

Chapter 3

Dwelling Insurance

Chapter Objectives

The student should be able to differentiate between the three different dwelling forms as to coverage. An understanding of the definition of the perils is also very important. In most cases the definition of the perils will be the same for the dwelling policy, homeowner policy, as well as commercial property coverage.

Features of the dwelling coverage as to the dwelling, other structures, personal property, loss of use, rental value are also very important to review. The exclusions section is worth reviewing because the exclusions are very basic and apply to most property policies.

Introduction to Dwelling Insurance

Dwelling insurance was previously, in most states, written using the 1943 New York 165-line standard form. This form provided protection against direct loss from fire, lightning, internal explosion and property removal that covers property that is endangered by the perils insured against. To this form were attached the dwelling forms as well as forms used to cover commercial property risks. Today the dwelling forms, for the most part, are stand alone forms that incorporate many of the provisions of the 1943 New York Standard Fire Form. They are designed for individually-owned structures which are occupied as residences.

Dwelling insurance policies should not be confused with Homeowner policies. They are two different products. Dwelling insurance does not require the risk to be owner occupied. Nor do the dwelling policies automatically contain the peril of theft or personal liability coverages. These coverages can be added by endorsement.

The Homeowner policy requires that at least one of the family units must be occupied by the named insured. The Homeowner policy automatically covers theft and personal liability coverages, without endorsements.

The Dwelling policy is usually used to cover risks that may not qualify for the Homeowner policy. This could consist of rental property, older homes, hunting cabins in rural areas etc. With property insurance the student needs to remember the three cause of loss form concepts. These are basic, broad and special. Each form includes additional perils and a slightly

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higher premium is charged for the broadened coverage. In dwelling insurance the basic form is the DP-1, the broad form is the DP-2 and the special form is the DP-3. Note that the DP-1 and the DP-2 are named peril forms. The DP-3 provides open peril coverage (unnamed) for the dwelling and other structures and the broad form perils for contents. You will see these perils discussed in this section.

2002
Form

Policy Changes:

The Dwelling Property forms underwent a major revision in 2002. Some states are now testing on the 2002 Dwelling Property forms while others are still testing on the 1998 forms. **PLEASE REVIEW YOUR STATE EXAM OUTLINE TO DETERMINE THE FORM ON WHICH YOU WILL BE TESTED.**

The majority of the information contained in this section pertains to both the 1998 and the 2002 forms. However, the differences in the two forms are pointed out throughout this section with the symbol shown above. Where you see the 2002 form symbol, you will note that the information applies **ONLY** to the 2002 form.

I. Eligibility, Forms and Perils Under the Dwelling Property Program

Eligibility

Eligibility for residential/incidental businesses under the Dwelling Property Program:

- Single family homes;
- 1 - 4 family houses;
- Duplexes, triplexes;
- Maximum 5 roomers or boarders;
- Dwellings under construction;
- Permanently installed mobile homes (usually the DP-1 only);
- Only incidental business risks (eligibility varies by insurer)

NOTE: Farm dwellings or other farm property **are not** eligible for the dwelling program. There are specific forms for farm and ranch exposures discussed later in this course.

Dwelling Property Forms

- Basic (DP-1) a named peril form.
- Broad (DP-2) a named peril form.
- Special (DP-3) a combination of open perils (building) and broad form perils for contents coverage.

DP-1, DP-2 and DP-3 represent an abbreviated number system. The three forms in question are actually numbered: DP 00 01, DP 00 02 and DP 00 03 but are abbreviated for simplicity. For the most part, all DP forms cover the same types of property and contain the same General Exclusions and Conditions. The perils insured against, however, vary significantly from form to form. The following charts are an easy way to remember the perils provided by the Dwelling forms.

Dwelling Property Perils At-A-Glance:

DP-1 (Basic) (Dwelling, Other Structures & Personal Property)	OPTIONAL FOR DP-1 ONLY	DP-2 (Broad) (Dwelling, Other Structures & Personal Property)	DP-3 (SPECIAL)
Fire	Extended Coverage (EC) Perils (listed below)	Automatically includes all of the DP-1 perils, the EC perils and VMM	Open Perils (Dwelling & Other Structures)
Lightning	Vandalism & Malicious Mischief (VMM) an endorsement	Plus the Broad Perils (listed below)	Provides broad form perils for personal property
Internal Explosion			

The Extended Coverage (EC) perils can be easily remembered with the words “WC Shavver”. The Broad Form perils can be easily remembered with the words “BIG AFFECT”. The EC perils and vandalism are available on all DP forms. The broad perils are only available on the DP-2 and DP-3 forms.

EC Perils and Broad Perils At-A-Glance:

EC Perils	Broad Perils
W – Windstorm	B – Burglary Damage
C – Civil Commotion	I – Ice and Snow Weight
	G – Glass Breakage
S – Smoke	
H – Hail	A – Accidental Discharge or overflow of water or steam
A – Aircraft	F – Falling Objects
V – Vehicles	F – Freezing of Pipes
V – Volcanic Eruption	E – Electrical Damage
E – Explosion	C – Collapse
R – Riot	T – Tearing Apart, Cracking, Burning or Bulging

Vandalism & Malicious Mischief Optional Coverage – DP I

Vandalism and malicious mischief covers loss caused by intentional (not accidental) and malicious damage to insured property. A dwelling under construction is not considered vacant. “Vacant” means no contents and no regular occupants. Vandalism or malicious mischief does not include loss by pilferage, theft, burglary or larceny. This is optional coverage under the DP-I and is automatically included in the other dwelling forms.

2002
Form

Policy Changes:

The 1998 Dwelling policy eliminated coverage for Vandalism or Malicious Mischief if the dwelling has been vacant for more than 30 consecutive days before the loss. The 2002 form increases this number to 60 days.

II. Dwelling Property Forms – Perils Insured Against

DP policies have a simple format: Coverages, Perils Insured Against, General Exclusions and Conditions. The Coverages, General Exclusions and Conditions will be reviewed later in this section.

I. The DP-I Basic Form

The DP-I Basic form provides coverage for direct physical loss caused by:

1. **Fire** – a rapid oxidation, accompanied by a flame, spark, or glow. It must also be sudden and unexpected, not a long-term, predictable process such as scorching.
 - a. A fire must be **hostile - not friendly**. A friendly fire is one that is contained in the place intended for it.
 - b. A hostile fire is one that has spread beyond its intended place.
 - c. Only direct damage caused by hostile fire (including smoke from a hostile fire) is covered by the fire peril.
2. **Lightning** - is electricity atmospherically produced by nature. It is not an artificial electrical current.
3. **Internal Explosion** - an explosion that occurs in a covered building or in a building containing covered personal property. Typical losses covered would include the explosion of a furnace, stove, or hot water heater. The following explosions are specifically excluded under DP-1:
 - a. Bursting of water pipes;
 - b. Electrical arcing;
 - c. Explosions of steam boilers or steam pipes owned, leased or operated by the named insured;
 - d. Rupture or bursting of pressure relief devices.

NOTE: The DP-1 allows an insured to add the Extended Coverage perils and the Vandalism or Malicious Mischief perils to the policy simply by making an indication on the declarations page. These perils, covered in greater detail in the review of the DP-2, are:

- Windstorm or Hail
- Explosion
- Riot or Civil Commotion
- Aircraft
- Vehicles
- Smoke
- Volcanic Eruption

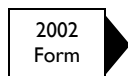
2. The DP-2 Broad Form

A. The Broad Form DP-2 provides coverage for direct physical loss caused by:

1. **Fire**
2. **Lightning**

B. DP-2 automatically includes the following Extended Coverage (EC) perils **and V&MM**:

1. **Riot** - usually refers to the assemblage of three or more people that results in the use of force or violence against individuals or property.
2. **Civil Commotion** - will cover damage to insured property caused by an uprising or disturbance of a large number of people.
3. **Explosion** – this peril does not exclude steam boilers or steam pipes as the Basic Form does and is slightly broader than "internal" explosion, because the explosion does not have to occur in the dwelling or structure.
4. **Vehicles** - only excludes damage to fences, driveways and walks when caused by a vehicle owned or operated by an insured or resident, and does not exclude such damage when caused by a nonresident. Damage caused by objects thrown by vehicles (such as stones) is covered.
5. **Smoke** - covers sudden and accidental damage to covered property except smoke from:
 - a. Agricultural smudging;
 - b. Industrial operation.



Policy Changes:

With the 2002 form, the smoke peril has been modified to cover damage caused by puffback, the release of soot, smoke, vapor or fumes from a furnace, boiler or similar equipment

6. **Aircraft** - covers damage to insured property from contact with an aircraft, including contact with objects falling from the aircraft.
7. **Hail** - covers damage caused by the direct action of hail to insured property. There must be damage to the outside of the insured dwelling allowing hail to enter the premises in order for interior hail damage to be covered.

8. **Windstorm** - including high winds, cyclones, tornadoes and hurricanes. Interior damage covered only if wind or hail first makes an opening to the structure. Certain property is excluded from windstorm coverage if located outside of the dwelling:

- a. Awnings
- b. Signs
- c. Antennas
- d. Rowboats
- e. Canoes

Note: If wind knocks out power and food in the freezer is lost, the claim is covered as wind is the proximate cause. (This is sometimes called a consequential loss.)

9. **Volcanic Eruption** - Other than loss caused by earthquakes, land shock waves or tremors. Covers damage caused by the eruption of a volcano, including the ensuing lava flow and airborne particles. One or more volcanic eruptions that occur within a 72-hour period will be considered as one eruption. The following is not covered under this peril:

- Earthquake; (separate coverage must be purchased)
- Land shock waves; or
- Land tremors.

C. The DP-2 Broad Form also provides coverage for the following nine perils:

1. **Burglary Damage** - provides protection for property damaged by burglars.
2. **Weight of Ice, Snow or Sleet** - covers damage to the insured building and/or contents due to the weight of ice, snow or sleet excluding loss to the following property:

- | | |
|-------------------|--------------------|
| a. Awnings | g. Retaining walls |
| b. Fences | h. Bulkheads |
| c. Patios | i. Wharfs |
| d. Pavements | j. Docks |
| e. Swimming pools | k. Piers |
| f. Foundations | |

3. **Glass breakage** - In the policy, glass breakage, is listed as an Other Coverage not a Broad Form peril. However, it is best described in this section. Glass breakage provides coverage for all building glass, including windows and doors, damaged by a covered peril as long as the insured premises has not been vacant for 60 or more consecutive days before a loss (2002 form).

1998
Form

1998 Form:

The 1998 DP-2 and DP-3 (and prior forms) eliminated this coverage if the dwelling has been vacant for more than 30 consecutive days before the loss. The 2002 form increases this number to 60 days.

4. **Accidental Discharge** - provides coverage for loss caused by accidental discharge of water or steam from a plumbing, heating or air-conditioning system, from a fire protective sprinkler system or from within a household appliance including the cost of tearing out and replacing the building necessary to repair the damaged system (does not include sump; sump pump; or related equipment). This peril does not provide coverage for the following:
- a. Loss to a building caused by constant or repeated seepage over a period of time;
 - b. No coverage if the dwelling has been vacant for more than 60 consecutive days immediately before the loss;

1998
Form

1998 Form:

The 1998 DP-2 and DP-3 (and prior forms) eliminated the accidental discharge coverage if the dwelling has been vacant for more than 30 consecutive days before the loss.

- c. No coverage to the damaged system from which the water escaped;
- d. Caused by or resulting from freezing except as covered under the peril of freezing;
- e. On the described location caused by the accidental discharge or overflow which occurs off the described premises.

2002
Form

Policy Changes:

The accidental discharge or overflow of water or steam peril was modified under the 2002 forms to state that the insurer will pay to tear out and replace any part of a building or other structure on the premises when necessary to repair the system or

appliance from which the water or steam escaped. However, tear out and replacement for another structure is covered only if the water or steam causes actual damage to a building on the premises. Roof drains, gutters, downspouts, and similar fixtures or equipment are not considered plumbing systems or household appliances.

5. **Falling Objects** - provides coverage for the exterior premises (damage to the inside of a building is not covered unless there is damage to the outside first). Excludes coverage for the following:
- a. Outdoor radio and television antennas and aerials including their lead-in wiring, masts and towers, outdoor equipment, awnings and fences;
 - b. Damage to the falling object itself.
6. **Freezing** - provides coverage for freezing of plumbing, heating or air conditioning systems, automatic fire protective sprinkler system or of a household appliance. If property is vacant or unoccupied, and insured has used reasonable care to be sure:
- a. Heat has been maintained in the building; or
 - b. The water supply has been shut off and the system drained.

2002
Form

Policy Changes:

Under the 2002 form, several changes were made to the freezing peril. For coverage to apply, the insured is now required to use reasonable care to maintain heat in the building or shut off the water supply and drain all systems and appliances. (For automatic fire protective sprinkler systems, the insured must continue the water supply.) In the earlier forms, this requirement only applied to buildings that were vacant, unoccupied or under construction.

7. **Electrical Damage** (artificially generated electrical current) – provides sudden and accidental damage from artificially generated electrical current, but will not cover:
- a. Tubes;
 - b. Transistors;
 - c. Similar electrical components.

2002
Form

Policy Changes:

Under the 2002 form, the sudden and accidental damage from artificially generated current peril was expanded to apply to electronic components or circuitry that are part of appliances, fixtures, computers, home entertainment units, or other types of electronic apparatus.

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8. **Collapse** – like the "glass breakage" peril, "collapse" is not shown as a peril but is listed as an "Other Coverage" in the policy. "Collapse" covers physical loss to covered property involving **abrupt falling down or caving in** of a building or any part of it caused by:
- a. Perils insured against in the policy;
 - b. Hidden decay;
 - c. Hidden vermin or insect damage;
 - d. Weight of contents (equipment, animals or people);
 - e. Weight of rain collected on a roof;
 - f. Use of defective materials/methods when the collapse occurs during construction or remodeling. **Collapse does not include:**
 - a. Settling;
 - b. Cracking;
 - c. Shrinking;
 - d. Bulging;
 - e. Expansion of a building.

The following items are excluded under the "collapse" coverage:

- a. Awnings and fences;
 - b. Patios and swimming pools;
 - c. Underground pipes, flues, drains, cesspools and septic tanks;
 - d. Foundations, retaining walls and docks.
9. **Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging** - provides coverage for sudden and accidental tearing apart, cracking, burning, or bulging of steam or hot water heating systems, air conditioning systems, automatic fire protective sprinkler systems, or appliances for heating water.

3. The Special DP-3 Form

The last Dwelling form is the Special DP-3, which provides:

- 1. Open perils coverage on the real property (dwelling or other structures).
- 2. Named Perils coverage on the personal property contents. The covered perils are the **same** as those provided on the DP-2 form, that is, fire, lightning, the EC perils, vandalism, and the Broad Perils.

Open perils means the form will cover all property direct losses except the **exclusions** listed below:

- 1. Losses excluded by the General exclusions.

2. Gradual and expected losses such as:
 - a. Wear and tear, marring, deterioration, rust, mold, rot and contamination;
 - b. Inherent vice (a characteristic of a given piece of property that causes it to depreciate, spoil, break, disintegrate, etc.) and latent defect;
 - c. Smoke from agricultural smudging or industrial operations;
 - d. Smog;
 - e. Mechanical breakdown.
3. Settling, cracking, shrinking, bulging or expansion of pavements, patios, foundations, walls, floors, roofs or ceilings;
4. Loss caused by birds, vermin, rodents, insects or domestic animals;
5. Wind, hail, ice, snow or sleet damage to antennas, lawns, plants, shrubs and trees;
6. Freezing, thawing or damage caused by the weight of ice, snow or sleet to awnings, fences, pavements, patios, swimming pools, foundations, retaining walls, bulkheads, piers, wharfs and docks;

2002
Form

Policy Changes:

Under the 2002 DP-3 form, the exclusion for freezing, thawing, pressure, or weight of water or ice now applies to footings and other structures or devices that support all or part of a building or other structure. It also applies to retaining walls and bulkheads that do not support all or part of a building or other structure.

7. Theft of property not actually part of the insured dwelling nor to a dwelling under construction;
8. Vandalism and malicious mischief, burglary damage and glass breakage if the dwelling has been vacant for more than 60 consecutive days (30 days in older forms);
9. Any loss involving collapse, other than as provided under "other coverages";
10. Discharge, dispersal, seepage, migration release or escape of pollutants, meaning any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste.

Note: Remember the DP-3 (Special Form) provides "named perils" coverage on the personal property. Therefore, the same exclusions that apply to DP-2 will also apply to the DP-3 personal property.

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