

PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

CLASS NOTES

Chapter 8 Homeowners insurance, Section I

Topics

- Homeowners Insurance Basics
- Analysis of Homeowners 3 Policy

Homeowners Insurance Basics

- 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

Exhibit 1 Comparison of ISO Homeowners Coverages

<i>HO-5 (comprehensive form)</i>	<i>HO-6 (unit-owners form)</i>	<i>HO-8 (modified coverage form)</i>
<i>Section I Coverages</i>		
Minimum varies by company. 10% of A 50% of A 30% of A	\$5000 minimum. Included in Coverage A Minimum amount varies. 50% of C	Minimum varies by company. 10% of A 50% of A 10% of A
Dwelling and other structures are covered against risk of direct physical loss to property. All direct physical losses are covered except those losses specifically excluded. Personal property is covered against risk of direct physical loss to property. All direct physical losses are covered except those losses specifically excluded.	Same perils as HO-2 for personal property.	Fire or lightning Windstorm or hail Explosion Riot or civil commotion Aircraft Vehicles Smoke Vandalism or malicious mischief Theft (applies only to loss on the residence premises up to a maximum of \$1000) Volcanic eruption
<i>Section II Coverages^a</i>		
\$100,000	\$100,000	\$100,000
\$1000 per person	\$1000 per person	\$1000 per person

^a Minimum amounts can be increased.

- 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
 - Section II coverage also includes:

- Any person legally responsible for covered animals or watercraft
 - With respect to a motor vehicle covered by the policy (e.g., a riding mower), persons employed by the named insured
- Coverage A covers the dwelling on the residence premises and any structure attached to the dwelling
 - Materials intended for construction are included
 - The coverage specifically excludes land
- Coverage B insures other structures on the residence premises
 - Includes a detached garage, tool shed, etc
 - Structures that are rented out or used for a business are excluded
 - The amount of coverage is based on the amount of insurance on the dwelling (Coverage A)
- Coverage C insures personal property owned or used by an insured
 - Personal property is covered anywhere in the world
 - The amount of coverage is 50% of the insurance on the dwelling, which can be increased if desired
 - Personal property is covered both on and off the premises
 - Coverage for personal property at another residence, such as a vacation home, is limited to 10% of Coverage C or \$1000, whichever is greater
 - Certain types of personal property have maximum dollar limits on the amount paid for any loss
- The dwelling and other structures are insured against risk of direct physical losses
 - All direct physical losses are covered unless specifically excluded
- Personal property is insured on a named-perils basis
 - A direct physical loss is covered if it is caused by one of the perils listed in the policy
 - Named perils include fire, windstorm or hail, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism, theft, etc.
 - The peril must be the proximate cause of the loss
- The policy excludes:
 - Concurrent causation losses
 - If a single loss is caused by two or more perils that occur concurrently or in any sequence, and one peril is covered under the policy and the other peril is excluded, the entire loss is excluded
 - Any loss due to an ordinance or law, except as described in the Additional Coverages
 - Property damage from earth movement
 - Property damage from certain water losses
 - Losses due to power failure
 - Losses due to neglect
 - Property damage due to war or nuclear hazard
 - Any intentional loss
- The insurer's liability for a loss is limited to the insured's insurable interest at the time of loss
- The insured must perform certain duties after a loss occurs:

- Give prompt notice to insurer
- Protect the property from further damage
- Prepare an inventory of damaged personal property
- Exhibit damaged personal property
- File a proof of loss with 60 days after the insurer's request
- Losses to personal property are paid on the basis of actual cash value
 - If the insured purchases a replacement cost endorsement, there is no deduction for depreciation
- After giving notice to the insured, the insurer has the right to repair or replace any part of damaged property with like property
- Losses to the dwelling and other structures are paid on the basis of replacement cost with no deduction for depreciation
 - If the dwelling is insured for at least 80% of replacement cost at the time of loss, partial losses are paid in full
 - Replacement cost is the amount necessary to repair or replace the dwelling with material of like kind and quality at current prices
 - If the dwelling is insured for less than 80% of the replacement cost, the insured receives the larger of
 - the actual cash value of that part of the building damaged
- If other insurance covers a Section I loss, the insurer will only pay the proportion of the loss that its limit of liability bears to the total amount of insurance covering the loss
 - For example, the HO policy is excess over any amount payable under a home warranty or service agreement
- The insurer is generally required to make a loss payment directly to the named insured
- The mortgage clause is designed to protect the mortgagee's insurable interest
 - If the mortgagee is named in the policy, the mortgagee is entitled to receive a loss payment from the insurer to the extent of its interest, regardless of any policy violation by the insured
- Concealment or misrepresentation of any material facts, fraudulent conduct, and false statement relating to the insurance will void insurance coverage
- Some conditions apply to both Section I and Section II coverages. These include:
 - A liberalization clause to address issues with broadening coverage
 - A waiver or change of policy provisions
 - Must be in writing
 - Terms and conditions for cancellation
 - Terms for nonrenewal of the policy
 - Assignment of the policy to another party
 - Insurer must give written consent
 - A subrogation clause to address recoveries from third parties
 - Extension of policy terms to a legal representative upon the death of the named insured or spouse

-End of Chapter 8-