

Chapter 4

Homeowners Insurance

Chapter Objectives

- Know the eligibility rules
- Understand the purpose of the different forms, i.e. HO-2, HO-3, HO-4, HO-5, HO-6 and HO-8.
- Know the perils and additional coverages
- Understanding the percentages that apply to other structures, contents coverage and loss of use.
- Understanding what is covered under each section of the policy
- Understanding the types of property that are subject to limitation
- Focus on property not covered
- Understanding the purpose and coverages applicable to personal liability
- Know who is covered under medical payments coverage
- Understand optional endorsements available under the program

Introduction to Homeowners Insurance

Homeowner policies are multi-line policies, which means they combine property and casualty coverage in the same policy. A multi-line policy offers numerous advantages to insureds. It packages several coverages related to a specific type of exposure, and it reduces the number of policies one has to purchase. Homeowners insurance is sold as a personal package policy designed to cover a broad range of exposures related to owning or renting a part of a home. The Homeowners Program provides the same property coverages that are available under the Dwelling Property Program but also includes theft insurance and personal liability coverage under one contract.

Package policies offer a single contract with a single expiration date and common policy conditions that provide more comprehensive protection than could be obtained by purchasing a number of contracts from different agents and/or insurers.

I. Eligibility

Homeowner policies may only be issued to cover premises which are principally used for private residential purposes such as the following:

1. Owner-occupants of residential dwellings which do not contain more than 4 families nor more than two boarders or roomers per family under the (HO-2, HO-3, HO-5, HO-8).
2. Tenants in non-owned buildings used primarily for residential purposes (HO-4);
3. Owner-occupants of condominiums are eligible for coverage for their interest in the condominium as well as contents (HO-6);
4. Dwellings under construction;
5. Dwellings purchased under installment contracts when purchaser is occupant of the dwelling.
6. An occupant of a dwelling under a life estate;
7. Seasonal dwellings when the insured is covered under a Homeowner Policy for their primary dwelling.
8. Mobile homes are eligible with the attachment of the mobile home endorsement.
9. The dwelling must be used exclusively as a residence, except for certain incidental occupancies such as offices, professional or private schools or studios.

Note: Except for farm liability, **farm property is not eligible** under any of the homeowner forms. A separate farm insurance program will be discussed later in this course.

II. Definitions

The homeowner policy contains several definitions. The following are very important to remember:

I. "Insured" means:

a. You and residents of your household who are:

- Your relatives; or
- Other persons under the age of 21 and in the care of any person named above.

- b. A student enrolled in school full time, as defined by the school, who was a resident of your household before moving out to attend school, provided the student is under the age of:
- 24 and your relative; or
 - 21 and in your care or the care of a person described in a. above.
- c. Under Section II (personal liability):
- With respect to animals or watercraft to which this policy applies, any person or organization legally responsible for these animals or watercraft which are owned by you or any person included in a. or b. above. “Insured” does not mean a person or organization using or having custody of these animals or watercraft in the course of any “business” or without consent of the owner; or
 - With respect to a “motor vehicle” to which this policy applies:
 - Persons while engaged in your employ or that of any person included in a. or b. above; or
 - Other persons using the vehicle on an “insured location” with your consent.
2. “Insured Location” means:
- a. The “residence premises”.
 - b. The part of other premises, other structures and grounds used by the insured as a residence; and
 - (1) Which is shown in the Declarations; or
 - (2) Which is acquired by the insured during the policy period for the insured’s use as a residence;
 - c. Any premises used by the insured in connection with the premises described in **a.** and **b.** above.
 - d. Any part of a premises:
 - (1) Not owned by an “insured”; and
 - (2) Where an “insured” is temporarily residing;
 - e. Vacant land, other than farm land, owned by or rented to an “insured”;
 - f. Land owned by or rented to an “insured” on which a one, two, three or four family dwelling is being built as a residence for an “insured”.
 - g. Individual or family cemetery plots or burial vaults of an “insured”; or
 - h. Any part of a premise occasionally rented to an “insured” for other than “business” use.

Under both Sections I and II, when the word “an” immediately precedes the word “insured”, the words together mean one or more insureds.

III. The Homeowners Forms

I. Introduction

Just as there are several Dwelling forms to provide increasing levels of coverage or to meet specific needs. There are six Homeowners forms to vary the extent of coverage. The HO-1 basic form has been withdrawn in most states.

- HO-2 (Broad Form);
- HO-3 (Special Form);
- HO-4 (Contents Broad Form also known as "Tenants Form");
- HO-5 (Deluxe Form-open peril coverage for buildings and contents;
- HO-6 (Condominium Unit-Owners Form);
- HO-8 (Modified Coverage Form).

Each of the listed Homeowners forms is divided into two sections:

- Section I – Property
- Section II – Liability

Section II is identical on all of the Homeowners forms. The differences in the forms are in the covered perils listed in Section I of the policy.

2. The Perils of the Different Homeowner Forms at a Glance

Perils Covered	HO-2	HO-3		HO-4	HO-5		HO-6	HO-8
		Dwelling	Personal Property		Dwelling	Personal Property		
Fire	X	Open Peril	X	X	Open Peril	Open Peril	X	X
Lightning	X		X	X			X	X
Windstorm or Hail	X		X	X			X	X
Explosion	X		X	X			X	X
Riot or Civil Commotion	X		X	X			X	X
Aircraft	X		X	X			X	X
Vehicles	X		X	X			X	X
Smoke	X		X	X			X	X
Vandalism & Malicious Mischief	X		X	X			X	X
Theft	X		X	X			X	X
Volcanic Eruption	X		X	X			X	X
Falling Objects	X		X	X			X	
Weight of Ice, Snow, or Sleet	X		X	X			X	
Discharge of Water or Steam	X		X	X			X	
Sudden, Accidental Rupture	X		X	X			X	
Freezing of Plumbing and Related Systems	X		X	X			X	
Artificially Generated Electrical Current	X		X	X			X	

Collapse peril: This is covered under the additional coverages a separate peril. It is found in the HO-2, HO-3, HO-4, HO-5 and the HO-6. The peril is not included in the HO-8 which is the most limited Homeowner form. The collapse must be as a result of an abrupt falling down or caving in of the structure or a part of the structure.

Broad Form Peril Form – HO-2

The broad form HO-2: Form is a named peril form. All the perils that form the property insuring agreement are named. As you can see by reviewing the chart above the perils are:

- Fire
- Lightning
- Windstorm or hail (interior damage from windstorm or hail is only covered if the wind or hail first makes an opening in the building. Watercraft, outboard motors and related equipment are covered for these perils only while inside fully enclosed buildings).
- Explosion (both inside or outside the covered property)
- Riot and civil commotion
- Aircraft damage
- Vehicle damage (except damage to fences, driveways and walks when caused by a vehicle owned or operated by a member of the household).
- Smoke (except smoke from agricultural smudging or industrial operations). Also covers puffback - the release of soot, smoke vapor, or fumes from a furnace, boiler or similar equipment.
- Vandalism or malicious mischief (unless the premises has been vacant for 60 or more consecutive days)
- Theft: The theft peril under the HO-2, HO-3, HO-4 and HO-6 includes attempted theft and property that is no longer located at a given place when its disappearance is likely caused by its theft. The HO-5 is somewhat broader in that certain specified items are covered for theft, misplacing or losing specific items. This broader coverage applies to the personal property that has specific limits such as jewelry, furs, precious and semiprecious stones, firearms, silverware goldware and other specifically listed property. The following theft losses are not covered under any of the HO forms:
 - Any committed by an “insured”
 - Theft that occurs to or in a dwelling that is under construction
 - One that involves materials and supplies used for the construction of a dwelling before the structure is completed and occupied (as a residence)
 - Any that occurs in a part of a “residence premises” which an “insured” rents out to someone other than another insured
 - Theft of watercraft of all types and their furnishings, equipment and outboard engines or motors occurring off the premises is also not covered.EXCEPTION: The HO-5 form does not have this off premises theft limitation for watercraft but the limit of coverage is specified in “special limits” of liability for certain types of personal property.

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- Volcanic eruption - Excludes earthquake damage, land shock waves or tremors
 - Falling objects that damages the covered property. (a tree falls on the house) (damage to contents is also covered if the falling object makes an opening in the roof or outside wall)
 - Weight of ice and snow or sleet that damages the covered property. (does not cover damage to an awning, fence, patio, pavement, swimming pool, foundations, retaining walls, piers or docks)
 - Accidental discharge of water or steam from a heating, air conditioning or plumbing system. (A water pipe bursts or a water pump on a dishwasher suddenly leaks)
 - Sudden and accidental tearing apart, cracking, burning or bulging of a steam or hot water heating system, air conditioning system, sprinkler system or an appliance for heating water.
 - Freezing of plumbing, heating, air conditioning systems, household appliances or sprinkler systems provided the insured maintains heat in the building or shuts off the water and drains all systems of water.
 - Sudden and accidental damage from artificially generated electrical current. Does not cover damage to tubes, transistors, electronic components or circuitry. Note: Lightning would cover these items.
 - Collapse - An abrupt falling down or caving in of the structure or a part of the structure caused by:
 - 1. The perils insured against;
 - 2. Hidden decay;
 - 3. Hidden insect or vermin damage;
 - 4. Weight of contents, equipment, animals or people;
 - 5. Weight of rain which collects on a roof; or
 - 6. Use of defective material or methods in construction or remodeling or renovation if the collapse occurs during the course of the construction or renovation.

Special Form – HO-3

This form is a combination of the broad perils discussed above and the “open peril” approach. All of the structures are covered on an “open peril” basis. This means that if a cause of loss is not excluded, then coverage would apply. The burden of proof is up to the insurance company to prove that the loss is excluded. Contents coverage applies on a broad peril basis.

Comprehensive Form - HO-5

This is the broadest homeowner form. It provides “open peril” coverage on both buildings and their contents.

Contents Broad Form – HO-4

This form is designed to cover the contents of a tenant living in a non-owned structure. This could be an apartment or a dwelling. Since the tenant does not own the structure the form does not provide coverage except for the improvements and betterments that the tenant may have made to the structure at his or her expense. This form provides the named “broad perils”.

Unit-Owners Broad Form – HO-6

This form is designed for the condominium owner. It covers the structural portion of the condo owned by the insured as well as his or her contents plus any improvements and betterments. Like the HO-4 form, property is covered by the “broad perils”.

Modified Coverage Form – HO-8

This form is the most limited HO form. It provides very basic peril coverage (refer to the chart) and was designed to cover dwellings in which the “replacement cost” value is much greater than “market value.” Coverage for both buildings and contents are considered on an actual cash value basis only.

3. General Exclusions

- War
- Nuclear Hazard
- Earth Movement
- Neglect
- Ordinance or law
- Flood
- Off-premises power shortages
- Intentional Acts

4. Additional Coverages of the HO Forms at a Glance

Additional Coverage	HO-2	HO-3	HO-4	HO-5	HO-6	HO-8
Debris Removal	X	X	X	X	X	X
Reasonable Repairs	X	X	X	X	X	X
Trees, Shrubs and Other Plants	X	X	X	X	X	X
Fire Department Service Charge	X	X	X	X	X	X
Property Removed	X	X	X	X	X	X
Credit Card, Fund Transfer Card, Forgery, and Counterfeit Money	X	X	X	X	X	X
Loss Assessment	X	X	X	X	X	X
Glass or Safety Glazing Material	X	X	X	X	X	X
Collapse	X	X	X	X	X	
Landlord's Furnishings	X	X	X	X		
Building Additions and Alterations			X		X	
Ordinance or Law	X	X	X	X	X	
Grave markers	X	X	X	X	X	

Additional Coverages

- Debris removal - When a covered loss occurs (like a fire) the policy also covers the removal of the debris. This cost is included in the limits of coverage and is not an additional amount of insurance. This coverage also provides up to \$1,000 to remove a fallen tree from the residence premises caused by the peril of windstorm or hail or weight of ice, snow or sleet. The \$1,000 limit is the most that will be paid regardless of the number of fallen trees. No more than \$500 will be paid on any one tree. It also provides removal coverage to a neighbor's tree felled by a peril insured against under coverage C. Coverage applies whether a covered structure is damaged or not. If the structure is not damaged then coverage only applies if the tree blocks a driveway, on the residence premises preventing entry or exit from the residence premises. Coverage also applies if a ramp or other fixture designed to assist a handicapped person to enter or leave the dwelling building is blocked by a tree. If the amount to be paid for the direct damage plus the debris removal expense is more than the limit of liability for the damaged property, an additional 5% of that limit is available for such expense.
- Reasonable repairs - When the structure is damaged by an insured peril the policy provides coverage within the limits to pay for temporary repairs until permanent repairs can be made. For example: The wind blows off a portion of a roof. The policy pays to install a temporary cover to protect the dwelling from additional damage.

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- Trees, shrubs and other plants including lawns are covered for limited (specified perils) including fire or lightning; explosion; riot or civil commotion; aircraft; vehicles not owned or operated by a resident in the dwelling; vandalism or malicious mischief; or theft. They are covered for up to 5% of the dwelling limit and subject to a maximum limit of \$500 for any one tree, shrub or plant. This is additional insurance and is in addition to the limits of the policy.
 - Fire department service charge is \$500. This is also additional insurance and the deductible does not apply to this coverage.
 - Property removed - When the insured is removing property from the premises when endangered by a peril insured against, coverage applies to any direct loss from **any** cause for no more than 30 days while removed.
 - Credit card, electronic fund transfer card or access device, forgery and counterfeit money (US or Canadian) for a limit of \$500.
 - Loss assessment - Pays up to \$1,000 when the insured is assessed by a corporation or property owner's association for damage to property owned collectively if damaged by a peril insured against under the insured's policy.
 - Glass or safety glazing material - Covers loss of doors and windows of the dwelling as a result of breakage of glass or safety glazing material.
 - Collapse - like the "glass breakage" peril, "collapse" is not shown as a peril but is listed as an "Additional 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:

- Settling;
- Cracking;
- Shrinking;
- Bulging;
- Expansion of a building.

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

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- Awnings and fences;
 - Patios and swimming pools;
 - Underground pipes, flues, drains, cesspools and septic tanks;
 - Foundations, retaining walls and docks.
- Landlord's furnishings - Provides up to \$2,500 for landlords furnishings. This additional coverage excludes theft of these items.
 - Building additions and alterations - Covered under the HO-4 and the HO-6 only.
 - Ordinance or law - Provides up to 10% of Coverage A, dwelling for increased costs the insured incurs due to the enforcement of any ordinance or law which requires or regulates the construction, demolition, remodeling or repair of the covered building damaged by a peril insured against.
 - Grave markers - Pays up to \$5,000 for grave markers including mausoleums on or away from the residence premises by a peril insured against.

5. Limits of Section I – Property Coverage

Section I of the Homeowner policy provides four major property coverages. You will note that three of the coverages are based on a percentage of the dwelling limit. These will also vary by the number of residential units in the dwelling structure. If these percentages provide inadequate limits, some can be increased by endorsement and the payment of an additional premium.

- Coverage A - Dwelling – Full replacement cost as long as the insured carries 80% to value. The insured selects a limit for Coverage A. The minimum amount is subject to each individual company's underwriting rules.
- Coverage B - Other Structures – 10% of Coverage A for one or two family dwellings and 5% of Coverage A for three or four family dwellings.
- Coverage C - Personal Property – 50% of Coverage A for one or two family dwellings, 30% for three family and 25% for a four family dwelling.
- Coverage D - Loss of Use – 30% of Coverage A on HO-2, HO-3 and HO-5; 30% of Coverage C on HO-4; 50% of Coverage C HO-6; 10% of Coverage A on HO-8.
- Coverage B, C and D **stack** on top of and are paid in addition to the Coverage A limit.

IV. Section I – Property Coverage in Detail

Coverage A – Dwelling

Similar to the Dwelling Property Forms, Coverage A (Dwelling) covers:

1. The dwelling described on the Declarations page of the policy;
2. Structures attached to this dwelling;
3. Materials and supplies located on or next to the “residence premises” used to construct, alter or repair the dwelling or other structure on the “residence premises.” Note: This coverage does not apply to land or to the HO-4, which is designed for contents.
4. Coverage A (Dwelling) under the HO-06 Condominium Unit Form covers:
 - a. The alterations, appliances, fixtures and improvements that are a part of the building contained within the residence premises;
 - b. Property that is the insured's responsibility under a corporation or association of property owner's agreement;
 - c. Structures owned solely by the insured, other than the residence premises, at the location of the residence premises.

Coverage B – Other Structures

Also similar to the Dwelling Property Form, Coverage B covers:

1. Structures located on the insured premises that are separated from the dwelling by a clear space or connected only by a fence, utility line or similar connection (detached garages, sheds, etc.) No coverage for structures used for business or for buildings rented to non-tenants unless used as a private garage.
2. Coverage B, a percentage of coverage A, depending on the number of dwelling units and is an additional amount of insurance.
3. Under HO-6, owned garages or storage buildings are covered for a stated amount, if coverage is needed.
4. Under HO-8, Coverage B cannot be increased by endorsement.
5. Coverage will be denied if the other structure is used in whole or in part for any business purpose except a detached structure used to **store** business property of a non flammable, non gaseous nature.

Coverage C – Personal Property

There is broader coverage for personal property under the Homeowners Program than under the Dwelling Property Program as shown below:

1. Full limit of Coverage C applies to personal property anywhere in the world. **Covers personal property owned or used by the insured.** *Example: If the insured borrows a neighbor's lawnmower and it is destroyed by fire while being used by the insured, coverage would apply under the personal property coverage for the named insured.*
2. Under the HO-2, HO-3, HO-5, and HO-8, a percentage of Coverage A applies to Coverage C depending on the number of units as an additional amount of insurance. Under the HO-4 and HO-6 the insured establishes an amount of coverage based on the actual contents.
3. If the named insured requests, the following personal property can be covered under the insured's Coverage C amount:
 - a. Personal Property of others while it is located at the insured's premises;
 - b. Personal Property of a guest or residence employee at a residence occupied by the insured.
4. For personal property kept at an insured's residence other than the residence premises shown on the Declarations page, coverage is the larger of \$1,000 or 10% of Coverage C.
5. When the insured moves to a newly purchased primary residence, contents is pro rata between the locations for 30 days in case of a loss.
6. Personal property at self storage facilities is limited to 10% or \$1,000 whichever is greater of the personal property limit in the most recent homeowner forms.

Types of Property Excluded

The following personal property is excluded under Coverage C:

- a. Animals, birds and fish.
- b. Automobiles and other motorized vehicles (except motorized vehicles pertaining to the service of the premises or for use of the handicapped, such as a wheelchair).
- c. Electronic apparatus (including accessories, antennas or tapes, wires, records, discs or other media for use with any electronic apparatus) designed to be used with a motorized vehicle's electrical system and in or upon the vehicle. *Note: Under special limits of liability a limit of \$1,500 is provided when such items are in or upon the vehicle.*
- d. Aircraft and parts (hobby aircraft is covered).
- e. Property of roomers/boarders not related to the insured.

- f. Property located in an apartment regularly rented by an insured other than the insured premises.
- g. Property rented or held for rental to others off the "residence premises".
- h. Business data, including data stored in:
 - Books of account, drawings or other paper records;
 - Electronic data processing tapes, wires, records, discs or other software media. The cost of blank recording or storage media and of prerecorded computer programs available on the retail market is covered.
- i. Credit cards or fund transfer cards **except** as provided in "Additional Coverages".
- j. Property scheduled elsewhere. Note: If a piece of jewelry is separately insured under a personal articles floater, coverage is completely taken out of the homeowner policy.
- k. Loss of water or steam.

Special Limits of Liability

Coverage C provides **"Special Limits of Liability"** on some property listed below. Note that some property is only limited for loss caused by the peril of theft. If those items are destroyed by another peril covered under the policy, they would be covered for their full value.

- \$200 - money, bank notes, bullion, gold and silver, etc.
- \$1,500 - securities, accounts, deeds, evidences of debt, letters of credit
- \$1,500 - watercraft, including their trailers, furnishings and equipment
- \$1,500 – for trailers and semi-trailers not used with watercraft
- \$1,500 - theft of jewelry, watches, furs, precious and semiprecious stones
- \$2,500 - theft of firearms
- \$2,500 - theft of pewterware, goldware and silverware
- \$2,500 - property, on the residence premises used at any time or in any manner for any business purpose
- \$1,500 - for property away from the residence premises used for business purposes. The older forms have a lower limit.
- \$1,500 on electronic apparatus and accessories, while in or upon a "motor vehicle" but only if the apparatus is equipped to be operated by power from the "motor vehicle's" electrical system while still capable of being operated by other power sources.
- \$1,500 on electronic apparatus and accessories used primarily for "business" while away from the "residence premises" and not in or upon a "motor vehicle". The apparatus must be equipped to be operated by power from the "motor vehicle's" electrical system while still being capable of being operated by other power sources.

Coverage D – Loss of Use

This coverage is the same as the Dwelling Property programs "additional living expense" and "fair rental value". The two items have been combined under one name (Loss of Use) in the Homeowners Program and provides coverage for "indirect losses" such as rent, food, and laundry, which result from a covered property loss. Additional living expenses are those expenses over and above the normal living expenses of the insured. The percentage for coverage will vary with the homeowner form being used. Example: Under the HO-2, HO-3, HO-5, the coverage is 30% of Coverage A. Under the HO-4, the percentage is 30% of the contents limit which is Coverage C.

Deductible – Section I

A deductible will apply on all Section I property losses. The standard deductible is \$500 which can be reduced for an additional premium or increased for a premium reduction. The deductible is per occurrence not per piece of damaged property.

Property Conditions – Section I

- | | |
|---------------------------------|--|
| ➤ Insurable interest | ➤ Suit against insurer |
| ➤ Insured's duties after a loss | ➤ Repair or replace option; right of salvage |
| ➤ Loss settlement | ➤ Loss payment |
| ➤ Loss to a pair or set | ➤ Abandonment |
| ➤ Glass Replacement | ➤ Mortgagee Clause |
| ➤ Appraisal | ➤ No benefit to bailee |
| ➤ Other insurance | ➤ Intentional acts |

The following is a discussion of the first three conditions:

1. Insurable Interest – If more than one person has an insurable interest in the property covered, the insurer will not pay more than that person's insurable interest or more than the limit of liability.
2. Insured's Duties after Loss:
 - Give prompt notice
 - Notify the police in case of loss by theft
 - Notify credit card or electronic fund transfer companies in case of loss as provided by this coverage
 - Protect property from further damage, make reasonable repairs to protect the property and keep records of expenditures
 - Cooperate in the investigation of the claim
 - Prepare an inventory of damaged personal property including all necessary details
 - Show the damaged property and provide information requested by the insurer

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- Send to the insurer within 60 days after the insurer's request a completed proof of loss which sets forth the details of the claim, the interest of all insured's and other insurance that may be in effect

3. Loss Settlement Provisions:

- Personal property (unless the replacement cost endorsement is attached), awnings, carpeting, household appliances, outdoor antennas and outdoor equipment whether or not attached to buildings, structures that are not buildings and grave markers including mausoleums, are settled on an **actual cash value basis**.
- Buildings and other structure claims are paid on a **replacement cost basis** if, at the time of loss, the amount of insurance in the policy on the damaged building is 80% or more of the full replacement cost of the building immediately before the loss. The insurer is not obligated to pay more than the following in case of loss:
 - (a) The limit of liability that applies to the damaged building
 - (b) The replacement cost of that part of the damaged building with like kind and quality
 - (c) The necessary amount actually spent to repair or replace the damaged building
 - (d) If the building is rebuilt at a new premises, the cost that would have been incurred if the building had been built at the original premises
 - (e) If the insured carries less than 80% replacement value of the covered buildings the insurer will pay either:
 - The actual cash value of the building damaged; or
 - The proportion of the cost to repair or replace that part of the building damaged, which the total amount of insurance on the building bears to 80% of the replacement cost of the building. Example: The replacement cost of a damaged building is \$100,000 on which an insured should carry at least \$80,000 to be in compliance with the 80% requirement. Instead, the insured carries \$70,000 or 70% of the replacement cost value. In case of a partial loss to the structure, the policy would pay 7/8ths of the loss. Remember the formula: the amount of insurance carried over the amount of insurance required times the loss. ($\$70,000/\$80,000 \times \text{the partial loss}$)

The insured may disregard the replacement cost loss settlement provisions and make a claim under the policy to buildings on an actual cash value basis. The insured may make a claim for the additional liability under the replacement cost loss provisions, provided the insurer is notified of their intent to do so **within 180 days** after the date of loss.

Note: The insured cannot collect any amount above the actual cash value of the damaged part **unless and until** actual repair or replacement is completed. The insured can submit a claim for actual cash value immediately and collect any additional amount available under the replacement cost coverage later, subject to a requirement that the additional claim be made within 180 days after the loss as noted above.

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V. Section II – Personal Liability

Introduction

Section II of the Homeowners policy includes Coverage E – Personal Liability which pays on behalf of the insured all sums he/she is legally obligated to pay others because of bodily injury and property damage to others, caused by an “occurrence.” The minimum limit is \$100,000 per occurrence.

Coverage E will also pay legal defense expenses for the insured, even if the claim against the insured is groundless, false or fraudulent. These expenses are without limitation and not out of the insured’s Coverage E limit of liability. The insurer may investigate and settle any claim or suit as it deems necessary, but the insurer’s duty to defend ends when the limit of liability has been exhausted.

Liability is third party coverage that takes care of medical bills, property damage, lost wages, pain and suffering, inconvenience, etc. that is incurred by a third party in an “occurrence” and caused by or is allegedly the fault of an insured and members of the insured’s household.

Occurrence – an accident, including repeated or continuous exposure to similar harmful conditions.

Bodily injury includes bodily harm, sickness, disease, and death.

Property damage means physical damage to tangible property including loss of use.

Coverage E – Personal Liability

Coverage E – Personal liability covers insureds for claims of others due to bodily injury or property damage caused by an occurrence arising from:

1. The premises shown in the Declarations section of the policy as well as any location the insured occasionally rents. For example, a community building that the insured rented to hold a party.
2. Personal activities such as sports, social, etc., anywhere in the world.
3. Acts of residence employees acting within the scope of their duties;
4. Vacant land;
5. Individual or family cemetery plots or burial vaults of any insured.

Covers both “on premises” and “off premises” activities.

Coverage F – Medical Payments to Others

Coverage F is “good will” coverage that pays the medical bills incurred by others in an accident, *regardless of the fault or liability of the insured*. The minimum limit is \$1,000 per person per occurrence. Coverage F will pay for the following as long as they are claimed within three

years of the date of the accident, and the loss occurs to a guest, other individuals (not any insured), or residence employees while they are working and are not covered by workers compensation coverage:

1. Medical and surgical care
2. X-rays
3. Dental services
4. Ambulance, hospital and professional services
5. Funeral services

Insureds and regular residents of the insured's household are not eligible for this coverage.

Section II – Liability – Exclusions (Set one of three sets of Liability Exclusions)

The following are exclusions applying to both Coverage E - Personal Liability and Coverage F - Medical Payments to Others:

1. Losses that are expected or intended;
2. Business pursuits of an insured;
3. Losses for the insured's failure to render professional services.
4. The ownership, maintenance, use, loading or unloading of motor vehicles. Liability coverage is provided, however, for the following:
 - A trailer not towed by or carried on a motorized land conveyance;
 - A motorized land conveyance designed for recreational use off public roads, not subject to motor vehicle registration which is:
 - (a) Not owned by an insured;
 - (b) Owned by an insured and on an insured location;
 - (c) A motorized golf cart when used to play golf on a golf course;
 - (d) A vehicle or conveyance not subject to motor vehicle registration which is:
 - Used to service an insured's residence;
 - Designed for assisting the handicapped;
 - In dead storage on an insured location.
5. The ownership, maintenance, use, loading or unloading of watercrafts listed below:
 - With inboard or inboard-outdrive motor power owned by an insured;
 - With inboard or inboard-outdrive motor power of more than 50 horsepower rented to an insured;
 - A sailing vessel, with or without auxiliary power, 26 feet or more in length owned by or rented by an insured;
 - Powered by one or more outboard motors with more than 25 total horsepower if the outboard motor is owned by the insured. Therefore an outboard motor

of 25 HP or less is covered. Outboard motors of more than 25 horsepower are covered for the policy period if:

- (a) The insured acquires them prior to the policy period and declares them at policy inception or reports to the insurer, in writing, within 45 days after insured acquires the outboard motors;
 - (b) The insured acquires them during the policy period. (This exclusion does not apply while the watercraft is stored.)
- 6. Ownership, maintenance, use, loading or unloading of an aircraft (doesn't include model or hobby aircraft not designed to carry people or cargo).
 - 7. War including accidental discharge of nuclear weapons;
 - 8. The transmission of a communicable disease by an insured;
 - 9. Sexual molestation, corporal punishment or physical or mental abuse;
 - 10. The use, sale, manufacture, delivery, transfer or possession by any person of a controlled substance.

Coverage E – Personal Liability – Exclusions (Set two of three sets of Liability Exclusions)

The following exclusions apply only to Coverage E (Personal Liability):

- 1. Property damage to property rented to, occupied by, used by or in the care, custody or control of an insured except the following property damage which is covered:
 - a. Fire
 - b. Smoke
 - c. Explosion
- 2. Bodily injury to people covered by workers' compensation or disability insurance;
- 3. Bodily injury or property damage to an insured.
- 4. Contractual liability except:
 - a. That which relates to ownership, maintenance or use of an insured location;
 - b. Where the liability of others has been assumed by the insured prior to an occurrence.

Coverage F – Exclusions (Set three of three sets of Liability Exclusions)

The following exclusions apply only to Coverage F (Medical Payments to Others):

- 1. To a residence employee not sustained in the course of employment or occurring off-premises.
- 2. To any person eligible to receive workers compensation or disability coverage.
- 3. From any nuclear reaction.
- 4. To anyone regularly residing on the insured premises.

Additional Coverages Under Section II - Liability

- I. Claims Expenses - includes the following:
 - a. The cost of investigating a claim;
 - b. Premiums for bonds required in a suit the company defends;
 - c. Reasonable expense incurred by the insured at the company's request, including loss of earnings, subject to a predetermined limit of \$250 per day;
 - d. Interest on judgment that accrues after the judgment.
2. First Aid - the company will pay for first aid expenses incurred by an insured for first aid to others (not an insured).
3. Damage To Property Of Others - the insurer will pay up to \$1,000 for accidental damage to property of others caused by the insured, excluding:
 - a. Property recoverable under Section I of the Homeowners Policy;
 - b. Caused intentionally by an insured who is 13 years or older;
 - c. Property owned by the insured;
 - d. Property owned by a tenant of the insured or a resident in the insured's household;
 - e. Business property unless otherwise provided for;
 - f. The ownership, maintenance or use of aircraft, watercraft or other motor vehicles (This exclusion does not pertain to the use of a golf cart at a golf course or motorized land conveyance designed for recreation off public roads not subject to motor vehicle registration and not owned by an insured.)
4. Loss Assessment - like Section I, Section II provides \$1,000 per occurrence for the insured's assessment as a member of a group of property owners when assessed because:
 - a. Bodily injury or property damage not excluded under Section II;
 - b. Liability for an act of a director, officer or trustee in the capacity as a director, officer or trustee, if:
 - The director, officer or trustee is elected by the members of a corporation or association of property owners.
 - The director, officer or trustee serves without deriving any income from the exercise of duties which are solely on behalf of a corporation or association of property owners.

There is no coverage for loss assessments charged by any governmental body.

VI. General Conditions of the Homeowner Policy (Applying to Sections I and II)

The following General Conditions apply jointly to Section I and Section II:

1. No coverage for insureds that intentionally conceal or misrepresent any material fact.
2. Waiver or change to the policy must be in writing. This is usually done by use of an endorsement.
3. Cancellation:
 - a. Insured may cancel at any time for any reason.
 - b. Insurance company may cancel for reasons listed in the Law Supplement text.
4. Non-renewal is when the insurer cancels on the anniversary of the policy by giving 30 days notice. Nonrenewal is also subject to state laws. See state law supplement.
5. When the insured cancels the policy, the unearned premium is returned to the insured on short-rate basis.
6. When the insurer cancels the policy, the unearned premium is returned on pro-rata basis.
7. If an insured dies during the policy period, the legal representatives of the deceased will be protected by the Homeowners Policy.
8. Assignment - A policyholder cannot give his policy to another person without written permission from the insurance company.
9. Liberalization - If the insurer makes a change which broadens coverage under the current edition of the policy without additional premium charge, that change will automatically apply to this insurance as of the date the insurer implements the change, provided this implementation date falls within 60 days prior to or during the policy period stated in the Declarations of the policy.
10. Subrogation - The insured may waive in writing **before** a loss all rights of recovery against any person. If not waived, the insurer may require an assignment of rights of recovery for a loss to the extent that payment is made by the insurer.

Section II – Conditions

- A. Limit of Liability - the company's limit of liability, Coverage E, for all damages resulting from any one "occurrence" will not be more than the Coverage E limit.
- B. Severability of Insurance - The insurance applies separately to each "insured". This condition will not increase our limit of liability for any one "occurrence". In other words

the liability limit applies per insured but the maximum that can be paid on behalf of all insureds for one covered claim cannot exceed the coverage E liability limit.

- C. Duties after an “occurrence” - This clause spells out the duties of the insured if there is a claim. Reporting of the claim in a timely fashion, cooperate with the insurer are some examples.
- D. Duties of an injured person - Coverage F – Medical Payments to Others - The injured person or someone acting for the injured person will:
 - Give the company written proof of claim
 - Authorize the company to obtain copies of medical records
 - The injured person will submit to a physical exam
- E. Payment of Claim - Coverage F – Medical payments to Others - Payment of claim is not an admission of liability by an insured or the insurer.
- F. Suit against the insurer:
 - No action can be brought against the insurer unless there has been full compliance with all of the terms under Section II.
 - No one will have the right to join the insurer as a party to any action against an “insured”.
 - Also, no action with respect to Coverage E can be brought against the insurer until the obligation of such “insured” has been determined by final judgment or agreement signed by the insurer.
- G. Bankruptcy of an “Insured” - Bankruptcy or insolvency of an “insured” will not relieve the insurer of their obligation under the policy.
- H. Other insurance - This insurance is excess over other valid and collectible insurance except insurance written specifically to cover as excess over the limits of liability that apply in this policy.
- I. Policy Period - The policy applies only to “bodily injury” or “property damage” which occurs during the policy period.
- J. Concealment or Fraud - The insurer does not provide coverage to an “insured” who, whether before or after a loss, has:
 - Intentionally concealed or misrepresented any material fact or circumstance
 - Engaged in fraudulent conduct, or
 - Made false statements relating to this insurance

VII. Homeowner Endorsements

A number of endorsements may be attached to homeowner policies to alter coverage or increase the policy limits or sublimits.

Earthquake Endorsement

Homeowner forms exclude loss caused by earthquake, but earthquake coverage may be added by endorsement. When earthquake coverage is purchased, an additional charge is made for the coverage. The type of construction of the dwelling is a significant factor in earthquake rates. Different rates apply to frame buildings (wood, or stucco-covered wood structures) and to those classified as masonry (brick, stone adobe or concrete block). For earthquake coverage, masonry rates are usually significantly higher than frame rates. For the typical property coverages (such as fire and EC), the reverse is true - masonry rates are lower than frame rates.

Inflation Guard Endorsement

This endorsement will automatically raise the limits for Coverages A, B, C and D at periodic intervals. This helps to keep the amount of insurance-to-value for the dwelling at a level adequate to guarantee replacement cost in the event of a loss.

Personal Property Replacement Cost

This endorsement provides that the policy will reimburse losses to personal property on a replacement cost basis, rather than actual cash value, in the same way that Homeowners forms reimburse loss to dwellings and other structures. Some property is excluded, such as obsolete articles, antiques, fine arts, and paintings that cannot be easily replaced.

Scheduled Personal Property Endorsement

Some property covered under the homeowner policy is covered on a limited basis. Broader coverage can be provided by either issuing a separate policy or by attaching the Scheduled Personal Property Endorsement.

The endorsement provides scheduled coverage for such things as jewelry, furs, cameras, musical instruments, silverware, golfer's equipment, fine arts, stamps, coins, and other articles. All articles must be described and an amount of insurance be shown on the form.

All other property is covered on an all risk basis, subject to limitations and exclusions. For example: If Fine Arts are covered the following apply:

- a. Repairing, restoration or retouching process is not covered.
- b. Breakage of art glass windows, glassware, statuary, marble, bric-a-brac, porcelains and similar fragile articles are covered for the following named perils:

1. Fire or lightning;
2. Explosion, aircraft or collision;
3. Windstorm, earthquake or flood;
4. Malicious damage or theft;
5. Derailment or overturn of a conveyance.

The policy does not insure loss, from any cause, to property on exhibition at fair grounds or premises of national or international expositions unless the premises are covered by this policy.

If Postage Stamps or Rare and Current Coins collections are covered, the following are excluded:

- a. Fading, creasing, denting, scratching, tearing or thinning;
- b. Transfer of colors, inherent defect, dampness, extremes of temperature, or depreciation;
- c. Being handled or worked on;
- d. The disappearance of individual stamps, coins or other articles unless the item is:
 1. Described and scheduled with a specific amount of insurance; or
 2. Mounted in a volume and the page it is attached to is also lost; or
- e. Shipping by mail other than registered mail.

Scheduled personal property is not subject to the policy deductible. Depending upon the type of property scheduled, recovery may be on the basis of ACV, market value, repair or replacement cost, or agreed value. (Note: Once coverage is provided by this endorsement or a separate policy, coverage for these items is no longer provided by the homeowner policy.)

The form also addresses newly acquired property: For jewelry, furs, cameras and musical instruments only the following applies:

- a. 25% of the amount of insurance for that class of property; or \$10,000
- b. When new property is acquired, you must report these objects to the company within **30 days** and pay an additional premium.

Newly acquired fine arts are covered as follows:

- a. The policy will not pay more than 25% of the amount of insurance for fine arts scheduled; and
- b. These objects must be reported to the company within **90 days** and pay an additional premium.

Ordinance or Law Endorsement

For an additional premium, an endorsement may be attached to a homeowner policy to cover the additional loss that may result from any ordinance or law regarding the construction, repair

or demolition of property. Ten percent of the Coverage A limit is already provided as additional ordinance or law coverage, and the endorsements may be used to purchase higher amounts of coverage.

Sinkhole Collapse Endorsement

For an additional premium, coverage for sinkhole collapse may be attached to the policy. Loss by "sinkhole collapse" means actual physical damage caused by sudden settlement or collapse of the earth supporting insured property resulting from underground voids created by the action of water on limestone or similar rock formations.

Condominium Endorsements

A number of endorsements are available to adjust coverage for condominium unit owners. Normally HO-6 provides broad form coverage for any building items and for personal property. An endorsement may be used to provide unit owners with special coverage for Coverage A, to the extent that building items (such as fixtures and improvements) are insured. Another endorsement may be used to provide unit owners with special coverage for Coverage C (personal property). An endorsement is also available to cover the personal property of unit owners while the residence is rented to others.

Sewer Backup Endorsement

For an additional premium, an endorsement may be attached to provide up to \$5,000 of coverage for losses caused by water which backs up through sewers or drains or which overflows from a sump pump, even when caused by mechanical breakdown of the pump. Normally these losses would be excluded. A special deductible of \$250 applies to this coverage.

Home Business Insurance Endorsement

This provides both business property and liability coverage for a variety of home businesses. The business must be owned by the named insured, or by a partnership, joint venture, or organization comprised solely of the named insured and resident relatives. Coverage is provided for business property, property of others in the insured's care because of the business, and business property leased by the insured so long as there is a contractual responsibility to insure it. There is coverage for accounts receivable and valuable papers and records.

Time element coverages include business income, extended business income, extra expense, and loss of business income because of the action of civil authority (subject to a 72-hour time deductible).

Liability coverage is on an aggregate basis, and includes coverage for premises operations, advertising injury, and personal injury. Coverage for the products/completed operations hazard is limited to the amount shown for coverage E; all other business liability is limited to twice the combined limits of coverages E and F.

The exclusion of liability arising out of or in connection with a "business" (2.a.) has been changed so that the exclusion does not apply to "your product" or "your work"—both defined terms. There is, however, no coverage for professional services, many of which are listed in the endorsement.

Identity Fraud Expense Coverage

Introduced in 2003, this endorsement (HO 04 55 03 03) provides reimbursement of expenses incurred as a result of identity theft or fraud. Covered expenses, up to the \$15,000 limit, include reasonable attorney fees to defend suits brought by merchants, financial institutions, or collection agencies, costs incurred to re-apply for any loans rejected solely because of incorrect credit information, lost income for time taken to meet with law enforcement officials or complete affidavits (maximum \$200 per day; \$5,000 total), and charges for long distance calls to report or discuss an actual identity fraud.

A deductible of \$250 applies. The insured must send receipts, bills, etc., documenting the claim to the insurer within sixty days of the insurer's requesting these.

Optional Liability Endorsements – Section II

Homeowner policies may be endorsed to extend the personal liability and medical payments coverages to include insurance for people, property, situations or activities which are not normally covered. Endorsements may be used to cover the ***interest of an additional insured***, or to cover the exposure related to an ***additional premises***.

An endorsement may also be used to insure the liability exposure arising from an ***additional residence rented to others***. For an additional premium, this endorsement provides personal liability and medical payments coverages for an additional location that is shown in the policy.

Although certain ***incidental occupancies*** are permitted, an endorsement must be used to specifically cover the liability exposure of office, professional, private school or studio use - it is the permitted incidental occupancies endorsement.

Another optional coverage is an endorsement that extends Coverages E and F to include the ***business pursuits*** of the named insured (other than a business owned or controlled by the insured), and such coverage for teachers may be written to include or exclude liability for the corporal punishment of students.

The ***home day care coverage endorsement*** may be added to insure the liability exposure arising out of a home day care business conducted by an insured on the residence premises.

However, this endorsement excludes coverage for bodily injury or property damage arising out of sexual molestation, corporal punishment, or physical or mental abuse inflicted by or at the direction of an insured or an insured's employee. It also excludes property damage arising out of the maintenance, use, loading or unloading of draft or saddle animals, vehicles for use with such animals, motor vehicles, aircraft or watercraft. It is the intent of the endorsement to cover the typical exposure of a day care business resulting from having children on the premises, but not to insure intentional acts of an insured or additional exposures arising from high-risk activities (such as riding horses) which are not essential to day care.

Liability for bodily injury and property damage arising out of the ownership, maintenance, or use of usually excluded **watercraft may be covered by endorsement**. The insurance applies to pleasure use, and not while being used to carry persons for a fee or while rented to others. **Workers compensation benefits** for injuries to a residence employee may be added to a homeowner policy by endorsement. Two coverages are provided - statutory workers compensation benefits, and employer's liability.

Personal injury coverage may also be added by endorsement. When attached, this form amends the definition of "bodily injury" to include "personal injury." Personal injury means injury arising out of false arrest, libel, slander, defamation of character, invasion of privacy, and other offenses that could result in a personal liability claim.

Mobile Homes

Mobile homes may be covered by the H0-2, H0-3 or HO-5 form when the mobile home endorsement MH 0401 is attached to the policy. Coverage is subject to all the applicable provisions of the Homeowners form except:

1. Definition of Residence Premises – Refers to the mobile home and other structures on land owned or leased by the insured. The mobile home must be designed for year-round living and not less than 10 feet in width and 40 feet in length. This is replaced on the Homeowners form by the definition of a mobile home. A structure used as a permanent dwelling usually connected to utilities and designed without permanent foundation.
2. Dwelling - Coverage A that applies to the mobile home on the residence premises shown in the Declarations. This includes structures and utility tanks attached to the mobile home and items installed on a permanent basis, including floor coverings, appliances, dressers and cabinets.
3. Other Structures - Which is Coverage B, provides 10% of Coverage A, or minimum of \$2,000 if less.
4. Property Removed - If the insured mobile home is endangered by an insured peril and removal of personal property is necessary to avoid damage, the policy will pay up to \$500 (can be increased for additional premium) for expenses to remove and return the covered property.

5. Section I - Conditions - If the 80% to value is carried, replacement cost applies to all property under Coverage A, which includes replacement cost for carpeting and household appliances, but, does not include:
- a. Awnings
 - b. Outdoor antennas and outdoor equipment whether or not attached to the buildings, which are settled on an ACV basis.

The "pair and set clause" is different in the mobile home policy and states "pair, set or panels". In case of a loss involving part of a series of pieces or panels, the policy will pay either the reasonable cost of repairing or replacing the damaged part to match the remainder as closely as possible or the reasonable cost of providing an acceptable decorative effect or utilization as circumstances may warrant.

The policy will not guarantee the availability of replacements nor will it be liable for the value, repair or replacement of the entire series of pieces or panels in the event of damage to or loss of a part.

6. Settlement Options - by paying an additional premium, the insured can purchase an endorsement MH 04 02 which give the insurer the option to settle covered property losses in the following ways:
- a. Pay the cost of repairing the damage.
 - b. Replace the damaged property with similar property, but not necessarily from the same manufacturer.
 - c. Pay the insured the lower of the difference between:
 - The actual cash value of the property before and after the loss.
 - Pay with cost of replacing the damaged property with similar property.
 - Pay the cost to repair the damaged property.

Mobile Home Transportation Coverage Endorsement

The "transportation/permission to move" endorsement (MH 04 03) gives coverage for the transportation perils of: (1) collision (but not with the transporting vehicle unless the vehicle itself is involved in an accident); (2) upset; and (3) stranding or sinking of the mobile home (while being transported on a licensed ferry). Coverage applies for 30 days anywhere in the continental United States or Canada. Stranding or sinking coverage includes coverage for "general average" charges or salvage charges for which the insured is responsible. "General average" is a term used in marine insurance and means charges levied against all parties whose cargo is being transported for the loss suffered by some property owners when their cargo is jettisoned to save the rest from destruction. These losses are shared because they are suffered for the benefit of all.

This endorsement specifies that none of the three perils it covers includes coverage for loss to tires unless such loss is part of a loss to other covered property by one of the covered perils. The insured selects a deductible applicable to this coverage, which is then indicated in the endorsement schedule.

Since section I, additional coverage 5 of the homeowners policy provides coverage for loss “from any cause” for 30 days when the mobile home is moved to protect it from loss by a peril insured against, endorsement MH 04 03 is only necessary when the mobile home is moved for some other reason.

Review Questions

1. All of the following are covered under Coverage A of a Homeowners Policy EXCEPT:
 - A. Attached garage.
 - B. Construction materials used in building an addition to the dwelling.
 - C. Detached garage.
 - D. A central air conditioning system.

2. The type of coverage on contents provided by the HO-3 is:
 - A. Open perils.
 - B. Named perils.
 - C. Basic form.
 - D. Comprehensive.

3. Under the Homeowners Program, theft coverage does not cover theft of property:
 - A. Committed by the insured.
 - B. From a dwelling under construction.
 - C. From the residence of the insured's tenant.
 - D. None of the above are covered.

4. An apartment dweller would be in the market for a:
 - A. HO-2
 - B. HO-3
 - C. HO-4
 - D. HO-6

5. The Personal Liability coverage for Mr. Jones' Homeowners policy would cover Jones if:
 - A. His dog bit his neighbor on the nose.
 - B. His 14-year-old son burned down his house.
 - C. He negligently bumped into his son while running to work.
 - D. All of the above.

6. Coverage F of the Homeowners Program applies to:
- A. The named insured.
 - B. Resident relatives.
 - C. Tenants of the insured.
 - D. Social invitees.
7. Coverage E of the Homeowners Program involves:
- A. Premises liability.
 - B. Personal activities.
 - C. Acts of residence employees.
 - D. All of the above.
8. Which of the following homeowner forms provides the least amount of perils coverage?
- A. HO-5
 - B. HO-3
 - C. HO-2
 - D. HO-8
9. Coverage D - Loss of Use provides which of the following percentages of Coverage A under the HO-2?
- A. 10
 - B. 30
 - C. 40
 - D. 50
10. Under Coverage C of the Homeowners Program, which of the following categories of property receive limited dollar coverage?
- A. Boats
 - B. Trailers
 - C. Furs
 - D. All of the above.

11. The Homeowners Program excludes which of the following types of personal property?
- A. The insured's dog.
 - B. The insured's motorbike.
 - C. Silverware scheduled under another policy.
 - D. All of the above.
12. Under the H0-3, what percentage of the amount of insurance written for Coverage A applies to Coverage C for a one or two family dwelling?
- A. 10
 - B. 25
 - C. 50
 - D. 100
13. Under Coverage B - Other Structures of the Homeowners Program, which of the following structures are not covered?
- A. Structures used for business purposes.
 - B. Structures rented to a non-tenant for other than a private garage.
 - C. Attached garages.
 - D. All of the above.
14. If the insurer cancels a Homeowners Policy, unearned premium is returned to the insured on what basis?
- A. Short rate.
 - B. Pro rata.
 - C. Discount.
 - D. Experience.
15. If the insured cancels a Homeowners Policy, unearned premium is returned to the insured on what basis?
- A. Short rate.
 - B. Pro rata.
 - C. Discount.
 - D. Experience.

16. All of the following are exclusions under the Homeowners Program EXCEPT:

- A. Intentional loss.
- B. Flood.
- C. Earth movement.
- D. Volcanic eruption.

17. A Homeowners Policy may be cancelled by the insured:

- A. For any reason.
- B. At any time.
- C. Both A and B.
- D. Neither A nor B.

18. Homeowners Medical Payments coverage does not apply to bodily injury to which of the following?

- A. The insured's seven-year old son who fell down the front stairs.
- B. An appliance repairman working on the insured premises.
- C. An insured boarder who trips in her apartment over a rug.
- D. All of the above.

19. Watercraft excluded from coverage under Section II of the Homeowners Program includes all of the following EXCEPT:

- A. Inboard owned by the insured.
- B. Outboard owned by the insured of 25 horsepower.
- C. 30-foot sailboat rented to the insured.
- D. Inboard-outboard of 80 HP owned by the insured.

20. Under the Damage to Property of Others coverage of the Homeowners Policy, Section II, property damage caused intentionally by an insured is excluded if the insured is:

- A. 13 years old.
- B. 18 years old.
- C. 21 years old.
- D. Any of the above.

21. Under Section II - Additional Coverages of the Homeowners Program, the insurer agrees to pay:
- A. The cost of a legal defense.
 - B. Premiums on bonds connected with liability suits.
 - C. Investigation cost.
 - D. All of the above.
22. A condominium owner-occupant would be in the market for a:
- A. H0-2.
 - B. H0-3.
 - C. H0-4.
 - D. H0-6.
23. A Homeowners Policy can be purchased by:
- A. A person buying a home under the installment plan.
 - B. An individual who owns a home under the course of construction.
 - C. The owner of a seasonal dwelling who is insured under a Homeowners Policy for her primary dwelling.
 - D. All of the above.
24. A homeowner has a fire that totally destroys a \$200 typewriter before the fire is extinguished. If the fire coverage on contents contains a \$250 deductible, the insured will receive:
- A. \$200
 - B. \$50
 - C. \$250
 - D. \$ 0
25. The limit of liability of any property insurance contract in a given loss is the:
- A. ACV settlement.
 - B. RC settlement.
 - C. Policy limits.
 - D. Market Value.

Review Answers

1. C. A detached garage is covered under coverage B. The structure is not part of the dwelling.
2. B. The HO-3 provides broad perils coverage on the contents and open peril coverage on the structures
3. D. Obviously, theft committed by the insured is not covered. The theft of building materials, while a dwelling is under construction is excluded. The property of a tenant should be covered by the tenant's coverage.
4. C. An apartment dweller would need a HO-4 form. The tenant does not own the structure so contents coverage, additional living expense and liability coverage would be needed.
5. A. Section II, liability is basically third party coverage. It protects the insured for their legal liability is causing bodily injury or property damage claims. The dog bit the neighbor and therefore the insured would be protected for such claims, including defense costs.
6. D. Coverage F (medical payments) applies to social invitees. It does not apply to residents of the dwelling including tenants.
7. D. All of these exposures are covered under the Coverage E, personal liability section of the HO policy.
8. D. The HO-8 is the most limited homeowner form. It contains the very basic perils.
9. B. The coverage provides 30% of coverage A for additional living expense and rental value.
10. D. All of these items receive a limited dollar amount for coverage. Boats and trailers are limited to \$1,500 each. Furs have a dollar amount theft limit of \$1,500.
11. D. Animals are not considered to be covered property for property insurance coverage. A motor bike is not covered nor is items that are more specifically covered by other insurance.
12. C. Contents are covered for 50% of coverage A for a one or two family dwelling.
13. D. An attached garage would be part of the dwelling and therefore covered under Coverage A.

- 14. B. When an insurer cancels a policy the return premium is based on a pro-rata basis. The insured is not penalized.
- 15. A. When the insured cancels a policy the return premium is based on a short rate basis and the insured pays a small penalty.
- 16. D. Volcanic eruption is the only thing that would be covered. The others are excluded.
- 17. C. An insured can cancel the policy at any time and for any reason. The insurer must have legal reasons to cancel the policy and must provide the insured with a notice of any action canceling or non-renewing a policy.
- 18. D. Medical payments do not cover injuries to residents of the dwelling. A repairman would be covered under worker's compensation.
- 19. B. A 25 HP outboard motor boat is the only one of those listed that would be covered for liability off the insured's premises. Any size boat is covered on the residence premises for liability.
- 20. D. Intentional acts are usually excluded for anyone. Section II does make an exception and covers intentional acts of children **under** the age of 13.
- 21. D. All of these are included in Section II liability. They are in addition to the liability limit.
- 22. D. The HO-6 was specifically designed to cover the owner of a condominium.
- 23. D. All of these situations are eligible for a homeowner policy.
- 24. D. The loss is less than the deductible. Therefore the insured would not receive payment.
- 25. C. The policy limit is the most the insurer can pay for a covered loss. In homeowner insurance, the buildings losses are paid on a replacement cost basis (except the HO-8) provided the insured carries 80% to value. Contents under all of the forms are covered on an actual cash value basis. Mobile homes that are covered under a homeowner policy by endorsement are also covered on a replacement cost basis for the structure if the insured carries 80% to value.