



Protecting Your Property

Chapter 10

Learning Goals

LG1

Discuss the importance and basic principles of property insurance, including types of exposure, indemnity, and co-insurance.

LG2

Identify the types of coverage provided by homeowner's insurance.

LG3

Select the right homeowner's insurance policy for your needs.

LG4

Analyze the coverage in a personal automobile policy (PAP) and choose the most cost-effective policy.

LG5

Describe other types of property and liability insurance.

LG6

Choose a property and liability insurance agent and company, and settle claims.



How Will This Affect Me?

The chapter explains the key property insurance concepts of indemnity, subrogation, and co-insurance. It then describes the common sources of property and liability risk exposures and the insurance coverage available to address them. **The main characteristics of homeowner's and auto insurance are covered, as well as how to choose the version of each policy type that's best for you.** Supplemental insurance to protect against floods and earthquakes and personal liability umbrella policies are also described. Especially practical tips can be found in the discussions of how to choose an insurance agent and how to settle property and liability insurance claims. When you finish this chapter, you should understand the best and most cost-effective ways to use insurance to protect your property and associated liability exposures.



Financial Facts or Fantasies?

- Homeowners insurance provides protection not only on the home itself but also most of its contents.
- If you rent an apartment, you don't need to worry about property insurance since your furniture and other personal belongings are already covered by the landlord's insurance policy.
- Uninsured motorists coverage is available as part of most automobile insurance policies.
- The type of car you drive is a personal matter that has no bearing on how much you will have to pay for automobile insurance.
- You must generally obtain an umbrella personal liability policy if you want liability coverage of \$1 million or more.
- Filing a property or liability claim is quick and easy to do. Just call your agent, provide a few basic details, and look for your check in a few days.



Basic Principles of Property Insurance

- **Property insurance**--Insurance coverage that protects real and personal property from catastrophic losses caused by a variety of perils, such as fire, theft, vandalism, and windstorms
- **Liability insurance** offers protection against the financial consequences that may arise from the insured's responsibility for property loss or personal injuries to others.
- **Key Principles:** Types of exposure, Indemnity, and Co-insurance

Types of Exposure

- Property loss – Economic loss due to property that is damaged, destroyed or stolen
- Two obligations on property owners:
- Develop a complete **inventory of property** — See Exhibit 10.1
- **Identify the perils** (cause of loss) against which insurance is desired. Some perils are uninsurable, e.g. flood, earthquake, backing up of sewers and drains, mudslides, mysterious disappearance, war, nuclear radiation, and ordinary wear and tear.



Liability Exposures

- Loss exposures result from **negligence**, which is failing to act in a reasonable manner or take necessary steps to protect others from harm.
- *Liability insurance* coverage will protect you against losses resulting from these risks, *including the high legal fees.*
- Liability may be covered through your **homeowner's, automobile, or separate umbrella policy.**



Principle of Indemnity

- ▶ An insurance principle stating that an insured may not be compensated by the insurance company in an amount exceeding the insured's economic loss. **You cannot profit from a insured loss**
- ▶ Related concepts are:
 - ▶ Actual cash value
 - ▶ Subrogation
 - ▶ Other insurance



Actual Cash Value v Replacement Cost

- Actual Cash Value – Replacement cost **minus** the value of physical depreciation which is estimated as percent of useful life
- Some policies pay full replacement cost, with no reduction for use by owner

Subrogation

- After an insurance company pays a claim, its **right of subrogation** allows it to request reimbursement from either the person who caused the loss or that person's insurance company.
- You, the person incurring the loss, may collect from the insurance or the at-fault party or their insurance, but not both. If you collected from both, you would violate the *principle of indemnity*



Other Insurance

- Nearly all property and liability insurance contracts have an *other-insurance clause*, prohibiting insured persons from insuring their property with two or more insurance companies and collecting from multiple companies for the same loss.

Co-insurance

- **Co-insurance**, a provision commonly found in property insurance contracts, requires policyholders to buy insurance in an amount equal to a specified percentage of the replacement value of their property, or else the *policyholder* is required to pay for a proportional share of the loss.
- For example, to be fully covered, you may be required to purchase insurance equal to 80% of the replacement cost of the property.

Homeowner's Insurance

- Homeowners may choose from five different forms (1,2,3,5,& 8). The form specifies the perils covered, property, liability, and other provisions of the policy. The forms are listed in Exhibit 10.2
- HO-1 is basic Form
- HO-2 is Broad Form
- HO-3 is Special Form
- HO-5 is Comprehensive Form, the most common
- HO-8 is modified coverage form of HO-1
- HO-4 is for renters
- HO-6 is for Condominiums



Perils Covered

➤ Section I Perils

- Comprehensive covers all perils except those specifically excluded, like floods and earthquakes.
- Named perils policy will only cover the perils listed in the policy.

➤ Section II Perils

- Covers the negligence of the person
- Exclusions include libel, slander, defamation of character, and contractual or intentional wrongdoing.



Factors Affecting Home Insurance Costs

- ▶ Type of Structure
- ▶ Credit Score – affect premiums more than any other
- ▶ Location of Home
- ▶ Other factors specific to homeowner

Property Covered

- Section I specifies coverage for dwelling unit, accompanying structure (garage) and personal property of owner and family.
- Common exclusions are business inventory, animals, motorized vehicles such as autos, motorcycles, golf carts or snowmobiles.
- Some business such as computers, printers, and office furniture may be covered up to \$2,500.
- **Personal Property Floater** - An insurance endorsement or policy providing either blanket or scheduled coverage of expensive personal property not adequately covered in a standard homeowner's policy.



Renter's Insurance

- Renter's property is not covered by homeowners policy for the building.
- Form HO-4 is designed for renters
- Surveys show that most renters do not purchase insurance which cost about \$250 per year for \$15,000 of property.



What is Covered?

Three types of property-related losses:

- Direct loss of property
- Indirect loss occurring due to loss of damaged property
- Additional expenses resulting from direct and indirect losses

Limitations on Payment

- Replacement cost is normally paid for dwelling unit
- **Replacement cost** is the amount necessary to repair, rebuild, or replace an asset at today's prices.
- Full replacement-cost basis will be paid only if homeowner keeps their homes insured for at least 80 percent of the amount that it would cost to build them today.
- **Personal property** in house is typically covered for the *actual cash value*, replacement cost less depreciation

Policy Deductibles and Limits

- **Deductibles**, amount deducted from loss before payment is made, help eliminate small losses and reduces premiums. High deductibles such as \$1,000, will reduce premium
- **Limits** are specified for certain categories of items
- Money is limited to \$200
- Deeds and passport limited to \$1,000
- Jewelry is limited to \$1,000
- Personal liability is limited to \$100,000
- Higher limits may be purchased



Types of Automobile Insurance Coverage

- ▶ Part A – Liability coverage
- ▶ Part B – Medical payments coverage
- ▶ Part C – Uninsured motorists coverage
- ▶ Part D – Coverage for damage to your vehicle



Part A: Liability Coverage

- Required in most states
- Pays bodily injury and property damages to others when you are responsible for the loss
- Covers costs of settling or defending claims for damages



Part A: Policy Limits

- Insurance company may limit total damages paid for any one accident
- Typical limits are \$50,000, \$100,000, \$300,000 and \$500,000
- Some insurers split the limits of liability coverage available

Part A: Who and What Insured

Insured Person:

- The named insured
- Family members
- Any person using covered auto
- Any person or organization responsible for insured's actions

Covered Auto

- Listed on declaration page
- Acquired during policy period
- Any vehicle temporary used while auto is being repaired



Part B: Medical Payments

- Reimbursement for medical expenses resulting from an accident
- Covers insured, family members, and passengers in covered autos
- Covers injuries sustained as a pedestrian or while riding a bicycle

Part C: Uninsured Motorists

- Pays when other driver has no insurance or if hit-and-run
- Usually pays for bodily injuries, not property damage
- Additional coverage available to protect against **underinsured** motorists

Must meet criteria:

- Another driver at fault
- Other motorist uninsured or underinsured
- Damages were incurred



Part D: Coverage for Physical Damage to a Vehicle

Collision:

- Pays the actual cash value of the damage minus deductibles
- Pays no matter who is at fault
- Required for financed cars to protect the investment



Part D: Coverage for Physical Damage to a Vehicle

Comprehensive

- Protects against loss to insured auto caused by perils other than collision:
- hail
- fire
- theft
- falling objects – the neighbors tree falls on your car



No-Fault Automobile Insurance

- Reimburses parties involved in an accident without regard to negligence
- Each party compensated by their own insurance company
- Restricts remedies and payments for pain and suffering
- State laws vary regarding amount of no-fault benefits and restrictions for legal actions



Factors Affecting Premiums

- Rating territory
- Use of the automobile
- Drivers' personal characteristics
- Type of automobile
- Driving record



Financial Responsibility Laws

- Require motorists to buy a minimum amount of auto liability insurance
- Compulsory auto insurance laws require proof of insurance when acquiring license plates
- Others require proof of coverage after an accident



Supplemental Property Insurance Coverage

- ▶ Earthquake & flood - not included in standard homeowner's policies
- ▶ Not covered includes other forms of transportation - mobile homes, RVs, boats, etc.
- ▶ **Personal liability umbrella** - additional liability coverage for homeowner and auto insurance

Settling Property and Liability Claims

After an accident be sure to get:

- Names, addresses, phone numbers of drivers and passengers
- Driver's license, auto license, insurance policy numbers
- Vehicle description for all involved
- Get names, addresses, phone number of **witnesses**
- Contact police and insurance agent
- Do NOT leave the scene of the accident



Property and Liability Insurance Agents

Two Types of Agents:

- Captive agent - Represents one insurance company
- Independent agent - Represents multiple insurance companies

Before selecting

- Review total property and liability exposures
- Inventory property and identify exposures
- Determine appropriate covered perils, limits, deductibles, and floater policies



Steps in Claim Settlement

- Notice to insurance company
- Investigation
- Proof of loss
- **Claims adjuster will:**
 - Evaluate claim
 - Recommend
 - Settlement of amount requested
 - Settlement of a lesser amount
 - Denial of claim