

I.S.O.

DWELLING & HOMEOWNER'S PROPERTY FORMS

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

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

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

Dwelling Property Forms (DP)

Although all coverages are preprinted in the policy form, ***the insured does not have to purchase each one.*** For example, an insured who owns an unfurnished house that she rents to others might choose to purchase only Coverage A - Dwelling and Coverage D - Rental Value.

COVERAGES	Basic, DP1	Broad, DP2	Special, DP3
A-Dwelling	The amount of the dwelling coverage is set by the insured		
B-Other Structures	Offered	Offered	Offered
C-Personal Property	Offered	Offered	Offered
D-Rental Value	Offered	Offered	Offered
E-Additional Living Expenses	Not Offered	Offered	Offered
Additional Coverage	Debris Removal, Betterments and Reasonable Repairs		
Additional Coverage	---	Landscaping, Collapse & Glass Breakage	Landscaping, Collapse & Glass Breakage
PROPERTY REMOVAL	30 days	30 days	30 days
PROPERTY EXCLUDED	See Text		
PERILS COVERED	Fire, Lightning, Internal Explosion (Optional: Extended Coverage & VMM)	Fire, Lightning, Internal Explosion, Extended Coverage, VMM, plus seven others	Risk of Loss = Dwelling & Structures Broad Form = Perils for personal property
PERILS EXCLUDED	See text		
INDEMNIFICATION (loss settlement)	ACV (All Coverage)	Building (A & B) = Replacement cost if insured at least 80% of value. Coverage C = ACV	Building (A & B) = Replacement cost if insured at least 80% of value. Coverage C = ACV

*Coverage E (additional living expenses) may be added to the Basic Form by endorsement.

Dwelling Property Forms (DP) (ISO Program) - (a.k.a. Landlord Policies) are generally used to insure residential property that is rented to others for dwelling purposes.

- *It can also be used to insure a dwelling which is under construction.*

The *three forms* which were developed include:

BASIC	DP 00 01	DP1 - Named Peril
BROAD	DP 00 02	DP2 - Named Peril
SPECIAL	DP 00 03	DP3 - Open Peril

The coverage form may be **Named Peril** or **Risk of Direct Physical Loss** (a.k.a. All Risk or Open Peril). **Named peril** coverage means that in order for a policy to cover a certain loss, the specific peril causing the loss must be listed on the policy. Under special form (**open peril**), **all losses are covered unless specifically excluded in the policy.**

Dwelling Property Insurance covers direct and indirect losses to tangible property.

This includes loss of use of those properties. **Theft is not a covered peril and there is no liability coverage under Dwelling Policies.** However, liability may be extended from the homeowner's policy of the insured or by adding the Personal Liability Supplement.

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

Coverage Available in Dwelling Property (DP) Forms:

Dwelling - Coverage "A" includes structures attached to the dwelling, materials and supplies for use in construction or repair of the dwelling or other structure, and building or outdoor equipment used to service the premises.

- **No retail sales, 5 boarders maximum per unit or apartment, and a maximum of 4 units or apartments.**

Other Structures - Coverage "B", (a.k.a. **appurtenant structures**), includes buildings on the premises but not attached to the dwelling, such as a detached garage, and not used for commercial purposes or farming.

Personal Property - Coverage "C" includes *property of the insured* other than "real" property (i.e., land) that belongs to an insured or any member of the insured's family residing at the insured location. The property of guests or servants may be added at the insured's request. ***It does NOT cover the property of a boarder or renter.***

Rental Value - Coverage "D", (*indirect loss or consequential loss*), will pay for rental income lost by the insured when the dwelling is uninhabitable for the renter.

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

Remember, the coverages are preprinted in the policy form so *the insured does not have to purchase each one.*

- **For example, an insured who owns an unfurnished house that she rents to others might choose to purchase only Coverage A - Dwelling and Coverage D - Rental Value. If she puts furniture in the house for the renter, she also would add Coverage C - Personal Property.**

Additional Coverages included (at no additional premium) with Dwelling Property:

- ✓ **Debris Removal** - If the loss to the insured property and cost of debris removal are more than the limit of liability for the property, the insurance company will pay an additional amount for debris removal. Limited to 5% of coverage "A."
- ✓ **Improvements**, alterations and additions made by the insured while he is the tenant. Limited to 5% of coverage "A."
- ✓ **Personal Property Preservation** (a.k.a. **removal coverage**) covers loss to property removed from an endangering peril that occurs within 30 days. This coverage is broader than the normal coverage under the policy. **It protects against any direct physical loss or damage and is not limited to the perils listed in the policy.**
- ✓ **Reasonable Repairs** made by the insured to protect the property from a covered peril and to stop further loss.
- ✓ **\$500 for Fire Department service charges.**
- ✓ **Loss assessment** by property owner's association for up to \$1,000 for repairs made necessary by a covered peril.

Covered under the Broad Form and Special Form only:

- ✓ **Landscaping** is covered only on the Broad and Special Forms. Pays up to 5% of coverage "A", **maximum \$500 limit per tree, plant or shrub.**
- ✓ **Collapse** is covered only on the Broad and Special Forms. Pays if a loss is caused by any of the Broad Form perils or caused by covered perils of decay, hidden insects or vermin, or the weight of contents, including equipment, animals or people.
 - **Collapse** that results from hidden decay, hidden insect or vermin damage is ***NOT covered*** if the insured knew about the damage before the collapse.
- ✓ **Glass Breakage** is covered only on the Broad and Special Forms. ***Glass damage will be settled on a replacement cost basis, even if upgraded material is required by law.***

Property EXCLUDED:

- ⊘ Accounts, bullion, currency, money, securities, manuscripts, & evidence of debt
- ⊘ Animals, including birds and fish

- ∅ Aircraft, motor vehicles, motor vehicle equipment and accessories (**however, those vehicles used to maintain or service the premises are covered**)
- ∅ Land and structures used for commercial use or manufacturing, including farm dwellings
- ∅ **Property of persons who rent from the insured or who rent rooms from the tenant**
(If the tenant or renter wants coverage, they need to purchase an HO - 4)
- ∅ Losses caused by power failure
- ∅ Losses caused by neglect of the insured to use all means to save and preserve property
- ∅ Losses caused by any ordinance or law
- ∅ Boats (except for rowboats and canoes which are on the premises are covered)
- ∅ Intentional loss arising out of any act committed by or at the direction of an insured

The Basic Form is a named peril policy. It lists the perils that dwellings, other structures and personal property are insured against. The Broad Form is also a named peril policy, however, it expands coverage by adding additional perils.

Perils Covered - ISO Dwelling Property

	Basic DP1 Coverage (3 perils only)	Basic Form Options (for additional premium)
<p>Basic Form DP1</p>	<p>Fire, Lightning & Internal Explosion</p>	<p>1) Extended Coverage (EC): REV. C. SHAW(acronym)</p> <ul style="list-style-type: none"> Riot Explosion Vehicle & Volcano Civil Commotion Smoke Hail Aircraft Wind <p>2) Vandalism & Malicious Mischief (V & MM)</p>
<p>Broad Form DP2</p>	<p>Fire, Lightning, Internal Explosion, both DP1 Options (EC, V & MM), plus BIAFFECT* (acronym):</p> <ul style="list-style-type: none"> Burglary (damage caused by burglary) Ice (damage caused by weight of ice, snow or sleet) Accidental (<u>sudden and accidental</u> discharge of water) Falling Objects Freezing (damage to plumbing, heating, air conditioning or appliances) Electrical (<u>sudden and accidental</u> damage from artificially generated electricity) Cracking* Tearing* <p>*Sudden and Accidental tearing apart, cracking, or burning of steam, hot water, or air systems.</p>	
<p>Special Form DP3</p>	<p>This form provides the most complete coverage. Coverage for the Dwelling and Other Structures (A & B) are provided against any loss (open perils) that is not specifically excluded. Personal Property (C) is insured against all of the Broad Form DP2 perils.</p>	

Special Form DP3 - This form provides the most complete coverage. Coverage for the dwelling and other structures "A" & "B" are provided against any risks that are **not excluded** (Risks of Direct Physical Loss).

 **Special Form EXCLUSIONS** include:

- **freezing** if the dwelling is vacant, unoccupied, or under construction, unless **reasonable care** was taken to avoid loss
- **theft**
- **V & MM** if the dwelling is **vacant for more than 60 consecutive days**
- **war**
- **intentional acts of the insured**
- **flood, earth movement and earthquake**
- **loss caused by birds, vermin, insects or domestic animals**
- **pollutants**

 Insurance is designed to cover **sudden and accidental** losses, therefore gradual, preventable or expected losses such as wear and tear, mechanical breakdown, smog, rust, or corrosion are excluded. **Mold, fungus, and wet or dry rot also are excluded.**

Comparison of ISO Homeowner Forms

Section I – PROPERTY Coverage & Limits	Basic Form - HO1 (No longer sold)	Broad Form HO2	Special - HO3	Comprehensive Form HO5	Renter / Condo HO4 / HO6
A-Dwelling	Covered	Covered	Covered	Covered	*(\$1,000 - Condo)
B-Other Structures	10% of A	10% of A	10% of A	Covered	---
C-Personal Property	50% of A	50% of A	50% of A	50% of A	Covered
D-Loss of Use (indirect)	10% of A	20% of A	20% of A	20% of C	20% of C -Renters 40% of C - Condo
Additional Coverage:	Removal coverage; Costs for reasonable repairs; Fire Dept charge \$500; \$500 per tree, plant, or shrub; Debris removal; Credit card, forgery & counterfeit coverage.	Same as HO1, plus collapse of a building, additions, etc.	Same as HO1, plus collapse of a building, additions, etc.	Same as HO1, plus collapse of a building, building additions & alterations, etc.	Same as HO1, plus collapse. *The \$1,000 dwelling coverage is for property NOT covered by the Condo association (such as improvements).
PERILS COVERED:	Fire, Lightning, E.C., (REV C SHAW), V&MM, Theft & Glass	Same as HO1, plus IAFFECT	Risk of Loss for A - Dwelling & B - Other Structures Broad Form perils for C - Personal Property	Risks of Loss (Special Form) for coverage A, B and C, Dwelling, Other Structures and Personal Property	Broad Form perils for all covered losses to Personal Property
INDEMNIFICATION : Insurance company will give notice within 30 of a proof of loss of intentions on how they will pay for the loss. Upon agreement with the insured on the amount, the company will pay within 60 days of agreement.					
Replacement cost for coverage A & B All Other Property (ACV)	✓	✓	✓	✓	✓
Section II – LIABILITY Comprehensive Personal Liability	All forms are identical				
Primary Coverage	Coverage E - Personal Liability (BI /PD)		\$100,000 per occurrence.		
	Coverage F – Medical Payments to Others		\$1,000 each person		
Additional Coverage	Insurance-Related Claim Expenses (including Duty-to-Defend), First-Aid to Others, Loss Assessment Coverage (\$1,000 per occurrence).				

I.S.O. Homeowner Policies

Homeowner Policies (based on the **ISO Homeowners** Forms) are package policies because they include coverage for property and liability.

Section I covers **Property** while **Section II** covers **Liability**.

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

- The insurance: must be for residential purposes, **not** for commercial exposures; **two-family (duplex)** maximum; a maximum of **two boarders per residence**; **no farm use is covered**.
- **Certain incidental business and professional occupancies are allowed**. These operations must be conducted by the insured and include such occupancies as beauty parlors, photographic studios, and professional offices like insurance and real estate agents.
- **Persons Insured** includes the named insured and
 - all residents of the same household who are relatives of the named insured, and
 - anyone who is under 21 and in the care of any persons insured.

HO Property Forms:

HO1 - Basic Form (no longer sold)	HO2 - Broad Form (HO 00 02)
HO3 - Special Form (HO 00 03)	HO4 - Renters Form (HO 00 04)
HO5 - Comprehensive Form (HO 00 05)	HO6 - Condo Form (HO 00 06)
HO8 – Basic Form (HO 00 08) <u>but</u> ACV on losses*	

HO1--- **Basic Form HO is no longer sold**, covers the dwelling and personal property (A, B, C, & D). Perils covered: Fire, Lightning, Extended Coverage (EC), V & MM, **theft, glass and volcanic action**. However, even though the HO1 form is no longer sold, all perils insured against under the HO1 are insured against under an HO2.

HO2 (Broad Form), covers the dwelling, other structures and personal property (A, B, C & D).

Broad Form perils insured against include:

- ✓ fire
- ✓ lightning
- ✓ extended coverage (REV C SHAW)
- ✓ V & MM
- ✓ theft
- ✓ glass
- ✓ volcanic action
- ✓ falling objects
- ✓ weight of ice, snow or sleet
- ✓ freezing of plumbing
- ✓ **sudden and accidental** rupture of heating, air or fire protective sprinklers
- ✓ **sudden and accidental** damage from artificially generated electrical current
- ✓ **sudden and accidental** discharge of water or overflow from within plumbing or related systems

HO3 (Special Form), provides Risks of (Direct Physical) Loss (a.k.a. Open Perils) coverage on the dwelling and other structures. However, coverage "C" (personal property), insures against losses caused by Broad Form perils.

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

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

HO6 (Condominium Form), is the **same coverage as on a Renter's Policy.** The dwelling coverage "A" & "B" is covered under the Condominium Owners Association's policy. Also, there is limited Dwelling "A" coverage for alterations and other owned building items. It can be increased, if necessary.

HO8 (a.k.a. Modified Coverages) is the same as the HO-1, except losses are paid on an **actual cash value basis**, not replacement cost. **Owners of older homes or elaborate homes with detailed designs or decorative architecture** might have a replacement cost far in excess of the ACV or market value of their home. The premium for such a home would be prohibitive. The HO-8 provides a practical package of homeowner's coverage for owners of such dwellings.

Section I - Coverage Included in Every Homeowners Policy:

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

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

Coverage "C" - Personal Property (Contents), covers 50% of "A" in additional coverage. Personal property owned or used by the insured is covered 100% anywhere in the world.

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

☒ Percentage of coverage:

20% of "A" on HO2 and HO3

20% of "C" on HO4

40% of "C" on HO6

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

Additional Coverage INCLUDED: This coverage is **included with the policy** and requires no additional premium by the insured (see Dwelling Section for more detailed definitions):

-  **Debris removal** is the same as on the Dwelling Property forms
-  **Reasonable repairs**
-  **Landscaping** (**\$500 max. per/tree, shrub and other plants, etc.**)
-  **Fire department service charge = \$500**
-  **Property removed** from the premises for up to 30 days to protect it from further loss, such as in a storage unit
-  **Credit cards**, fund transfer cards, forgery and counterfeit money for up to **\$500**
-  **Loss assessment by property owner's association for \$1,000 for repairs made necessary by a covered peril**

 Collapse

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

Money, coins and precious metals other than tableware	\$ 200*
Securities, manuscripts, other valuable papers	\$ 1,000*
Watercraft, including the trailer and equipment (on the premises only!)	\$ 1,000*
Trailers	\$ 1,000*
Property on the premises used for business	\$ 2,500*
Property away from the premises used for business	\$ 500*
<i>Specific property limits for the peril of theft only:</i>	
Theft of jewelry, watches, furs, precious and semi-precious stones	\$ 1,000*
Theft of silver ware, gold ware and pewter ware	\$ 2,500*
Theft of firearms	\$ 2,000*

***These are TOTAL amounts, NOT per item! Students do not need to memorize these dollar amounts, but should be able to list which items are limited in coverage in the policy, especially those items limited for the peril of theft.**

These coverage restrictions are designed to encourage the insured with personal property of high value or of a hard to value nature, to insure the property on a “stated value” basis, often on a ***Scheduled Personal Property Endorsement or on a Personal Article Floater (Inland Marine)***. These objects **with limits for the peril of theft are targeted items of thieves.**

Property EXCLUDED:

- Ø Animals, including fish and birds
- Ø ***Property of roomers, boarders or tenants not related to the insured***
- Ø Motorized vehicles or aircraft, equipment and accessories

✉ **Special Note:** ***Homeowners policies do cover vehicles which are not subject to motor vehicle registration and which are used to service an insured's residence, or designed to assist the handicapped.***

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

I.S.O. Homeowners Coverage Forms

(Perils Insured Against)

BASIC Form, HO1, Named Perils	BROAD Form, HO2, Named Perils	SPECIAL Form, HO3
<ul style="list-style-type: none"> ✓ Fire and Lightning ✓ EC - Extended Coverage- (acronym) <u>REV. C. SHAW:</u> <u>R</u>iot <u>E</u>xplosion <u>V</u>ehicle & <u>V</u>olcano <u>C</u>ivil Commotion <u>S</u>moke <u>H</u>ail <u>A</u>ircraft <u>W</u>ind ✓ V & MM ✓ <u>Theft</u> ✓ Glass Breakage 	<ul style="list-style-type: none"> ✓ Includes ALL of the perils listed in the Basic Form, plus, (acronym) IAFFECT: (I) Weight of Ice, snow or sleet (A) Sudden & Accidental discharge or overflow of water (Aqua) or steam from within plumbing or related systems (F) Falling objects (F) Freezing of plumbing, related systems (E) Sudden & Accidental damage from artificially generated Electricity (C & T) Sudden & Accidental Cracking, Tearing apart, burning or bulging of a steam or hot water heater, AC system, etc. 	<ul style="list-style-type: none"> ✓ Provides dwelling coverage (A & B) on risks on a direct, physical loss basis (a.k.a. Open Perils). ✓ Personal Property (C) is covered on a Broad Form basis (named perils). ✓ You can add the Special Personal Property Endorsement, HO 00 15 (HO15) to provide “Risks of Direct Physical Loss” on the personal property. <u>NOTE:</u> An HO3 with an HO15 endorsement was formerly known as an HO5 (Comprehensive Form).

SPECIAL NOTES on HO Coverage Forms:

- ✓ Special Form HO and Special Form DP: covers (All) Risks of Direct Physical Loss or Open Perils coverage on the dwelling (coverage “A”) and other structures (coverage “B”). The Personal Property (coverage “C”) is insured on a broad form, named perils basis.
 - HO-15 Endorsement: You can add the *Special Personal Property Endorsement* (HO15) to provide “Risks of Direct Physical Loss” on the personal property.
 - The HO15 insures personal property items against “mysterious disappearance.” An HO3 with an HO15 endorsement was formerly known as an HO5.
- ✓ Glass Breakage is always replacement cost and replaced up to “Code.”
- ✓ Volcanic Action covers volcanic blast or airborne shock waves, ash, dust or particulate matter and lava flow. Volcanic Action does not cover damage to land, property in the open or in open sheds and buildings, and personal property in buildings not completely enclosed.
 - All eruptions that occur within any 72-hour period will be considered the same volcanic eruption and subject to one deductible. *Volcanic Action does not cover earthquake, land shock waves or tremors.*

EXCLUDED Perils on Special Form Policies

- ∅ Loss due to ordinance or law regulating construction, repair or demolition.
- ∅ Earth Movement - means landslide, mudflow, earth sinking, rising or lifting, and *earthquakes*, including land shock waves before, during or after a volcanic eruption.
- ∅ Direct or Indirect Loss from Water Damage.....Water damage means loss caused or contributed by: sewer or drain backup, and water from below the ground including seeps or leaks through any part of the building, sidewalk, driveway, foundation or swimming pool. Water damage includes **flood**, surface water, waves, tidal water, overflow of a body of water or spray from any of these, whether driven by wind or not.
- ∅ Loss due to power interruption whose source is off the premises.
- ∅ Loss due to neglecting to protect property after a loss.
- ∅ War and nuclear perils.
- ∅ Theft of personal property does NOT include:
 - property left in a building under construction
 - theft by an insured
 - theft from a portion of the premises used by a boarder
 - **mysterious disappearance** (vanishing of property without any explanation)

- ∅ The coverage for discharge, overflow, vandalism and malicious mischief, theft, attempted theft, or damage to glass, is suspended whenever the dwelling has been *vacant* for more than **60 consecutive days**.
- ∅ Insurance is designed to cover sudden and accidental losses, therefore **gradual, preventable or expected losses such as wear and tear, mechanical breakdown, smog, rust, or corrosion are excluded. *Mold, fungus, and wet or dry rot are also excluded.***
- ∅ **Intentional Loss** - any loss arising out of an act committed by or at the direction of an "insured" and with the intent to cause a loss.
- ∅ The **freezing peril** is suspended whenever the dwelling is vacant, unoccupied, or being constructed, ***unless reasonable care was taken*** to maintain heat in the building or to shut off the water supply, drain systems and appliances.
- ∅ Special Form policies exclude losses caused by faulty, inadequate or defective planning, zoning, development, surveying, design specifications, workmanship, repairs, renovation, construction, remodeling, grading, or compaction.

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

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

- § **Deductible...** The deductible applies to all direct losses on an **occurrence basis**. The deductible usually **does not apply to indirect losses** (i.e., additional coverages).
- § **DP1 and HO8** are settled on an **Actual Cash Value (ACV)** basis for all coverage.
- § **HO2 & HO3** (Broad and Special) indemnification is the same, which is **Replacement Cost** on coverage "A" (Dwelling) and "B" (Other Structures). Coverage "C" (Personal Property) is settled on an Actual Cash Value (**ACV**) basis.

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

- ✓ Notify the police if a law has been broken.

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

Property Conditions and Provisions:

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

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

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

$$\frac{\text{Is}}{\text{Should Be}} \times (\text{multiplied by}) \text{ the loss} = \$ \text{ amount of indemnification (minus deductible)}$$

(80% of replacement cost)

Is = the amount of coverage the insured **is** carrying at the time of loss.

Should Be = amount of coverage, calculated by the replacement cost of the dwelling multiplied by 80% (Co-Insurance Clause). This is the amount of coverage that the insured **should be** carrying.

- To solve this equation, we need to turn the “**Is** divided by **Should Be**” into a simple fraction.

For example: If a house has a \$100,000 replacement cost and the policy has an 80% co-insurance clause, the insured would be expected to carry at least \$80,000 of coverage. As long as the amount of insurance is \$80,000 or more, all losses up to the policy limit would be paid. **If the coverage is only \$60,000 and a \$20,000 loss occurs, the policy will pay only three-quarters of the loss (see below).**

$$\begin{array}{l} \text{STEP 1: } \frac{\$60,000 \text{ Is insured}}{\$80,000 \text{ Should Be}} = \frac{3}{4} \\ \text{deductible} \\ (\$100,000 \times 80\%) \end{array} \quad \text{STEP 2: } \frac{3}{4} \times \$20,000 \text{ (the loss)} = \text{STEP 3: } -$$

\$15,000 paid

- **If the coverage is \$60,000 and a total loss occurs, the policy *limit* will be paid.**

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

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

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

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

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

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

Your Duties After a Loss include (**Notice of Claim**): notify the insurance company **immediately** after a loss; notify the police if a law has been broken, protect the property from further damage; submit a **proof-of-loss** and inventory of damages within **60 days**; make the property available for inspection; and submit to an examination under oath, if required.

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

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

- ✓ **A copy of any renewal, nonrenewal or cancellation notice sent to the named insured is required to be sent to the Mortgagee.**

- ✓ ***Duties of the Mortgagee:*** 1) file **proof of loss** within 60 days if the insured fails to do so; 2) ***pay any premium not paid by the insured***; and 3) notify the insurance company of an increase in hazards (or if the risk has changed substantially).

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

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

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

Common Cancellation Reasons (Cause):

1. ***concealment or misrepresentation of a material fact***
2. ***if the risk has changed substantially since the policy was issued***
3. if the building is vacant or unoccupied for more than 60 consecutive days
4. if repairs to the dwelling have not been in a progression of completion 60 days after receipt of funds from the insurer
5. not furnishing heat, electricity, water, or sewer, for 30 consecutive days

Cancellation Premium Refunds:

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

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

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

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

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

Common Property Endorsements

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

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

 This endorsement provides coverage on a **risks of direct physical loss** basis. (a.k.a. open perils). Picks up **mysterious disappearance** losses.

 The SPP is **not** subject to any deductible.

 Establishes the value of the property **before the loss**. *Keep in mind the value is determined at the time of the loss.* The company will indemnify the insured for the lesser of **the amount for which the insured could be expected to repair or replace the property with a substantially identical item, but never more than the stated amount of insurance.**

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

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

- 3) **Earthquake Coverage** may be endorsed with the Basic, Broad and Special forms and covers damage caused by earthquake. ***The deductible is usually 10%. The 10 % is of the amount of coverage.*** So a home insured for \$200,000 would have an earthquake deductible of \$20,000.

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

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

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

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

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

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

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

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

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

Homeowners Section II – Liability (Third Party) Coverage

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

-  The insurer will also defend the insured, with counsel of the insurance company's choice, against any suit or claim. The company may also investigate, negotiate or settle any suit (a.k.a. **settlement clause**).
-  The insurer will not be obligated to pay any claim or judgment or defend any suit if the limit of liability has already been exhausted.
-  **Coverage "E" has a standard limit of \$100,000** per occurrence. This amount may be increased by endorsement.

Bodily Injury means bodily harm, sickness or disease, including required care, loss of services, (i.e., **wages, daycare, landscaping, housekeeping**, etc.) and death that results.

- ☒ It **does not** mean a disease which is transmitted through sexual contact, nor does it include the actual, alleged or threatened sexual molestation of a person, nor does it include physical or mental abuse.

⊗ **Personal Injury is not included** under most ISO Homeowners' policies. The **Personal Injury Endorsement** amends the policy to include false arrest, malicious prosecution, libel (in writing), slander (verbal), defamation of character, invasion of privacy, and wrongful eviction or entry.

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

Persons Insured includes the named insured and all residents of the same household who are relatives of the named insured, and anyone who is under 21 and in the care of any person insured. It also includes any loss caused by animals or watercraft owned by or in the care of the insured, except for any business uses.

Watercraft means an inboard or inboard-outboard motor-powered boat owned by or rented to the insured that has 50 horsepower or less; sailing vessels of 25 feet or less; and any boat powered by an outboard motor of 25 HP or less.

Coverage "F" - Medical Payments to Others (Third Party), will pay the medical expenses that **are incurred within three years from the date of an accident** that has caused bodily injury, **regardless of the insured's fault**. Medical expenses include charges for medical, surgical, x-ray, dental, ambulance, hospital, and funeral services.

- No Fault means: **the insured DOES NOT have to be at fault for the third party's injury for this coverage to pay a benefit.**

Coverage "F" **does not cover the insured**. Coverage applies to any person on the insured premises with the permission of an insured, and to any person off the insured premises if the bodily injury is caused by:

- ✓ Conditions on walk-ways adjoining the premise
- ✓ The activities of an insured
- ✓ A residence employee in the course of employment by an insured
- ✓ An animal owned by or in the care of an insured

Medical (Coverage "F") has a **standard limit of \$1,000 per person, per accident**.

Section II - Standard Liability EXCLUSIONS:

- ⊗ Liability or injury or damage which is expected or intended by an insured.
- ⊗ BI or PD arising out of business pursuits or failure to render professional services.
- ⊗ BI or PD arising out of the rental of any part of the premises.
- ⊗ Liability arising out of ownership, maintenance, use of aircraft or motor vehicles.

***Exceptions** are made for the following **non-registered vehicles**, which are

covered: vehicles in dead storage on the insured premises, **vehicles used exclusively for assisting the handicapped or which are used to service the insured premises**, a recreational motor vehicle owned or operated by the insured while **on the insured premises**, and **a golf cart while being used for golf.**

- ∅ Property Damage to property owned by, used by, or in the care of the insured.
- ∅ BI which is covered under Worker's Compensation.
- ∅ Bodily Injury for boats which do not meet the definition of a "watercraft." **Watercraft** means an inboard or inboard-outboard motor-powered boat owned by or rented to the insured that has 50 horsepower or less; sailing vessels of 25 feet or less; and any boat powered by an outboard motor of 25 HP or less.
- ∅ Medical payments to residence employees or boarders of the insured premises.
- ∅ Liability arising out of the use, sale, making, delivery, transfer or possession of a controlled substance (does not apply to the legitimate use of prescription drugs).

Additional Coverage is included in the policy and requires no additional premium be paid:

- **Claims Expenses** such as defense expenses and taxes, premiums for bonds required in a suit the insurer defends, pre-judgment or post-judgment interest on the amount of the judgment the insurer is obligated to pay, and reasonable expenses incurred by an insured at the company's request, including loss of earnings.
- **First Aid Expenses** reimburses the insured for expenses the insured incurs for giving first aid to others at the time of an accident. ***Remember that in Commercial Property Coverage, first aid is paid under Medical (Coverage "C").***
- **Loss Assessment** ***pays up to \$1,000*** of the insured's share of any loss assessment charged against the insured by a corporation or association of property owners, when the assessment is made as a result of an occurrence to which Section II applies.

Section II - Liability Conditions:

- **Limit of Liability** means the insurance company will not be obligated to pay any more than the limit set in the declarations page for **any one occurrence** for Coverage "E", regardless of the number of claims. The limit for Coverage "F" (Medical) will pay **per person**, but up to the limit on the declarations page.
- **Severability of Insurance** means each person insured is treated as if each has separate coverage under the policy. However, the limit of liability stated in the policy is not cumulative, regardless of how many claims or suits are brought.

- **"Your " Duties After a Loss:** promptly *give the insurer written notice*; promptly forward every notice, demand, or other process relating to the accident or occurrence; assist the insurer at their request; and *submit a sworn statement under oath if required by the insurer*. The insured will not voluntarily make payment, assume obligations or incur expenses, other than to extend first aid to others. *Notify the police if a law has been broken*.
- **Medical Payments Made to Others** is not an admission of liability.
- **Suit Against "Us"** is allowed only if the insured has met all of the policy provisions. There is a one year limitation to file the suit.