER PART AND PER EXAM ARE AS FOLLOWS:

PART I (MULTISTATE)	LIFE	ACC&Health	PROPERTY	CASUALTY	PERSLN
Total Number of Questions that COUNT in your score	50	50	50	50	75
Total “PRETEST” Questions (Do not count in your score)	10	10	10	10	11
PART II (STATE LAW)					
QUESTION WHICH COUNT	31	39	30	37	36
PRETEST QUESTIONS	8	8	7	7	

Of the law questions cited above as “questions that count,” **22 are common to all lines of insurance while the remainder are specific to the line of insurance.**

PROMISSOR uses a method called “scaled scoring” to determine whether or not a candidate has passed an exam. These means tests are statistically analyzed based on the weight given individual questions in the scoring process. Therefore, **straight percentage scoring is not used** (i.e. 70%, 75%, etc.)

“PRETEST” questions, although they do not count in your score, **will not be identified as such** and the test candidate is advised to approach answering all questions with equal intensity.

PROPERTY INSURANCE

Introduction

Until 1948 it was illegal in all states for an insurance company to sell more than a single line of insurance. State governments feared insurance companies would sacrifice financial solvency if “**multi-line**” insurance sales were allowed. Once the path was cleared for multi-line sales, many key contracts were subsequently developed. In this study of Property insurance for licensing purposes, the introduction will consist of a brief review of the forerunner of the modern personal lines property coverage, the New York Standard Fire Policy (SFP).

The New York Standard Fire Policy (SFP)

The New York SFP was a 165-line fire insurance contract which became a standardized model contract in nearly every state before the introduction of **Dwelling Forms** and **Homeowners Policy**. It was designed as a basic policy and was never intended to be comprehensive or complete coverage. Additional coverage could be added to it by “**endorsement**,” a practice not only allowed but also strongly encouraged. The new commercial property form replaced the SFP in the market and it is no longer used. A review of its contents is important from an historical perspective because of key terminology and contract ideas still widely used today. A SFP was a “**shell**” contract, much like the **Commercial Package Policy (CPP)** which is in widespread use today. The shell contains common declaration and policy conditions and a basic coverage package. Applicable riders which have additional cost are added based on individual need and selection by the consumer.

A **STANDARD FIRE POLICY** covered, as part of the insuring agreement, the following four concepts:

1) **Direct Loss** can be defined in one of **four ways**. IT IS LOSS:

- ① *caused by the peril itself* (the fire);
- ② *caused by the direct loss of the peril itself* (smoke from the fire);
- ③ *caused by efforts to end the destruction* after from the fire hoses); and
- ④ *caused by unavoidable exposure* (burned out roof lets in rain which does damage).

The above four causes (a-d) illustrate that direct loss must meet the **legal doctrine of "proximate cause"**. Proximate cause means there is a direct link between the cause and effect of an event without any intervening cause.

2) **Fire**, which is "Direct Loss." Fire is either

- a) **Hostile fire** - one which escapes from its intended confines; or
- b) **Friendly fire** - one which burns within its intended confines.

3) **Lightening** - which is the natural discharge of electricity in the atmosphere (any resulting damage was covered).

4) **Removal** - cost of removing property from premises "endangered by perils insured against in the policy."

The SFP is a ☞ "**Named Perils**" policy which means that all risks which are covered are specifically named within the policy coverage. Since the above coverage is quite limited, the insured would purchase more perils to be covered by adding other "**forms**" of coverage and by adding “**endorsements**” (a written change to existing coverage which has been altered to fit a specific need).

All insurance contracts are composed of four basic elements of coverage called **DECLARATIONS, INSURING AGREEMENT, CONDITIONS AND EXCLUSIONS** (many people use the moniker of "**DICE**" to aid in remembering these four sections). You must know what each element consists of (as well as what each section does not contain) for test purposes. Policy “**DEFINITIONS**” are sometime considered to be the fifth main element of an insurance policy.

DECLARATIONS, INSURING AGREEMENT, CONDITIONS AND EXCLUSIONS

1) **Declarations** - this policy **face page** makes one contract unique when compared with any other similar contract. This section **consists of all of the following** ☞ (memorize them):

- names and addresses of the insurer and the insured ● policy number (unique to each insured)
- name and address of the agent ● policy dates and coverage time (begin and end date)
- rates and premiums for each covered peril ● insurance amount
- property description and location ● name and address of mortgagee (lender), if any.
- agent's signature and date of signature

2) **Insuring Clause** or "**insuring agreement**" - is the ☞ **exchange of promises** between the insurer and the insured.

Coverage began at noon, standard time. Today, personal lines property contracts begin at **12:01 a.m., standard time** of the date listed in the policy declarations. The **company** promises to **pay an amount** which **does not exceed the least** (whichever is cheapest but still satisfies the company's legal requirement to pay) **of the following** liability limits:

- Face amount of the policy; or ● Actual cash value; or
- Interest of the insured; or ● repair or replacement cost

Other Insuring Agreement concepts:

❖ In addition to the insured, **legal representatives** of the insured also have coverage on the insured's behalf (estate or legal guardian).

❖ **Assigning, or transferring, a policy is only valid with the written permission of the insurance company.**

❖ **Restrictions which limit loss include:** 1) new building code requirements calling for improved construction are not covered. 2) business loss is considered a "**consequential**" or **indirect type** of loss and is not covered.

❖ **Property moved** from the insured address in order to protect it from further loss was **protected for five days** at a different location (**modern policies allow for 30 days protection**).

3) **Conditions** - are provisions ☞ **describing the duties of the parties** (the insured and the insurance company) when loss occurs. After sustaining a loss, it is the **duty of the insured** to:

- give written notice to the company about the loss ● protect the property from further damage
- separate damaged from undamaged property ● inventory damaged and undamaged property
- ☞☞ ● **submit a signed proof of loss within 60 days**

Furthermore, a policy will be "**voided**" (no coverage and premiums are refunded as if no contract ever existed) if "**concealment**" (*failing to disclose a material fact*) or "**misrepresentation**" (*providing an intentional false statement of a material fact*) by the insured takes place. **Other fraud which** will void a contract includes: other insurance coverage without the permission of the insured, amount of loss or extent of insurable interest which, if revealed to a company, would affect the underwriting of a risk in some manner.

When applying for insurance coverage,☞ **all statements offered by the insured are considered to be representations** which means the statements given are true and accurate to the best of the knowledge of the person making them. Therefore only material misstatements of facts can be used against an applicant to void a policy. **In no case (except ocean marine insurance) are any statements** made by an applicant considered to be a **warranty (which would mean each and every statement was guaranteed to be true)**, even minor points.

It is the **duty of the insurance company** to pay all claims, when the amount is not in dispute, in a timely fashion.

4) Exclusions ☞ **limit the scope of coverage** and include two types

A) Perils (risks) which occur as listed below. The perils below may result in a fire yet the fire is not covered because the innate (actual or first cause) cause would be a **peril** which was **excluded**.

- **Enemy attack by armed forces** ● **Invasion** ● **Insurrection** ● **Rebellion** ● **Loss by theft**
- **Revolution** ● **Civil War** ● **Usurped power** ● **By order of civil authority**
- **Neglect of the insured to use reasonable means to save /preserve the property at and after a loss**

B) Property types excluded from coverage include:

- **Accounts** ● **Bills** ● **Currency** ● **Deeds** ● **Evidence of debt, money or securities**

SFP - The Remainder of the Contract

→ **Other Insurance purchased** on the subject property is not prohibited, but the right to prohibit other insurance is reserved. This prevents over-insurance which might otherwise allow the insured to collect more benefit than actual loss sustained.

→ **Coverage can be suspended or restricted by the insurer** when

- _ a **“Hazard”** ☞ (*a hazard is a condition that makes it more likely that a loss will occur*) is increased by any means when it was within the knowledge or control of the insured;
- _ The covered **building is left unoccupied or vacant** by an owner or tenant for more than 60 days;
- _ Fire is the result of **riot or explosion**, (only the damage due to fire and not from the rioting is covered).

→ **Policy modification by endorsement and riders is allowed** and it **provides the flexibility** to purchase coverage against other perils.

→ **“Waiver”** (*means the voluntary relinquishment of a known right*). No waivers affecting the policy are valid unless stated in writing and attached to the policy. All waivers by an agent are valid, even the waiver of the waiver provision itself.

→ **Cancellation of the contract** by either party results in a refund of premium as follows

- _ **Cancellation by insurance** company results in a refund which is called ☞ “pro rata or full credit for unused time”;
- _ **Cancellation by the insured** results in ☞ **a short rate**, or less than pro rata, refund. This allows for the company to recoup some of its expenses associated with issuing the policy.

(PLEASE NOTE: although Illinois law requires companies to supply pro rata refunds even when the insured cancels, the information above is still a valid test concept for Part One of the Promissor exam dealing with multi-state questioning concepts).

→ **Company Options for Settling a Loss**

- _ The **loss may be paid** in cash, repairs may be made or rebuilding the property or replacement of a like kind may be provided, all at company option.
- _ ☞ **Salvaging** Usable parts by the company is allowed (*when a claim results in a total loss*).
- _ ☞ **Abandonment** of property by the insured to the company forcing ownership is not allowed.

→ **Payment of Loss** must be within **60 days of filing proof of loss when both parties agree to the amount**.

→ **Law Suits** were not sustainable until all other means to settle were exhausted. Lawsuits had to be brought within 12 months of the loss (up to Five years in some states).

Expanding the SFP with Other Endorsement Forms of Coverage

1) **EXTENDED COVERAGE (EC):** When added to a SFP, the EC adds these perils to coverage (The **REV C. SHAW** is spelled when you take the first letter of each added peril):

- **R**iot
- **E**xplosion
- **V**ehicles and **V**olcanic Eruption
- **C**ivil Commotion
- **S**moke
- **H**ail
- **A**ircraft
- **W**indstorm

Each of these perils, and exclusions related to them, are covered in detail in the next section dealing with the Dwelling Property coverage forms.

2) **Extended Coverage and Vandalism and Malicious Mischief (V&MM) could also be purchased.** Vandalism and malicious mischief is the **intentional damage (willful and malicious) or destruction to the property of the insured** is covered.

1) TYPES OF POLICIES (50% of ASI exam, ☞ 25 questions)

Property insurance contracts are offered for both Personal Lines (policies for the individual) and Commercial Lines (policies for business). The **four personal line property contracts** examined are

- 1) **Dwelling and Contents (DP forms)**
- 2) **Personal Liability**
- 3) **Homeowners (HO forms) and**
- 4) **Mobile Homes**

The **four Commercial Lines** to study are

- 1) **Commercial Property**
- 2) **Commercial Package Policy (CPP)**
- 3) **Boiler and Machinery and**
- 4) **Businessowner Policy (BOP).**

Policy types will conclude with highlights of several **Inland Marine** concepts including 1) Personal Floaters and 2) Commercial Floaters. Other **miscellaneous contracts** to learn are 1) Flood, 2) Personal Watercraft, 3) Commercial Ocean Marine and 4) Earthquake. **Look for the handy hand symbol☞, for key points as you read through the material.**

A) PERSONAL LINES

1) **"Dwelling and Contents"** - was offered to replace the Standard fire policy. Several versions have been written over the years with the *latest being the 1989 edition*. Beginning with the 1977 revision, simpler language and uniform policy wording were adopted. The **Dwelling and Contents Program** today consists of ☞ **three policy types** (DP1, Dp2 and DP3) that make the standard fire policy part of their language, all in one contract. Contents (or personal property is covered on an **"anywhere in the world"** basis).

A **"dwelling"** is a residential structure. Residential structures were previously insured under an SFP contract by adding a "Dwelling Building & Content Form", or a DB & CF, to the Standard Fire Policy.

The DB & CF added to the SFP covered property only in the USA or Canada. The modern Dwelling and Contents forms expand this to anywhere in the world.

➤ **There are three policy types available with the Dwelling Program.** They are called

- "The Basic Form" (DP1)
- "The Broad Form" (DP2) and
- "The Special Form" (DP3).

☞ **As you move from basic form to broad form to special form** you will find **the coverage and the cost broadens**. An insured may select an insurance type that varies on coverage as well as premiums payable.

An owner of noncommercial real estate can use the dwelling forms to insure almost any type of dwelling except for farm dwellings. However, ☞ **Dwelling is Monoline** fire coverage and a homeowner will much prefer the multiline overages offered through the various homeowner forms. The only reason the dwelling owner would select the Dwelling form instead of the homeowners is when they have no other choice. This is because **certain residential properties will not qualify for the broader and less expensive homeowner forms.**

The homeowner MUST use a Dwelling Form in the following circumstances:

- _ the home is *used as rental property* (homeowners policies require owner occupied status)
- _ one and sometimes *two family occupancy are the limits* on HO (Dwelling goes up to 4 families)
- _ rooming and boarding houses must *use the dwelling form up to five roomers* (homeowners policies limit the structure to maximum of two roomers or boarders per family)
- _ *older homes and those of low value that do not qualify* for homeowners coverage

Dwellings under construction are eligible for Dwelling form coverage. Structures with *more than four family occupancy are considered commercial property* and an appropriate commercial coverage form is required. Under the most modern revision of the Dwelling form, the "1989 edition," coverage is available on the structure as a fire policy, **monoline** (ONE) variety. Therefore, **the dwelling form does not include coverage for either ☞ theft or ☞ personal liability.** Both *theft and personal liability coverage are available by endorsement and require additional premium.* All other endorsements associated with Homeowners contracts are also available for addition to the dwelling contract for extra premium.

The basic, broad, and special forms or property forms also offer up to ☞ five insuring agreements. Coverages A, B, C AND D are available on all forms while ☞ Coverage E is not found on the basic form (DP1) but can be added by endorsement (at extra cost). A, B and C describe property which is covered while D and E describe specific types of covered losses (the concept of *indirect or consequential loss*) and can only be purchased if at least one of the property coverages (A, B or C) is purchased. The property owner can select A, B and C in any combination or all three together.

❶ **"Coverage A" (The Dwelling)** insures materials and supplies used in construction repair or alteration of a dwelling and other structures. Building equipment and outdoor equipment which is not covered as personal property, but is located on the premises, is also insured. ☞ Please note, all of the following **forms (B, C, D & E), have a coverage limit that is 10% of the Coverage A Dwelling amount.**

❷ **"Coverage B" (Other Structures)** provides coverage for **structures which are not attached to the dwelling,** such as a tool shed or garage. **Another word for "other structures,"** for exam purposes is ☞ **"Appurtenant"** These detached structures may not be used for farming, manufacturing or commercial purposes. **Under all three property forms (DP1), (DP2), and (DP3), 10% of the dwelling amount is the maximum coverage** for loss to other structures listed in the policy. **Example?** a home is insured for \$100,000, therefore the garage is insured for a maximum for \$10,000, or 10%. ☞ **However, under basic coverage (DP1) the coverage A amount is reduced by the Coverage B claim while under broad and special forms, the 10% is additional coverage to Coverage A and therefore does not reduce A.**

❸ **"Coverage C" (Personal Property)** personal property which is "usual" to the dwelling **is covered up to 10% of the policy limit** under Coverage A: this includes coverage for the insured, family members residing in the dwelling and for the personal property owned by guests or servants while the property is located on the described location. Once again, in a DP1, basic form, coverage is reduced to coverage A limits for any Coverage C claims, but is paid in addition to Coverage A amounts in both broad and special form coverages. **Personal property types specifically excluded:**

- *accounts, bills, bullion, currency, evidences of debt, manuscripts, money, securities, deeds*
- *animals, birds, fish*
- *air craft and parts, boats other than row boats and canoes,*
- *motor vehicles, unless they are motorized equipment which is used to service the premises.*

☞ **The insurance company will pay no more than the limit of the policy for all such personal property in any one loss.** When someone moves from one residence to another, ☞ **property is covered for 30 days immediately after the movement of the property has begun.** Once movement has occurred, personal property coverage at the new location must begin.

❹ **"Coverage D" (Fair Rental Value)** insures the fair rental value of any portion of the premises that is rented to others or held for rental **up to 10% of the Coverage A policy limit, except for any expenses that do not continue due to the peril.** Coverage lasts for as long as the rental property is not fit to live in, up to the policy limit. Again, the DP1 form reduces the Coverage A amount by the amount of any claims paid under this insuring agreement.

⑤ "Coverage E" (Increase in Living Expenses) is provided to the insured and family while the insured property is unfit for use. While this insuring agreement is included in forms DP 2 and DP 3, it must be added by endorsement to DP 1. Again, the coverage is 10% of coverage A.

Please Note: ☞ Coverages D and E, above, reimburse for "indirect loss".

Property which is removed in order to protect it is insured against direct loss from any cause for 5 days under the basic form (DP1). Under the broad form or special form, coverage exists for up to 30 days. Removal for debris, due to a loss, is reimbursed.

Landscape Coverage: Under Broad and Special forms the insured may try to retrieve up to five percent of the total amount of dwelling coverage for damage done to lawns, plants shrubs and trees. The ☞ payment per plant is limited to \$500 including the cost of removing any debris. Typically lawns, plants, shrubs and trees are covered against the following perils:

fire, lightning, smoke, explosion, V&MM, burglary damage, riot, civil commotion, aircraft, vehicles, and building collapse.

Under all three forms, up to ten percent of the personal property coverage amount may be applied to the insured's property, when that property is away from the premises (anywhere in the world). The only exclusions are:
row boats, canoes and the property of guest or servants

1) The Dwelling Forms 1, 2 and 3

A) Basic Form (DP1)

IT is named perils coverage - This DP1 insures against

- fire, ● lightning and ● any type of internal explosion.

There is no minimum dollar coverage requirement. There is ☞ **no landscape coverage** with the Basic Form. **Internal explosion means direct loss** to insured property due to any explosion occurring in the described property or any other structure containing the insured's personal property **EXCEPT**

bursting water pipes, electrical arching, rupture or bursting of pressure relief devices, and explosions of steam boilers or steam pipes.

The basic form may also be purchased with ☞ **Extended Coverage (EC) AND Vandalism or Malicious Mischief (VMM)** (for an additional premium)

Extended coverage adds the following nine (9) perils (remember the REV C SHAW?) as covered items under the basic form:

- | | |
|------------------------------------|-------------|
| ● Riot | ● Smoke |
| ● Explosion | ● Hail |
| ● Vehicles and ● Volcanic Eruption | ● Aircraft |
| ● Civil Commotion | ● Windstorm |

Windstorm and Hail means the **direct action of wind or hail** including objects hurled through the wind that cause damage because of direct action by the wind. **Exclusions to windstorm and hail** include:

Frost, cold weather, snow, sleet, ice, rain, sand and dust damage done to the inside of the structure, unless the direct force of the wind made it possible for these perils to due the damage

And, **when they are not inside a building**, the following **items** are **excluded**

Awnings, antennas, row boats, canoes, and signs

"Explosion" replaces **internal explosion coverage** when **extended coverage** is added. Under EC, **explosions** are **covered** whether they originate **inside or outside** the building. **Excluded** from coverage:

damage from bursting from water pipes, electrical arching, rupture or bursting or pressure relief devices, and explosion of steam boilers or steam pipes.

Riot or civil commotion, which is damage due to an assembly of individuals who act in a violent or tumultuous manner, is **broadly covered by EC**.

Aircraft provides coverage against damage from falling aircraft, including self-propelled missiles and spacecraft.

Volcanic Eruption does not include earthquake, land shocks or tremors.

Vehicles any damage caused by a vehicle to the covered property, **Except for:**

damages caused by vehicles owned or operated by the insured and damages by any vehicles to fences, driveways and walkways

Extended Coverage broadens damage due to Smoke by extending coverage to damage by smoke **from any source other than fireplaces** or agricultural smudging or industrial operations as long as damage is accidental and sudden.

Extended Coverage and Vandalism and Malicious Mischief (V&MM) can also be purchased, BUT ONLY if EC was also added. Vandalism and malicious mischief, or the **intentional damage or destruction to the property of the insured**, is covered. Exclusions which apply under V&MM include:

Loss by pilferage, burglary, larceny or theft, damage to glass unless the glass constitutes part of the building, and loss to a dwelling which is described in the contract if has been vacant for more than 30 days immediately before the loss occurred.

B) Broad Form (DP2)

☞ **IT IS ALSO A NAMED PERILS POLICY** - Extended or broadened **coverage** found under the broad form, as opposed to the basic form, **includes the eight EC perils in the basic form plus three of the extended coverage perils are broadened in scope.** It also ☞ **includes landscape coverage.** ☞ The three EC perils which are broadened under DP2 include **explosion, vehicle damage, and smoke damage.**

1) **Explosion under the broad form includes steam boiler explosion.**

2) **Vehicle damage in DP2 coverage only excludes damages to fences, driveways and walks when caused by a vehicle owned or operated by an insured or resident. Otherwise, vehicles damage is covered when caused by nonresidents as opposed to the basic form which excludes all damages to driveways, fences and walks, no matter who causes it.**

3) **Damage due to Smoke** now includes smoke loss from a fireplace but still excludes loss from agricultural smudging or industrial operations.

Also NOTE: VMM - losses to glass parts of a building are not excluded as in the basic form.

> There are **seven new perils** which are insured against under the broad form in addition to all those discussed under the basic form. This brings the total numbers of covered perils to 16 in this form (the other nine: 1) fire and lightning, 2) windstorm and hail, 3) explosion, 4) riot or civil commotion, 5) aircraft, 6) vehicles, 7) smoke, 8) vandalism and malicious mischief and 9) volcanic eruption).

10) **Damage Done By Burglars** - this does not cover the theft of the property and is void if the dwelling has been vacant for 30 or more consecutive days.

11) **Falling Objects** - excluding awnings, fences and outdoor equipment as well as the damage to the falling object itself. There is coverage if the falling object first damages the roof.

12) **Weight from Ice, Snow, and Sleet** damage done to a building or its contents. Excluded is any damage to an awning, fence, paved area, swimming pool, foundation, retaining wall bulkhead, pier, dock or wharf.

13) **Freezing** of plumbing, heating, air conditioning, fire protective sprinkler systems or of a household appliance.

14) **Sudden and Accidental Tearing Apart** cracking or burning of a steam or hot water system, air conditioning or fire protective sprinkler systems, or of a household appliance for heating water.

15) **Sudden and Accidental** damages from artificially generated electrical current.

16) **Accidental Discharge** of water or overflow from steam from plumbing, heating, air conditioning or fire protective sprinkler systems, or of a household appliance. ☞ This does not include loss due to continuous leakage or seepage. (# 10-16, above, are the new SEVEN perils added by DP2).

Note that the burglar and accidental discharge perils are subject to the 30 day condition concerning vacancy and unoccupancy of the building. **If a building was not occupied or was vacant 30 days** before the loss occurred, coverage would be excluded. **The freezing peril is voided when there is vacancy/unoccupancy unless reasonable care was taken to heat the building and shut off water supplies.**

C) Special Form (DP3)

☞ **IT IS ALL RISK, NOT NAMED PERIL** -

The special form, or DP3, is **the most comprehensive coverage available under the dwelling and contents policies**. The special form covers dwelling and other structures on an all risk basis for Coverages A and B. Landscape coverage is included.

> **All risk means that the perils covered are not specified (NAMED).**

IF IT IS NOT EXCLUDED, IT IS COVERED.

In order to be excluded from coverage the peril or cause must be specifically listed in the contract.

Note: under a special form, although there is all risk insurance on dwelling and other structures, **the ☞ contents of the dwelling under a special form are not covered under an all risk basis.**

☞ **Contents are covered on a name peril basis.** Personal property is insured against loss from any of the broad form perils listed in the previous section b), above. Insurance is not provided, under the special form (**under coverages A & B**, only if the loss is a physical loss) for any of the following:

NOTE THESE EXCLUSIONS for DP3

(They also apply to HO3 Coverage)

- 1) *any property or losses not covered according to the insuring agreement and general exclusions section.*
- 2) *loss involving collapse other than as provided under other coverages.*
- 3) **freezing** *of plumbing, heating, air conditioning or fire protective sprinkler systems, or of a household appliance (this exclusion only applies when the property is vacant, unoccupied or under construction) unless reasonable care was taken to * heat the building * shut off water supply and drain excess water*
- 4) **weight** *of water, including from freezing or thawing (whether driven by wind or not) which does damage to * a fence, paved area, swimming pool or patio, * a foundation, retaining wall or bulkhead, * pier, dock or wharf.*
- 5) **theft** *of property which is not a part of a covered building or structure as well theft in or to a dwelling or structure which is under construction*
- 6) *wind, hail, ice, snow or sleet damage to * outdoor radio and tv antennas and aerials or * trees, shrubs, plants or lawns*
- 7) **vandalism** *and malicious mischief and theft or attempted theft **when there is 30 or more consecutive days of vacancy immediately prior to the loss** (a dwelling under construction is not vacant).*
- 8) *when there is **seepage or leakage over a period of time** (weeks, months or years) from within plumbing, heating, air conditioning, fire protective sprinkler systems or from within a household appliance..*
- 7) **all gradual and preventable losses such as normal wear and tear**, *deterioration, latent defects, etc. (the policy is supposed to cover loss from sudden and accidental sources, not loss from preventable or expected sources). These preventable sources of loss include * inherent vice, latent defects and mechanical breakdown * smog, rust, corrosion, mold, wet or dry rot * smoke from agricultural smudging or industrial operations * discharge, dispersal, release migration or escape of pollutants (whether solid, liquid or gaseous * settling, shrinking, bulging or expansion of pavements, patios, foundations, walls, floors, roof or ceilings (including resulting cracks in all of the above)*
- 8) **damage done by insects, domestic animals, vermin or birds.**

Since Dwelling forms do not offer theft coverage for personal property unless endorsed separately with additional premium required, the form known as "**Broad Theft Coverage**" (BTC) **should be added as an endorsement**. BTC insurance against loss from these **two perils**: 1) theft, including attempted theft and vandalism and 2) malicious mischief as the result of a theft or attempted theft, unless there were 30 or more days of vacancy before the loss.

ON-Premises and Off-Premises (available only if On-Premises has been written) are available. ON-Premise property covered includes that of the "insured" and any residence employee and all covered property that is placed for safe keeping in a bank, trust or safe deposit company, public warehouse and any dwelling occupied and rented to, but not owned, by the insured (i.e. hotel room, vacation cottage, etc.).

Although there is a limit of liability for any single loss, there are also certain **sublimits of liability** applying to specified types of property, as follows:

- 1) \$200 for money, notes, gold, silver, coins and medals
- 2) \$1,000 for securities, accounts, deeds, evidence of debts, letters of credit, passports, tickets, stamps, grave markers, watercraft and their trailers, furnishings, equipment and outboard motors, trailers not used with watercraft, jewelry, watches furs and precious stones.
- 3) \$2,000 for firearms.
- 4) \$2,500 for silverware, and gold plated ware (tea sets, trophies, flatware and pewter ware).

BTC adds a condition to the insured to qualify for coverage by imposing a duty to notify the police after a theft loss occurs. **Property not covered** includes aircraft, motor vehicle, business property, animals, birds or fish, property of tenants, property in the mail, credit cards or fund transfer cards and any property separately described and insured by any other policy.

The Dwelling policy owner can also **endorse a "Personal Liability Supplement" into coverage or buy it as an individual policy (CPL)**. Specified limits are set and they cover a broad range of personal activities as well as liability arising at the insured location. **Please refer to the next section "Personal Liability" for a detailed discussion.** Minimum coverages are \$100,000 of personal liability per occurrence (known as Coverage L) and \$1,000 for Medical Payments to Others (known as Coverage M).

EXCLUSIONS COMMON TO ALL DWELLING FORMS

- 1) **Water damage from flood, tidal waves, sewer or drain backup**, and water which comes through from below the surface of the ground such as seepage or leaks through walls to basements walls or windows and leaks through a swimming pool.
- 2) **War**- excludes all items of damage relating to war or warlike actions.
- 3) **Nuclear hazards** such as loss due to radiation or radioactive contamination is excluded.
- 4) **Power interruption** can cause loss in many ways but these types of losses are excluded *unless the interruption is caused by a covered peril or covered item*. The equipment must be located on the insured's premises and damage to that equipment must be caused by an insured peril.
- 5) **Ordinance or law** requiring the construction repair or demolition of property is excluded.
- 6) **Earthquake** or earth movement is excluded unless direct loss occurs by fire or explosion, as a result of the earth's movement.
- 7) **Intentional loss** by the insured or at the direction of the insured and any loss resulting from an intent to cause the loss.

COVERAGES (Insuring Agreements Available)

The insurance applies to the described location at the limits of liability shown in the contract and for the perils insured against for which a premium is stated. The coverages defined below *apply to all three dwellings forms EXCEPT WHERE INDICATED* (in the "Other Coverages" section, below).

Coverage A- DWELLING- the dwelling as described in the declarations section, including attached structures. It also includes materials on or next to the location used to construct, alter or repair the dwelling and building and outdoor equipment used for the service of and located on the described property. **☞ Coverage DOES NOT APPLY TO LAND.**

Coverage B- OTHER STRUCTURES - includes those at the described location which are set apart from the dwelling by a clear space even if connected by a fence, utility line or similar connection. **EXCLUDED** are other structures used in whole or part for business, manufacturing or farming purposes. **Also** excluded are other structures rented to any person who is not a tenant of the dwelling unless the other structure is used solely as a private garage.

Coverage C- PERSONAL PROPERTY- includes property "usual" to the occupancy of the dwelling owned or used by an insured while it is on the described location. At the request of the insured, it will also include personal property owned by a guest or servant while the property is on the described location. **Many personal property items are EXCLUDED:** ● accounts, bank notes, bills, currency, deeds, etc., ● animals, birds or fish, ● aircraft except hobby or model aircraft, ● motor vehicles, ● watercraft other than rowboats and canoes, ● data stored on paper or electronically and ● credit cards or fund transfer cards.

(Remember Coverages D and E, below, are for indirect/consequential loss)

Coverage D- FAIR RENTAL VALUE - means the value of the described location that are rented to others less any expenses that do not continue while the premises are not fit to live in. Payment is for the shortest time required for repair or replacement of the part rented. Premises that are uninhabitable by order of civil authority due to direct loss of a covered peril from a neighboring location is limited to two weeks **of loss**. Loss due to cancellation of a lease or agreement is not covered.

Coverage E- ADDITIONAL LIVING EXPENSES - covers only **necessary increases in living expenses** when the described location is unfit for normal use due to a peril insured against, and limits loss to maintenance of normal living standard. Payment is for the shortest time required for repair or replacement of the part rented. Premises that are uninhabitable by order of civil authority due to direct loss of a covered peril from a neighboring location is limited to two weeks **of loss**. Loss due to cancellation of a lease or agreement is not covered.

Other Coverages - all of the coverages listed below are included in both the DP2 and DP3 coverage forms. All exceptions applying to the DP1 form are stated parenthetically.

1) Use of the "Other Structures" Coverage B does not reduce the Coverage A liability limit. **DP1 does reduce any** use of Coverage B, dollar for dollar, up to the 10% limit. This same rule applies to Coverages C and D, as well. **(For DP1: assume the insured has \$100,000 of dwelling and suffers a total loss plus a detached garage with a replacement cost of \$10,000. The insurer will pay \$100,000 total. Under DP2 and DP3 the loss paid would be \$110,000).**

2) **Property removed** to protect it against further loss is covered for 30 days.

3) **Landscape coverage** is limited to **5% of the Coverage A** amount with a **\$500 limit for any** one shrub, tree, or plant (There is no landscape coverage in DP1).

4) **Fire Department Service Charge** is paid up to \$500 for charges when the property is located outside of the limits or protection of the district providing fire department response and **NO DEDUCTIBLE APPLIES** to this additional insurance.

5) **Collapse of the structure** or any part thereof when caused by ● any perils insured against in Coverage C, ● hidden decay, ● hidden insect or vermin damage, ● weights of contents, equipment, animals or people, ● weight of rain which collects on a roof and ● defective construction when occurring during the course of renovation, remodeling or construction. **(Not included in DP1).**

6) **Glass** or safety glazing material that is **broken** is covered unless there is more than 30 consecutive days of vacancy (not included in DP1.).

☞ **Main Differences: Dwelling Forms and Homeowners (HO) Contracts**

1) The **peril of theft is not included in the dwelling forms** and must be added by endorsement, unlike the HO forms which include the theft peril.

2) **Personal Liability is not included in dwelling forms** and must be added by endorsement, unlike the HO forms which include personal liability coverage.

3) Coverage under all three dwelling forms for **property away from the premises** is limited to 10% of the on-premises limit.

4) **Dwelling forms do not provide coverage on money** or valuable papers.

5) Dwelling forms **do not contain special limits of liability for certain types of personal property** that are found on HO forms (watercraft, money, trailers, jewelry, silverware and firearms).

3) Homeowners (HO Forms)

History

It has **only been within the last 50 years** that homeowners were **able to buy a single policy** which **covered both property and liability insurance**. Prior to the 1950's, it was illegal for insurance companies to package property and casualty coverages together under one policy. All property and casualty dealings had to be separate and the main form of coverage for the homeowner was something called the "Standard Fire Policy" (refer to the introductory section for details of the SFP).

The standard fire policy only covered a property against damage due to direct loss by fire, the cost of removing damaged property and protection from lightning damage. Any additional forms of coverage required additional premium and were added by endorsement. The most popular endorsement was called "extended coverage" and the covered perils included were riots, civil commotion, wind storm, hail, explosion, aircraft vehicles and smoke damage.

With the advent of modern insurance, **the homeowners form first appeared in 1958 and included the idea of "packaging"** **When more than one line is packaged in a single policy it is called "multi-line."** This meant **both property and casualty risks were covered under one single contract for the first time**. Today the homeowners contract consists of two sections; Section I which deals with damage to property and Section II which contains the personal liability coverage forms for the homeowner.

OVERVIEW OF BASIC FORMS

The homeowners forms of coverage consist of such names as HO2, HO3, HO4, HO6 and HO8. Again, we shall use the insurance services office (ISO) basic contracts for discussing the homeowners concept. As of 1990, the numbers pertaining to the forms of coverage were modified to include a double zero between the HO and the number of the form of coverage. For example, HO2 became HO 00 02, and HO3 became HO 00 03, etc.

☞ **The broad form (HO2) is a named perils coverage and closely parallels the dwelling form known as DP2 (refer to previous section 1 for DP2 Perils).** The broad form, as the name suggests, offers fairly comprehensive coverage to the homeowner but is not as broad as the next form known as HO3.

The ☞ HO3 is called the "special form" whose uniqueness provides **"all risk" coverage**. All risk means that all perils not covered or excluded are listed in the contract and therefore **every type of loss which is not excluded is covered**. It is very important to note that while **HO3 is all risk for the dwelling**, **☞coverage for contents is on a named perils basis**. Is there a way to have all risk coverage on the contents as well as the building? The answer is YES! **Simply add an HO15 Rider (it can only be added to an HO3)** and now contents, as well as dwelling, are protected on an all risk/open perils basis.

The HO4 is a "contents broad form" and commonly is referred to in the insurance industry as **"tenant insurance"**. A renter or tenant of an apartment building could purchase HO4 and it will provide coverage on the renter's **personal belongings**. **It will also protect them for liability** for personal injury done to anyone while away from or within their actual premises or living space. If a visitor to an apartment building gets hurt in the apartment of the renter, they would sue the renter for their injuries for liability. In the event the visitor to the apartment got hurt in a common area of the building, such as a stairwell or hallway, then the recourse of the injured party would be to sue the owner or landlord of the building for liability. **The HO4 form does not provide coverage to real estate or real property but only to personal belongings and liability.**

Similar to HO4, in some respects, is the **HO6 or "unit owners form"** also referred to as **condo insurance**. The condominium owner does own real estate, but they own it in common with a number of other condo owners. The individual condo owner actually owns real estate based on a grid system. All condo owners own some percentage of the underlying real estate of the condominium building.

Much like renters insurance, **HO6 does not provide coverage for the dwelling but rather for personal property and for liability claims arising from the actual living space of the condo owner or when the condo owner commits a negligent act while away from the premises.** The condo owner would be liable for anybody getting injured while actually on their premises. However, if the party who is visiting the condo owner was injured in a common area, such as a common stairway or sidewalk, then the condominium association would be liable.

Normally a condominium association is composed of all the condo owners who pay an assessment every month for insurance costs on the real estate. The owners also pay a monthly assessment for such things as normal building maintenance, snow removal, lawn care, etc...

Another form is **HO8 or "modified form" coverage**. This is a very limited type of coverage because the eligibility requirements are not that stringent for the program. It is primarily **designed for coverage for older homes whose market value is less than the replacement cost of the building.** Coverage provided is on a unique "functional replacement cost" basis. This means the insurer pays to replace damages with common building material sold at the present time. This means a beautiful older home that has plaster walls that are destroyed will be replaced with "dry wall" rather than be replastered.

Once again, the HO Forms are listed for your review, below:

- ❖ **HO -1: BASIC** (not legal for sale in many states)
- ❖ **HO -2: BROAD MORE COVERAGE THAN IN HO-1** (same as DP2 Perils, See "Dwelling Forms")
- ❖ **HO -3: SPECIAL OR ALL RISK** (Same exclusions as DP3, see Dwelling Forms)
- ❖ **HO -4: TENANT BROAD COVERAGE FOR PERSONAL PROPERTY OF RENTERS**
- ❖ **HO -5: REPLACED TODAY BY ADDING AN HO-15 AS RIDER TO AN HO-3**
- ❖ **HO -6: CONDOMINIUM BROAD COVERAGE FOR PERSONAL PROPERTY**
- ❖ **HO -8: MODIFIED FORM FOR OLDER HOMES WITH A REPLACEMENT VALUE WHICH EXCEEDS MARKET VALUE (SIMILAR TO HO-1 COVERAGE)**
- ❖ **HO-15: SPECIAL PERSONAL PROPERTY ENDORSEMENT, IT CAN ONLY BE ATTACHED TO AN HO-3. IT INSURES PERSONAL PROPERTY AGAINST THE RISK OF DIRECT PHYSICAL LOSS NOT OTHERWISE EXCLUDED, (when added, this means it insures personal property on an all risk basis like the dwelling).**

The Underwriting of homeowners insurance includes the many different forms of coverage, above, which seek to fit the insurance needs of a diverse population. The **homeowner policy is a "MULTI-LINE POLICY"** - it **combines property** (fire) coverage **with casualty** (personal liability & theft) into a **SINGLE CONTRACT**. Use of coverage is restricted to single or two unit residential property only and the **owner must reside at the property location.**

Section I (Property Coverages A, B, C and D)

An analysis of **Section I** shows that insurance is provided against direct loss to buildings and/or personal property which result in payment or any increase in living expenses due to a current occurrence. There are **four types of insuring agreements.**

Coverage A

Dwelling - the dwelling that is described in the declarations **and structures attached** to that dwelling are covered. Materials and supplies located on or adjacent to the premises used for construction, repair, and alteration of the dwelling or other structures on the premises are covered. **This coverage is not available in the HO-4 contract and the HO-6 carries only a \$1,000 coverage amount.**

Coverage B

Appurtenant (Other Structures) – This provides protection for **structures on the premises which are detached from the dwelling.** Exclusions include structures used for business purposes and any structure rented to anyone other than a tenant of the dwelling. This is not included in either the HO-4 or HO-6 contracts. **10% of dwelling coverage amount (Coverage A).** Therefore, a dwelling insured for \$100,000 would translate into a Coverage B amount of \$10,000 (paid in addition to the Coverage A amount).

REPLACEMENT COST BASIS OF Coverages A and B

Coverages A and B, dwelling and other structures, **are insured on a “replacement cost”** basis. If, at the time of loss, the insurance coverage amount upon the dwelling is no less than 80% of the cost of replacing the building, replacement cost is paid for losses. ☞ Replacement cost means the exact dollars needed at the time of loss to replace the item which requires replacement. Physical depreciation is not deducted from the cost as it is with actual cash value coverage.

In evaluating whether or not the insured qualifies for this 80% requirement, the cost of excavations, wiring, pipes and foundation below the basement or ground level may be deducted from cost. Replacement cost only applies to the buildings and not to personal property. Personal property is covered on an actual cash value basis. This is no replacement cost coverage for carpeting, appliances, awnings and outdoor equipment. **When the buildings are insured for less than the required 80%**, then payment will be the greater of:

- Actual cash value or
- Replacement cost in proportion of the loss based on the amount of insurance is in relation to 80% of the replacement value of the buildings. When the loss is more than \$2,500 or 5% of the insurance amount, then the building must be repaired or replaced before the insured can collect on a replacement cost basis.

Insurable value and market or loan value do not necessarily translate into the same dollar amounts. Market value of real estate is based upon supply and demand factors of a specific area, not to mention variable economic relationships. Market value of a dwelling also includes the value of the underlying land, while **insurance value does not take the value of the land itself, into consideration.**

PERSONAL PROPERTY - Coverage C

Coverage C - Personal Property - Provides **protection for personal property which is owned or used by the insured anywhere in the world.** Personal property of others may be covered while it is on the premises if selected by the insured. Maximum coverage is up to 10% of the Coverage C limit on personal property with world wide protection with a \$1,000 minimum for property usually situated at a residence of the insured which is not shown in the declarations.

Otherwise ☞ **the coverage amount is 50% of the Coverage A limit.** On the HO-4 and HO-6 forms, it is available not as a percentage of Coverage A but rather as a flat dollar amount. Under Forms HO 2 AND HO 8 the minimum Coverage A amount is \$15,000 and the personal property coverage amount is \$7,500. The HO 3 dwelling minimum is \$20,000 and the personal property amount is \$10,000.

The simple contract wording for all forms of the homeowners Coverage C amount is:

“We cover personal property owned or used by any insured while anywhere in the world.”

PERSONAL PROPERTY EXCLUSIONS

Personal property which is not covered includes:

- 1) Animals, birds, fish,
- 2) Aircraft and parts,
- 3) Automobiles or motorized vehicles unless the vehicles are used to service the premises,
- 4) any recording or sound reproducing devices while in a motor vehicle, including tapes, records and discs
- 5) The property of boarder's and roomer's when the individuals are not related to the insured, and any property in an apartment which is regularly rented if it is away from the insured premises,
- 6) Business property out of the way from the insured premises, business property of a business which is conducted on the premises, business property carried or held as samples for later delivery after sale.

PERSONAL PROPERTY DOLLAR LIMITS

Special Coverage C limits: the **smaller number shown is the normal limit** and the **greater number** in each category represents the **normal maximum to which coverage can be raised, in increments of \$100** (\$1,000 for jewelry and \$250 for silverware), **by the insured for additional premium**. For larger amounts of value in a category the normal method used is for the insured to add a personal floater endorsement and pay specified additional premiums based on the coverage amount.

- 1) money (coins & precious metals also) \$200, up to \$1,000
- 2) valuable papers (manuscripts, securities) \$1,000 to \$2,000
- 3) grave markers \$1,000
- 4) trailers \$1,000
- 5) watercraft \$1,000
- 6) business property used away from premises \$250
- 7) stolen firearms \$2,000 up to \$6,000
- 8) silverware, gold ware, etc., \$2,500 up to \$10,000
- 9) jewelry, furs, precious stones \$1,000 up to \$5,000
- 10) \$1,000 for loss of portable electronic apparatus while in or upon a motor vehicle.

COVERAGE D: LOSS OF USE

When an insured residence cannot be occupied due to loss or covered peril, any additional cost incurred from living away from home is covered. The insured will be reimbursed for the time actually required to restore a home to habitability or resettlement in another permanent quarters, whichever is less. The **maximum amount of coverage is 20% of Coverage A** (except Form HO 1 where it is 10%) and the coverage amount in HO-4 is 20% of the Coverage C amount while HO-6 policyholders enjoy 40% of the Coverage C amount.

ADDITIONAL COVERAGES

The following **supplementary coverage is provided** under **Section I** of the homeowners policy:

- 1) **Debris removal** as result of a loss. This includes the removal of volcanic ash plus debris from tree removal when a tree is damaged or felled by a covered peril.
- 2) The **cost of reasonable repairs to protect** the property from further damage.
- 3) **Landscape:** shrubs, trees, plants and lawns are covered up to **5% of the dwelling coverage** amount, with a **maximum of \$1,000 for each tree, shrub or plant** for Forms 2, 3 and **\$250 for Form 8**. In Forms 4 and 6 the coverage limit is 10% of the personal property coverage amount with the usual \$500 per item limit.
- 4) Any **fire department service charge up to \$500** is paid when the fire department is called to save or protect covered property from any peril covered in a policy.
- 5) **Removal of property** from the premises from peril insured for any cause up to 30 days.
- 6) **Credit card losses, forgery, counterfeit money, and unauthorized use of fund transfer cards.** The policy **pays up to \$1,000 due to loss caused by any of the preceding losses.**
- 7) **Loss assessment**, up to \$1,000 charged by a corporation or association to the owner of a condo or a tenant in a building.
- 8) **Building collapse** (not included in HO 8) caused by limited perils, as follows: Coverage C perils, hidden decay, hidden insect or vermin damage, weight of contents, animals, people or equipment, weight of rain on a roof and defects from construction or materials if collapse occurs during construction.

9) **Glass breakage** is covered when the glass is any part part of the building covered (includes storm door windows). Coverage is subject to 30 day vacancy rule.

10) Landlord's Furnishings is included in HO 2 & HO 3. There is a \$2500 benefit for premises which are rented to others. Carpeting and household appliances are covered by all Form 2 & 3 perils except theft.

11) Building Additions provides the Tenant Form 4 with coverage for betterments to the leased property. The limit to the coverage is 10 percent of the amount on personal property.

12) Ordinance Requirements provides an extra 10% limit of the Coverage A amount for improvements to damaged property when building code upgrades result in extra cost for repair.

13) Deductibles (do not apply to either fire department service charges or to coverage for credit cards, fund transfer cards, forgery or counterfeit money) are available from a base of \$250 up to \$500, \$1,000 or \$2,500.

This concludes our discussion of Homeowners Forms under Section I coverages.

Section II - Comprehensive Personal Liability (Coverage E & F)

The comprehensive personal liability policy, known as a CPL, is **comprehensive coverage against many types of liability** as defined in the broad insuring agreement. *Only those types of liability that are specifically excluded would not be covered.* The CPL **does not include business or automobile coverage for the individual or family unit** and is designed solely to protect the liability exposure to the individual for all other possibilities. The CPL **protects the individual** for liability that results from the personal activities of both the insured and family members, **either on or away from their living quarters.**

The CPL policy also **includes coverage for injury to domestic employees** in a state where such workers are excluded from coverage under worker compensation laws. A maid, butler or gardener who becomes injury while engaged in employment activities would not sue under a worker's compensation theory or recovery. Instead they would bring a personal civil action against their employer, whose only protection would be through the CPL policy. The CPL contract can be bought as a "monoline", or stand alone contract, or it can be added to dwelling forms by endorsement. **CPL coverage is automatically included in a homeowner policy as Section II.** *Generally Liability coverage does not have a deductible.*

Section II of the Homeowners policy includes **Coverage E**, which is **for personal liability** and **Coverage F**, which are **medical payments** to others. **Coverage E** makes the **insurance company liable to** pay up to the limited liability set in the policy (usually \$100,000 minimum which can then be increased at very modest cost) **for all bodily injury or property damage** that is covered according to the insuring agreement. **Coverage F will pay for the medical expenses** for parties hurt while on the premises of the insured, but it will not pay any medical expenses for either the insured or the insured's family. The basic amount of **coverage begins at \$1,000 and can be increased.**

COVERAGE E

In analyzing the insuring agreement of a CPL, an insured would find that the language is quite simple:

"If a claim is made or a suit is brought against any insured for damages because of bodily injury or property damage to which this coverage applies, we will:

1) pay up to our limit of liability for the damages for which the insured is legally liable; and

2) provide a defense at our expense by counsel of our choice. We may make any investigation and settle any claim or suit that we decide is appropriate. Our obligation to defend any claim or suit ends when the amount we pay for damages resulting from the occurrence equals our limit of liability."

Also at issue is another question: **who is an insured** according to the language of the insuring agreement? The typical homeowner's policy defines the insured as any resident of a household including

- 1) a relative and
- 2) any person under the age of 21 (non relatives) still in the care and residence of the insured.

Of course it **also includes the named insured's spouse** if the spouse is a **resident of the household**. Sometimes the issue arises about what happens when a person under the age of 21 is living away at college. Is there still coverage for them as an insured under the meaning of the insuring clause? The main issue here is whether or not the student actually has to reside on the premises for coverage and the answer is no. A **child away at college is still insured according to the insuring agreement**. Also insured would be a 45 year old child of the insured still living at home.

Liability exclusions under section E

The CPL both alone and as it appears in a homeowner's contract includes a set of *six exclusions applying to both medical payments and liability*. *A second set of five exclusions apply to liability coverage only*.

The exclusions applying to liability coverage include the following:

1) Intentional Acts - injure another person's body or damage their property and the contract will not pay. The key idea is whether or not the injury or damage was intended or expected, in the view point of the insured. Also excluded is injury or damage that the insured party would reasonably expect to accrue from his activity.

2) Business Activities - the exclusion here clearly prevents any liability, arising from a business engaged in by the insured, to be covered under the policy. It is broad enough to include the denial of coverage for any business activity and it does not matter if the insured is the owner or simply an employee. This is the definition of business activity.

A more ambiguous area under this exclusion concerns part-time jobs for which a salary or earnings are collected. Especially suspect to the exclusion are the part-time jobs of children who are insureds according to the policy definition. If your son is mowing your neighbor's lawn for \$10.00 and accidentally runs over a prize shrub, will your policy cover this? The answer is yes, probably.

There is a point at which part-time jobs become involved enough to meet the definition of engaging in a business. However, this sometimes goes into an area of such difficulty of definition that the individual case outcome will depend upon the facts of the circumstances involved.

3) Professional Liability - this excludes a liability caused by the business pursuits of professionals (such as lawyers, accountants or doctors). This exclusion mirrors the previous exclusion of business activity, but it specifically hones in upon the professional who can obtain coverage under a special form known as a professional liability policy.

4) Uninsured Premises - the best way to define "uninsured premises" is to list which type of premises are considered insured. This comprehensive list of insured premises includes the following:

- a) The residence premises
- b) A part of any other premises or any other structures or grounds used by the insured as a residence and which is listed in the declaration or which is acquired by the insured during the policy period for use by the insured as a residence.
- c) Any part of a premises not owned by an insured but where the insured is temporarily residing (this could include the rental of a cabin on summer vacation or a hotel or motel room).
- d) Land that is vacant and owned or rented by any insured, if it is not farm land.

- e) Land owned or rented to an insured on which a one to two family dwelling is being built as a residence for any insured.
- f) Family or individual cemetery plots or burial vaults of any insured.
- g) Any part of a premises occasionally rented to the insured for anything other than a business purpose (for instance, if you rent a hall to hold a reception or party in the hall, this is covered under the policy).

So what, you may ask, is not covered? The only exclusion is for residences owned by the insured but which are not listed in the declaration of a policy.

5) Motor Vehicle - of the **two basic motor vehicle exclusions**, the **first deals with any motor vehicle designed for travel on a public road that is subject to motor vehicle registration** and is being towed. Any liability arising from such motor vehicles is excluded, while an exception is a trailer that is not being towed by a motor vehicle.

The **other type of motor vehicles exclusions are those vehicles not subject to vehicle registration**. These would include motorized golf carts, vehicles used to service the premises of the insured and for helping the handicapped or any vehicles that are in storage on an insured location. All such vehicles are covered. However, go-carts, all terrain vehicles or other off-road vehicles designed for recreational use, which are owned by the insured, are excluded when off premises. Nonowned vehicles (i.e., you rent a go-cart in the Dells on vacation and run over three kids) on the aforementioned list of vehicles are covered and it does not matter whether they are off or on premises.

6) Watercraft - excluded is any liability arising from the use of inboard or inboard/outboard motorboats owned by the insured. Any inboard or inboard/outboard motorboats rented by the insured greater than 50 horsepower, are also excluded. All sailing vessels that exceed 26 feet in length, which are either owned or rented by the insured, are excluded. Finally also excluded are any boats powered by either an outboard motor or motors that are above 25 horsepower, if this motor was owned by the insured at the beginning of the policy but was not listed or reported to the insurance company. It is possible to purchase at a higher premium, larger units for coverage under the watercraft exclusion. Any watercraft that is being stored is covered.

7) Aircraft - the ownership and maintenance or use of an aircraft is also excluded under the policy. This exclusion is designed to encourage the insured who rents or owns private airplanes to purchase the appropriate aircraft insurance required. The definition of aircraft is any contrivance used or designed for flight except model or hobby aircraft not used or designed to carry people or cargo (includes hang gliders).

8) War - Any property damage or bodily injuries arising out of war, insurrection, civil war, revolution rebellion or similar forms of armed conflict are excluded.

9) Communicable Diseases - there is no coverage for any liability arising from the transmission of a communicable disease by an insured. If the policy does not contain the communicable disease exclusion, courts have held that such a loss would be a bodily injury within the meaning of the policy and therefore would be covered. Added in 1990.

10) Sexual Molestation - added to the homeowner's policy in 1990, the sexual molestation exclusion applies to bodily injury arising from sexual molestation, physical or mental abuse and corporal punishment. Before this revision, the sexual molestation exclusion was used only by endorsement for policies that provided liability coverage for the operation of a child care business in the home. (For example: President Clinton owned a personal liability umbrella purchased before 1990 and the policy paid the full \$500,000 as part of the Paula Jones settlement).

11) Illegal Substances - This exclusion was also added in 1990 to the homeowner's policy and the exact language of the policy excludes liability arising: *"out of the use, sale, manufacture, delivery, transfer of possession by any person of a controlled substance as defined by federal food and drug law at 21 U.S.C.A. Sections 811 and 812. Substances included but not limited are cocaine, LSD, marijuana and all narcotic drugs"*. This exclusion does not apply to the legitimate use of prescription drugs by a person following the orders of a licensed physician.

12) Contractual Liability - The homeowner's policy excludes two basic types of contractual liability, including any liability assumed under any contract or agreement or liability for the insured's share of any loss assessment charged against all members of any association, corporation or community of property owners. Since liability can be created through some contractual agreements, such exclusion is necessary to control losses.

13) Workers Compensation - There is no coverage for bodily injury to any employee of an insured if the employee should have been covered according workers compensation laws. Domestic employees, or those who work within the home, are specifically excluded by state worker's compensation law. The employer of domestics can be held liable in a suit of negligence based in common law.

14) Nuclear Exclusion - the policy will not cover any bodily injury or property damage for which an insured, under the policy, is also an insured under a nuclear energy liability policy. Nuclear energy liability policies are purchased by nuclear facilities and have very broad definitions of a person insured. Essentially, anyone who is insured under a homeowner's policy is always an insured under a nuclear liability policy.

COVERAGE F

Also part of a homeowners policy, known as Section II, coverage F applies coverage to injuries of a party who does not meet the definition of an "insured." This "**medical payments to others**" coverage applies to injuries of others (other than the insured) and in some cases it **even extends to situations where the insured is not legally liable, but feels a moral responsibility.**

Analysis of Insuring Agreement

The insuring agreement follows this format: the ☞ necessary medical expenses will be paid which are incurred or which are medically detected **within three years** from the date of an accident that causes bodily injury. **Medical expenses mean reasonable charges for surgical, medical, x-ray, dental, ambulance, hospital, professional nursing, prosthetic devices and funeral services.** This coverage does not apply to the insured or to regular residents of the insured household except residence employees. As to others, the coverage applies only to:

- a) A person on the insured location or on the location with the permission of the insured or
- b) To a person off the insured location if the bodily injury:
 - 1) arises out of a condition on the "insured location" or immediately adjoining property.
 - 2) is caused by activities of an insured.
 - 3) Is caused by a residence employee in the course of the residence employee's employment by the insured.
 - 4) is caused by an animal owned by or in the care of the insured.

The medical payment is not the liability coverage. Instead it ☞ provides payment even though the insured is not legally liable. For instance, if a visitor gets hurt while on the premises, even if the visitor is completely at fault for the injury, section F will still pay for the injury up to the limit stated in the coverage amount. Anyone who is injured according to the definition of coverage can claim directly under the policy coverage.

An injured party does not have to have the permission of a named insured to file a claim. ☞ **Coverage F is separate from coverage E** and therefore an injured party can collect benefits under the medical payments section of the policy plus retain the ability to sue the insured. As can be seen from the definition of covered expenses, it is very generous up to and including funeral expenses. However the requirement that the expenses be necessary and be incurred and medically calculable within three years of any accident is a prerequisite.

☞ Exclusions To Liability Under Coverage F

The liability exclusions under section E were related to such things as intentional injuries, professional activities, business activities, uninsured premises, aircraft, motor vehicle, watercraft, war, etc. In the medical payment section of part F, there are four basic exclusions as follows:

- 1) **Residence employees who are away from the premises**- medical payments coverage will not be paid for injuries to domestic servants or residence employees when they are away from the insured premises and not engaged by the insured in their normal employment.
- 2) **Workers Compensation** - the coverage under medical payment excludes payment to anyone who will inevitably receive any workers compensation benefits. Any workers who are injured who come on the premises and are already covered under a workers compensation policy purchased by their employer, cannot claim coverage under part F.
- 3) **Nuclear Exclusion** - bodily injury that results from any nuclear reaction, radiation or radioactive contamination is excluded.
- 4) **Residence On Premises** - this last exclusion prevents medical payments coverage for any person other than a residence employee who is regularly residing at the insured location. This prevents medical payments coverage for roomers or boarders and the tenants of apartments on the premises. Such coverage would exist under a liability section if a party in this exclusion category were injured and sued.

Additional Coverage

Also available as part of a CPL policy are the following three “Additional Coverages” which can be added and for which an additional premium is required.

- 1) **Claim Expense** - The insurance company would pay all expenses incurred because of the defense of any lawsuit under the policy, including interest on judgments plus certain other legal expenses. **This is paid in addition to the limit of the liability under section E.** Also included are expenses incurred by the insured due to cooperating with the insurance company in defending the lawsuit with the loss of earnings up to \$50.00 a day paid to the insured.
- 2) **First Aid** - This section obligates the insurance company to pay expenses incurred by the insured for first aid relating to any bodily injury recovered under the policy. These first aid expenses are also paid in addition to the policy limit amount.
- 3) **Damage-To-Property-Of-Others** - The concept of damage-to-property-of-others coverage is to offer insurance in situations where the property of others is damaged and it was caused by the insured and for which the insured would not be legally liable to pay. It is coverage in for someone who has, what they feel is, a moral obligation -not a legal one- to pay for the property damage of others.

The policy **will pay up to \$500.00** for damage to the property of others caused by an insured and it does not matter whether or not the insured was legally liable. **The \$500.00 limit is the maximum** and there is no opportunity to increase that amount. Typically the wording in a contract will say *"damage to property of others: we will pay up to \$500.00 per occurrence for property damage to property of others caused by an insured"*. A key component of this coverage is that the property involved must actually have been damaged. If it is lost or stolen, it is not covered because that would not be damaged property. There are **four basic exclusions to damage-to-the-property-of-others coverage**:

- a) **Intentional damage** - is not covered when the insured intentionally damages property and has obtained the age of 13. Under the age of 13, there is coverage up to the \$500.00 limit for deliberate damage. (if you own this coverage and have a 12 or under child and you hate your neighbor, you can have the little tyke throw a brick at the neighbors window and this coverage will pay the damage up to \$500).

b) Owned and rented property - damage to any property owned by or rented to any insured (or of any resident of the insured's household or any tenant of the insured) is excluded. Coverage will exist for damage to borrowed property under damage of property of others coverage up to the \$500.00 limit.

c) Business pursuits, vehicles and uninsured locations - this section has three parts to the exclusion:

- all business pursuits leading to damage are specifically excluded.
- any damage resulting from any acts or omissions concerning the uninsured owned or rented premises.
- any damage relating to or resulting from the ownership, maintenance or use of a motor vehicle, watercraft or aircraft. An exception to this exclusion would be a reasonable application of the exclusion to nonowned recreational motor vehicles that are not subject to motor vehicle registration

d) Losses covered under Section I - any recoverable amounts are excluded under the damage-to-property-of-others coverage. If Section I will cover a loss, then damage-to-property-of-others would be excluded. (Damage-to-property-of-others coverage has the functional purpose of offering coverage to property damage for which the insured would or should have to pay for but would otherwise be excluded in other parts of the contract).

● Section II also **has loss assessments coverage** that, like Section I coverage, **applies to the assessments against an insured by a condominium association or other body of property owners that are cooperative in nature**. Any assessments arising out of the legal liability from other type coverage under the terms of a homeowner's liability coverage would apply. Although the **coverage** under loss assessment **is only \$1,000.00, an increased limit is available by endorsement**. This coverage is included for the liability of the insured when they are an elected or uncompensated officer, director or trustee of a corporation association of property owners. The contract does not provide assessment coverage for assessments charged against an insured or a group or any government body.

A good EXAMPLE: of when Damage-to-the -property of others would be useful is when you borrow a neighbor's lawnmower or snow blower and break it unintentionally. The regular coverage of your CPL will not cover it, but the Damage-to-the -property of others **endorsement will cover it**.

Optional Endorsements

The homeowner's contract in Section II provides a decent amount of liability coverage for most insureds except automobile coverage. There are many endorsements that are optional and available which will make coverage more comprehensive in dealing with certain specialized risk exposures for particular individuals.

☞ **Of course, additional premium is required.**

Personal Injury Liability Endorsements Available to the CPL

1) Personal Injury Liability Form

In personal injury liability policy coverage forms, bodily injury is normally defined as *"any bodily harm, disease or sickness, including acquired care, loss of services, and death which results from any of these causes"*. Since this coverage deals with the aspect of bodily injury only, other possible civil actions such as defamation of character, the invasion to the right of privacy and false arrest do not involve bodily harm.

Coverage for these types of civil actions is only provided via a separate type of coverage **called the personal injury liability form**. This type of insurance has been available to businesses for many decades but until recently, it was not generally available to the individual unless purchase an umbrella liability policy was purchased. The homeowner's program in 1976 allowed this new endorsement of personal injury liability so insureds could buy coverage beyond that already granted under a homeowner's **policy covering the following groups of hazards:**

- 1) Wrongful eviction or entry or other invasion of the right of private occupancy.
- 2) Slander, libel and defamation of character or violation of the right to privacy.
- 3). False imprisonment, false arrest, detention and malicious prosecution.

☞ **exclusions to a personal injury liability endorsement:**

- 1) Those where liability is always assumed under a contract.
- 2) Any injury to the employee of insured.
- 3) The violation of law by or with the knowledge of the insured.
- 4) Business pursuits of the insured.
- 5) Any public or civic activities preformed by the insured.

2) Premises Rented To Others

Previously it was noted that all resident premises owned by an insured must be announced in the declaration section and additional premiums paid for each. When the insured owns rental property, the policy must be adapted to provide liability insurance for bodily injury or property damage arising out of the use of such premises. Separate endorsement forms are available for such additional residences that could be rented. Coverage would also extend insuring agreements to portions of the insured's own residence rented to others.

3) Watercraft and Snowmobiling Endorsements

An insured who owns watercraft excluded by the homeowner's policy (including recreational motor vehicles such as a snowmobile), needs additional liability coverage on these items. **Endorsements can be added** to cover both watercraft and snowmobiles and they **are attached to the homeowner's policy**. It must be noted that **the endorsements only provide liability coverage** and do not provide reimbursement for any damage or loss to a snowmobile or boat. Because of this lack of coverage for the property value of the boat or snowmobile, most insureds do not choose to add it to a homeowner's policy. Instead they carry the appropriate separate policy that provides for physical damage coverage to these valuable and often expensive items.

4) Liability Umbrella

An **umbrella liability policy is a broad form of liability insurance coverage for both general liability and automobile liability**. It is purchased separately from and in addition to the separate basic liability contracts of general liability and automobile liability coverage. Before a party can qualify for an umbrella liability policy, **they must first purchase specified amounts of liability insurance to cover their personal liability and automobile liability**. These coverages are usually obtained from your automobile liability insurance policy where the liability **coverage amount is normally at least \$300,000.00**. The same would hold true for the liability coverage amount found in the homeowner's Section II form. The coverage for an umbrella can range from a usual minimum of a million dollars of coverage up to five million dollars of coverage.

The needs for such vast amounts of liability protection deal more with individuals who need to avoid a financial catastrophe if liability were attached to their activities. The target economic group for an umbrella are the wealthy to middle and upper-middle class individuals with sizable assets in excess of \$300,000.00. It can also include the self-employed business owner, someone with a sizable stock portfolio or real estate investments who find the umbrella to be a useful addition to their insurance portfolio.

Since people with assets could lose those assets in the event they are held liable in a court of law for various activities, a way to transfer that risk of loss is to own adequate amounts of liability coverage. Since the typical homeowner's contract and automobile policy provide a limited amount of liability coverage, these **excess amounts of coverage become necessary in order for the wealthier client to** protect financial reserves adequately. Obviously a people whose assets are far below the \$300,000.00 minimum level are not candidates for this coverage and need not worry about umbrella liability coverage.

Umbrella policies provide a secondary layer of coverage beyond the first layer attached to the aforementioned homeowner's and automobile liability coverages. It is considered **an excess coverage** in that **it will only pay when the basic policy limits are exceeded and more coverage is necessary**. If basic coverage under an auto policy is \$300,000.00 for liability and the policyholder was involved in an accident to which \$900,000.00 of liability is assessed, the basic policy would pay \$300,000.00 and the umbrella would pick up the excess \$600,000.00. The entire claim would be paid.

The **umbrella also provides much broader coverage than one would find under the basic contract**. Umbrella policy coverages will vary from company to company and there is no definitive policy, but most insuring agreements have less exclusion than the basic policies and many losses that are normally not covered under basic contracts are in fact covered under an umbrella. **One example** of this would be **automobile liability coverage that extends to worldwide coverage** without restrictions regarding the use of the automobile.

If a liability claim is covered under an umbrella but not covered by the underlying contract, the umbrella will still pay subject to a self insured retention or deductible. On most personal umbrellas the self insured retention was originally in the \$5,000 to \$10,000.00 range. Today many companies mark their policies with risk retention with a deductible as low as a standard \$250.00 deductible found on basic contracts. This deductible will only apply if the loss is not covered under a basic contract. If a loss is covered under a basic contract, the umbrella would respond from the first dollar once the basic policies are exhausted because the deductible would have paid under a basic policy if one were applied.

There are some exclusion to the umbrella liability policy although coverage is far broader than under the basic individual contract. There is exclusion for owned or used watercraft and aircraft of the type that is also excluded under basic homeowner's policies. Also business pursuits and professional services would be excluded unless coverage for these exposures is also provided in the underlying insurance program. Workers compensation liabilities would be excluded except where employers' liability coverages are provided under CPL'S or homeowner's policies.

Any action by the responsible insured who wanted intentionally to cause personal injury or intentional property damage would be excluded. Also, except watercraft and aircraft, there is no exclusion for property rented to or under care, custody or control of the insured. However, damage to rented watercraft and aircraft is excluded, and property damage by the insured is also excluded.

With the broad coverage and the high coverage amounts associated with the liability umbrella, a prospective insured may think that the cost would be prohibitive. However, just the opposite is true. Premiums can vary with each company and other variables such as the number of automobiles in family and the number of people driving them is calculated in cost. The **annual cost** for the typical one million dollar coverage is **normally in \$200.00 to \$300.00 range**. Coverages for additional millions of dollars are correspondingly less as the coverage is increased. Due to its unique nature **those with sizable assets will find this perhaps the most valuable policy they will ever own**.

MANAGING THE INFLATION FACTOR

The **main threat to retaining full replacement cost coverage** is probably the continuous encroachment of **inflation** in the economy. As prices of goods rise in general, the real estate market usually hedges upward in value as the greatest single asset most Americans will enjoy. Without adjusting insurance coverages on dwellings to meet increases in value, plus the goods and services it would cost to replace the items it takes to create the value, under-insurance will occur.

The **"Inflation Guard Endorsement"** can be added to the homeowners policy to automatically increase the coverage. The amount will increase by a fixed percentage of the face coverage amount on an annual basis.

3) MOBILE HOMES AND ELIGIBILITY

In the past, insurance for mobile homes was written with the viewpoint that the **MOBILE HOME was similar to an automobile**. Therefore the pricing of insurance for mobile homes, due to the automobile approach, **always considered the MOBILE HOME as a depreciable asset**.

The **modern approach used for insuring mobile homes is based on a homeowners policy approach**. Under the homeowners approach, mobile homes are considered much the same way as a regular home is treated for insuring purposes. The **main change** from the automobile approach to the homeowners approach is based on the idea that **mobile homes, in general, will increase in price over time rather than depreciate as do cars**. The main reason: currently about **50% of all new home sales in the USA are mobile homes**. This huge market is now recognized for its importance with the insurance industry and replacement cost coverage is now available even to the mobile home owner.

In order for a MOBILE HOME policy to be written, (it is written as an endorsement to a homeowners policy) **the**
●MOBILE HOME must be portable ●designed for year round living and ● must not be less than ten feet wide and forty feet in length. Such a requirement eliminates vacation campers from being considered for this policy type.

Mobile Home COVERAGE

The coverage under mobile homes is described in the declaration section of the contract of Coverage A. The MOBILE HOME endorsement changes the definition of dwelling in the homeowner's form to include the MOBILE HOME. It also includes the MOBILE HOME's permanently installed floor coverings, dressers and cabinets, appliances, utility tanks, and any other built-in or attached item of a similar nature.

Replacement cost coverage is available when the policy is written for at least 80% of the replacement value. However, the owner *could lower the premium cost by selecting an endorsement for coverage on an actual cash value basis*. If the owner selects an actual cash value basis, the amount of insurance provided for loss would be based on the value of the MOBILE HOME less any depreciation it has suffered since the point of purchase. *Although actual cash value saves premium, it may prove to be a foolhardy choice in the event of total loss*.

There is a special contract clause relating to loss settlement. Due to the difficulty of MOBILE HOME repair if a part of a series of panels used in the construction of the MOBILE HOME become damaged, the language of the insurance contract in reference to payment, is as follows:

"The reasonable cost of repairing or replacing the damage part to match the remainder as closely as possible, or the reasonable cost of providing an acceptable decorative effect or utilization as circumstances may warrant".

The meaning is that if the repairs in the unit are a mismatch, the insurance company will pay for covering, painting, etc. of the unit.

PERSONAL PROPERTY of the Mobile Home Owner

The insurance **limit on personal property in a MOBILE HOME endorsement is 40%** of the Coverage A amount (MOBILE HOME coverage limit amount). In a standard homeowner's policy, you may recall, personal property is covered at a 50% of the dwelling value basis. The reason that the MOBILE HOME personal property coverage is less than that of a standard homeowner's policy is because so many of the contents, which would otherwise be considered personal property, are built into a MOBILE HOME.

ADDITIONAL LIVING EXPENSE

In the event that the MOBILE HOME becomes damaged and it requires the owner occupants to live elsewhere until an insurance settlement has been created, the amount of additional **living expense is equal to 20% of the insured value of the MOBILE HOME**. When the automobile approach of writing coverage was used, the additional living expense was \$15.00 per day up to the maximum of 45 days, similar to the auto policy and its clause relating to renting a car when the owned vehicle was damaged.

PROPERTY REMOVAL

The **coverage for property removal is \$500.00** and there is an option to purchase an additional limit up to \$2,500.00 (purchased in increments of \$250.00 each). This coverage will pay for any expense of moving the MOBILE HOME when that movement is required for the MOBILE HOME to escape damage from a possible peril which it is insured against.

MOVING ENDORSEMENT

One throwback to the old auto approach to writing MOBILE HOME insurance is for transportation and moving coverage, which is provided with a MOBILE HOME endorsement. The *endorsement will extend the policy for an additional 30 days to cover any collision, upsets, stranding or sinking while the MOBILE HOME is moved to different location.*

LIENHOLDER SINGLE INTEREST

Many mobile homes are financed by the dealership that sells them, on a time payment basis. When the lender or LIENHOLDER is involved, there is special protection available under the lien holder single interest endorsement. *The endorsement will insure the interest of the MOBILE HOME seller only* and provide protection to them for loss which arises from any collision, conversion, embezzlement or secretion of the MOBILE HOME by the insured party.

B) COMMERCIAL LINES

1) COMMERCIAL PACKAGE POLICY (CPP)

We now leave personal lines coverage and take a look at the needs of business in the property insurance arena. The **basic needs of business** centers around not only **perils to buildings and the personal property of business**, but it **extends to cash flow and interrupted income as well**. Today, modern insurance forms rely heavily upon the Commercial Package Policy concept to serve the diversified needs of business entities. Special coverages such as Boiler and Machinery and the Businessowner Policy are also highlighted in this section.

is the modern result of a project whose goals included the reflection of changing conditions and demands to **standardize and simplify** coverage forms, endorsements and ratings in the property and casualty contract area. The actual result of this modern overhaul has been to charge premiums which accurately and fairly reflect the risks involved. Today most states have adopted the entire CPP program, or portfolio approach as it is called, as of January 1, 1986.

The key to CPP is the fact that coverage can be monolingual or part of a package policy. Regardless of actual purchase, the same forms are used and **all policies** have a **standard declarations page** and **common policy conditions**. As a result of the CPP, the Standard Fire Policy (see page 1 of this text) has been eliminated from use in the vast majority of states. Other coverage forms eliminated by the use of the CPP are the General Property Form, Special Building Form, Special Personal Property Form and the SMP (special multi-peril program for commercial use).

This new commercial lines program allows the following coverages to be written as a Monoline policy or as part of a commercial package policy. Of the following concepts, only those boldfaced below are part of the insurance test outline and there are the topics discussed further in the materials that follow:

- + Farm coverage (property and liability)
- + **Commercial Property coverage**
- + Commercial Inland Marine Floaters
- + **Equipment Breakdown Coverage**
- + **Business Owner Policy (BOP)** (Not part of a CPP)

- + **Commercial General Liability (A CASUALTY POLICY CONCEPT)**
- + **Commercial Crime (A CASUALTY POLICY CONCEPT)**
- + Commercial Auto (A CASUALTY POLICY CONCEPT)


The above coverage offers various types of mandatory and optional coverages which can be molded to the specifications of the individual business owner.

Prior to the recent introduction of the CPP the standard business contract issued was the SMP or Special Multi-Peril policy which combined property and casualty coverages through four sections (I) Property, II) Liability, III Crime and VI) Boiler & Machinery).The advantage of the CPP policy is its clear organization and broader eligibility to the commercial community.

Each Commercial Package Policy (CPP) consists of three elements :

- 1) Common Policy Declarations
- 2) Common Policy Conditions
- 3) Two or more parts of coverage

Also, be aware of “Interline” endorsements are available as needed. ☞ **Interline endorsements** are those that could apply, or do apply, to more than one coverage part of a CPP. **Their purpose is to minimize the number of endorsements used and to reduce coverage redundancy.**

There must be  at least two coverage parts for a “package” to exist, otherwise it is a Monoline policy and not a CPP.

CPP Common Policy Declarations (know these elements):

- △ names the insured and lists mailing address
- △ describes the business involved
- △ shows the period of coverage (time & date it begins & ends)
- △ all coverage purchased and the premium cost of each
- △ lists all forms which apply to all parts of coverage
- △ countersignature and date of signature
- △ policy number
- △ identifies the insurer and producer


CPP Common Policy Conditions:

- **CANCELLATION**- a named insured has this right (short rate) as does the company. The **company must give 10 days notice** if cancellation is for nonpayment of premium and 30 days notice for all other reasons (pro rate basis). State law may vary these requirements. 5 days notice is allowed under special conditions such as 60 or more days of vacancy or unoccupancy.
- **CHANGES** - *only the first named insured can make changes* in accordance with the policy terms and company acceptance. Terms can be waived or changed only by insurer endorsement attached to the policy.
- **PREMIUMS** - must be paid on time by the insured and any premiums refunded are paid to the first named insured.
- **EXAMINATION OF YOUR BOOKS AND RECORDS** - company **may examine and audit** insured's books any time during the policy coverage and **up to three years after**.
- **INSPECTIONS AND SURVEYS** (not safety related) company can inspect to determine premium cost and insurability eligibility.
- **TRANSFER OF YOUR RIGHTS AND DUTIES UNDER THIS POLICY** - **must have written consent of the company to make an assignment**, except in the case of the death of the insured.

TYPES OF COMMERCIAL COVERAGE

2) Commercial Property

Commercial Property Protects **commercial risks from loss**.

 **Protection extends to businesses that own and occupy their own premises or to businesses that rent or lease space.** Businesses who lease tend to make expensive alterations or improvements in order to occupy premises for a particular purpose. This investment needs to be protected through insurance.

A business or commercial venture has insurable interest in buildings and equipment such as fixtures, machinery and furniture and inventory. **Consequential or indirect losses due to interrupting a business' ability to earn money because of a direct loss are** also an important commercial consideration. For example, while there are 12 commercial property coverage forms within the portfolio structure, as listed below, **the insurance exam outline only contains the three forms highlighted in boldface print:**

D Building and Personal Property

- Δ Builders Risk
- Δ Condominium Association
- Δ Condominium Commercial Unit-Owners
- Δ Legal Liability
- Δ Glass
- D Business Income**
- Δ Business Income with Extra Expense
- D Extra Expense**
- Δ Leasehold Interest
- Δ Mortgage Holders Errors and Omission
- Δ Tobacco Sales Warehouses

Each of the above forms is designed to insure specific types of losses or property. These forms identify

- the subject of the insurance, ● description of coverages,
- Additional and optional coverages, ● the stated exclusions and conditions.

☞ **Coverage for vandalism will continue for up to sixty days after a building is left vacant.**

a) Building and Personal Property

- This can include **Building Coverage** (COVERAGE A)
- **Business Personal Property** (COVERAGE B)
- And the **Personal Property of Others** (COVERAGE C). (Includes items that are in the “care, custody and control” of the insured (known as the “3-C’s”).

This is the most frequently used commercial form and is used to write coverage for "**direct loss**" (meaning **direct physical loss or damage**). The building includes all buildings extensions and additions as well as permanent fixtures and machinery. One or more categories may be selected.

The personal property of the insured which is used for maintenance and service in the building, appliances used in the business, and floor coverings are included. **Personal property** in the business context **means property other than real property** (the land and anything attached to the land) used in the operation of the business. Coverage exists for personal property in a business building, personal property as described in the policy and to PP in the open or in a vehicle **within 100 feet of the premises**.

Insured items include inventory stock, machinery and equipment, fixtures and furniture, personal property owned by the insured and used in the business and labor materials and services furnished by the insured on the property of others. Improvements or additions to a structure, which are generated in order to properly or more effectively run the business are legally the property of the building owner, but the tenant who runs the business has an insurable interest and is entitled to insure such additions.

There are many ☞ **types of property which are not covered** and a brief rundown would include:

accounts, bills, currency, deeds, money, securities, underground pipes, automobiles held for sale, bridges, roadways, paved surfaces, illegally transported contraband used in trade, cost of grading backfilling or filling land, water, growing crops or lawns, personal property while airborne or waterborne

The Additional Coverage Form, which is part of the Building and Personal Property form provides insurance for

- **debris removal** as result of a loss (limited to 25% of the amount paid for direct loss plus the amount of the deductible paid)
- expense borne to the insured as a result of **protecting property** in the course of a covered peril (preservation or property) is open perils coverage for 10 days from date of loss
- if the insured is liable due to a **fire department for a service charge** at the time of loss, there is a \$1,000 maximum reimbursement without a deductible being required.
- **Pollution cleanup** and removal is **limited to \$10,000 per policy period** (from land or water).
- **Normally an 80% or higher coinsurance would apply**, under which the insured may have the following extensions of coverage: newly acquired or constructed property, property off premises, outdoor property, valuable papers and records, personal effects and property of others.
- **Newly acquired or constructed property is covered up to 25%** or a maximum of \$250,000 per building. There is a 10% or \$100,000 maximum of personal property applied up to 30 days to cover business personal property at a newly acquired location. There is a \$2,500 extension of coverage to the business personal property for personal effects of the insured's officers, partners and employees.
- **There is a \$1,000 business personal property extension** of the insured to *cover the expenses of research and other expenses involved in reproduction or restoring valuable papers or records*. Also coverage for off-property premises extension for a maximum of \$5,000 to be applied to cover a direct loss to an insured's property off the premises. Personal effects and property of others is provided up to \$2,500.
- A **\$1,000 maximum** to be applied **for outdoor property extensions** such as outdoor fences, radio and television antennas, signs, trees, shrubs and plants destroyed by fire, lightening, explosion, riot, civil commotion, or aircraft. (\$250 maximum per any one tree, shrub or plant including debris removal).

Optional Coverages available include "Agreed Value", Inflation Guard and Replacement Cost. The standard deductible under this form is \$250.

b) Cause of Loss Form

Commercial building and personal property policies can be written in one of four cause of loss forms:

- 1) **The basic form** covers **eleven perils** including fire, lightening, explosion, windstorm or hail, smoke, aircraft or vehicles, a riot or civil commotion, vandalism, sprinkler linkage, sink hole collapse and volcanic action.
- 2) **The broad form** covers **all of the basic perils plus five more** including breakage of glass; falling objects; weight from rain, snow, ice or sleet; water damage; and collapse. There is glass breakage coverage of \$100 per plate up to \$500 per occurrence.
- 3) **The special** cause of loss form protects an insureds on **a all risk basis**. A peril is covered unless it is specifically excluded from coverage. Pollution and contaminants are excluded and a theft exclusion endorsement is available.
- 4) **Earthquake form** can be added to any of the three forms above and includes protection against damage from earthquake AND volcano.

Common ☞ **exclusions** to commercial forms are similar to personal line forms and they include

water damage, war, nuclear, power failure, law and ordinance, earth movement or earthquake, and electrical apparatus.

c) Business Income

Also called **“time element coverage,”** pays for loss of income over a period of time which results from a direct physical loss. ☞ Business income = **“net income” (net profit or loss before income taxes)** which **WOULD HAVE BEEN EARNED plus normal operating expenses** including payroll. Expenses susceptible to shut down during loss are not covered (heat, electricity) while continuing expenses are covered (debt payments, rent taxes). It can be written with or without Extra Expense Coverage.

It is available including rental value, excluding rental value or rental value only (income from tenants at the premises minus expenses not expected to continue).

Coinsurance can be written on a 50%, 60%, 70%, 80%, 90% or 100% basis of the firm’s annual earnings during the one year period of the policy. If a lengthy shutdown is possible for a period exceeding a year, a 125% coinsurance option can be purchased (also available in “Extra Expense” coverage as well).

The only covered losses are those which are incurred during a **“Period of Restoration”**, which begins on the date when direct physical loss to the property occurs and ends on the date the damaged property "should be" repaired, rebuilt or replaced "with reasonable speed" and similar quality.

d) Extra Expense (also known as Business Interruption Insurance)

This was created **for businesses that cannot endure a complete shutdown** but needs to continue even at high initial cash outlay (i.e. a newspaper). **No funds are provided for lost business income**, only for extra expenses the business incurs to remain operating. The *idea of the coverage is to avoid or minimize a shutdown period*. This coverage is for businesses that can continue operations at other facilities within the same company. The most common forms allow the policyholders to collect 40% of the policy face in the first month following damage, 80% during the first two months and 100% within the first three months.

These forms of coverage above (Business Income and Extra Expense) can place a business in the same position it would have been in had the insured's loss not occurred. **They cover consequential or indirect losses.** It is important that any business consider such coverage in the event named perils destroy property or create a loss for the business that it might not otherwise be able to overcome because income and gross sales are no longer possible. **These coverages are also referred to as ☞ “time element” and ☞ “business interruption” insurance.**

Again, recall that the only covered losses are those which are incurred during a **“Period of Restoration”**, which begins on the date when direct physical loss to the property occurs and ends on the date the damaged property "should be" repaired, rebuilt or replaced "with reasonable speed" and similar quality.

☞ **Both Business Income and Extra Expense are forms of Business Interruption Insurance also known as “CONSEQUENTIAL” or “INDIRECT” LOSS.**

3) EQUIPMENT BREAKDOWN COVERAGE

Equipment Breakdown Coverage, previously referred to as Boiler & Machinery Coverage provides coverage for electrical, mechanical, air conditioning, and production equipment as well as heating boilers and pressure vessels, all key machinery and equipment crucial to some business types..

Accidents and breakdowns that commonly happen to these kinds of devices are not covered by most property insurance policies. In fact, business property policies specifically exclude mechanical breakdown, electrical arcing or damage due to a surge of electrical power, and explosion due to centrifugal force.

These are the very types of accidents that have the highest probability of happening to some business equipment. Typical policies do not cover explosion, cracking, or burning (overheating) of steam boilers or pipes. Uninsured gaps like these could mean big losses and possibly financial disaster.

In the event of an accident or breakdown to equipment, the following will be covered:

- Electrical burnout of motors, electrical distribution equipment (circuit breaker box including facility electrical wiring), and emergency generators and transformers
- Mechanical breakdown of compressors, pumps, fans, blowers, and other machinery
- Cracking or collapse of air conditioning or refrigeration system vessels, coils, or piping
- Explosion of steam boilers and steam piping
- Burning (overheating) of boilers due to insufficient water
- Cracking of sections in cast iron boilers
- Bulging, cracking, or collapse of pressure vessels, such as water heaters, compressed air tanks, steam cookers and kettles, expansion tanks, and condensate return tanks
- The extra cost of expediting repairs
- Damage to other people's property in your care, custody, or control
- Losses to property from the release of hazardous substances caused by an accident
- Business Interruption protection, covering the expenses to get you back on track as soon as possible

4) BUSINESSOWNER POLICY (BOP)

This is a carefully constructed policy **for small and medium sized firms** operating within in a single office, apartment house or residential condominium. ☞☞ **The BOP is not part of the CCP** but instead is a single, stand alone coverage today. It was **expanded in 1997** to include contractors, certain restaurants(limited cooking and fast food, mainly) convenience stores without gasoline sales and laundry/dry cleaning shops. Tenants of offices and stores can insure business personal property. **The newest version of this policy greatly expands eligibility.** Eligibility now includes businesses now such as _certain restaurants (with limited cooking and fast food establishments, _ contractors, _ convenience stores not selling gasoline and laundry and _dry cleaners.

>> **A BOP is a complete package policy by itself** and is therefore not attached to some other coverage or package and **it is not part of the CPP.**

Property coverage ☞ **can written on either a standard or special form.** Most coverages of the two forms **are identical except for "covered causes of loss"**. The standard form is like the "basic" coverages found in other commercial forms while **the special for is "all risk" coverage.** Optional coverage available includes business interruption, employee dishonesty and mechanical breakdown. Coverage very much resembles the CGL occurrence form and protects against liability in the following areas: premises and operations, products and completed operations (an aggregate limit starting at \$300,000 with increasing available to \$1 million), advertising and personal injury liability, fire legal liability (\$50,000 limit) and medical payments (\$5,000 limit). Liability and medical expense limits are \$300,000 or \$500,000 or \$1,000,000. There a general aggregate limit which is equal to double the liability and medical expense limits.

Cancellation requirements are as follows: 5 days if special circumstances apply; 10 days if the reason is for nonpayment of premium; and 30 days if canceling for any other reason.

Eligibility property includes the following risks:

- **Apartment buildings** no higher than six stories which do not exceed 60 dwelling units or 25,000 square feet of space or less
- **Mercantile, service and processing risks** with gross sales not exceeding \$3 million and having no more than 25,000 square feet of space.
- **Office buildings** cannot be higher than six stories or contain more than 100,000 square feet of space.
- **Restaurants** with gross sales not exceeding \$1 million and having no more than 7500 square feet of space.

BOP Property Coverage - includes buildings and contents (no coinsurance provision) automatic inflation increase of 8% annually on building coverage. A 25% yearly increase on contents coverage is included which automatically allows for seasonal variances. **Business income and extra expense are included** with no limits of liability and the insured may collect for reduced earnings for up to one year. Off property or property in transit is insured for \$1,000. There is open perils coverage for exterior glass on all floors of the building.

Δ \$100,000 coverage for personal property at newly acquired locations.

Δ \$5,000 for accounts receivable and valuable papers

Δ \$5,000 or 5% of building limit for increased costs of construction caused by a law or ordinance change

Δ \$1,000 for money orders and counterfeit money

Δ \$2,500 for alteration or forgery

C) INLAND MARINE

The term, “Inland Marine” is really a throwback to a bygone insurance era. It refers historically to the notion that personal property that was not kept within premises and had to be moved, had to be separately insured **with a policy to “float”, to go wherever the property went, except by open seas travel.** A discussion of the main personal and commercial floaters used today, follows. **Included is the “nationwide” definition (as it pertains to the property items which are covered in each category).**

1) PERSONAL FLOATERS

The word floater **originally meant coverage for property while it was away from the insured's premises.** The homeowners form does cover personal property while it is anywhere in the world. The ☞ **floater is used for excess amounts of coverage on specific items that the homeowners policy is inadequate to cover.** The notion of the floater is that coverage is on inland marine basis and the property that is covered is mobile by its nature. **The floater generally provides coverage on an open peril rather than named scheduled basis.**

● SCHEDULED PERSONAL PROPERTY AS ENDORSEMENT

The **scheduled personal property endorsement** to the homeowners contract **is an open perils coverage** for *nine classes of property* including the following: furs, jewelry, silverware, golf, camera equipment, fine arts and antiques, stamps, coins and musical instruments. Scheduled means to list the property, in an itemized fashion, in the insurance contract, for specific property at specified coverage amounts. These endorsed (added) coverages require the payment of an additional premium. They **are normally added to the homeowners policy but can be issued as a separate policy to an insured.**

● FURS

The fur floater is very broad coverage with only three basic exclusions including:

- 1) Loss caused by wear and tear or gradual deterioration as well as loss caused by insects, vermin and inherent vice.
- 2) Loss by nuclear radiation or radio active contamination.
- 3) Loss caused by war.

The apparel that is covered has to be a dress pelt of some animal and **cannot be a man made fabric**. At the very least, it must be trimmed with fur. Although **an appraisal of each fur is required** before it can be insured, a copy of the sales receipt on a recently purchased fur would be adequate in establishing the value of the fur. **Coverage of furs is on a world wide basis** and any additional acquired property is automatically insured. This is subject to 25% of the amount of insurance or \$10,000 whichever ever is less so long as it is reported within 30 days. The other floater, also has the same 25% or \$10,000 whichever ever is less application. The newly acquired property coverage also applies only to personal jewelry, cameras and musical instruments.

● JEWELRY

The **jewelry floater** provides coverage on also an **open peril basis** with each item scheduled with an amount of insurance that is applied to on an actual cash basis. An **appraisal is required** or some type of establishment of the cost must be involved. Besides the normal exclusions, the personal jewelry contract has a pair and set clause as a condition. The pair and set clause will not allow collecting for a total loss if one item of a pair is lost or destroyed. In the event one item of the pair or set is in fact destroyed, the loss that is paid is based on a fair proportion of the total value of the set. This is based on the importance of the article involved.

● SILVERWARE

This provides coverage on valuable silverware or silver plated ware and items of the same kind. The **coverage is very similar to jewelry**. There is no automatic coverage on additionally purchased items.

● GOLF

A golfer's equipment can be insured under a separate policy or covered under a personal property endorsement of the homeowners contract. This will provide coverage for golfing equipment including: clothing, except for watches and jewelry, golf clubs and any other clothing contained in a locker room in a clubhouse or other building which is used while the game of golf is involved. Eligible property for coverage is very broad and even includes a golf cart. There is open perils coverage for most items and is written on a blanket basis. One exception is the **coverage for golf balls is not open perils but is only limited to the perils of fire and burglary for recovery by the insured**.

● CAMERA

Cameras are also insured on an open perils basis. Coverage includes: protection for projection machines, movable sound equipment, films, binoculars and telescopes.

● FINE ARTS /ANTIQUES

The fine arts floater covers fine art objects including: antiques, rare manuscripts and statuary items. It is **also open perils coverage and has the normal exclusions**. The open perils exclusions include: wear and tear, gradual deterioration or inherent vice, insects or vermin and coverage on fine arts and antiques has **three additional exclusions including:**

- 1) The breakage of certain fragile articles unless the breakage is caused by specifically named perils.
- 2) Damaged caused by repairing, restoration or retouching process.
- 3) Any loss by any cost to the property on exhibition and fair grounds or premises of national or international exhibitions unless the premises are covered by the policy.

The specific types of perils which are covered under the fine art/antiques floater include:

- 1) Loss caused by **fire or lightning.**
- 2) Loss caused by **explosion, aircraft or collision.**
- 3) Loss caused by **windstorm, earthquake or flood.**
- 4) Loss caused by **malicious damage or theft.**
- 5) Loss caused by **derailment or overturn of a conveyance** (i.e. a train, truck, etc.).

☞ **Antiques and fine arts are insured on a valued basis** as opposed to an actual cash basis. This means the insurance company will insure each item based on value in event of loss. Therefore much care must be given to determining the values. Normally the insurance company will require an appraisal and each item will be scheduled (**scheduled means named in the policy**) with an amount of insurance that is subject to a percentage limitation relative to an aggregate amount of the schedule involved. Any additionally acquired items must be reported within 90 days and a proper pro-rata addition must be paid.

● STAMPS AND COINS

Since coin and stamp collections can become quite valuable, extra amounts of coverage are desirable under a personal articles floater. Property eligible for stamp coverage includes: postage stamps on an envelope, those which are official, anything dealing with revenue, match and medicine covers, locals, reprints, essays, proofs and other philatelic property owned or in the control of the insured. Coverage is also provided for book, pages and mountings.

Coins which are eligible for coverage include: rare and current coins, medals, paper money, bank notes, tokens of money and other numismatic property that is owned or in the custody or control of the insured. This includes: coin albums, containers, frames, cards and display cabinets.

Both stamps and coins can be insured on a schedule or a blanket basis. *Normal exclusions include: damage resulting from fading, creasing, denting, scratching, tearing, thinning, transfer of color or damage as a result of the property being worked on is excluded. Also excluded is mysterious disappearance of individual stamps unless the items are specifically scheduled or mounted in a volume and the page to which the stamp is attached is also lost. Any unintended loss as a result of an automobile is excluded with the exception of the items being shipped by registered mail.*

There is a **policy limit of \$250 on any unscheduled stamp**, pair, block or series and **\$1,000 on unscheduled numismatic property**. If the insured fails to schedule a high valued item then coverage for that item will not exist.

● MUSICAL INSTRUMENTS

Musical instruments can be quite valuable and require broad type of coverage under an inland marine contract. The personal property endorsement related to **musical instruments is open perils coverage** and **any acquisitions have to be reported within 30 days with an additional premium paid**. One condition unique to this floater includes the fact that the coverage will be provided if **the insured agrees that none of the instruments insured will be played for money during the term of the policy unless it is specifically permitted by endorsement** and there is a payment of additional premium.

This condition **establishes a difference between the amateur and professional musician for rating purposes**. The worst loss tends to occur with a professional musician rather than an amateur who is not engaged in performing for hire.

● PERSONAL PROPERTY FLOATER

Other floaters are available depending on the type of property involved. They include: ■ a separate gun floater, ■ fishing tackles floaters or ■ sporting goods floaters. Specific *personal property floaters are available to people who do not own their own home but wish to have open perils coverage on personal property rather than on just special classes of property which can be scheduled.* The personal property floater provides a single amount of insurance to cover all unscheduled personal property except for three limitations including:

- 1) A limit of 10% of the amount of insurance applicable to unscheduled personal property for property located at a secondary residence of the insured.
- 2) The maximum collectible for any loss of jewelry or furs is \$250.
- 3) A limit of \$100 for loss money including coin collections with a \$500 limit on accounts, bills, deeds, evidence of debt and other valuable papers.

The **personal property floater is open peril coverage** and the policy is written with a deductible which can vary from \$100 to \$500. The personal property floater **is a luxury contract and is used usually by wealthy people who want the most protection possible and who do not own their own homes.** When the wealthy person owns a home, **the homeowners form HO15 will provide the same coverage on contents as the personal property floater.**

● WEDDING PRESENT FLOATER

Since wedding presents can constitute a large value, the wedding present floater is created to provide coverage for gifts received for a temporary period. Coverage exists during gift accumulation while the bride and her new husband are settling into their home. **Under the contract, all presents are the property of the bride and the bride must purchase the insurance coverage.** The coverage begins when the presents begin to accumulate and **coverage exists up to a maximum of 90 days after the wedding.** It will provide open perils coverage and the usual exclusions. Certain types of property are excluded: realty, animals, automobiles, motorcycles, aircraft, bicycles, boats, money, notes, securities and stamps.

2) Commercial Floaters

As stated previously, this coverage is an outgrowth of Ocean Marine insurance where coverage extended to movable property that is transported by sea. **Inland Marine insurance protects against physical damage by listed perils while property is transported other than by sea** (inland waters, land or air).

The general areas of commercial risk govern the definition of Inland Marine insurance and include: 1)Exports, 2) imports, 3) domestic shipment, 4) means of transportation, 5)personal property floater risks (see above) and 6) commercial property floater risks. These six categories of property comprises the **Nationwide Marine Insurance Definition (NMID), defined in the latest revision of 1977.** The purpose of the NMID is to define the types of insurance deemed to be Marine for the purposes of rate filings and statistical reporting for losses. Exports and Imports belong only to ocean marine insurance. The other four define inland marine risks.

Because Inland Marine insurance covers moving property, the term "Floater" has become widely associated with popular types of Inland Marine insurance.

Common perils covered by Inland Marine insurance include: ■fire, ■lightening, ■windstorm, ■sprinkler leakage, ■flood, ■collapse, ■earthquake, ■explosion and ■hail.

Common perils excluded from coverage include:

Wear and tear from ordinary use, war, mysterious disappearance, loss of market due to delay in delivery, theft from unattended auto, breakage of fragile cargo, damage while property undergoes repair, infidelity or dishonesty of employees, dampness of atmosphere and temperature extremes, mechanical or electrical breakdown, insects, vermin and inherent vice.

Forms of coverage are either “Controlled” or “Uncontrolled.” Controlled forms are those submitted to and approved by a State Department of Insurance while an **uncontrolled form is not standardized by a rating bureau but are developed individual insurance companies.**

D) Other Policies

1) FLOOD INSURANCE

Purpose of the Flood Program

Prior to 1968, flood insurance on real estate was not widely available. In 1968, a law empowering the department of housing and urban development (HUD), established a **federally subsidized flood insurance program** which made flood insurance **available to business and individuals**.

The National Flood Insurance Program (NFIP) is under the jurisdiction of the federal insurance administration and is operated through the Federal Emergency Management Agency (FEMA). **Flood policies can be purchased from either NFIP or through private insurance companies who participate the federal program, called the "write-your-own" program.** When flood insurance is purchased from private insurers, the policy is issued on behalf of NFIP and is reinsured at a 100% level against any loss incurred. Likewise, private insurers that participate in the **"write-your-own" program** are reimbursed from NFIP for any losses not covered by premiums charged and the investment income that a company receives as a result of those premiums. Whether coverage is written by the private insurance company or through the federal government, it is sold by private insurance agents who will be paid a commission for the sale.

ELIGIBILITY

Any community that promises to enforce land control measures, which are designed to develop future land projects away from flood prone areas, is eligible under the national flood program. Any governmental bodies that wish approval for the sale of flood insurance must submit a special statement to FEMA which indicates that they would like to be included in the program. Eligibility for insurance for the community rests on the agreement that they will adopt land use and flood control measures to **prohibit new construction in any area where there is a more than 1% chance of flooding on a yearly basis**.

If a community has agreed to adopt the controls that are specified by FEMA, then they are eligible for something called the **"emergency program"**. In the emergency program coverage is available for eligible properties up to special limits and the **premium rates are subsidized by the federal government**. Today, all property including commercial, residential or industrial and agricultural, as well as public buildings, can get emergency program coverage. **The subsidized coverage under the emergency program is for \$35,000 of coverage on single family dwellings and up to \$100,000 on all eligible structures.**

Coverage is available on **residential contents for up to \$10,000. On non-residential contents, the contents insurance limit is \$100,000.** Premiums for flood insurance written through the emergency program are the same in all eligible cities and towns that utilize the program. Any additional coverages under the regular program however, can vary in cost based on the actuarial loss probabilities in a particular geographical area.

Another program called the **regular program** can be available when a detailed flood risk study has been completed or waived by FEMA and the community adopts flood plain management ordinances. The regular program increases the amounts of coverages available to the residents under this program.

RATE MAPS

The additional amounts of insurance that are available through the regular program are based on actuarial rates and not subsidized rates. Therefore the flood hazard involved will be the basis of the premium rates for the properties in that local geographic area. The maps involved first are called **the flood hazard boundary map** whereas the **official map which details actuarial risk** for any given community is referred to as **firm or flood insurance rate map**.

SPECIAL FLOOD HAZARD AREAS

The purchase of flood insurance is required in an area designated as a "**special flood hazard area**" as a condition to obtaining any form a federal financial assistance once a flood occurs. The definition of a special flood hazard area is a designated land surface within a community in the flood plain which is most likely to experience severe flooding occur. When the property at issue is not in a special flood hazard area then flood insurance is not required to obtain a loan. Because of the terrible flooding in much of the country in 1993, the **National Flood Insurance Reform Act of 1994 strengthened compliance requirements for lenders. Today all property in special flood hazard areas requires the purchase of flood insurance be purchased when a lender is making a loan, increasing a loan, extending it or renewing. The coverage must be in existence for the entire term of the loan.**

In the event the borrower does not purchase flood insurance within 45 days of receiving notification to do so, then the lender has the authority to purchase flood insurance for the borrower. This law specifically prohibits all federal agencies from approving any financial assistance to any flood victim for reconstruction following a flood if the individual has not purchased flood insurance as required by law.

RESIDENTIAL COVERAGE

The flood policy **provides insurance for coverage A, coverage B and coverage C for debris removal.** Flood insurance can be purchased on the dwelling, on the contents or on both dwelling and contents. The limit for debris removal is included within the limit of liability to the insured property, but it is listed in a separate insuring agreement. The residential flood policy uses simplified language which parallels the format of contracts used by private insurers for property insurance.

AGREEMENT INSURING

Residential flood policies give coverage for direct physical loss by or from flood with the following exact **definition appearing in the contract:**

"A general and temporary condition of partial or complete inundation of normally dry land areas from overflow of inland or tidal waters or from the unusual and rapid accumulation of runoff of surface waters from any source".

The loss which is covered also includes flood related erosion caused by mud slides. The insuring agreement also stipulates that the flood must be a general condition of the area. There will be no coverage for flood damage for isolated situations (i.e. sewer backup or broken sump pumps in the insured's basement).

BUILDING COVERAGE

The insuring agreement defines dwelling much like it does in fire policies. Any materials and supplies intended for construction of the building are covered, but only if they're inside a fully enclosed area. There is a 10% coverage for appurtenant structures but only when those structures are fully enclosed. **The policy is sold on an actual cash value basis but replacement cost coverage can be purchased for one to four family dwellings that are occupied for at least 80% of the year. Replacement cost coverage also requires that the structure be insured for at least 80% of its replacement cost.**

Specifically excluded from building coverage is

landscape including lawns, trees, shrubs and plants. Also excluded would be outdoor swimming pools, fences and water structures. Walks, driveways and any paved surface outside the building are excluded. Certain property in basements are excluded by flood policies: finished walls, floors ceilings and other improvements.

CONTENTS COVERAGE

Residential **contents maybe insured** under a flood policy but the coverage applies to household and **personal property which is usual and incidental to the occupancy of the dwelling.** The policy holder may extend coverage to

include the property of guests or servants who are on the premises. A critical notion in the coverage is that contents are covered against loss by flood only if they're inside a fully enclosed or sheltered building on the premises. This exclusion does not allow for off premises extension. Personal property which could be covered includes things like air conditioning units, portable dishwasher, carpet installed on a finished floor, clothes dryers and clothes washers.

There is a fairly long list of property which is not covered including money, securities, valuable papers, animals, birds, fish, aircraft, motor vehicles, trailers, watercraft and business property. There are two other property groups subject to dollar limits including a \$250 aggregate limit for fine arts (which includes paintings and antiques) and a separate \$500 aggregate limit for jewelry, watches, gold, silver, platinum and furs. Any tenant improvements or betterments are covered up to 10% of the amount of coverage on the contents, but this is not an additional amount of insurance.

REMOVAL

Property can be removed from the premises to protect it from other insured perils for up to 30 days at a new location. The policy does include reimbursing the insured for reasonable expenses for moving the insured's contents to a safe area and put them in temporary storage for a period not exceeding 45 days if the property is in imminent danger of flood. However, the coverage amount for property removal is **limited to a \$750 reimbursement with no deductible applied.**

EXCLUSIONS

The usual exclusions of war, nuclear reaction, the operation of building codes and the neglect of the insured to protect and preserve the property are included. There is also an exclusions for damages resulting from power, heating or cooling failure unless such failure results from damage to equipment which is on the premises due to flood. The other exclusions include loss by fire, windstorm, explosion, erosion, earthquake, landslide or other earth movement except for mudslide.

DEDUCTIBLE

The residential flood insurance policy has a deductible which is applied separately to the building and to the contents. **Dwellings that are insured under the emergency programs** that are located within certain zones where the rates which are used to compute the premium date from before the publication of flood insurance rate map, **the deductible is \$750.** *For all other cases the deductible is \$500.* There is **also a \$250 deductible applied separately to each building and contents loss for payments for land subsidence, sewer backup or seepage of water.** *High deductibles are available for lower premium* and they range by \$1,000 from \$1,000 up to \$5,000.

STARTING AND CEASING COVERAGE

There is a 30 day waiting period once an application and payment of premium has been made before a flood insurance policy becomes effective, however this 30 day waiting period **does not apply when you are initially purchasing flood insurance in connection with taking or extending a loan.** Also the waiting period will not apply to the initial purchase of flood insurance when the purchase happens during a 13 month period following the revision or update of a flood insurance rate map. In the event the insurance company cancels the policy for nonpayment of premium, a 20 day written notice of cancellation is required. If the insured keeps the property, the premium for the current term is fully earned and there would be no premium refund if they decide to drop the insurance. On the other hand, if the insured sells the property any premium which is owed would be returned on a short rate basis.

Limits on Residential Property

	Emergency	Basic	Additional	Total Available
Single Family	\$35,000	\$50,000	\$200,000	\$250,000
2-4 Family Dwelling		\$50,000	\$200,000	\$250,000
Other Residential	\$100,000	\$135,000	\$115,000	\$250,000
Residential Contents	\$10,000	\$15,000	\$85,000	\$100,000

2) EARTHQUAKE

Since damage caused by movement of the earth is excluded from homeowners and dwelling coverages, the Earthquake Endorsement, when added, will change such policies to indemnify for loss to insured property resulting from earthquake. Loss due to flood or tidal waves is still excluded under this endorsement. Although **the land or real estate itself is not covered**, the insurance applies to the value of each item insured less **a deductible of five percent where earthquakes are uncommon and a ten percent deductible where they tend to occur frequently.**

Two other excluded items relating to the property forms in the categories of **Sinkhole Collapse** (a hole in the ground grows larger and larger until the property falls into it) **and Water Back Up and Sump Overflow** (from water damage done when sewage backs up into the home or the sump pump breakdown) Sinkholes Collapse and Water Back Up and Sump Overflow **are each also available as endorsements to the Dwelling and HO policies.**

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II) Insurance Terms and Related Concepts **(28% of ASI Property Exam-- 14 Questions)**

PLEASE NOTE: *Both this Section and the next (Section III: Policy Provisions and Contract Law) are substantially similar for both the Property and the Casualty Promissor, Inc Illinois examination outlines.*

> Take special care to thoroughly understand each term and definition that follows. Since *Sections II and III combined comprise the majority of the material from which exam questions will be posed in the casualty exam and half the question in the property exam*, they must be understood completely. Combine this with the fact that there is much less material here than in the previous section, I, and *the terms are fairly easy to understand when compared with all the coverages types, exclusions and endorsements* and you have a recipe to tilt the odds in your favor to pass the state exams more easily. *If you take section II and/or III too lightly, you will likely fail your exams.*

The rule ☞ **the better you know/study/memorize sections II and III the easier it will be to pass your state exam on the first try. Although Sections II and III have far less material than section I—DON'T BE FOOLED AND TAKE THESE TWO SECTIONS LIGHTLY!**

A) Insurance - Insurance is a vehicle used in society for handling risks, which can be unknown, by spreading it among a large number who have similar exposures through which the chance of loss can become predictable. The mathematical principle known as ☞ "the law of large numbers" enables the insurance industry to closely approximate the actual exposure to risk any individual may encounter within a large group of people. The individual trades a small amount of money - the premium- in exchange for protection against a huge and uncertain loss potential. The insurance company, by accepting large numbers of individual premiums can profitably manage these uncertain and huge losses over time by making such losses predictable for the group as a whole.

Since ☞☞☞ **risk is a basic uncertainty as to financial loss**, there are several ways an individual can handle that risk. The risk can be avoided altogether, the individual can retain the risk themselves and basically self insure, or they can transfer that risk to an insurance company.

B) Insurable Interest - *Insurable interest exists as to any individual when damage or destruction of property will result in a financial loss to that individual.* Insurable interest extends beyond mere ownership and even tenants have insurable interest in their own belongings within a building owned by another person. **THE INSURANCE APPLICANT MUST:** face a personal risk of loss; or have a legitimate interest in preserving the property being insured or will not receive a potential for gain due to the insurance applied for. ☞☞ **In a property or casualty contract, insurable interest must exist at the time of loss.**

C) Risk - Risk is strictly defined as ☞ **an uncertainty regarding financial loss.** Loss within this equation can be defined as an unintended and unforeseen destruction or reduction of financial or economic value. There are two basic types of risk:

1) Pure risk is solely the chance of loss without a possibility to gain a profit from that loss. There is no chance to gain in the event the risk occurs or, for that matter, in the event it does not occur. In other words, loss will only happen if the pure risk does occur.

2) Speculative risk involves the possibility or chance of loss **and gain.** Speculative risks are not insurable. A good example would be gambling.

The ☞ only risks which are insurable are pure risks. Insurance seeks to eliminate or reduce the loss which can occur from pure risk.

D) Hazard - A hazard is ☞ **a possibility which will give an increase to the chance that a peril will occur.** A hazard makes it more likely that a loss will occur due to a peril actually happening. *The four types of hazards include:*

1) Morale hazard depends upon the subjective makeup of the insured and **can arise from the state of mind related to indifference of the insured to the loss that may occur.** (i.e. leaving your door unlocked when you leave your home.)

2) Physical hazards are conditions left in a manner making a loss more likely to occur. **Example:** leaving open cans of paint near your furnace in your basement. Since the paint is flammable the possibility for fire (the peril) is greater than if the physical hazard did not exist.

3) Moral hazards in which the subjective attitude and or resultant bad habits of the insured make the chance for loss greater. An example: smoking in bed, dishonesty, or alcoholism; having these character traits make a loss more likely than if you did not possess these traits.

4) Legal hazards arise from court actions which increase the likelihood or size of a loss. (Letting the case go to a jury decision instead of settling the case for a lower amount is a good example of a legal hazard).

E) ☞ Peril- A peril is an immediate specific event which causes a loss.

1) Specified or Named Peril- A contract or policy which **specifically lists a peril which is covered.** This is a named peril in the contract. Consequently, if the reason for a loss is for a peril which is not specifically listed in the contract, then the insured will not recover (collect any money from the insurance company) from the insurer on the claim presented.

2) All risk (OPEN) peril - These contracts do not list or name perils covered but instead state **coverage is for all risks of physical loss, except as otherwise excluded or limited.** Therefore whatever is not specifically excluded is included in coverage. It sometimes is also referred to as "special form coverage" or "open perils coverage".

F) LOSS - Loss is an unintended, or unforeseen reduction or destruction of financial or economic value.

1) Direct loss results in property which is damaged or destroyed by a peril which is insured against, without any intervening cause.

2) Indirect, or consequential, loss is a loss or damage which results from a hazard or peril, but the **loss was not actually caused by that hazard or peril.** These are losses which result from the actual physical loss itself. **Example:** fire destroys a business and all its physical assets, but the indirect or consequential loss is that a business cannot function or create revenue because its goods have been damaged or lost.

G) Proximate Cause - this doctrine says that an ☞ **unbroken series of events must lead and form a cause and effect relationship regarding a loss**. In other words, for a loss to be covered, there must be proximate cause (the loss has to be directly related to the cause; the cause created the effect and therefore indirect losses are covered only if endorsements are added to a policy specifically stating that said losses are covered when a loss occurs). Proximate cause is the actual loss immediately caused by a covered peril as defined in the contract of insurance.

H) Deductible - When a deductible clause is written in a policy it means that the insured must pay some portion of the loss, usually a very small portion, while the insurance company pays the remaining amount. The deductible ☞ **requires the insured to pay the first dollars**, as specified in the contract, toward the settlement of the claim. If a loss occurs and it is no greater than the deductible amount stated in the policy, then the insured would bear the cost for the entire loss. **The insurance company will only pay amounts over and above the deductible stated in the policy.**

I) Indemnity - All property insurance contracts are contracts of indemnity and **their ☞ purpose is to make the insured "whole" again**. Indemnity is designed to put the insured in substantially the same financial position that he or she was in prior to the occurrence of loss. The ☞ **principal of indemnity** also stands for the fact that **an insured shall not profit or gain by their loss**.

J) Actual Cash Value - Actual cash value (ACV) can be defined in the following terms:

☞ **ACV equals replacement cost minus depreciation**

Replacement cost equals the exact number of dollars needed to replace damaged or destroyed property which occurred at the time of the loss itself. Therefore any time which has elapsed since the point of loss may reduce the actual cash value by the depreciable amount. This is another concept which seeks to enforce the principle of indemnification.

K) Replacement Cost - *Replacement cost is the exact amount of money needed to replace damaged or destroyed property at the point the loss occurred.* This represents a departure from the principle of indemnification since depreciation of an item is not considered when paying the loss under the replacement cost concept.

L) Limits of Liability - this is the maximum amount the insurance company is obligated to pay for any loss, as specified in the contract. Separate limits may be shown for each type of coverage as it is itemized in the declarations section. The basic limits used by various contracts can include:

- ★ **Aggregate limits** - the maximum overall limit for the policy period
- ★ **Combined single limit** - applies on a per occurrence basis and offers a maximum of coverage which is less restrictive with regard to individual loss than would be the case under a split limit, for example.
- ★ **Split limits** - pays losses with separate limits for bodily injury and property damage and also prescribes a limit per individual while offering a greater payment for all individuals in an occurrence.

M) Coinsurance/ Insurance to Value - Coinsurance exists in order to require policy- holders to carry adequate insurance on their property. A typical coinsurance clause of a property policy will state that an insured has to satisfy an 80% level which means the insured must carry INSURANCE equal TO at least 80% of the VALUE of the property being insured. The Coinsurance "penalty" amount relates to partial losses, not to total losses. Total loss means that the entire face amount of a policy is paid, no matter how under insured a party might be (i.e., the replacement cost of a home is \$100,000 and the insurance amount is \$50,000, well below the required \$80,000 required. In a total loss situation, the insurance company will pay the full \$50,000 amount. However, in a small or partial loss situation, the insured would share in the loss to the extent that they were under insured.

Mathematically, partial losses result in the application of ☞ the coinsurance formula:

Coinsurance Example: 80% Clause (Calculated at time of loss); Market Value of property = \$100,000; Coinsurance Penalty @ = .8 X 100,000 = \$ 80,000

(\$ 80,000 in the minimum insurance required, in this example, to prevent a penalty from being applied to a small/partial loss situation)

Amount of loss = \$20,000 and Actual Insurance Carried = \$ 50,000

The coinsurance penalty (because the required 80% was not in force at the time of loss) is calculated as follows:☞
(MEMORIZE FORMULA)

Insurance Carried

----- X Actual (Partial) Loss = Recovery Amount
Insurance Required

Insurance

Carried \$ 50,000

----- = ----- X \$ 20,000 = .625 X 20,000 = \$12,500

Insurance \$ 80,000

Required

\$20,000 - \$12,500= \$7,500 is the amount the insured must pay
for not being adequately insured (plus the deductible, of course).

N) Accident - is an ☞ **unexpected, unintended and sudden event** which causes property damage or bodily injury. The accident always occurs at some specific point in time and witnesses can describe the actual event. **An accident is unforeseen. An accident is always an occurrence but not every occurrence is an accident.**

O) Occurrence - Occurrence is a ☞ **much broader term than accident** and occurrence does, in fact, include some of the characteristics of an accident. An occurrence can be a **continuous or repeated exposure** to conditions that results in injury or loss. **Occurrence ☞ is not as time specific as accident and can include a happening over a lengthy period of time whereas accidents happen all at once, not over time.**

P) Cancellation - both the insured and the insurance company may cancel coverage. **The insurance company must give some specified written notice (as required by state statute), but the insured can request immediate cancellation.** When the **insured is the party canceling** the policy, any **refund** of unearned premiums **is calculated on a short rate basis**. The short rate basis enables the insurance company to recoup some of the cost of underwriting and processing the policy. Many states require the company to reimburse the insured fully even when the insured is the party requesting cancellation. **To cancel means to end the contract early.**

On the other hand, when the **insurance company cancels**, unearned premiums (refunds amounts) are paid to the insured party on **pro rate (or pro rata) basis**. This means the insured gets back all of the money which has not been used or applied to premium cost.

Q) Nonrenewal - Nonrenewal is *notice given by the company to the insured of the insurance companies intention not to renew the policy* upon the normal termination date. Nonrenewal notice affords an insured the opportunity to replace coverage and not have a gap in coverage when the existing policy terminates. **The contract is not canceled, it goes to the termination point listed in the declarations, but the insurer has decided the policy will not be continued past that date.**

R) Vacancy and Unoccupancy

1) Vacancy exists when a property is both **☞ unfurnished and not being used by anyone for business purposes or as a dwelling.**

2) Unoccupancy refers to the fact that a property **☞ is furnished or has possessions in the physical structure but no one is using the property for business purposes or as a dwelling.**

S) Liability - Liability is the legal obligation imposed upon an individual by law to pay to other individuals, businesses or organizations all sums of money for any legal liability which may occur. **When an individual causes loss, either in an intentional or accidental manner to another party, an obligation to pay for that loss is created and the individual who causes the loss is liable.**

T) Negligence - Individuals can be legally held accountable for their negligent acts. **This is a "tort", or civil law procedure, and it consists of four elements which must be present before negligence is created** which will result in an individual being held liable:

- 1) There must be a duty owed to another party; and
- 2) There is a breach or failure to obey that duty or obligation; and
- 3) There is an actual demonstrative injury to another party or his or her property; and
- 4) The failure on the part of the offending party to exercise proper care must be the result of "proximate cause".

A negligent act is unforeseen and unintentional. Only negligent actions may be insured against through the use of liability insurance.

(Proximate cause is an uninterrupted chain of events. In liability situations the responsibility for a loss or injury can be placed on an individual who failed to exercise the proper degree of care. When all four of these elements are present, the offending party will be held liable to the injured party under civil law as the result of a lawsuit).

Z) Liberalization - is a **Dwelling Form inclusion** stating that *if the insurer makes any changes in the current edition of a policy which broadens coverage without premium charge, such changes automatically apply to all older versions, also without additional premium*. A broader personal lines version allows for a 60 day period while commercial coverages grant 45 days during which liberalization must take effect during the coverage.

III) Policy Provisions and Contract Law

(22% of ASI Property Exam-- 11 Questions)

A) Declarations - This section *includes the statements made by the insured* to the company. It also contains:
 ◆ name and address the insured, ◆ name of the insurance company ◆ what the policy is insuring against ◆ length of time for which it is insuring ◆ premium ◆ face amount (limits of liability) and ◆ any applicable deductibles of the policy are also included. Declarations also includes either ◆ a property description or ◆ a schedule of coverage parts and ◆ a list of any endorsements.

B) Insuring Clause - This section *states the specific obligation which is being assumed* by the insurance company in relation to the insured party. In a package policy, each coverage form includes its own individual insuring agreement. Described in the insuring agreement are the perils covered, risks assumed or nature of coverage with reference to the parties to the contract. *The promises between the two parties are exchanged under the terms of this clause.* The insurance company promises to pay according to the terms of the coverage for all covered perils and the insured promises to pay all premiums due in a timely fashion. This clause also state whether the perils covered are “**named**” or “**open.**”

C) Conditions - the conditions clause *describes the rights and duties* of both the insurance company and the insured in creating coverage. The duties and obligations of the parties to the contract are set forth and wording concerning the right of each party to cancel are included. This clause also protects the company from loss due to hazards that were within the means of the insured to control. *For detailed duties of each party, please refer to points F and G, below.* Conditions is the part of the policy that includes the procedure for settling a dispute between the insured and an insurance company.

D) Exclusions - *Exclusions limit the scope of coverage* in a contract by specifically listing any causes of loss for which coverage will not exist. Exclusions are sometimes set forth in a policy under a specific section or they can be found scattered throughout various sections of a contract including the wording of insuring agreements and in the definitions of perils. *Understanding those hazards and perils which are not covered can be just as important as knowing which hazards and perils are covered.*

(A COMMONLY USED TECHNIQUE FOR REMEMBERING THE FOUR MAIN COMPONENTS OF AN INSURANCE CONTRACT, AS LISTED IMMEDIATELY ABOVE, IS TO TAKE THE FIRST LETTER OF EACH CATEGORY AND RECALL "DICE" (DECLARATIONS, INSURING CLAUSE, CONDITIONS, EXCLUSIONS))

E) Definition of the Insured - *The insured is an individual (person) or entity (corporation) indicated in the declarations page of a property contract* whose interests are covered against perils named in the contract.

A party not specifically named as an insured has no legal right to recover directly under a policy even if that party has an insurable interest in the insured property at the time of loss (i.e. the tenant in your building should buy their own contract to cover personal property loss and cannot collect on your policy as a landlord).

However it is possible for a party not specifically named in the contract to still have recovery rights in the event of loss (i.e. a guest staying at your house is covered for specific types of loss under dwelling and homeowners forms if their personal property is lost or destroyed by a covered peril.)

F) Duties of the Insured - are imposed in the event of loss according to the insurance contract. This includes "reasonable compliance" in ☞ **five** areas:

- 1) ***Immediate Notice*** - written notice is specified, but telephoning the agent is now deemed to meet this criterion under modern interpretation.
- 2) ***Prevent Further Loss*** - of property from damage under reasonable conditions. Further damage due to neglect by the insured is not covered.
- 3) ***Damaged and Undamaged Property must be separated*** to determine loss. There is no duty for the insurer to pay for or replace property that is not damaged or destroyed.
- 4) ***Inventory the loss*** - compile a complete list of destroyed, damaged and undamaged property.
- 5) ***Claim Verification*** through checking banks statements, receipts and records of the insured must be made available to the company for inspection, if requested. For this reason, it is a sound idea to keep all such records and receipts in a safe environment away from the insured premises.

The insured ☞☞☞ **must submit a signed proof of loss form within 60 days** of a request from the insurance company. **Any theft loss must be reported to the police** and a **credit card company must be notified** for any payments to be made involving the credit card coverage offered under "Additional Coverages."

G) Obligations of the Insurance Company - the obligations of the insurance company, according to the contract, are stated in the insuring agreement. **If the insured makes timely payments and meets other requirements of the contract, the insurance company is bound to pay in the event of loss.** If there are no disputes as to the amount of loss, the payment must be made within 60 days of the filing of a proof of loss form.
 ? **The insuring agreement lists four limits that the company must pay in the event of loss and the company is obligated to pay no more than the least of the four limits.** These limits include:

- 1) ***The face amount of the policy.*** This is the most the company will ever pay.
- 2) ***Actual cash value.*** This is replacement cost minus actual use or depreciation.
- 3) ***Interest of the insured.*** If the insured had no interest at the time of loss, no payment will be made.
- 4) ***Repair or replacement cost.*** The cost today of restoring the property to its pre-damaged state.

Any losses will be paid **ONLY if they resulted from a peril covered in the contract.** The contract will state whether the coverage of perils is on a named perils basis or on an open perils (all risk) basis.

H) Mortgagee Rights- a "mortgagee" is the owner of a mortgage (i.e. the bank or a loan company) the party to whom all mortgage payments are owed by the "mortgagor" (the debtor or person who owes the payments, like the homeowner). A **Mortgagee Interest allows a mortgage holder** to receive loss settlement up to the extent of the mortgagee's interest in the property (unpaid principal on a mortgage loan). ***Specified Rights to the Mortgagee:***

- ***When canceling, an insurance company must provide 10 days notice to a mortgagee.*** This is duplicate notice: if the insurer gave notice to the insured, the same notice must be sent to the mortgagee also.
- ***If the insured fails to provide proof of loss,*** a mortgagee has 60 days from receiving notice of the failure to file such a proof of loss to file the loss themselves. This is 60 days **in addition** to the 60 days the insured has to file.
- ***Commercial forms*** have a **condition** requiring the mortgage holder to be given a 10 day notice of nonrenewal or cancellation for nonpayment of premium, and a 30 day notice of cancellation for any other reason.
- ***The right to sue under its own name.***

I) Proof of Loss - **must be filed by an insured within 60 days** (mortgagees have an additional 60 days to file loss if insured fails to do so, if there is an outstanding mortgage loan).

J) Notice of Claim, or notice of loss provision, means the insured must take certain steps in the event of loss or occurrence in order to lead to a filing a successful claim (receiving a loss payment) under the terms of the agreement. **The insured is bound to notify the insurance company of loss as soon as reasonably possible.** Furthermore, the insured may be required to notify the police if a violation of the law has occurred (i.e. burglary or theft).

K) Appraisal - Each party selects a disinterested appraiser and either the appraisers choose an umpire/referee (who will cast the deciding vote when the appraisers disagree) or one is appointed by a court of record. Actual cash value of loss is estimated and sent to the umpire/referee who then sets an amount that is agreed upon by at least one of the two appraisers. That amount is binding for all parties submitting to the appraisal process.

L) Other Insurance (Pro Rata Liability) Pro Rata Liability is a formula for indemnification when coverage by more than one company is effect on the same property at the time of a loss. The Formula:

$$\text{Amount of Liability to a company} = \frac{\text{Company Coverage Amount}}{\text{Total Amount of Insurance}} \times \text{Amount of loss}$$

An example: The property has a value of \$200,000 and is insured as follows:

Company X : \$100,000
 Company Y : \$ 50,000
 Company Z : \$ 50,000

SAMPLE PROBLEM: There is a \$100 deductible and a \$20,000 loss. Liability will be distributed as follows:

Company X : \$100,000		
-----	X (\$20,000 - \$100) =	\$ 9,950
\$200,000		
	Company Z :	\$ 50,000
Company Y : \$ 50,000		
-----	X (\$20,000 - \$100) =	\$ 4,975
\$200,000		-----
		\$200,000

NOTE: If the insured selects a company which subsequently becomes insolvent (bankrupt), the Formula for pro rata liability still applies and the insured suffers the loss which would have been covered by the insolvent company.

M) Assignment - Assignment is the transferring of some or all rights from one party to another. Assignment of rights held under property contracts is normally valid only with the written permission of the insurance company.

N) Subrogation (also called Transfer of Recovery Rights) the insurance company, by assignment from the insured as stipulated in the insurance contract has the right to recover from third parties any recoverable loss which was reimbursed by the insurance company to the insured during the settlement of the claim.

Example: Bob is insured by American Insurance for property coverage. Sally is at fault when she damages Bob's covered property. American Insurance pays to have Bob's property replaced to its condition before Sally damaged it. American Insurance now has the right to legally go after Sally and make her pay back American Insurance for the money American Insurance spent to make Bob "whole" again.

Subrogation allows the company to step into the shoes of the insured for purposes of recovering losses which have been paid to the insured by the company due to the liability of the third party. **Subrogation is a concept related to indemnity**, or the prevention of the insured to profit, in this case, from collecting for sustained damages twice. In the example, above, once Bob has settled with the insurance company, he cannot then go after Sally to also pay.

O) Elements of a Contract- There are *four basic elements* of a contract and they include

- 1) offer and acceptance
- 2) consideration (something for something or value transfer)
- 3) Contract must be for a legal object
- 4) Competent parties to the contract must exist (be of legal age and a sound mental facility)

Two other contractual terms with which you should be familiar are the "void" and "voidable".

- 1) A *"void" contract is an agreement which has no legal effect whatsoever.* It means no contract even exists.
- 2) A *"voidable" contract is an agreement that does exist, but whose legal effect can be put aside by a court of law.* It would be a binding agreement unless the party who has the right to have it voided (or set aside) wishes to do so.

P) Warranties, Representations and Concealment

1) A Warranty is a fact which is sworn to by a party. Breaching of a warranty can lead to voiding a contract. *A warranty is a much stronger statement than a representation.* Breaching a warranty on **even a minor point** can be cause for setting aside an agreement. The ONLY modern day insurance agreement that holds an applicant to the warranty standard is **Ocean Marine Insurance.**

However, **statements regarding actual condition to a property which is a condition upon which coverage was provided at certain premium amounts can be considered warranties** (i.e. in a commercial building policy the insured states there are sprinklers that operate properly installed. If there are not, this statement is a warranty not a representation because of the context under which it was given).

2) Representations are considered to be a statement of fact, in the opinion of the person making the statements. *In order to void a contract on a basis of misrepresentation a party must show that a material fact was misrepresented.* A material fact is one that would have changed the underwriting basis of a policy, had the company known of the material fact. Minor points which may be misrepresented will not enable the other party to void an agreement. *Representation is a much more generous standard to the consumer of insurance than is the warranty standard.*

3) Concealment is the *failure to disclose a known fact.* It is hiding something that should not be hidden even when the particular fact was not specifically asked about. In order to void a contract the concealment must be intentional. **The insurance contract is one of "utmost good faith"** and the applicant is under a duty to disclose any and all relevant information in the application process.

Q) Binders- Binders can be given by agents who have a binding authority from an insurance company for insuring against risk. A binder is an extremely strong legal document (it can be oral or written).

☞☞ **It is the acknowledgment that immediate coverage is in effect pending the future issuance of a policy.**

Under a Binder, coverage is in the same full force and effect that it would be under a policy even if an application for coverage is later rejected. Binders normally list the name of the insurance company, the amount of insurance, perils insured against, type of insurance and the time limit for which the binder is in effect. Not all agents have binding authority. Binding authority is rarely given to agents outside of the property and casualty contract area. ☞ **At minimum under a commercial contract, an issuing agent must at least receive from the applicant a promise to pay the premium before a written binder can be issued.**

R) Sources of Insurability Information - Agents and brokers represent a direct link between insurance companies and the consuming public. It *is imperative for agents and brokers to provide full and accurate information which will enable the underwriting departments of insurance companies to be able to arrive at the proper decision as to whether to accept or reject a proposed risk.*

Underwriters can request inspection reports which are investigative in nature, enabling a company to evaluate applicants in certain areas. For instance, in automobile insurance, a company can obtain an inspection report which can reveal information regarding driving records, reckless driving, traffic violations, driving while intoxicated, etc..

Other information can be obtained about the proposed risk: viewing underwriting maps to determine the nature of the general area in which the proposed insured property is located. Additional information can then be obtained through an inspection company.

S) Fair Credit Reporting Act - This is a federal law that helps insure that applicants for insurance are treated in a fair, accurate and confidential manner. The Act says that these reports *can only be furnished for certain purposes* and one of those purposes is for underwriting insurance. The Act prevents any party, including an insurance company from obtaining reports from outside agencies unless the applicant is aware that such reports may be obtained. *Permission must be granted in writing* before an insurance company can obtain a report from a credit reporting agency.

All applicants for insurance must sign disclosure statements in order to assure compliance with the Act. In the event information contained in a credit report results in an lesser offer (which is technically called and “**adverse action**”) from an insurance company to the insured, the **insured has the right to a free copy of the credit report and a description of the rights** afforded under the Act.. This **free copy must be provided by the original credit reporting agency**, not by the insurance company.

The Act also provides consumers with an opportunity to find out information that an investigative agency has used about them and to whom such reports have been made. If consumers are dissatisfied or dispute any information within the reports, they may demand a reinvestigation with corrections sent to anyone who received the prior incorrect consumer report. This Act only applies to investigative reports that are made from outside (third party) sources.

T) Policy Delivery and Providing Service to Clients

1) Delivering a policy means that the agent should make sure that the policy actually issued is the same as the one which was applied for. **It is good business practice for an agent to personally deliver a policy to an insured.** By personally delivering a contract the agent, in the presence of the applicant, is able to review the contract, its provisions and exclusions and to correct any errors which may exist. By reviewing how the policy meets a policyholders specific needs, the potential for future misunderstandings can be avoided.

2) Providing services to clients - An agent should

- Maintain accurate records about clients.
- Maintain complete and accurate written records of business transactions.
- Keep abreast of changes in the field which may save clients money.
- Help clients the traditional servicing areas of changing names or addresses on policies.
- Help clients in filing claims and helping them to review claim procedures as well as providing them with directions on how to file for loss.
- Periodically contact clients in order to review existing coverage to see if they may serve them better in these areas if a need for coverage has changed.

ALL THREE SECTIONS OF PROPERTY ARE NOW COMPLETE.

REMEMBER, HALF OF THE STATE EXAM QUESTIONS WILL BE DERIVED FROM THE MATERIALS IN SECTION II AND SECTION III, DESPITE THE FACT THESE SECTIONS ARE MUCH SHORTER IN LENGTH THAN SECTION I.

BE CERTAIN TO MASTER SECTION II AND SECTION III.

If you are ready, proceed to the NONSUPERVISED, open book exam.

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Property Exam Prep Power Points

- Know “DICE” and the main components of each of these **four** main elements of the Insurance Contract.
- **The eight EC Perils and how they are defined.**
- “Named” Peril vs. “Open” Perils (All Risk) – Understand exact definition of “peril”.
- **Grasp Differences of DP1, DP2 & DP3. Know DP2 three perils broadened and the seven new perils.**
- Familiarity of the ten DP3 Exclusions (they are the same exclusions of HO 3, as well).
- **Dwelling is “Monoline” there is no Theft or Liability coverage unless added by endorsement.**
- Five Insuring agreements (A, B, C, D and E. > D and E are “consequential”/indirect.
- Six Main exclusions to all Dwelling (they are the same for HO policies as well).
- Realize how HO2 differs from HO3; how HO4 differs from HO6. Know HO is “Multiline.”
- **Understand the four Insuring agreements of Section I (A, B, C, D) and the two (E and F) of Section II.**
- Memorize Coverage amounts as a percentage of Dwelling Coverage A (for both DP and HO contracts).
- **Be familiar with the first six Additional Coverages of the HO policy form.**
- CPL defines insured as any family member living on the premises + some under age 21 non family members.
- **Memorize the eight Exclusions to Coverage E & F.**
- Floaters cover Personal Property unless it travels by open seas; **three** of them >PPF, PAF and PEF
- **Mobile Home coverage is now available on Replacement Cost Basis. Home must be 10'X 40' min.**
- Flood Insurance is federally subsidized, **two** layers of coverage available> know max \$ limits of each.
- **Know the three parts of the CPP and what Interline endorsements are.**
- Understand how Declarations and Conditions Differ in CPP from Personal Lines Coverages.
- **Learn the four cause of loss forms available under Comm. Bldg. And Pers. Prop. (CB&PP) Coverages.**
- Re CB & PP: know parts A, B and C, additional coverage form and rule concerning newly acquired prop.
- **Main points of Builders Risk..100% Coinsurance requirement, when coverage begins and ends.**
- Difference between Business Income and Extra Expense coverage.
- **Eligibility requirements of the BOP.**
- Equipment Breakdown Coverage- when is it used?

Sections II and III apply to Casualty as well as to Property, with only about 25% being different

- **P&C key definitions: (Section II of your booklet A-Z.>**
- YOU MUST BE FAMILIAR WITH ALL OF THEM!**
- **Section III of materials**....learn all five duties of insured when a loss occurs
- **Rights of Mortgagee must be understood.**
- Understand “Subrogation” and what Transfer of Recovery Rights means.
- **Distinguish between Warranty...Representation...Concealment**

STUDY LAW CAREFULLY....YOU MUST PASS IT OR NO LICENSE!!!

Be sure to go through Law practice exam and look up any answer of which you are uncertain.
DO NOT GUESS!!!! Illinois insurance law must be learned properly.

BE CERTAIN TO COMPLETE YOUR NONSUPERVISED EXAM IN AN OPEN BOOK FASHION.

DO NOT RUSH; INSTEAD TAKE YOUR TIME TO FIND THE CORRECT ANSWER IN THE MATERIALS AND TO LEARN THE CONCEPTS.

UPON COMPLETION OF YOUR NONSUPERVISED EXAM, BE CERTAIN TO RETURN THE “EXAM ANSWER SHEET” TO DOHRN INSURANCE TRAINING, INC FOR GRADING AND CERTIFICATION TO THE ILLINOIS DEPARTMENT OF INSURANCE.

YOUR INSURANCE LICENSE WILL NOT BE ISSUED UNLESS YOU HAVE SUCCESSFULLY COMPLETED A STATE CERTIFIED PRELICENSING PROGRAM.