

PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

CLASS NOTES

Chapter 12 Other Property and Liability Insurance

- ISO Dwelling Program
 - Mobile Home Insurance
 - Inland Marine Floaters
 - Watercraft Insurance
 - Government Property Insurance Programs
 - Title Insurance
 - Personal Umbrella Policy
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- Homeowners insurance forms, drafted by the Insurance Services Office (ISO) are widely used in the US
 - They are designed for the owner-occupants of family dwellings
 - A policy can be used to cover the dwelling, other structures, personal property, additional living expenses, personal liability claims, and medical payments to others
 - Six forms are available
 - HO-2 (broad form): covers the dwelling, other structures, and personal property on a named perils basis
 - HO-3 (special form): covers the dwelling and other structures on a risk-of-direct-physical loss basis.
 - All direct physical losses are covered except those losses specifically excluded.
 - Personal property is covered on a named perils basis
 - HO-4 (contents broad form): covers a tenant's personal property on a named perils basis
 - HO-5 (comprehensive form): provides open perils coverage ("all-risks coverage") on the dwelling, other structures and personal property.
 - All direct physical losses are covered except those losses specifically excluded
 - HO-6 (unit owners form): covers personal property on a named perils basis.
 - A minimum of \$5,000 of insurance is also provided on the condominium unit that covers improvements and additions
 - HO-8 (modified coverage form): designed for older homes.
 - Dwelling and other structures are based on the amount required to repair or replace using common construction materials and methods

Analysis of the Homeowner Policy

- The following persons are considered "insureds" under the policy:
 - Named insured and spouse
 - Resident relatives
 - Other persons under age 21

- Full-time student away from home

Inland Marine Floaters

- An inland marine floater provides broad coverage on property frequently moved from one location to another and on property used in transportation and communications
 - Coverage can be tailored to the specific type of personal property to be insured

Example: Personal property such as jewelry , coins, or stamps can be insured under a personal articles floater.

- Desired amounts of insurance can be selected.

Homeowners policy has several limits on personal property

Example: \$200 limit on money and coins, a \$1500 limit on stamp collections, and a \$2500 limit for the theft of silverware or goldware.

- Broader coverage can be obtained

Example: A personal articles floater insures against risks of direct physical loss to covered property(all direct physical losses except losses specifically excluded).

- Most floaters cover insured property anywhere in the world
- Inland marine floaters are often written without a deductible

Watercraft Insurance

- A boatowners package policy combines physical damage insurance on the boat, medical expense insurance, liability insurance, and other coverages into one policy
 - Physical damage is covered on an “open perils” basis
 - The insured is covered for property damage and bodily injury liability arising out of negligent use of the boat
 - The policy also includes medical expense coverage and may include uninsured boaters coverage
- Yacht insurance is designed for larger boats
 - Policies are not standard, but have many common features
 - Hull coverage insures the yacht and its equipment for property damage on an “all risks” or “open perils” basis
 - The policy includes liability coverage, medical expense coverage, and uninsured boaters coverage

Government Property Insurance Programs

- Some government insurance programs are necessary because certain perils are difficult to insure privately
 - Coverage may not be available or may not be affordable

National Flood Insurance Program

- Federal law requires individuals to purchase flood insurance if they have federal guaranteed financing to build, buy, refinance, or repair structures located in special hazard flood areas

- Buildings and their contents can be covered by flood insurance if the community agrees to adopt and enforce sound flood control and land use measures
- A flood hazard boundary map shows the general areas of flood losses
- Residents can purchase limited amounts of insurance at subsidized rates under the emergency portion of the program

Title Insurance

- Consumer advocates argue that the title insurance market has several major defects, including:
 - Homeowners do not shop around for title insurance
 - Home buyers are over-charged for title insurance
 - The title insurance market is flawed by reverse competition
 - Kickbacks to real estate agents, lenders, and builders are widespread

Personal Umbrella Policy

- The personal umbrella policy provides protection against a catastrophic lawsuit or judgment
- Certain minimum amounts of liability insurance must be carried on the underlying contracts
- Coverage is broad and includes protection against certain losses not covered by the underlying contracts
- A self-insured retention must be satisfied for losses covered by the umbrella policy but not by any underlying contract
- Insurers can use a standard Personal Umbrella Policy developed by the ISO
 - The policy pays for damages in excess of the retained limit for bodily injury, property damage, or personal injury for which the insured is legally liable
 - The policy covers some additional expenses including legal defense costs
 - Exclusions include liability for expected or intentional injury, certain personal injury losses, business liability, and professional services

End of chapter.