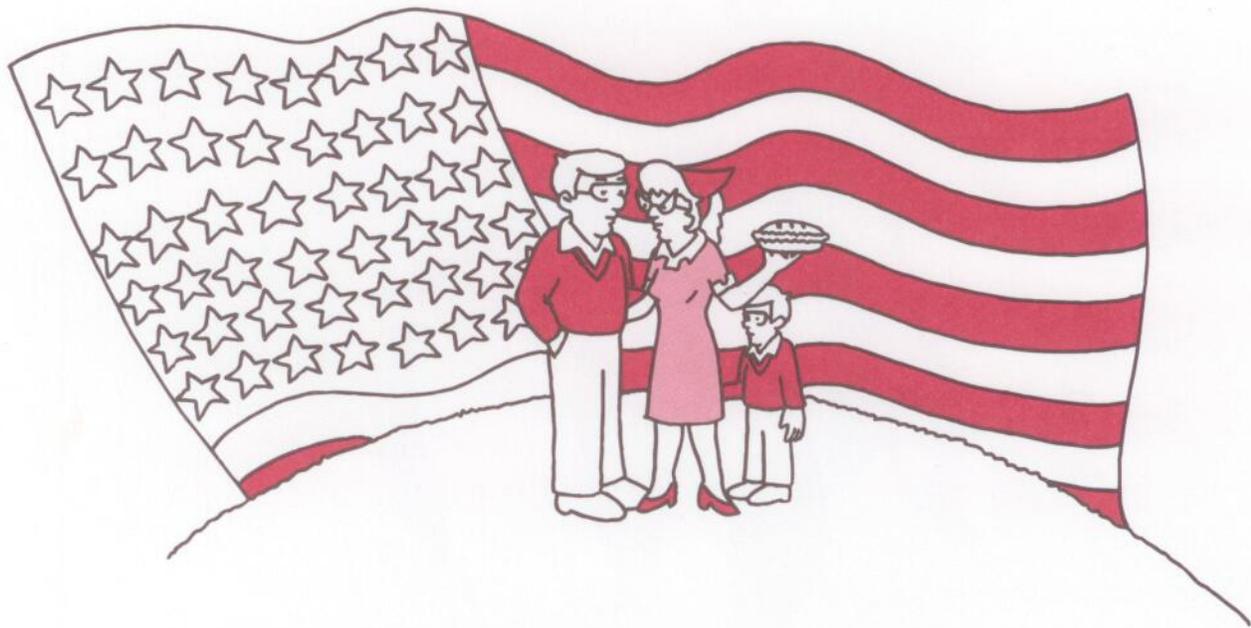


Part II

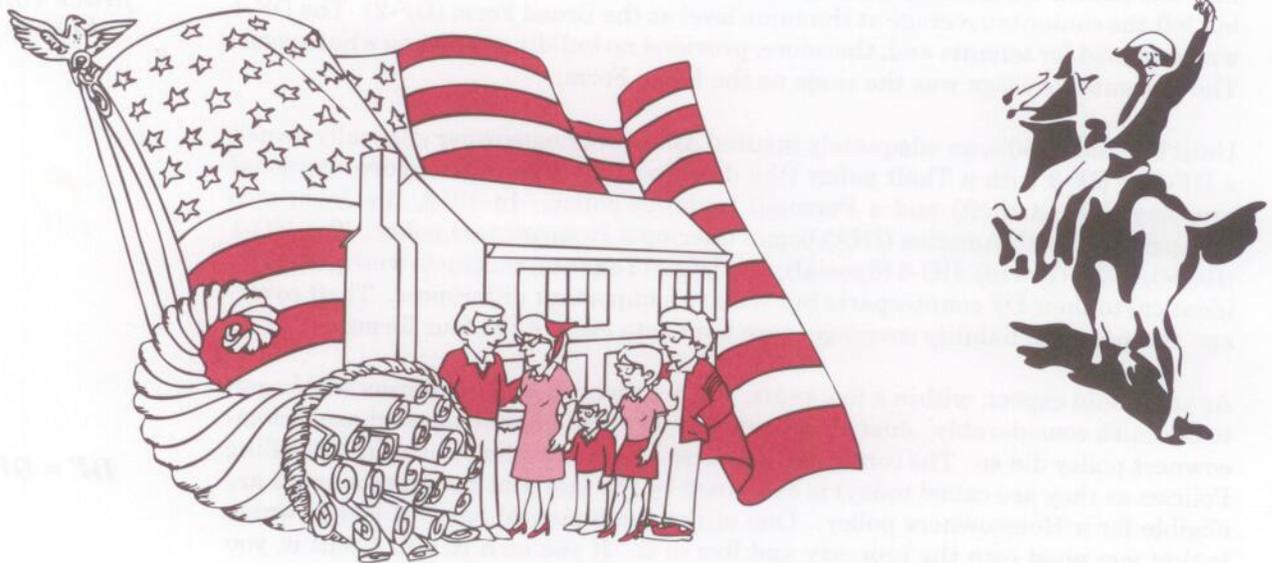
PERSONAL LINES



HOMEOWNERS AND DWELLING POLICIES

5

SOURCE:
ISO HO-2000
ISO DP-2002



- 1 As we begin to study the Homeowners and Dwelling policies, it is important to recognize the concepts you have learned to this point within the context of the policies themselves. To insure your residence, the insurance company will expect you to have insurable interest and pay premium. You will be encouraged to insure to value and must be able to show proof of loss if requested. In the Personal liability part of the policy, you will buy a coverage that does not pay you but instead pays the Other Guy. In many respects, we are simply applying the principles we developed to insure your home.

How to Insure a House

- 2 For most of us, our home represents the greatest financial investment we will ever make. Insuring that investment is an absolute necessity, both to us and to the mortgage company that made our purchase a possibility. From the 1700's until the 1950's, you insured your dwelling in the same way you insured most property – under a Fire Policy. Whether it was before 1943 and we are talking about one of the many Fire policies available, or whether it was after 1943 and we are discussing the New York Standard Fire Policy matters little. Under any Fire policy, the coverage was very limited. The insured perils were few (fire, lightning, and removal), and the exclusions and limitations were many.

Notes



*There's no
place like
home*

1 By the 1950's, the need for a mechanism that could tailor the Fire policy to more closely fit the needs of the average homeowner became apparent. By adding one of several Dwelling Forms to the Standard Fire Policy, a contract was built that could significantly increase the number of perils covered. Additionally, these Dwelling Forms (or DF's as they were called) expanded the contract to automatically include coverage for other structures on the insured premises, personal property both on and off premises, and additional living expenses if a covered peril rendered a dwelling uninhabitable for a period of time.

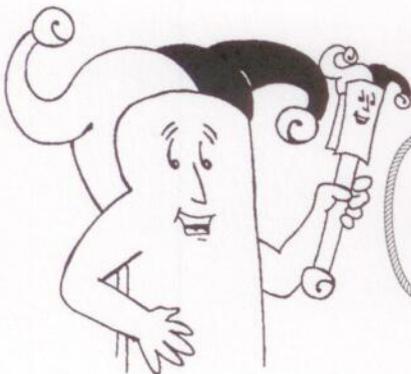
2 In time, most companies offered four separate Dwelling Forms. The DF-1 (Basic) could provide coverage on both the buildings and contents that approximated the Basic Cause of Loss Form we studied earlier. The DF-2 (Broad) provided coverage that equaled the Broad Form perils for both buildings and contents. The top of the line was the DF-3 (Special), which gave open perils (All Risk) coverage to buildings but left the contents coverage at the same level as the Broad Form (DF-2). The DF-4 was designed for tenants and, therefore, provided no building coverage whatsoever. The contents coverage was the same as the Basic Form.

3 Until the mid-1950's, an adequately insured American homeowner generally owned a DF-2 or DF-3 with a Theft policy (the dwelling contracts did not cover personal property against theft) and a Personal Liability policy. In 1956, the Insurance Company of North America (INA) began offering a Homeowners policy. The HO-1 (Basic), HO-2 (Broad), HO-3 (Special), and HO-4 (Tenants) contracts were generally identical to their DF counterparts but with two important differences. Theft coverage and personal liability coverage were built into each of the four forms.

4 As you would expect, within a few years, the number of Dwelling Forms sold began to diminish considerably. Just about anybody who was eligible to purchase a Homeowners policy did so. The continued existence of the Dwelling Forms (or Dwelling Policies as they are called today) is explained by the fact that not all properties are eligible for a Homeowners policy. One of the fundamental rules of Homeowners is that you must own the property and live in it. If you own it, and I rent it, you cannot insure the property under a Homeowners policy. You could, however, use a Dwelling Policy (DP).

5 Although you are unlikely to use Dwelling Policies very frequently as an Agent, they still serve a useful purpose in certain circumstances. While we will expand a little on our discussion of Dwelling Policies at the end of this chapter, for now, a good rule of thumb will suffice: **a Dwelling Policy works approximately like its numerical equivalent in the Homeowners policies except the Dwelling Policies do not have built-in coverage for theft or personal liability.**

DF = DP



INSURANCE LITE

The White House homeowners policy covers damage due to the elements. Included are wind, rain, or snow to the roof and hail to the chief.

HOMEOWNERS

The Homeowners Program

1 As a consumer, you own a Homeowners policy, but as an Agent, you offer to the public a complete Homeowners program – a series of policies that allows your client to select the contract that most closely fits his needs and his ability to pay. In this course, we will examine seven Homeowners policies. While each has some unique characteristics, they all share at least one common attribute. Each packages the property and casualty needs of the consumer into one contract, thus creating a multi-line policy. In the modern Homeowners contract, Part I contains the property coverages and Part II the casualty coverages.

2 The seven forms we will address, in numerical order, are:

- HO-1 Basic Form
- HO-2 Broad Form
- HO-3 Special Form
- HO-4 Tenants (or Contents) Form
- HO-5 Comprehensive Form
- HO-6 Condominium Unit Owners Form
- HO-8 Modified Coverage Form

3 You should notice that, in this sequence, the first four Homeowners forms parallel the four Dwelling policies we mentioned earlier. As you will discover later in this chapter, the similarities do not stop with the name and number. However, at this point, it is more important to look at our seven contracts in conceptual order rather than numerical order.

	Buildings	Personal Property
HO-1	Basic	Basic
HO-8	Basic	Basic
HO-2	Broad	Broad
HO-3	Special	Broad
HO-5	Special	Special
HO-4	N/A	Broad
HO-6	Almost N/A	Broad

What's covered?

From what?

- 1 As you examine the chart, you should notice several things. As we move from an HO-1 to an HO-5, peril power gradually increases from the rather limited Basic perils to the extremely generous Special (All Risk) form. Note also that for our purposes, the HO-1 and HO-8 are essentially identical contracts. The only important difference between the two is the method we use to settle the claim, as well as the types of homes covered under the HO-8, and we'll talk about those later.
- 2 Finally, you should see that the HO-4 and the HO-6 are, for all intents and purposes, *contents only* forms. While the logic of this arrangement is apparent to most of us for the HO-4 (Tenants) contract, some of you could be surprised that the HO-6 (Condominium Unit Owners) form is nearly a contents only policy. A word or two describing how a condominium actually works will clear up any confusion.
- 3 Suppose Joe owns one unit of a 100 unit condominium complex. For simplicity's sake, let's assume that all 100 units are identical. What does Joe actually own? Well, he does not own the walls and roof that enclose his unit. What he actually owns is 1/100 of the entire complex. Therefore, the insurance on the buildings is purchased by the condominium association. The monthly fee that Joe pays to the association goes, in part, to pay the premium for the policy, and Joe is one of 100 Insureds under the contract. Since the buildings are already insured, the nearly contents only coverage offered by the HO-6 is perfectly sensible. If the by-laws of every condominium association were the same, we could stop here . . . but they are not and we won't. Under the by-laws of some associations, Joe has almost no responsibility for the building. Only improvements and betterments that he makes would be his responsibility to insure. However, other associations make Joe responsible for interior walls, permanent fixtures, mechanicals, and appliances. Obviously, pure contents only coverage is inadequate under this arrangement. Therefore, the HO-6 comes automatically with \$1000 coverage for the building, and Joe may increase that amount to whatever is necessary to cover improvements he makes and responsibilities imposed upon him by his association's by-laws.
- 4 At this point, you should have a reasonably good overview of the Homeowners program without the confusion of all the details. You should be aware of the following:
- All Homeowners policies are multi-line contracts . . . Section I is property and Section II is casualty.
 - Of the seven Homeowners forms, five are designed to cover both building and contents.
 - In progressive order of peril power, these five would be listed as HO-1/HO-8 (same peril power), HO-2, HO-3, and HO-5.
 - The two contents only (or nearly contents only) forms are the HO-4 (Tenants) and the HO-6 (Condominium Unit Owners).
- 5 Using the information you've gained to this point, let's begin to examine the Homeowners policies a little more closely.

*Homeowners
in a nutshell*



DECLARATIONS SHEET

- 1 The Declarations page of a Homeowners policy contains typical information about the risk: address of the named Insured(s), location of the dwelling, policy term, coverages, limits, deductible, and the premium. It also contains a reference to any forms or endorsements attached, and the name of the mortgagee (if any).

*who, what,
when, how
much*

ELIGIBILITY

- 2 **Who Qualifies?** – Not every person or every house is eligible for coverage under a Homeowners policy. The primary rule is that **the named Insured must be (or plan to be) the owner-occupant of the insured building.**

Owner
occupied

- 3 Homeowners Forms HO-1, HO-2, HO-3, HO-5, and HO-8 may be issued to any of the following:

- An **owner-occupant** of a dwelling.
- An intended **owner-occupant** of a dwelling under construction.
- One co-owner of a two-family dwelling that is **occupied** by co-owners.
- A contract-purchaser **occupant** where the seller is retaining title until payments are completed.

Who?



- 4 An HO-4 can be issued to any of the following:

- A non-owner tenant of an apartment or dwelling.
- A non-owner tenant of a mobile home.
- An owner-occupant of a building (e.g., commercial building) which is not eligible for coverage under one of the combined building and contents Homeowners forms.
- An owner-occupant of a condominium unit.

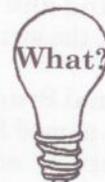
*Tenants
Anyone?*

- 5 An HO-6 may only be issued to an **owner-occupant** of one of the following:

- Condominium unit
- Cooperative unit

- 6 Anyone eligible for an HO-6 may purchase an HO-4 instead, but the HO-6 has some extra goodies for condo owners and is better designed to mesh with the building coverage carried by the condominium association.

- 7 **What Qualifies?** – In all cases (HO-1 through HO-8), the dwelling must be used principally as a residence, but certain low risk business uses are allowed by endorsement. Notice the words *low risk*. A dentist's office or a dance studio would probably qualify – a fireworks stand or liquor store would not. Normally, the kind of business allowed by endorsement is a professional office, private school, or studio. The endorsement is written for a nominal charge to cover the extra traffic in and out of the residence because of the business. It is not designed to substitute for the business coverages needed by that particular business.



1 Under a Homeowners policy, occupancy of the building is limited to:

- Four families (two in some states)
- Two additional roomers per family

2 While most companies have separate policies to insure farms and mobile homes, it is possible to modify an HO-2 or HO-3 by endorsement to cover a small farm or mobile home.

3 NOTE: If Joe simply owns a house in the country on an acre of ground, he can insure it under an unendorsed Homeowners policy – living in the boondocks does not make him a farmer.

WHO?

4 Under a Homeowners contract, there are many potential Insureds – Joe, Jolene, their children, the mortgage company, and even their guests. However, in this contract (and most other personal lines contracts), the highest rank of Insureds are the **named Insureds**. They are the people from whom the insurance company expects to receive premium, and they are the people with whom the company will settle any claims.

What's in a name?

5 You can acquire the rights of a *named Insured* in two ways:

- Be named on the Dec Sheet.
- Be the spouse of and live with the person named on the Dec Sheet.

6 Therefore, if the Homeowners policy is written under Joe's name, he is a named Insured. Because Jolene is married to, and living with Joe, she has the rights of a named Insured. Because we are in the age of the fragmenting family and it is possible for marriage partners to live apart for long periods of time, many companies prefer to name both Joe and Jolene on the Dec Sheet. This makes them both named Insureds regardless of their living arrangements. The Dec Sheet is also where the mortgagee's (first mortgage) interest appears.

...more than you think

7 In cases where a second party (other than the mortgagee) retains interest in the property (e.g., co-owner, contract seller), the second party would also have some insurable interest in the property. Second party interest can be insured by attaching an Additional Insured Endorsement to the policy.

WHAT?

8 **Dwelling and Other Structures** – Here, coverage is provided for the house, the garage, the swimming pool, the play set, the satellite dish, and the tool shed.

9 **Personal Property and Personal Liability** – Coverage is provided in these areas for the named Insured and all residents of the household who are related by blood, marriage, or adoption. Notice that there is no age limit. If your 40-year-old son lives at home, he is still covered under your policy. As you might guess, a student away at school can still be considered as part of your household.

- 1 What about 14-year-old Eskimo Joe who is living with Joe's family as a foreign exchange student? Coverage is provided for **anyone** under age 21 and in the care of any member of Joe's family.

- 2 **Personal Property of Others** – Suppose Joe's mom (or even a friend) comes to visit for a week with \$1,200 worth of personal property in her suitcases. Further assume that when Joe's house is destroyed by a covered peril, it also nails Granny's suitcases. In this situation, Joe's policy could cover Granny's loss, assuming his limits are adequate to do so. (Yes, Granny's own Homeowners policy could pay, but the deductible would nearly eliminate the claim.)

INSURING AGREEMENT

- 3 This is the **insuring clause** of the policy. The company promises to provide the insurance described in the policy in exchange for the premiums paid by the Insured. Of course, the Insured must comply with all of the provisions in the policy.

we promise

DEFINITIONS

- 4 The first page of the policy contains the insuring agreement and a number of definitions. Most are self-explanatory. The following two definitions merit special attention since the distinction between them is a key to understanding the application of coverages.

Residence Premises

- 5 Residence Premises on all forms (except HO-6) means the **dwelling, other structures, and grounds or that part of any building where the named Insured lives that is identified as the residence premises** in the Declarations. With the HO-6, the term *Residence Premises* means the unit where the named Insured lives and is identified in the Declarations.

*dwelling...
...others...
...and grounds*

Part 1

Insured Location

- 6 *Insured Location* is a much broader definition that primarily applies to **premises liability** coverages. It is identical on all forms and includes all of the following:

- The residence premises.
- Newly acquired premises.
- Any non-owned premises where an Insured temporarily resides.
- Vacant land owned or rented to an Insured excluding farm land.
- Land owned by or rented to an Insured on which a residence is being constructed.
- Cemetery plots of any Insured.
- A premises occasionally rented to any Insured for non-business purposes.

*more for Part 2
than Part 1*

SECTION I – PROPERTY COVERAGES

WHAT'S COVERED?

- 1 Section I (Property) of a Homeowners policy subdivides property insured under the contract into four distinct coverages:

- Coverage A – Dwelling
- Coverage B – Other Structures
- Coverage C – Personal Property / Contents
- Coverage D – Loss of Use

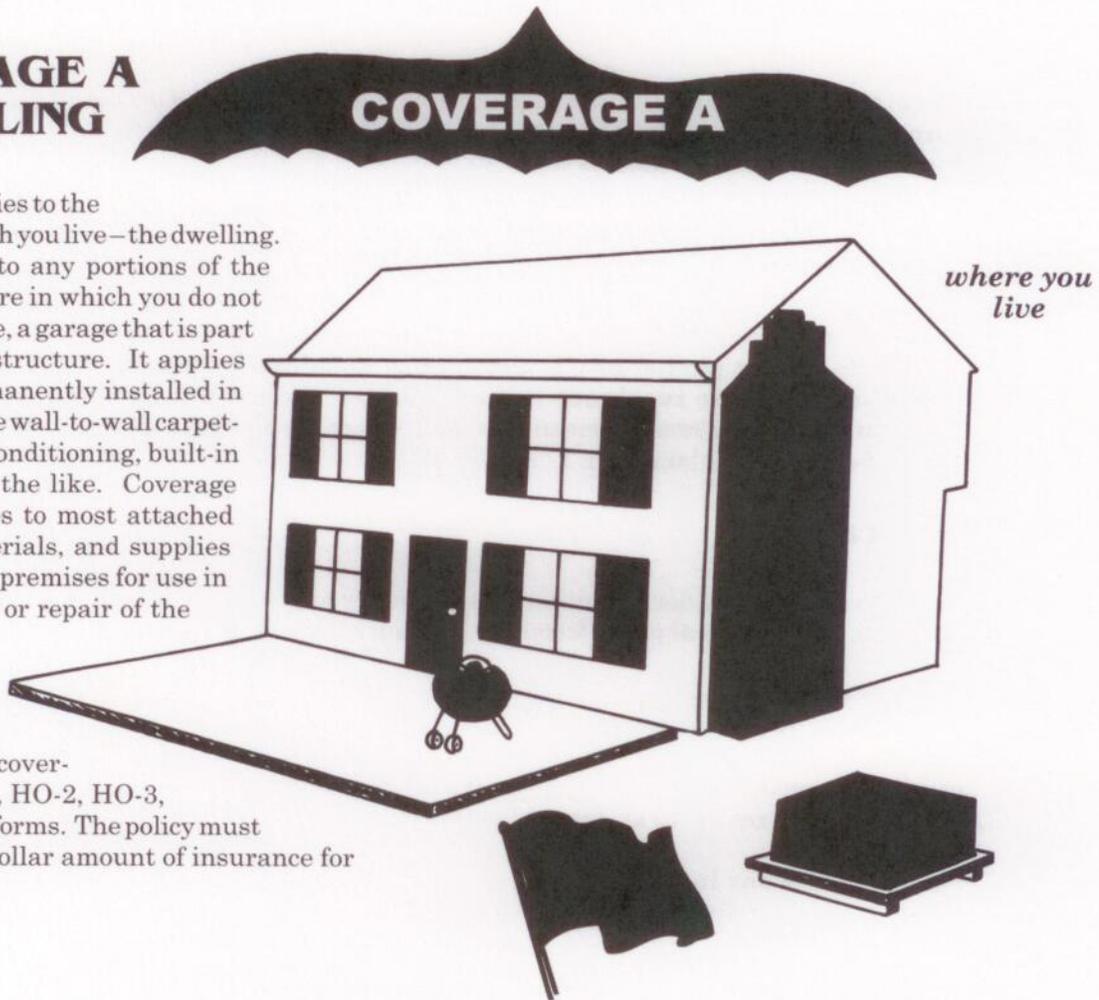
- 2 Once we get an idea of what property falls into each of these coverages, we'll turn our attention to answering the second question, "Against what perils do we provide coverage?"

COVERAGE A – DWELLING

COVERAGE A

- 3 Coverage A applies to the structure in which you live—the dwelling. It even applies to any portions of the dwelling structure in which you do not live—for instance, a garage that is part of the dwelling structure. It applies to property permanently installed in your dwelling like wall-to-wall carpeting, central air conditioning, built-in appliances, and the like. Coverage A further applies to most attached structures, materials, and supplies on the residence premises for use in the construction or repair of the dwelling.

- 4 Dwelling coverage is the primary property coverage on the HO-1, HO-2, HO-3, HO-5, and HO-8 forms. The policy must show a specific dollar amount of insurance for the dwelling.



- 1 If you look at the Dec Sheet of an HO-4, you will see no coverage A limits shown at all. In fact, you will see no Coverage A. However, the Tenant's form provides some Coverage A-like insurance for improvements and betterments. With the HO-4, the standard limit is 10% of Coverage C (Personal Property) and is provided as an additional coverage. With the HO-6, the newest Homeowners forms provide Coverage A and it appears on the Dec Sheet. As we have pointed out, the automatic coverage is \$1000. As you would guess, the limits in the HO-4 and the HO-6 can be raised by endorsement.

COVERAGE B – OTHER (APPURTENANT) STRUCTURES

- 2 Coverage for other structures applies to those structures on the residence premises **separated from the dwelling** by a clear space or connected only by a fence, utility line, or similar connection. Typically, other structures include a detached garage or outbuilding, but could also include a swimming pool, tower, tool shed or fence. These other structures can generally have no business use (i.e. used as an office or rented to someone as an apartment), however you could rent your garage to someone for use as a garage and retain coverage.
- 3 Coverage B is found on all forms except the HO-4 and HO-6.

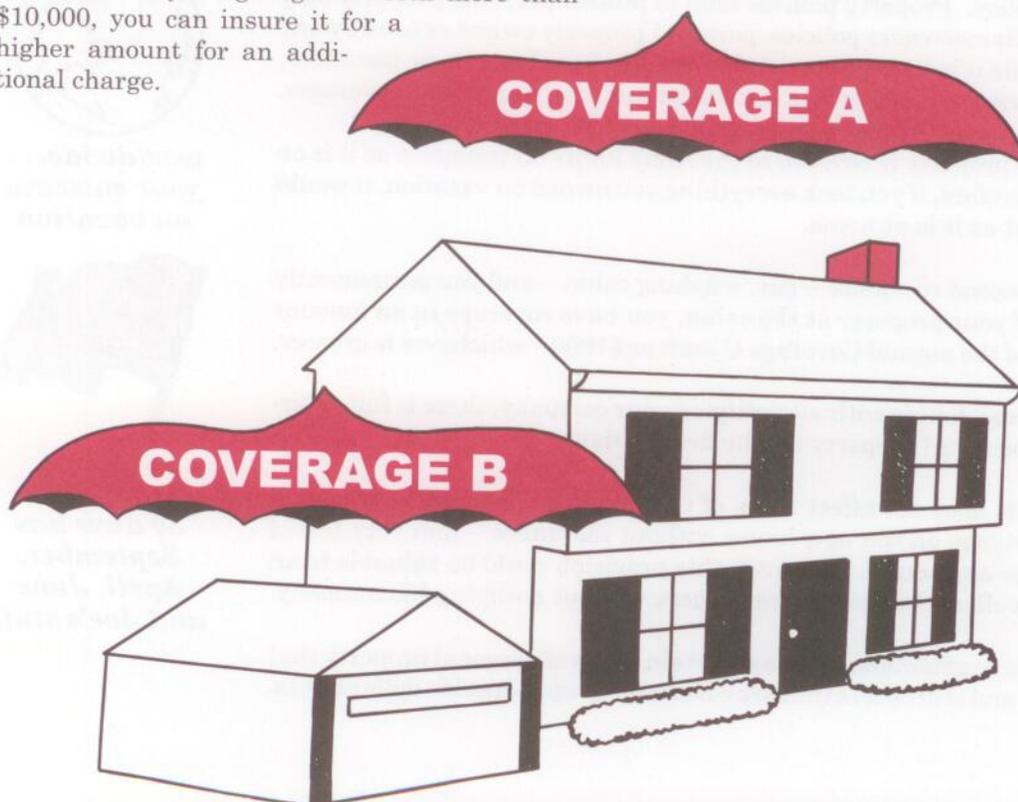
- 4 The standard amount of insurance is **10% of the amount written on the dwelling (10% of Coverage A)**, and it is provided as an additional amount of insurance. In other words, if your house is insured for \$100,000, then your detached garage is automatically covered for \$10,000. If a fire destroys them both, you will receive \$110,000. If your garage is worth more than \$10,000, you can insure it for a higher amount for an additional charge.

outbuildings

B = 10% of A

Attached - A

Detached - B



COVERAGE C – PERSONAL PROPERTY

- 1 This is coverage for your stuff, and is included on all Homeowners policies. On all forms (except the HO-4, HO-6 and HO-5), the coverage is an additional amount of insurance equal to **50% of the amount written on the dwelling (50% of Coverage**

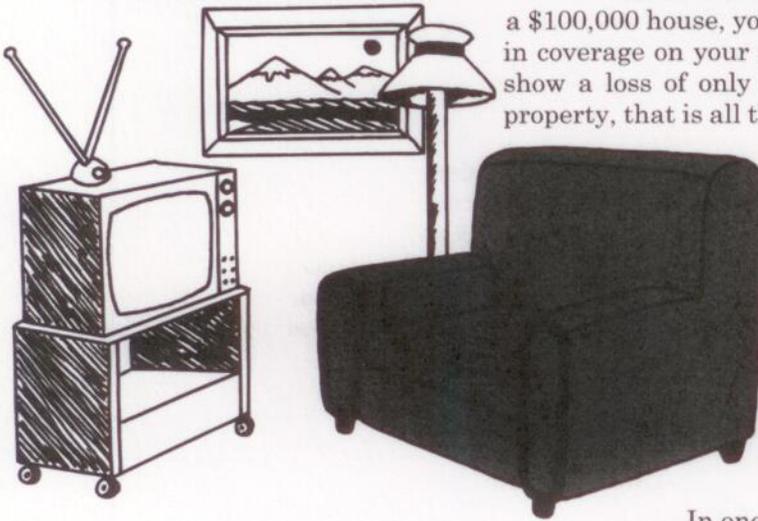
COVERAGE C

A). This limit may be increased by endorsement. Recognize that the 50% is a ceiling. If you have a \$100,000 house, you have up to \$50,000 in coverage on your contents. If you can show a loss of only \$22,564 in personal property, that is all the company will pay.

stuff

C = 50% of A

2



On the HO-4 and HO-6 forms, personal property coverage is the primary property insurance. The remaining property coverages are based on a percentage of Coverage C.

3

In one respect, Coverage C of Homeowners differs dramatically from the contents coverage of any other property policy. Property policies tend to protect personal property only **on premises**. In the Homeowners policies, personal property owned or used by any Insured is covered while it is **anywhere in the world**. In at least three instances, Coverage C of Homeowners is broader than its counterpart in other property coverages.

- Your personal property is covered to the same limits off premises as it is on premises. Therefore, if you took everything you owned on vacation, it would be covered just as it is at home.
- If you own a second residence – say, a fishing cabin – and you permanently locate some of your property at the cabin, you have coverage in an amount equal to 10% of the normal Coverage C limit or \$1000 – whichever is greater.
- If you change residences without notifying your company, there is full coverage for your personal property for the first 30 days.

Obviously, this does not affect those of us who own our home as we could not get a mortgage on the new house without insurance – and very few of us pay cash for our homes. However, this provision could be valuable to an apartment dweller who changes residences without notifying his company.

- 4 Because Coverage C is so generous, there are certain items of personal property that are not covered at all, and still others that are covered only up to specific dollar limits.



*worldwide...
your suitcase
on vacation*



*30 days has
September,
April, June
and Joe's stuff*

Property NOT covered:

1. Items insured elsewhere, including an Inland Marine endorsement attached to the Homeowners policy
2. Animals, birds, or fish (remember, this is a property exclusion)
3. Motor vehicles and motorized land conveyances, including their equipment and accessories (**but** we will cover vehicles used in the service of the residence and vehicles designed to assist the handicapped)
4. Electronic apparatus designed to be operated solely from the electrical system of a motor vehicle (including accessories and antennas and any tapes, wires, records, or discs intended for use with the electronic apparatus)
5. Aircraft and parts except for model or hobby aircraft
6. Property of boarders or tenants
7. Your property in an apartment on the residence premises rented to others over \$2500
8. Your property in an apartment off the residence premises rented to others
9. Business data stored on paper or electronic media
10. Credit card or fund transfer card losses over \$500

*No coverage**Not for your
tenant's stuff***Property subject to specific dollar limits:**

1. \$200 for money, bank notes, bullion, gold, and silver
2. \$1500 for securities, accounts, deeds, evidence of debt, letters of credit, manuscripts, passports, tickets, stamps, and notes (other than bank notes)
3. \$1500 for watercraft including their trailers, equipment and outboard motors
4. \$1500 for trailers not used with watercraft
5. \$2500 for property on the residence premises used for business purposes
6. \$500 for property away from the residence premises used for business purposes
7. \$1500 for electronic apparatus (including accessories, antennas, tapes, discs, or other media) **while in or upon a motor vehicle** if the apparatus can be operated from the electrical system of the vehicle while retaining its capability of being operated by other sources of power
8. \$1500 for electronic apparatus not in a motor vehicle but away from the residence premises and which is equipped to be operated by the electrical system of a motor vehicle and is used exclusively for business

*Some
coverage*

- 9. \$1500 for loss by **theft** of jewelry, watches, furs, precious and semiprecious stones
- 10. \$2500 for loss by **theft** of pewterware, goldware, and silverware
- 11. \$2500 for loss by **theft** of firearms

Notes



Limit only applies to theft losses

*All risk
Worldwide
No deductible*

The fact that the standard Homeowners policy does not cover a specific item or limits the coverage on that item does not mean that the item cannot be adequately insured. It only means that a plain vanilla Homeowners policy won't do the job.

Other Personal Property Insurance

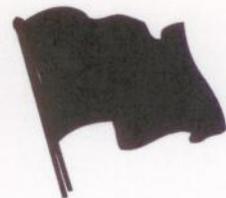
We can increase the limits through the use of an Inland Marine contract known as a Personal Property Floater. The coverage is **Open Perils (All Risk)**, meaning that all losses are covered except for those specifically excluded, such as wear and tear, inherent vice, nuclear hazard, and confiscation by the government. The policy territory is **worldwide**, and there is possibly **no deductible**.

It is in this area in particular that the distinction between Property insurance and Marine insurance has become blurred. The most common Personal Property Floater can be written as a separate **Inland Marine policy** or as an **endorsement to the Homeowners policy**.

While there are three types of Personal Property Floaters, there is only one used frequently enough to merit any discussion.

Personal Articles Floater – This is designed to provide coverage for specific categories of personal property. For years, the customary practice was to issue separate policies to cover the nine categories under the Homeowners scheduled personal property: furs, jewelry, musical instruments, cameras, silverware, golf equipment, fine arts, stamp and coin collections. Currently, insurance companies use a Personal Articles Floater to cover virtually anything. Property is covered up to its full stated value on the basis of a current appraisal or bill of sale. **Depending upon the type of property schedule, recovery may be on the basis of ACV, market value, repair or replacement cost, or agreed value.**

Inland Marine



One feature of the Personal Articles Floater is that it provides automatic coverage for newly acquired property if there is already coverage for that class of property. This is particularly handy for gift items such as jewelry, furs, cameras, musical equipment, and fine arts. Generally, the automatic coverage is for up to 25% of the amount of insurance already scheduled for that class.

There is also a period of time within which the newly acquired property must be reported to the company and the additional premium paid. The time reporting period varies from 30 to 90 days, depending upon the class of property.

1 It should be noted that unlike most All Risk policies, the Personal Articles Floater has very few exclusions. (Even normal exclusions, like flood, are not on the list.)

- War
- Nuclear hazard
- Wear and tear, deterioration, and inherent vice
- Insects or vermin

*Broader than
Special*

2 There are additional exclusions unique to each class of property. For example, losses to stamp and coin collections are not covered if caused by fading, denting, scratching, or being handled. Damage to musical instruments is not covered if due to faulty repair. Fine arts are not covered while on exhibit or for faulty restoration. Glass, porcelain and other breakables are not covered for breakage unless caused by perils like fire, lightning, explosion, etc. They are not covered if dropped.

COVERAGE D – LOSS OF USE

3 If a covered property loss makes the residence premises uninhabitable, one of the following options would apply:

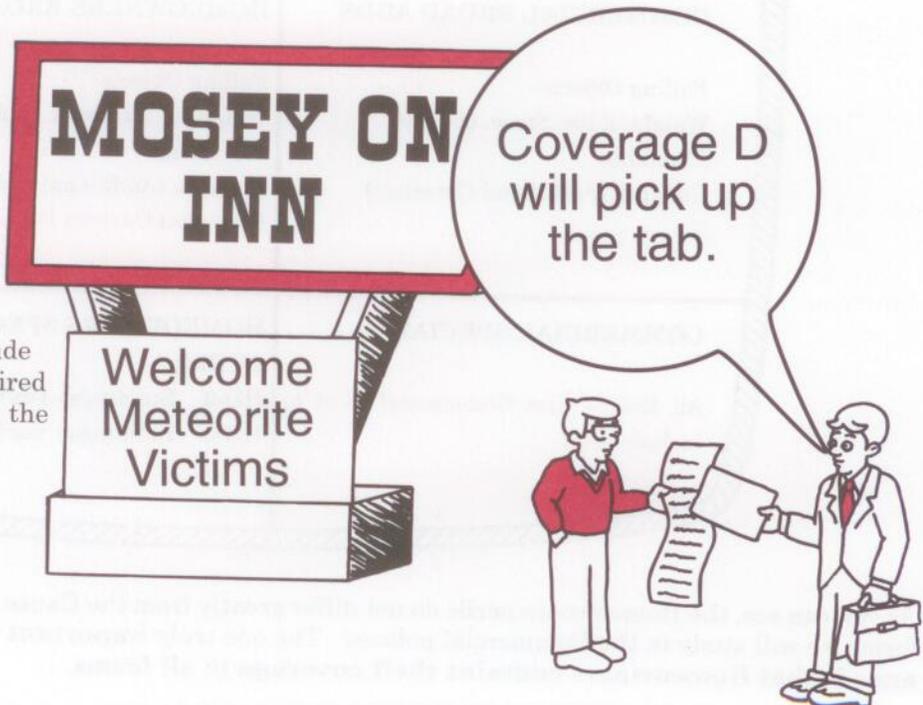
- **Additional Living Expenses** – meaning any necessary increased expenses incurred so that your household can maintain its normal standard of living.
- **Fair Rental Value** – meaning the market rental value of the portion of the residence premises rented to others.

*...shelter
after the
storm...*

4 If Joe took his family to a motel during this period, he would use the first option. If a portion of Joe's residence premises that is rented or leased to others becomes uninhabitable due to a covered loss, the contract will pay Fair Rental Value.

5 The only event that can trigger these coverages other than a covered peril is if a civil authority (police, fire marshal, etc.) prohibits the use of the residence premises because of direct damage to a neighboring premises by a covered cause of loss.

6 In all cases, payment will be made only for the shortest time required to repair, replace, or rebuild the damaged property.



AGAINST WHAT?

- 1 Now that you know that your roof is covered, that you dog is not, and that only \$200 of your cash in the cookie jar is covered, it is time to learn **against what perils** all this property is covered.
- 2 The **good news** is that you can insure your property with a Basic, Broad, or Special Cause of Loss form. The **bad news** is that the Homeowners perils under these forms do not exactly match their counterparts in Commercial Lines. The **good news** is that they **almost** match. Homeowners Basic is WR ELF, VVV, and S.

<p>COMMERCIAL BASIC</p> <ul style="list-style-type: none"> Wind or Hail Riot Explosion Lightning Fire Vehicles or Aircraft Vandalism Volcanic Action Smoke Sprinkler Leakage Sinkhole Collapse 	<p>HOMEOWNERS BASIC</p> <ul style="list-style-type: none"> Wind or Hail Riot Explosion Lightning Fire Vehicles or Aircraft Vandalism Volcanic Action Smoke No No THEFT
<p>COMMERCIAL BROAD ADDS</p> <ul style="list-style-type: none"> Falling Objects Weight of Ice, Snow, or Sleet Plumbing Collapse (Additional Coverage) 	<p>HOMEOWNERS BROAD ADDS</p> <ul style="list-style-type: none"> Falling Objects Weight of Ice, Snow, or Sleet Plumbing Collapse (Additional Coverage) Electrical Current Damage
<p>COMMERCIAL SPECIAL</p> <p>All Risk – first Commercial form to include theft</p>	<p>HOMEOWNERS SPECIAL</p> <p>All Risk</p> <p>HO-3 Buildings - yes/Contents - no</p> <p>HO-5 Buildings - yes/Contents - yes</p>

- 3 As you can see, the Homeowners perils do not differ greatly from the Cause of Loss forms we will study in the Commercial policies. The one truly **important difference** is that **Homeowners contains theft coverage in all forms.**



- 1 In chart form, the build out of peril power would look like the following for our seven policies.

HO Form	Dwelling and Other Structures Coverages A* & B*	Personal Property Coverage C*
HO-1 & HO-8	Basic & Theft	Basic & Theft
HO-2	Broad & Theft	Broad & Theft
HO-3	Special & Theft	Broad & Theft
HO-5	Special & Theft	Special & Theft
HO-4	N/A	Broad & Theft
HO-6	Broad & Theft	Broad & Theft

* Coverage D in all forms will pay if a loss covered under A, B or C makes the dwelling uninhabitable.

ADDITIONAL COVERAGES

- 2 The Homeowners contracts provide some additional coverages. The additional coverages available are listed below. The HO-8 only gets the first nine. The HO-1 and HO-6 only get the first ten. The remaining contracts get not only the first ten, but a choice of flavors on the eleventh additional coverage – chocolate for the HO-2, HO-3, and HO-5, and strawberry for the HO-4.

A - Automatic

clean up before fix up

plywood

- Debris Removal** – An additional 5% of the applicable coverage (A, B, or C) can be paid if the damage plus debris removal reaches policy limits. In addition, the company will pay up to \$500 to remove one fallen tree that damages a covered building, or blocks the driveway or handicap accessible entrance to the home. Multiple tree damage is capped at \$1000.
- Reasonable Repairs** – to protect from further damage.
- Trees, Shrubs, or Other Plants** – \$500 limit for any one plant, and 5% of Coverage A for all plants.
- Fire Department Service Charge** – \$500, no deductible. This is additional insurance.
- Property Removed** – 30 days coverage for property removed from a premises endangered by a covered peril.
- Credit Card, Fund Transfer Card, Forgery, and Counterfeit Money** \$500 coverage. Does not include unauthorized use by anyone in your household.
- Loss Assessment** – \$1000 coverage for charges levied against a named Insured by a corporation or association of property owners arising out of direct loss to property owned collectively by members of the association or corporation.

8. **Collapse** – All forms except HO-1 and HO-8 cover collapse. If any of the named perils result in a collapse of the building, there is coverage. Also, there is coverage for hidden decay, hidden insect damage, weight of contents or people, weight of rain, or use of defective methods or materials in a reconstruction or remodeling which results in collapse.
9. **Glass or Safety Glazing Material** – All forms. On the HO-1 and HO-8, coverage is limited to \$100.
10. **Ordinance or Law** – All Homeowners forms except the HO-8 are given an amount up to 10% of coverage A to meet the increased cost of rebuilding or repair due to ordinance or law. This is additional insurance.
- 11A. **Landlord's Furnishings** – up to \$2500 coverage for landlord's furnishings in an area of the residence premises regularly rented to others. Covers losses due to the Broad Form perils and is available only with the HO-2, HO-3, or HO-5.
- 11B. **Building Additions and Alterations** – For the HO-4 only, the policy will cover additions and alterations made by the tenant in an amount equal to 10% of Coverage C. This is additional insurance.
12. **Grave Markers** - Up to \$5,000 for grave makers (including mausoleums) for loss due to a covered peril.

EXCLUSIONS

1 Because there are actually more listed exclusions in an All Risk contract, we will first look at those common to all three Cause of Loss forms and then turn our attention to those which are unique to the Special form.

2 Those common to all three forms include:

- Ordinance or law (except for that provided as Additional Coverage)
- Earth movement
- Flood
- Sewer back-up and sump pumps
- Off premises power failure
- Neglect
- War
- Nuclear
- Intentional losses
- Government action
- Concurrent causation



3 Those unique to the Special (all risk) Cause of Loss form include:

- Collapse not specifically covered by the additional coverage of collapse.
- Freezing of plumbing unless heat is maintained in the building or the water supply is cut off (also true in the HO-2).
- Freezing, thawing, water, or ice damage to pavement, patio, fence, foundation, pier, or dock.
- Theft in or to a dwelling under construction.
- Vandalism after a dwelling has been **vacant for more than 60 consecutive days.**
- Hidden mold or wet rot

*everything
but...*

- Wear and tear, inherent vice, smog, rust, corrosion, dry rot, or smoke from industrial operations.
- Pollution.
- Settling, shrinking, cracking of patios, foundations, walls, floors, roofs or ceilings.
- Birds, vermin, rodents, or insects.
- Your animals.

CONDITIONS

1 The Conditions section of Homeowners essentially establishes the rules by which the company and the Insured must play the game. We will reserve the bulk of our discussion for those conditions unique or different in the Homeowners policy.

- **Concealment or Fraud** – voids the policy
- **Liberalization Clause**
- **Waiver or Change** – must be in writing
- **Cancellation** – The Insured can cancel at any time with written notification. The company can cancel with 10 days notice for nonpayment of premium, 10 days notice for a new policy which has been in effect less than 60 days, or 30 days notice if the policy has been in effect for more than 60 days.
- **Nonrenewal** – 30 days notice required of the company
- **Assignment** – company's consent required
- **Subrogation**
- **Death of the named Insureds** – If a named Insured dies, the executor or legal representative of the named Insured will be covered by the named Insured's policy
- **Insurable Interest** – only pay to your level of insurable interest
- **Duties After a Loss**
 - notify company
 - notify police in the event of theft
 - notify credit card company if appropriate
 - protect property from further damage
 - show the damaged property
 - If we request, send proof of loss within 60 days. Be willing to submit to an examination under oath.
- **Loss Settlement**
 - for Personal Property, structures that are not buildings, awnings, carpeting, appliances, and outdoor equipment, the company pays ACV
 - Buildings under Coverage A or B are covered on a Replacement Cost basis (up to policy limits) **as long as the building is insured for at least 80% of its replacement cost**. If the building is not insured for 80%, then building losses are paid on the basis of ACV or a percentage of the replacement cost as specified in the policy.

*If you're
cancelled
we tell your
mortgage
holder*

stuff = ACV...

*Buildings...
replacement
cost is
earned...80%*

Note: It is probably a shock to find that a Homeowners policy pays personal property losses on an ACV basis. Many of you are muttering to yourselves, "Not with my policy!" You are probably correct, but it is not because your policy is any different. You have **replacement cost coverage on Coverage C because you bought the endorsement.**

- **Loss to a Pair or Set** – Loss of an article which completes a pair or a set presents a unique claims settlement problem. For example, let's assume that Jolene owns a pair of enameled earrings designed by Pablo Picasso. Each earring is worth \$1000 but the pair is worth \$5000. Assume that one earring was destroyed by fire. While Jolene may want \$5000 and the company may only wish to pay \$1000, neither is fair. The Pair and Set clause says that the company may choose to do either of the following:

- replace the earring with one of like kind and quality (which is impossible in this case because Pablo is dead).
- settle on the basis of the following logic.

Before the loss, Jolene had \$5000 in property; after the loss, she had \$1000 in property. Her loss is \$4000. Therefore, the company should either replace the earring or pay Jolene \$4000 less any applicable deductible.

- **Glass Replacement** – Glass damaged by a covered peril will be replaced by safety glazing material when required by ordinance or law.
- **Appraisal** – Two appraisers and one umpire.
- **Other Insurance** – Company will pay pro rata.
- **Suit Against Company** – You must do everything required of you and bring the legal action within two years.
- **Company Option** – Company always has the option of repairing or replacing with like kind or quality rather than writing a check.
- **Loss Payment** – Company pays to the named Insured within 60 days of proof of loss.
- **Abandonment** – No!
- **Mortgage Clause**
- **No Benefit to Bailee**
- **Nuclear Hazard** – No nukes
- **Recovered Property** – You found it after we paid for it? Give it back or give us back the cash.
- **Volcanic Eruption Period** – Any eruptions within 72 hours (3 days) are treated as a single occurrence.

Notes

**Coverage C
replacement
cost is
endorsed**

**whole worth more
than parts**

**Value of Set
-Value Remaining
=Loss Settlement**

Vesuvius Clause

DEDUCTIBLE

- 1 All Homeowners policies carry a deductible which applies to Section I (Property) losses but not to Section II (Liability) losses. The deductible is applied on an occurrence basis, but does not apply to fire department service charges or to coverage for credit cards, forgery, or counterfeit money.
- 2 Under current Homeowners policies, the **basic deductible is \$250**, which is an increase from the traditional \$100 deductible. The Insured has the option of buying back the \$100 deductible for additional premium or the Insured may choose a higher deductible of \$500, \$1000, or \$2500 to reduce the premium.
- 3 You might wonder how a deductible would work with property that is also subject to a dollar limit. For example, currency is subject to a \$200 limit. If you subtract the deductible, it doesn't leave you with much of a claim. The way it is done, however, is you subtract the deductible from the loss and **then** apply the limit. If you had \$1000 stolen from your mattress, we would first subtract the \$250 deductible. The policy limit on cash would reduce the claim from \$750 to \$200.



"D-Duck"

PROPERTY ENDORSEMENTS

- 4 A number of endorsements may be attached to Homeowners policies to alter coverage or increase the policy limits or sub-limits. Naturally, doing so will result in an increased premium. Here are five of the most important endorsements.

Inflation Guard

- 5 An Insured can purchase an Inflation Guard endorsement, which will automatically raise the limits for Coverages A & B at periodic intervals. This helps to keep the amount of insurance-to-value for the dwelling at a level adequate to guarantee replacement cost in the event of a loss. The annual percentage increase is pro-rated throughout the year. (e.g. A 6% annual increase would raise the limits by 3% for a loss halfway through the policy period.)



Only A & B

Personal Property Replacement Cost

- 6 Personal property replacement cost coverage is available **by endorsement** for all Homeowners policies except the HO-8. The endorsement excludes some types of property such as obsolete articles, antiques, fine arts, and paintings which cannot be easily replaced. Normally, the company will first pay ACV on covered contents losses, and then pay the additional Replacement Cost dollars as the contents are actually replaced.

new for old stuff

Scheduled Personal Property

- 7 Same as a Personal Articles floater except it works as an endorsement to the Homeowners policy rather than as a separate Inland Marine policy. Saves money and saves issuing a separate policy.

Earthquake

- 1 Since earth movement is an exclusion in all Homeowners forms, an important endorsement in many areas of the country is Earthquake. It covers only earthquake and volcanic eruption. It is written with a percentage deductible. And, tremors felt within a 72 hour period are treated as a single occurrence.

bricks by endorsement

Limited Fungi, Wet or Dry Rot or Bacteria Coverage

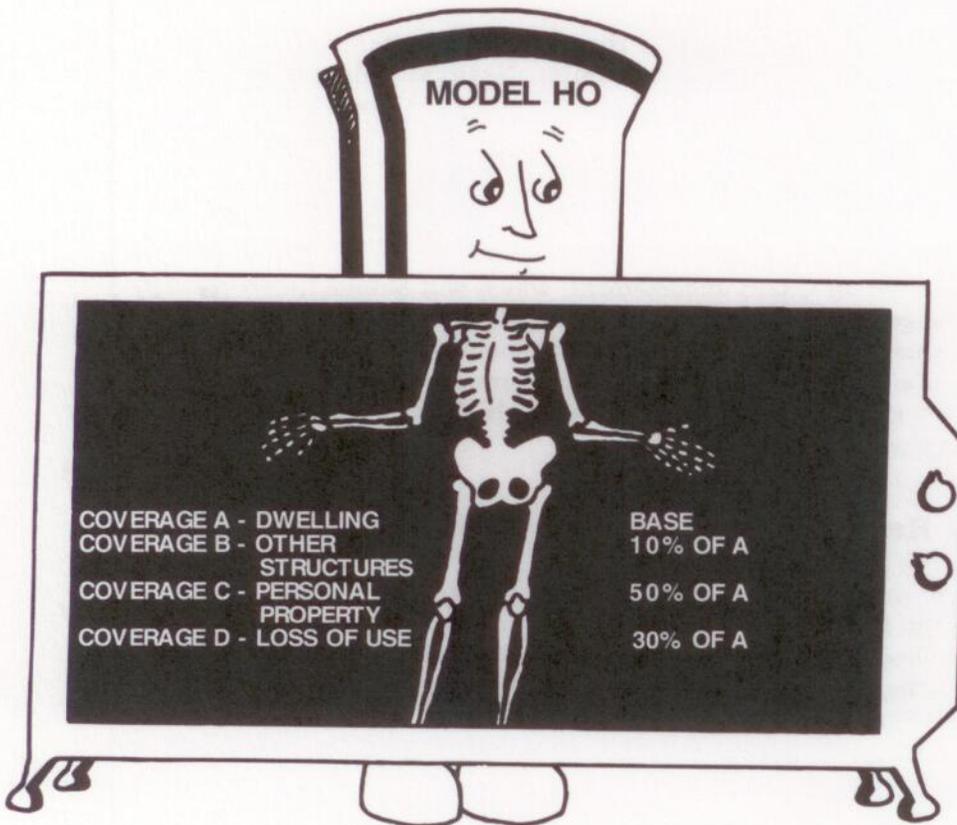
- 2 This endorsement includes the cost to remove fungi (including mold and mildew) as well as the cost to tear-out and replace damaged parts of the building and the cost to test the air. Coverage only applies when fungi or rot are caused by a covered peril. So faulty construction methods would not be covered.

HOMEOWNER FORM SPECIFICS

As we have moved through the Homeowners policy, we have created a model policy which can be approximated by the following skeletal outline:

Model HO Property Coverage Structure

3

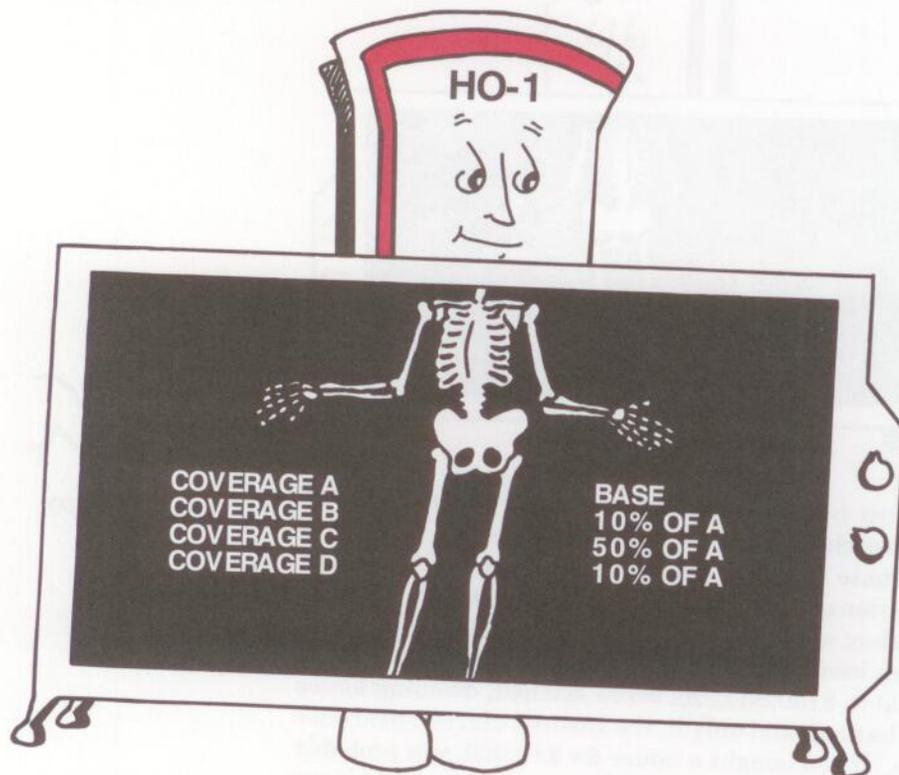


Even with the information you have at this point, you know that our model is not completely representative of all seven forms. The HO-4, for example, doesn't even have Coverage A or B. Therefore, it is important for us to quickly look at each form and notice where it conforms or differs from the bare bones model.

- 1 As we walk through that process, we need to point out a few details that have not been important to you up to this time. For instance, we have said that an HO-1 and an HO-8 are nearly identical contracts. That is true, but there are differences or we would only need one of them.
- 2 You should now have reached the point in your understanding that your mind can accept some of these important details.

BASIC FORM (HO-1)

Property Coverage Structure



"D" only 10%

Synopsis

- 3 The skeletal outline of the HO-1 generally follows our model – the one noticeable exception is that Coverage D (Loss of Use) is 10% of Coverage A (Dwelling) as opposed to 30%. You should remember that all HO-1 property coverages are tied to the Basic perils (plus theft), which makes the HO-1 the wimp of the Homeowners program.



Peril wimp

Comment

- 4 Actually, the HO-1 is even more limited than it first appears. As we've already pointed out, it does not get all of the Additional Coverages. Furthermore, two of the covered perils are defined more restrictively on the HO-1 (and HO-8) than they are on any of the other Homeowners forms.

- Smoke is covered, but not smoke from a fireplace.
- Vehicles driving through your home are covered, but only if the vehicle is not owned by or driven by a member of your household.

don't keep the home fires burning

- 1 Many companies do not use an HO-1, and there are jurisdictions that do not allow it to be sold. About the only reason which justifies the continued existence of this policy is that it serves the needs of those who do not qualify for anything else, and perhaps it meets the objectives of the classic cheapskate.

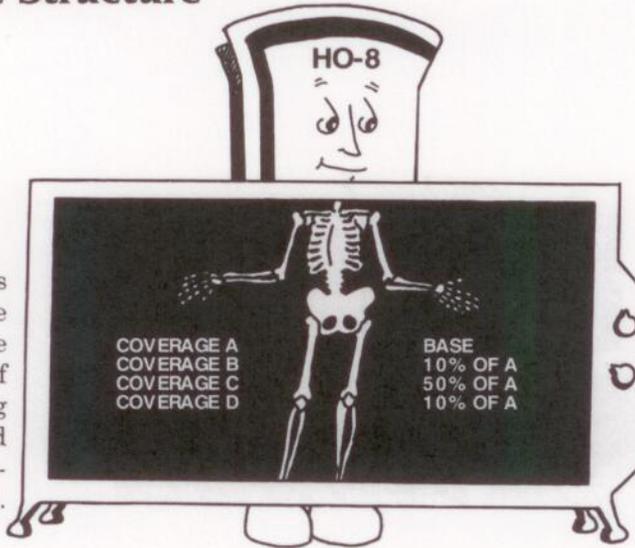
MODIFIED COVERAGE FORM (HO-8)

Property Coverage Structure

**FOR
OLDER
HOMES!**

Synopsis

- 2 As you can see, the bare bones HO-8 simply replicates the structure of the HO-1, and the peril power is still at the level of the Basic form perils (including the limitations we discussed concerning the Additional Coverages, smoke, and vehicles). So why do we need an HO-8?



Still wimpy

- 3 The HO-8 was developed to insure **older homes** whose replacement costs far exceed their market value. In most cities, you can find homes built in the 1930's or 1940's that, because of their ornate design or the way they were built (use of a labor-intensive method of construction or building materials that today are unavailable or prohibitively expensive), they would cost \$200,000 to \$500,000 to replace. But, because these homes are often located in older, declining neighborhoods, their market value may be only \$60,000 to \$100,000. As we've learned, dwelling losses are settled on a replacement cost basis if, and only if, the Insured carries insurance equal to 80% or more of the value. If you bought a house for \$80,000, you probably would not want to insure it for \$200,000. And, if you did, no company would want to write the coverage because you would have a \$120,000 incentive to burn down the house.
- 4 The HO-8 is designed to solve this dilemma. With the HO-8, you would insure your house for the fair market value, say, \$80,000. In its original version, and still today in most states, losses would be settled as follows:

- Total Building Loss – Policy Limits
- Partial Building Loss – ACV
- Contents – ACV

- 5 Some states allow the HO-8 to be written on a repair cost basis. The repair cost version is more expensive than the ACV approach, but there is no depreciation in the event of a partial building loss. Therefore, if your roof is destroyed, you get another roof. However, the policy only requires that the replacement or repair be made with "functionally equivalent materials." As an example, the slate roof on your old mansion might be replaced with asphalt shingle.

*glass -
not stained
glass*

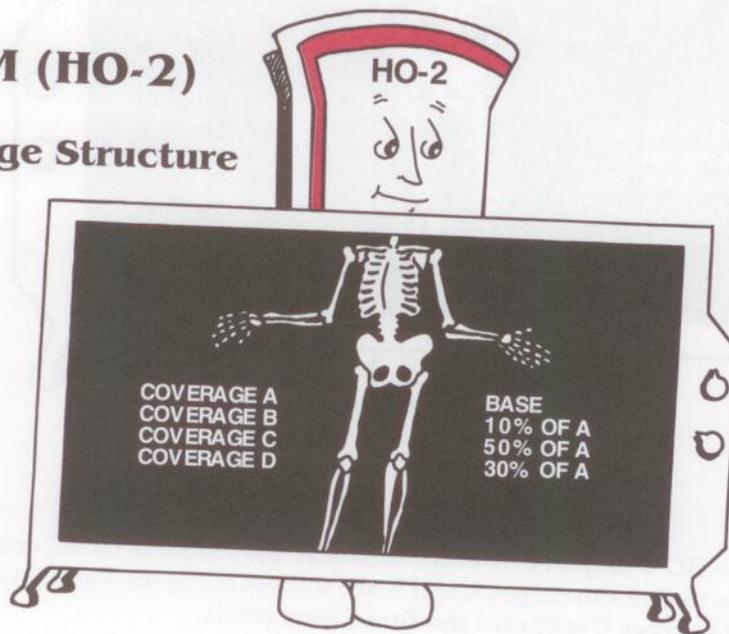
Comment

1 For the most part, an HO-8 could be viewed as the equivalent of an HO-1 with a different method of settling building losses. The peril power is the same and the basic structure and limits of the policies are the same with only a couple of differences.

- With the HO-8, there is a \$1000 limit on all theft losses.
- Off premises losses to personal property are limited to 10% of Coverage C or \$1000, whichever is greater.
- Debris removal cannot cause the claim to exceed the face amount.
- The tree, shrub, or plant limit is \$250 rather than \$500.
- The standard deductible is \$100.

BROAD FORM (HO-2)

Property Coverage Structure



Synopsis

2 The HO-2 exactly parallels the skeletal structure of our model Homeowners. With the HO-2, all coverages are tied to the Broad form perils so losses due to collapse, weight of ice and snow, plumbing, falling objects, and damage from artificially generated electrical current are now covered.

Comment

3 The HO-2 is a much better policy than the HO-1. Beyond the fact that it covers more perils, the restrictive definitions of the HO-1 (and HO-8) are now gone for good. Smoke from a fireplace is covered, and there is coverage for those of you who plan to drive a vehicle through your living room. Probably the biggest limitation of the HO-2 is that coverage is still provided on a **named peril basis**. If it is not on the list, it is not covered. The burden of proof is still on the Insured.

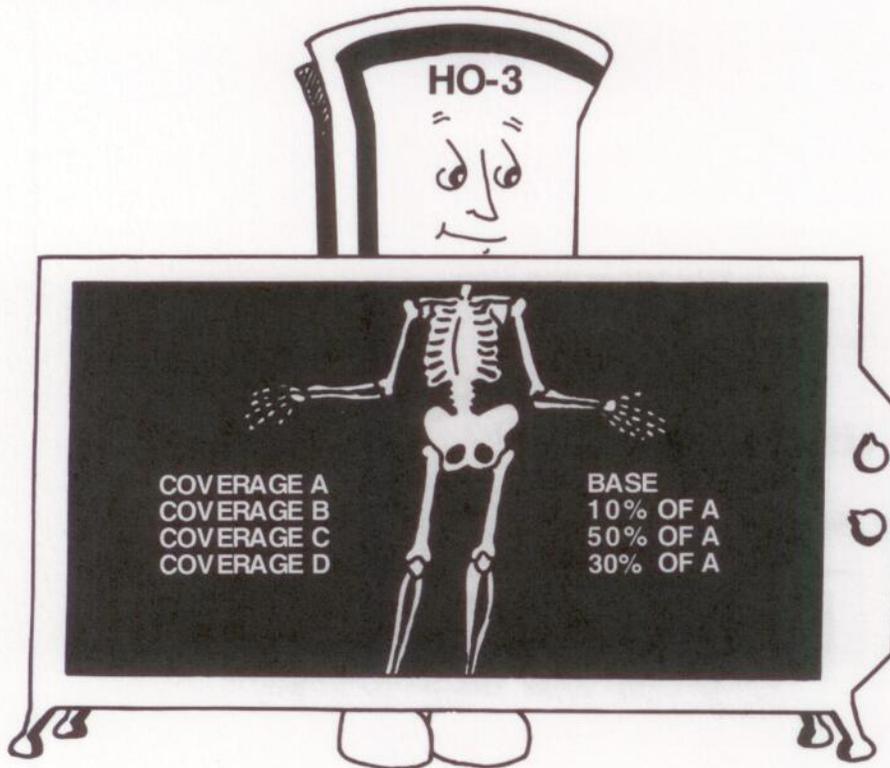


a little more muscle



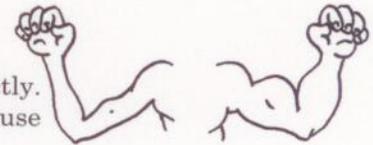
SPECIAL FORM (HO-3)

Property Coverage Structure



Synopsis

- 1 As you can see, the HO-3 property coverage structure matches our model exactly. The HO-3 is unique in that Coverages A and B are written using the Special Cause of Loss form, and Coverage C still uses the Broad form perils.

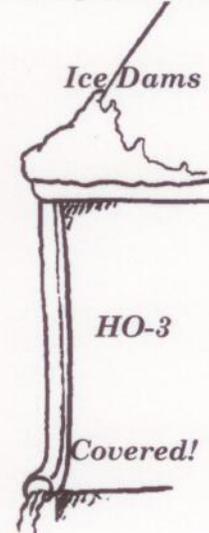


Comment

- 2 The big change with the HO-3 is that **coverage on the dwelling and other structures becomes Open Perils**. Now, if it is not excluded, it is covered. A great example that differentiates the coverage offered by an HO-3 as opposed to an HO-2 occurs in parts of this country every winter. Snow builds up on a rooftop, ice clogs the gutters, and then we have a 36° day with the sun out. The surface of the snow layer begins to melt. If you are lucky, the water runs over your gutters and onto the ground. If you are not, it seeps into your house and does interior damage. What about coverage under the HO-2 or HO-3?

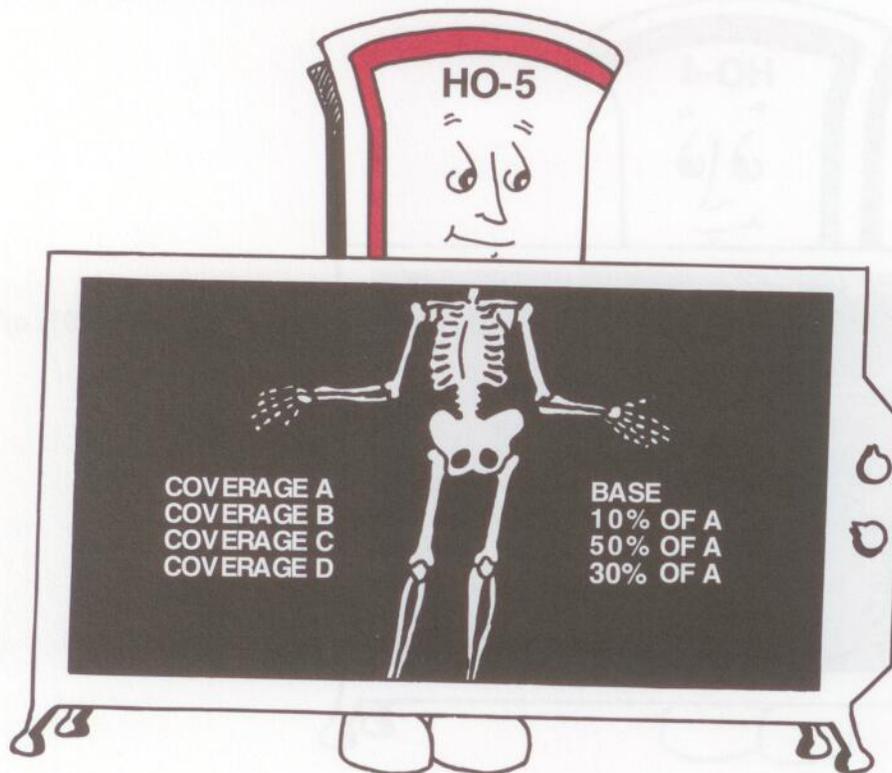
- The HO-2 will **not** cover this loss because Mother Nature made no hole or opening into the structure to allow the water to enter.
- The HO-3 will provide coverage because this loss is not excluded.

unequal muscle



COMPREHENSIVE FORM (HO-5)

Property Coverage Structure

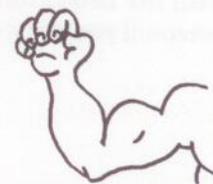


Synopsis

- 1 The HO-5 almost matches the structure of our model; however, Coverage C is 50% of Coverage A. It improves upon the HO-3 in the only way possible – it boosts the peril power on personal property (Coverage C) to Open Perils. The Dwelling and Other Structures coverage is the same as on an HO-3.

Comment

- 2 Obviously, the big news in the HO-5 is that **Coverage C (Personal Property) also becomes Open Perils**. Coverage for theft of personal property is expanded somewhat by an HO-5. The special sub-limits of coverage for theft of jewelry, watches, furs, precious stones, silverware, goldware, pewterware, and firearms remain the same, but the limits are made to apply to “loss by misplacing or losing” as well as theft. This makes the HO-5 the only Homeowners form which insures personal property that you simply lose or misplace.
- 3 About the only unique exclusions that apply to an HO-5 center around certain fragile personal items such as eyeglasses, glassware, and porcelain items that are too delicate for all risk coverage. These items are only covered if lost to specific perils, such as fire, lightning, wind, hail, smoke, explosion, and theft.

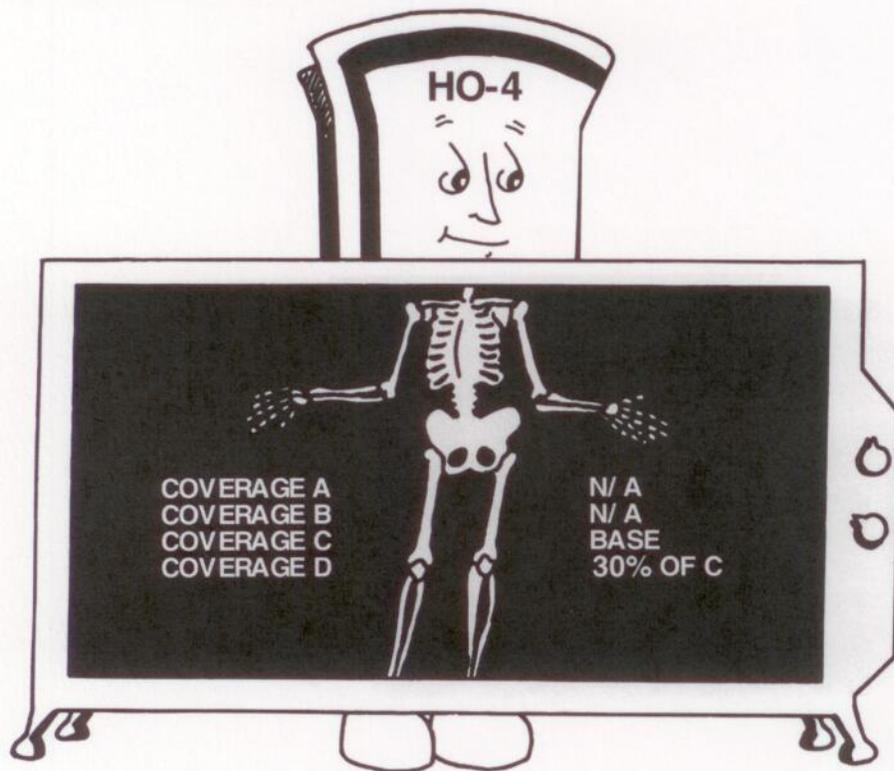


*HO-5 ate his
spinach*

*\$1500 for theft
of jewelry
and \$1500 if
you lose or
misplace it*

TENANT BROAD FORM (HO-4)

Property Coverage Structure



D = 30% of C

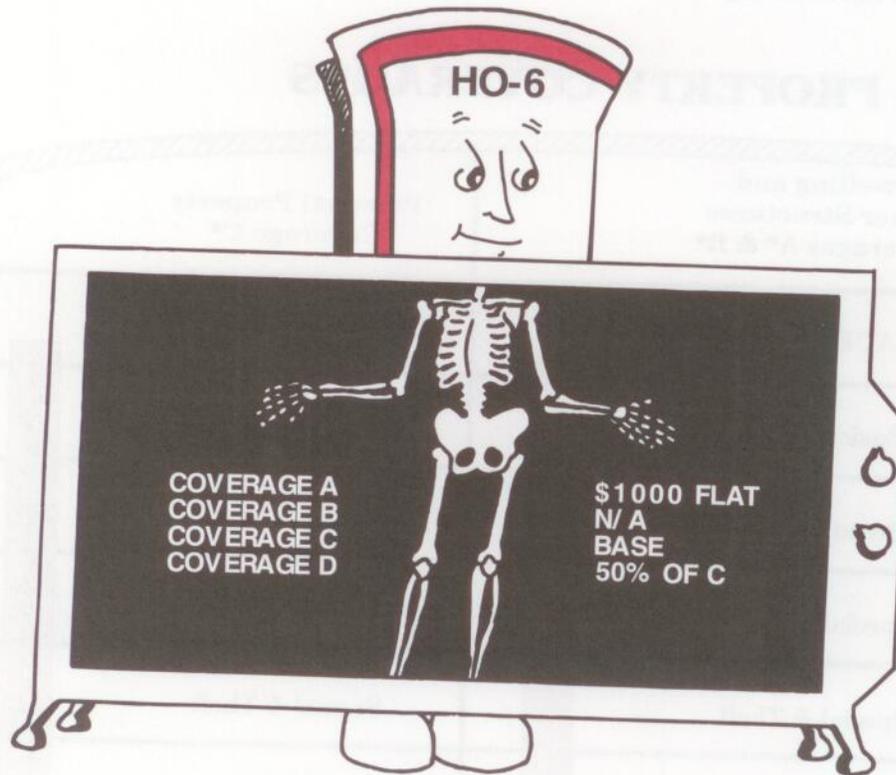
Synopsis

- 1 The HO-4 (Tenant Broad Form) deviates significantly from the model Homeowners contract. Since there is no Coverage A or B, Coverage C becomes the base and Coverage D becomes 30% of C. As the name implies, the plain vanilla HO-4 is written with the Broad form cause of loss. As you might guess, it can be endorsed to cover personal property on a Special cause of loss basis.

only stuff

CONDOMINIUM OWNERS FORM (HO-6)

Property Coverage Structure



*D = condo
owners must
live better*

Synopsis

- 1 Like the HO-4, the HO-6 is designed to insure personal property against the same perils as the HO-2: the Broad form perils.

Comment

- 2 For the most part, the **HO-6 functions like an HO-4**. There are only two important differences. On an HO-6, there is \$1000 coverage for alterations and other owned building items listed as Coverage A. Secondly, an HO-6 is designed to provide a standard limit of 50% of Coverage C for Loss of Use (Coverage D) whereas the HO-4 uses 30% of Coverage C as its Coverage D limit.

HOMEOWNERS PROPERTY COVERAGE REVIEW

- Most of the important points we have made about the Homeowners property coverages are summed up nicely on the following chart.

HOMEOWNERS PROPERTY COVERAGES

HO Form	Dwelling and Other Structures Coverages A* & B*	Personal Property Coverage C*
	REPLACEMENT COST	ACTUAL CASH VALUE
HO-1 & HO-8**	Basic & Theft	Basic & Theft
HO-2	Broad & Theft	Broad & Theft
HO-3	Special & Theft	Broad & Theft
HO-5	Special & Theft	Special & Theft
HO-4	N/A	Broad & Theft
HO-6	\$1000 . . . Broad & Theft	Broad & Theft

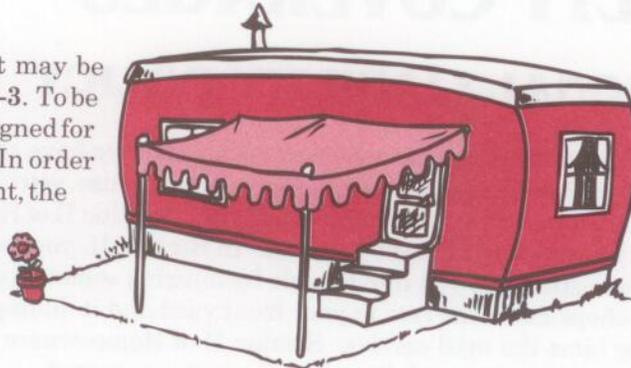
* Coverage D in all forms will pay if a loss covered under A, B or C makes the dwelling uninhabitable.

** HO-8 settlement on buildings is ACV or Repair Cost.

MOBILEHOME ENDORSEMENT

Eligibility

- 1 The Mobilehome Endorsement may be added to either the HO-2 or the HO-3. To be eligible, a mobilehome must be designed for portability and year round living. In order to be covered under this endorsement, the mobilehome must be at least 10 feet wide and 40 feet long. Otherwise, the basic HO eligibility rules, such as owner occupancy, apply.



HO-2
or
HO-3

Coverages

- 2 The Mobilehome Endorsement covers about the same property as a regular HO. Coverage A includes the mobilehome, attached structures, utility tanks, and permanently installed items such as appliances, cabinets and floor coverings. This coverage is written on a **replacement cost** basis. Items such as permanently installed awnings, outdoor antennas and other outdoor equipment are also covered, but on an ACV basis. The other coverages look a lot like those available under any other HO.

Policy Limits

- 3 Coverage A is again the *lead domino*. Coverage B is 10% of A, with a minimum limit of \$2,000. Coverage C is 40% of A. Coverage D is 30% of A.

C = 40%

Definitions, Conditions and Additional Coverages

- 4 The *residence premises* is modified to include the mobilehome as well as the land owned or leased by the Insured.
- 5 The *pair set clause* is expanded to include *panels*, should it be impossible to match lost or damaged body panels.
- 6 Under the coverage additions, there is up to \$500 available for moving the mobilehome to avoid damage. Assume that Joe's mobilehome is parked just south of Miami, and Hurricane Ichabod is winging its way to the coast. The policy will pay up to \$500 to move Joe's mobilehome inland, and no deductible will apply.

Options

- 7 The most important of the Mobilehome Endorsement options is the Transportation or Permission to Move Endorsement. It is actually an endorsement to an endorsement. Without it, we don't cover damage to a mobilehome sustained while it's being mobile.
- 8 With it, however, the Insured has protection from the perils of collision, upset, and sinking. Sinking applies to losses while the mobilehome is being transported on a licensed ferry boat. The coverage lasts for 30 days, and applies anywhere in the continental United States and Canada.

SECTION II – CASUALTY COVERAGES

THE PERSONAL LIABILITY POLICY

- 1 Up to this point, the portions of the Homeowners policy that we have studied have been primarily concerned with insuring your property – your house, your kid's stereo, your living room furniture, even the clothes in your closet. Section II of Homeowners concerns itself with an entirely different problem. In Section II, you, your spouse, your kids, or even your stuff gets you into trouble by injuring someone else or their property. Your son chops down the tree in your front yard and it damages a neighbor's auto. Your dog bites the mail carrier. Section II of Homeowners is designed to protect you in situations very much like the ones just mentioned.
- 2 The same principles that we established in Chapter Four of this text will guide us in this portion of the Homeowners policy. A short review is probably in order.

LIABILITY REVIEW

- 3 As with most liability coverages, the Homeowners policy is primarily concerned with **negligence**. Negligence is the failure to do or not do what the **reasonable person** would do or not do in the same circumstances.
- 4 To prove negligence, four specific elements must be established:
- Duty
 - Breach of Duty
 - Proximate Cause
 - Damages
- 5 You can become legally responsible for damage to someone else or their property in two ways:
- Settlement
 - Judgment
- 6 In either event, this policy will never pay you; it pays the injured third party – the Other Guy. As you might guess, where there is liability, there is also Med Pay – our way of avoiding lawsuits. And, if there is no way to avoid legal action, there are Defense Costs.

COVERAGE E – PERSONAL LIABILITY (BI AND PD)

- 1 In the Homeowners policies, the phrase Personal Liability is used to describe a homeowner's potential legal liability for negligence resulting in bodily injury or property damage to a third party. (Notice that there is no personal injury coverage provided.) The **basic limit is \$100,000 per occurrence**, and there is no aggregate limit. While this coverage applies separately to each Insured, total liability coverage resulting from any one occurrence may not exceed the Coverage E limit stated in the policy. Of course, limits higher than \$100,000 are available for additional premium.

*E = \$100,000
per occurrence*

- 2 It is important to note that the Personal Liability coverage protects the members of the Insured's household, both **on and off insured locations** unless they are involved in activities that are specifically excluded (such as driving a car, which should be covered under an auto policy).

COVERAGE F – MEDICAL PAYMENTS TO OTHERS

- 3 Unlike Coverage E (Personal Liability), the Medical Payments To Others section does not require that legal liability be established. Negligence does not have to be established. If someone is injured at your house or is injured due to the activities of you or one of your family, it pays – even if the accident is not your fault. It covers necessary medical expenses incurred within **three years** of an accident which causes bodily injury. Of course, an accident is covered only if it occurs during the policy period. **The basic Medical Payments limit is \$1000 per person**, but higher limits may be purchased. The obvious purpose is once again to avoid lawsuits. However, suppose an injured party collects \$1,000 under Medical Payments and still sues for lost wages, pain and suffering, etc. If they are ultimately awarded \$50,000, they will receive \$49,000. **You cannot add Med Pay to the Liability limits.**

*F = \$1000 per
person*

- 4 This coverage does not apply to expenses related to injuries of the named Insured or any regular resident of the Insured's household, except **residence employees**. At the insured location, coverage applies only to people who are on the insured location with the permission of the Insured. Away from the insured location, coverage applies only to people who suffer bodily injury caused by an Insured, an animal owned by the Insured, a residence employee in the course of employment by an Insured or losses which arose out of a condition in the insured location.

EXCLUSIONS FOR SECTION II – LIABILITY

1 The coverage statements for liability and Med Pay are very broad. The only way to know for sure that something is covered is to see what is excluded. Losses not covered by Coverage E (Personal Liability) or F (Med Pay to Others) include the following:

1. War
2. **Intentional acts**
3. **Professional liability**
4. **Business pursuits** that are full time, part time, or occasional are excluded - unless the business earns less than \$2,000 per year
5. Damage to property rented or occupied by an Insured except for negligent **fire, smoke or explosion damage (Fire Legal)**
6. Losses stemming from a premises that is not an insured location
7. Bodily injury to any person covered by **Workers Compensation**
8. Bodily injury or property damage to any resident of the household other than a residence employee
9. Transmission of a communicable disease
10. Sexual or physical abuse, including molestation and corporal punishment
11. Losses due to the use, sale, manufacturing or delivery of a controlled substance (illegal drugs)
12. Ownership, maintenance, use, loading, or unloading of an excluded **vehicle, watercraft, or aircraft**
13. Vicarious liability imposed on a parent for the use of an excluded vehicle, aircraft or watercraft by a minor

HO



II

Comment

2 **Excluded vehicles** means most motor vehicles, motorized land conveyances, and trailers towed or carried on motorized vehicles that are owned, operated by, rented, or loaned to an Insured. Coverage is provided for the following: unregistered vehicles, vehicles in dead storage, vehicles used to service an Insured's residence, vehicles designed to assist the handicapped, and motorized golf and recreational vehicles designed for use off public roads.

off road OK

3 **Excluded watercraft** – While there is some liability protection for watercraft under a Homeowners policy, it is extremely limited coverage. Primarily, the size and speed (horsepower) of a boat are the critical factors in determining the liability exposure. The following is a thumbnail sketch of the excluded watercraft under Section II of the Homeowners policy.

*Section I -
\$1500 limit*

*Section II -
size*

- 1 There is only liability coverage for a(n):
 - Outboard you own under 25 horsepower.
 - Sailboat under 26 feet in length which you own or rent.
 - Inboard powerboat under 50 horsepower that you rent.

*on a slow boat to
China*

- 2 Therefore, a person with a major watercraft exposure is not fully covered under a Homeowners policy. Those who need broader coverage should purchase a Boatowners or Yacht policy to provide adequate coverage. See Chapter 7 for details.
- 3 Excluded aircraft means any device used or designed for flight, other than model or hobby aircraft.

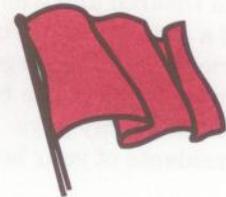
SO WHAT IS COVERED?

- 4 Now that you've been through a couple of laundry lists of exclusions, you may be wondering, What is covered? Well, most of the things you would expect to be . . . the trip and fall injuries on your sidewalk, your dog biting the mailman, one of your kid's playmates knocks out a tooth while skating in your driveway. Notice, however, that these two coverages are not restricted to your premises. If you are out on the golf course and mow someone down with your cart, there is coverage. If you put your golf ball through someone's window (or into someone's head), there is coverage.

- 5 The liability section of a Homeowners policy is like a little bubble of protection that follows you and your family around wherever you go or whatever you do. About the only time coverage collapses is when you are:

- On the job.
- In your car, boat, or airplane.

- 6 In these situations, you are better covered elsewhere.
- 7 Additionally, there is one very valuable coverage in Section II of Homeowners that the policy never mentions by name. Due to its importance, we will mention it by name.



Fire Legal Liability

- 8 It is customary in a liability policy to eliminate coverage for other people's property in your **care, custody, or control**. For example, if you rent a house or apartment, we are not going to pay your landlord under the liability section of your policy because you are a neglectful, slovenly, or malicious tenant – these losses are preventable.

- 9 Accordingly, you might remember that in the Homeowners policy, we excluded liability coverage for property in your care, custody, or control . . . **except** for damage done by fire, explosion, or smoke. These exceptions give you Fire Legal Liability coverage. This is especially important to people with an HO-4. A grease fire in your apartment kitchen could easily result in \$10,000 worth of damage to your apartment. The apartment owner would file a claim under his Commercial Property policy, his company would pay, and then subrogate against you. Your Fire Legal Liability would cover you on this loss.



1 Those of us who do not rent our dwellings but own them (along with the mortgage company) do not have the same problem. A \$10,000 fire in your home would be paid by Section I of Homeowners. Your rates might go up, but your company cannot subrogate against you.

can't beat food cooked over an open fire

2 However, even someone like Joe who owns an HO-3 can benefit from this coverage. Suppose Joe rents a lakeside cottage for a month. The same kind of kitchen fire can cause the same kind of damage. Again, the property owner will file with his property carrier, and that company will subrogate against Joe.

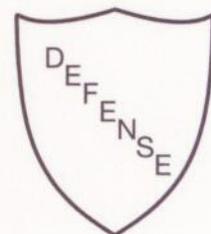
3 This coverage may not be obvious as you read the policy, but it might well save your bacon if a nonfictional kitchen fire ever pays you a visit.

ADDITIONAL COVERAGES

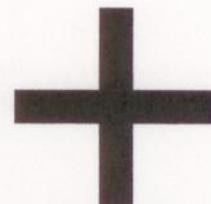
4 Each Homeowners policy provides three important coverages in addition to the stated limits of liability for Section II of the contract.

- Claim Defense
- First Aid to Others
- Damage to the Property of Others

5 **Claim Defense** coverage includes the costs of defending a claim, court costs charged against an Insured in any suit the insurance company defends, and premiums on bonds which do not exceed the Coverage E – Personal Liability limit and that are required in a suit defended by the insurance company. When the insurance company requests the assistance of an Insured in investigating or defending a claim, reasonable expenses of the Insured, including loss of earnings of up to \$50 per day, are covered.



6 Expenses for **First Aid to Others** are covered when the charges are incurred by an Insured and when the charges result from bodily injury to a covered third party. If a social guest is injured at your house and you call the paramedics or take your friend to the emergency room of a hospital, the cost is covered. If you, as the Insured, submit the bill, First Aid to Others pays. If the injured party submits the bill, Med Pay pays. As you would guess, this coverage is not available to you or the residents of your household.



First Aid

7 If **Damage to Property of Others** is caused by an Insured, the policies provide replacement cost coverage of up to \$1000 per occurrence. Of course, damage done intentionally by an Insured (who is 13 or older) is excluded. Notice that property that is rented is not covered in this section. Property that is rented is considered to be in your care, custody or control. For insurance purposes, it is your property, and is, therefore, insured under Section I of the Homeowners policy.

others' stuff

OPTIONAL COVERAGES

8 Homeowners policies may be endorsed to extend the Personal Liability and Medical Payments coverages to include insurance for people, property, situations or activities which are not normally covered. Endorsements may be used to cover the interest of an additional Insured or to cover the exposure related to an additional premises.

- 1 Although certain incidental businesses are permitted, an endorsement must be used to cover the liability exposure of having an office, professional, private school or studio in your house. Optional liability coverage may be written to include the business pursuits of the named Insured (other than a business owned or controlled by the Insured) and such coverage for teachers may be written to include or exclude liability for the corporal punishment of students. Liability for bodily injury and property damage arising out of the ownership, maintenance or use of usually excluded watercraft may also be covered by endorsement. Various other optional coverages are also available.

*endorse that
business*

POLICY CONDITIONS

- 2 Due to the differences between property and liability coverage, certain conditions apply only to the liability section of Homeowners policies. One provision declares that bankruptcy of the Insured does not relieve the insurance company of its obligations under the policy.
- 3 The Insured's duties in the event of a covered liability occurrence are a little different and a little broader than with a property loss. They include providing written notice identifying the Insured, the policy, names and addresses of claimants and witnesses and information about the time, place, and circumstances of the accident or occurrence. The Insured is also required to promptly forward every notice, demand, or summons related to the claim and, when requested, to assist in the process of collecting evidence, obtaining the attendance of witnesses, and reaching settlement. The Insured is not supposed to assume any obligations or make any payments (other than first aid to others following a bodily injury), except at the Insured's own expense.
- 4 Another clause states that payment of Medical Payments to Others is not an admission of liability by the Insured. When Medical Payments are made, the Insured or someone acting on the behalf of the injured person is required to provide written proof to support the claim, and to authorize the insurance company to obtain medical reports and records. The injured party must submit to a physical examination if it is requested by the insurance company.

*with a little
help from our
friends*

LIABILITY ENDORSEMENTS

- **Business Pursuits** - Provides Premises Liability and Med Pay coverage for the in-home business.
- **Day Care** - The Home Day Care Endorsement is an option available for those who might operate a day care business on the residence premises. Normally, the coverage under the basic endorsement is for up to three individuals in the care of the Insured. Larger numbers can be handled on an individual underwriting basis. This endorsement provides coverage for exclusions found in the liability coverages under Coverage E of the policy itself, e.g., abuse, corporal punishment, and sexual molestation. On the property side, an unendorsed Homeowners would not provide coverage for a separate structure (e.g. a garage) used for a business. This endorsement would provide coverage.

*"Relative
Daycare":
my mom
watching my
kids at her house
(even for pay)
does not need this
endorsement*

- **Permitted Incidental Occupancies** - Another business endorsement. Works like Home Day Care for any other kind of in-home business - like a beauty parlor or a music teacher. Also includes coverage for Business Personal Property.
- **Personal Injury** - For extra premium, gives Personal Injury coverage under Homeowners. Includes false arrest or imprisonment, malicious prosecution, libel, slander, defamation, invasion of privacy, wrongful eviction and entry. Ideal for landlords.
- **Watercraft** - Provides Liability and Med Pay for boats exceeding the limits under the basic policy. The specifics of the insured craft are spelled out on the Dec sheet and companies vary about how big or powerful a boat can be and adequately be covered in this manner.

BACK TO THE CHART

- 1 Let's see what our Homeowners summary chart looks like with the two liability coverages we've just discussed included.
- 2 Although Coverages E and F greatly impact the value of the Homeowners policy you own, they impact the summary chart very little. On all seven Homeowners contracts, the basic Section II limits are the same.

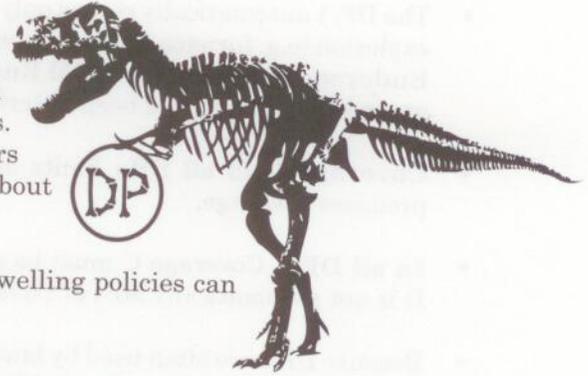


HOMEOWNERS				
Section I Property			Section II Casualty	
HO Form	Dwelling and Other Structures Coverages A* & B*	Personal Property Coverage C*	Liability Coverage E	Med Pay Coverage F
	REPLACEMENT COST	ACTUAL CASH VALUE		
HO-1 & HO-8**	Basic & Theft	Basic & Theft	\$100,000/ Occurrence	\$1,000/Person
HO-2	Broad & Theft	Broad & Theft	↓	↓
HO-3	Special & Theft	Broad & Theft		
HO-5	Special & Theft	Special & Theft		
HO-4	N/A	Broad & Theft		
HO-6	\$1000 . . . Broad & Theft	Broad & Theft		

* Coverage D in all forms will pay if a loss covered under A, B or C makes the dwelling uninhabitable.

** HO-8 settlement on buildings is ACV or Repair Cost.

BACK TO THE PAST: THE DWELLING POLICIES



*Dwelling Policy
is a
Dinosaur*

- 1 In the opening pages of this chapter, we talked briefly about the Dwelling Policies. We pointed out that they are not used frequently today, but do still serve some important purposes. You were promised that we would first discuss Homeowners and then work backwards to tell you what you need to know about Dwelling Policies.
- 2 The most important points that you should know about the Dwelling policies can be summed up in three statements:
 - Dwelling policies **do not automatically cover theft**.
 - Dwelling policies **do not automatically provide liability coverage**.
 - There are now **only three Dwelling policies**: DP-1 (Basic), DP-2 (Broad), and DP-3 (Special).
- 3 Therefore, our chart can be easily modified to make it a Dwelling policy chart instead of Homeowners.

DWELLING		
HOMEOWNERS PROPERTY COVERAGES		
DP Form	Dwelling and Other Structures Coverages A & B	Personal Property Coverage C
	REPLACEMENT COST	ACTUAL CASH VALUE
DP HO-1 & HO-8	Basic & Theft	Basic & Theft
DP HO-2	Broad & Theft	Broad & Theft
DP HO-3	*Special (which includes Theft)	Broad & Theft
HO		
HO		
HO		

* The DP-3 would provide theft coverage on the Dwelling and other structures because it is not excluded. Therefore, a DP-3 would cover theft of your copper gutters, your front door or your entire house.

OTHER DIFFERENCES ‡

- The DP-1 automatically covers only the perils of fire, lightning and internal explosion (e.g. furnace, water heater). By adding the **Extended Coverage Endorsement** and the **V&MM Endorsement**, it provides coverage for the group of perils we have been describing as the **Basic Perils**.
- **Coverage C** in all DP's limits off premises coverage to 10% of the on premises coverage.
- **In all DP's**, Coverage C must be specifically selected by the policyowner. It is not automatically 50% of Coverage A like in Homeowners.
- Because DP's are often used by landlords to cover a rental property, **Coverage D is listed as Fair Rental Value**. It simply pays the landlord for the amount he loses in rent if the building is damaged by a covered peril.
- For those living in a structure that they choose to insure with a DP, **Coverage E becomes the familiar Additional Living Expenses**.

Coverage A	Dwelling
Coverage B	Other Structures
Coverage C	Personal Property
Coverage D	Fair Rental Value
Coverage E	Additional Living Expenses

- A **separate policy** has been required historically to provide theft coverage or liability coverage with a Dwelling policy. In 1989, changes were made to allow either of these additions to be made with an endorsement to the DP form.
- **Theft coverage** can be obtained in two ways. Both cover theft, attempted theft, and vandalism as a result of a theft or attempted theft. The **Broad Theft Coverage Endorsement** is for owner-occupied dwellings and covers both on premises and off premises theft. The **Limited Theft Coverage Endorsement** is for landlords and only covers on premises theft.
- **Liability coverage** can also be added in two ways. The **Personal Liability Endorsement** is for owner-occupants and essentially duplicates Section II of Homeowners. However, in the DP program liability is known as Coverage L and Med Pay to Others as Coverage M. The **Premises Liability Endorsement** is for landlords and provides premises liability coverage at the insured location only.
- **Dwelling Under Construction** endorsement covers a residence that is being built.

*SFP + EC +
V&MM =
Basic*

*no theft or
liability
without
endorsement*

Good Stuff!

¹ With these as the major exceptions (and, admittedly, some of these are very minor), the DP's tend to function much like the HO's. The standard deductible is \$250; the Additional Coverages, the exclusions, and the conditions are identical or nearly identical to the Homeowners policy language.

Conclusion

1 In this chapter, we have examined the Homeowners program and the Dwelling Policies.

2 The **Homeowners** program packages both the property and casualty needs of your client into a single policy. Section I of the policy contains the property coverages, and Section II contains the liability coverages. The forms, numbered from HO-1 through HO-8 (but there is no HO-7), cover varying amounts of perils. With Forms 1, 2, 3 and 5, the perils covered continue to increase with each higher-numbered form.

3 Except for the HO-4 (Tenants Form) and HO-6 (Condominium Unit Owners Form), a Homeowners policy covers not only the building, but also its contents. Because tenants and condo owners do not insure the buildings they live in, the HO-4 and HO-6 are designed to cover contents; coverage on the structure is generally limited to betterments and improvements.

4 The primary rule on eligibility for a Homeowners policy is that the named Insured must be (or plan to be) the owner-occupant of the insured building. Also, the dwelling must be used principally as a residence, although certain low risk business uses, such as a private dance studio, are allowed by endorsement.

5 The policy distinguishes a named Insured from an Insured. The named Insured is the one who pays the premium and the one to whom the claim is paid. The spouse of the named Insured, if living at the same address, is given the rights of a named Insured. In addition to the named Insured(s), a Homeowners policy also covers the Insureds – kids of the named Insured(s) (no age limit) who live there, the mortgage company, and in some cases, even guests.

6 Section I (Property) of a Homeowners policy subdivides the property insured into four distinct coverages:

- Coverage A – Dwelling
- Coverage B – Other Structures
- Coverage C – Personal Property
- Coverage D – Loss of Use

7 The amount of coverage provided under the subsections varies depending upon which Homeowners form it is, and standard limits and exclusions can generally be increased or plugged up by endorsement. For example, a Personal Articles Floater could be used to provide adequate coverage for an expensive piece of jewelry.

8 The perils covered under a Homeowners policy will vary depending on which Cause of Loss form is used: Basic, Broad, or Special. Unlike Commercial Lines, in the Homeowners program, all three Cause of Loss forms cover theft.

9 The Homeowners program also includes Additional Coverages, such as debris removal, reasonable repairs, trees, shrubs, or other plants, fire department service charge, collapse, etc. Two of the most important optional property coverages that can be added for additional premium are Inflation Guard and Replacement Cost. The exclusions and conditions were set out in detail in this chapter. The standard deductible in Homeowners is \$250. It applies to Section I (Property), but not to Section II (Liability).

- 1 Liability (Section II) of Homeowners has two coverage parts:

Coverage E – Personal Liability (BI and PD)
Coverage F – Medical Payments to Others

- 2 Personal Liability (Coverage E) is designed to pay the Other Guy for an Insured's negligence which results in bodily injury or property damage, and the basic limit is \$100,000 per occurrence. Personal Liability coverage exists both on and off premises. Med Pay (Coverage F) is also designed to pay the Other Guy, but it doesn't require that negligence be established. You should think of it as goodwill insurance. It pays for medical expenses due to bodily injury that occur within three years of the accident, regardless of who is at fault, and the basic limit is \$1000 per person. Remember that neither Coverage E nor Coverage F pay the Insured – they pay to a third party.

- 3 Excluded under the Liability section of Homeowners are losses better covered elsewhere (such as Workers Comp, Professional Liability, Automobile Liability, Aircraft and Watercraft), losses within the control of the Insured (such as intentional acts), catastrophic losses (such as war and nuclear hazards), and various other exclusions. Homeowners does, however, provide coverage for Fire Legal. Fire Legal liability coverage is especially important to tenants as it will pay for damage caused by fire, explosion, or smoke from property in the care, custody, or control of the tenant – like the grease fire in the apartment kitchen.

- 4 Additional Coverages under Section II of Homeowners include: Claim Defense, First Aid to Others, and Damage to Property of Others. Remember that these Additional Coverages pay in addition to the policy's stated limit of liability. There are also Optional liability coverages that can be purchased for additional premium.

- 5 The **Dwelling Policies** (or Dwelling Forms as they used to be called) were designed to be attached to the old Standard Fire Policy to cover the needs of the average homeowner. The Dwelling Policies are not used much today, although they do still serve the needs of the homeowner who isn't eligible for a Homeowners policy. The program consists of the DP-1, DP-2, and DP-3, and the policies work approximately like their numerical equivalents in the Homeowners program except that they don't have built-in coverage for theft or liability.

