

Policy Types and Coverages

 45m

P&C insurance products can be divided into two main categories: personal and commercial.

- Common types of **personal** insurance include homeowners insurance, auto insurance, renters insurance, personal articles floater, and personal umbrella insurance.
- Common types of **commercial** insurance include commercial property insurance, commercial auto insurance, workers' compensation insurance, general liability insurance, professional liability insurance, and cyber insurance.

This subsection briefly reviews each type of insurance above.

Coach's Remarks

Although specific policy types and coverages are not directly tested on the exam, having a solid foundational understanding of them can enhance your ability to grasp the context in certain exam questions. Throughout this course, you'll encounter examples that incorporate various policy types and coverages, providing practical context to support your understanding of the exam concepts.

Personal Insurance

Homeowners Insurance

Coverages of homeowners insurance can be divided into two main sections: property coverages and liability coverages.

PROPERTY COVERAGES

Property coverages include the following:

- **Dwelling** coverage insures against damages to the house from specific perils or on an all-risks basis, up to a specified limit. If coverage is only provided for specific perils listed on the policy, then it is called **specific perils** coverage.
- **Other structures** coverage protects against damages or losses to structures that are separate from the house, such as a detached garage.
- **Personal property** coverage provides insurance, up to a specified limit, for the policyholder's personal property and the contents of the house. This coverage also extends to borrowed property under the possession of the insured and personal property located outside of the house. Note that some contents may not be covered or may have sublimits.
- **Loss of use** coverage provides compensation for additional living expenses and loss of rental income. This coverage will pay a fair value for alternative accommodations while repairs are being done on the house. It will also indemnify the loss of rental income if parts of the primary dwelling were rented out before the loss.

LIABILITY COVERAGES

Liability coverages consist of the following:

- **Personal liability** coverage provides third-party liability coverage if a third party is injured or if a third party's property is damaged on the insured's premises. Similar to auto insurance, the injured party needs to prove that the insured is liable for the injury or loss.
- **Medical payment to others** coverage provides medical benefits to any third party injured on the insured's premises without the insured being sued. This means that a third party can receive medical benefits even if the insured is not at fault. The limits for this coverage are typically very small.

Auto Insurance

Personal automobile insurance, or auto insurance for short, is mandatory for drivers in most U.S. states. The following are standard coverages in auto insurance:

- Liability insurance
- Medical benefits
- Uninsured & underinsured motorist coverage

- Collision & other than collision

LIABILITY INSURANCE

Liability insurance, usually known as *third-party liability*, provides indemnification to a **third party** for an accident if the insured is liable. It consists of the following coverages:

- *Bodily injury (BI)* coverage pays for the costs associated with the injuries of the third party, such as medical expenses and funeral costs.
- *Property damage (PD)* coverage pays for the costs associated with repairing or replacing the property of the third party.

Liability coverage is mandatory in almost all jurisdictions. Some jurisdictions also specify the minimum level of coverage a driver must have. For liability coverage, the limits are usually separate for BI and PD; these are called split limits. For split limits, BI also specifies the limits on a per-person basis or a per-occurrence basis.

If the insured is sued, the insurer will provide legal defense for the insured. If the insured is found liable, the insurer will pay the assessed damages subject to the policy limit. Note that legal defense costs do not contribute to the policy limit.

MEDICAL BENEFITS

Coverage for medical benefits is known as *medical payments (MED)* in a tort jurisdiction and *personal injury protection (PIP)* in a no-fault jurisdiction.

Under a tort or at-fault jurisdiction, the injured party is required to prove that the other party is at fault to receive compensation under the other party's third-party liability section.

Under a no-fault jurisdiction, the injured party does not need to sue or prove that the other party is at fault to receive compensation. Instead of receiving the benefit under the at-fault party's third-party liability section, the injured party receives benefits under their PIP coverage.

Regardless of the jurisdiction, this coverage provides medical benefits such as income replacement, medical care, and rehabilitation to the insured and family members if they are injured during an accident. This is an example of *first-party coverage*, as the benefits are paid to the insured party.

Coach's Remarks

To further elaborate on the at-fault and no-fault systems, consider these explanations. In both jurisdictions, the MED or PIP coverage provides medical benefits when you are injured, but there are some key differences:

In a tort jurisdiction:

- If you're at fault in an accident and get injured, the MED coverage provides benefits up to the policy limit.
- If you're not at fault and are injured, your insurer will cover your medical expenses up to the policy limit while fault is being legally established, you are waiting for compensation from the at-fault party, etc.

In a no-fault jurisdiction, since each insurer pays for the injuries of their policyholders, your medical benefits will be limited to your PIP coverage.

UNINSURED & UNDERINSURED MOTORIST COVERAGE

This coverage protects the insured and family members from unknown, underinsured, or uninsured motorists in the case of an accident. Under this coverage, the insured is covered by their own insurer for the amount that the liable motorist is personally responsible for.

COLLISION & OTHER THAN COLLISION

Collision coverage indemnifies the insured if a covered auto is damaged by colliding with an object, such as another vehicle or a lamppost. The insurer reserves the right to either pay the insured the loss or pay to repair or replace the vehicle.

Other than collision (OTC) coverage, also called **comprehensive** coverage, is activated when the vehicle is stolen or damaged as a result of something other than a collision with another vehicle. Under this coverage, certain perils such as war, acts of terrorism, wear and tear, road damage to tires, and radiation contamination are generally excluded.

Collision and other than collision coverages are usually subject to deductibles.

Renters Insurance

Renters insurance is a type of insurance policy designed to protect tenants who rent their homes or apartments. It typically provides three main types of coverage:

1. PERSONAL PROPERTY COVERAGE

- **Covers:** Your personal belongings, such as furniture, electronics, clothing, and appliances, in case of damage or loss due to events like fire, theft, vandalism, or certain natural disasters (like windstorms or hail).
- **Exclusions:** Floods, earthquakes, and certain high-value items like jewelry (unless additional coverage is purchased).
- **Example:** If your apartment is burglarized and your TV is stolen, renter's insurance can help cover the cost of replacing it.

2. LIABILITY COVERAGE

- **Covers:** Legal expenses and damages if you're found legally responsible for injuries to other people or damage to their property. This could include incidents like a guest getting injured in your apartment.
- **Example:** If someone slips and falls in your rental unit and sues you, renter's insurance can cover legal fees and any damages awarded.

3. ADDITIONAL LIVING EXPENSES (ALE) OR LOSS OF USE COVERAGE

- **Covers:** Temporary living expenses if your rental home becomes uninhabitable due to a covered peril (e.g., a fire). This can include hotel bills, meals, and other costs while your home is being repaired.
 - **Example:** If a fire damages your apartment and you need to stay in a hotel while repairs are made, this coverage will pay for the hotel stay.
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Personal Articles Floater

A **Personal Articles Floater** (PAF) is an insurance endorsement or standalone policy designed to provide coverage for valuable personal items that may not be fully covered under a standard homeowners or renters insurance policy. This is often used to insure high-value items like jewelry, fine art, collectibles, cameras, musical instruments, or other possessions that exceed the limits of a basic policy.

Key features of a PAF include:

1. **Scheduled Coverage:** Specific high-value items are typically "scheduled" (listed) individually, with detailed descriptions and appraised values. Some policies, however, may offer blanket coverage for certain categories of items (e.g., jewelry), as long as the total value does not exceed a specified threshold. For higher-value items, individual scheduling is usually required.
2. **Broad Coverage:** A PAF offers broader coverage than standard homeowners or renters policies. It typically includes coverage for risks such as accidental damage, loss, theft, or mysterious disappearance. This extends beyond the coverage limits and exclusions found in traditional policies, making it especially useful for items that are prone to accidental damage (e.g., dropping a piece of jewelry).
3. **Deductible Options:** Many PAFs have no deductible, meaning the policyholder does not need to pay out of pocket for a claim. However, some insurers may offer policies with deductible options, which can lower the premium costs.
4. **Worldwide Coverage:** PAF coverage is usually global, meaning the insured items are protected wherever they are, including while traveling.
5. **Payout on Agreed Value or Replacement Cost:** In the event of a covered loss, the settlement is typically based on the agreed value (for fine art, antiques, and other unique items) or replacement cost (for new items like jewelry). This ensures the policyholder is compensated for the full value of the item without depreciation, though some policies may offer actual cash value settlements depending on the insurer and policy terms.

Personal Umbrella Insurance

Personal umbrella insurance is a type of liability insurance that provides extra protection beyond the limits of your standard home, auto, or other personal insurance policies. It acts as a safety net, covering claims that exceed the coverage limits of your underlying policies. This is especially useful in cases of major accidents or lawsuits.

Key features of personal umbrella insurance include:

1. **Additional Liability Protection:** If you're held responsible for someone else's injury or property damage and the costs exceed the limits of your regular insurance policy, umbrella insurance can cover the remaining costs up to its own limit.
 2. **Coverage for Various Situations:** It provides protection for various liability situations like major car accidents, serious injuries on your property, or incidents involving slander, libel, and defamation that might not be fully covered by standard policies.
 3. **Global Coverage:** Umbrella insurance often covers incidents that happen outside the U.S., which can be helpful if you travel frequently.
 4. **Legal Defense Costs:** It typically covers legal fees and defense costs if you are sued, in addition to the settlement amount.
 5. **Affordable for High Coverage:** Compared to the amount of additional coverage it offers (typically ranging from \$1 million to \$10 million), umbrella insurance is relatively inexpensive.
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Commercial Insurance

Commercial Property Insurance

Commercial property insurance provides financial protection for businesses by covering direct physical loss or damage to insured property. This type of coverage helps businesses recover after damage caused by events such as fire, theft, vandalism, or natural disasters.

The policy typically covers three main categories of property:

1. **Building:** Coverage applies to the buildings or structures specified in the policy, along with any completed additions. This also includes fixtures, such as lighting or built-in cabinets, permanently installed machinery and equipment, and personal property owned by the insured that is used for building maintenance or service, such as cleaning equipment.
2. **Business Personal Property:** This covers property owned by the business and used in its operations. Examples include office furniture, inventory, machinery, and tools. These items are crucial to the daily functioning of the business, and

their protection ensures that the business can continue operating after a covered loss.

- 3. Personal Property of Others:** Businesses often hold or work with property belonging to clients or customers. This coverage extends to the personal property of others while it is in the custody of the insured. For example, a dry cleaner's business personal property insurance would cover the clothing items that customers leave behind for cleaning.

Additionally, commercial property insurance may cover **loss of business income** or extra expenses incurred if a business is unable to operate at full capacity due to a covered event. This **business interruption** coverage ensures that the business can continue to pay ongoing expenses, such as rent or payroll, even while repairs are being made.

Coach's Remarks

Commercial property insurance operates in a similar way to homeowner's insurance, but it is tailored to the needs of businesses. Just as homeowner's insurance protects individuals' residences and personal belongings, commercial property insurance covers business assets like buildings, equipment, and merchandise. Furthermore, it includes provisions for loss of income due to business interruption, making it a comprehensive safeguard for business continuity.

Commercial Auto Insurance

Commercial auto insurance is designed to protect businesses from financial losses and liability associated with the use of vehicles in business operations. This coverage applies not only to company-owned vehicles but also to vehicles that are leased, rented, or borrowed for business purposes. Additionally, it covers incidents involving employee-owned vehicles used for work-related tasks, a situation known as **non-owned auto liability**.

The policy typically includes a range of coverages similar to personal auto insurance but tailored to the unique risks associated with commercial vehicle use. These coverages often include liability for bodily injury and property damage, medical payments, uninsured/underinsured motorist protection, and physical damage to the insured vehicles (collision and comprehensive). By providing this protection,

commercial auto insurance helps businesses manage the risks of vehicle-related accidents or incidents, ensuring they are financially safeguarded from legal liabilities and repair costs.

Workers' Compensation Insurance

Workers' compensation insurance provides compensation for any occupational accidents or injuries of an employee regardless of who is at fault. To receive indemnification for an injury or disease under workers compensation, a worker must:

1. work in a **covered occupation**, and
2. have an injury or disease that was a result of the **course of employment**.

Benefits typically provided by workers compensation include:

- **Medical care benefits**

Workers compensation usually has unlimited medical care benefits.

- **Disability income benefits**

The disability benefit depends on two factors: the worker's average weekly salary and the degree of disability. The benefit is usually a percentage of the worker's average weekly salary. Disability can be categorized as (1) temporary but total, (2) permanent and total, (3) temporary and partial, or (4) permanent but partial.

Most states also have minimum and maximum weekly benefits, which are usually determined from the state's average industrial wage. These benefits are typically non-taxable income.

- **Death benefits**

- **Rehabilitation services and benefits**

Commercial General Liability Insurance

Commercial general liability (CGL) insurance is designed to protect businesses from various liability risks that can arise from their operations, products, or premises. It helps shield companies from potentially significant financial losses due to legal claims involving bodily injury, property damage, and other liabilities.

CGL insurance typically includes three main types of coverage:

1. **Bodily Injury and Property Damage Liability:** This coverage can be further divided into two categories:
 - **Premises and Operations Coverage:** This component protects against claims of bodily injury or property damage that occur either on the business's premises or as a direct result of its day-to-day operations. For example, if a customer slips and falls on a wet floor in a store, this coverage would help address the resulting legal and medical costs.
 - **Products and Completed Operations Coverage:** This coverage extends beyond the business premises, offering protection against claims arising from products or services after they have been sold or completed. For example, if a product manufactured by the business causes harm to a consumer, or if completed construction work results in damage to a property after the work is done, this coverage would step in.
 2. **Personal and Advertising Injury Liability:** This coverage provides protection against non-physical harm that can occur in the course of business operations. It includes legal claims related to offenses like false arrest, wrongful eviction, defamation (such as libel or slander), violation of privacy rights, and intellectual property infringements (e.g., copyright infringement in advertising). This coverage is essential for protecting a business's reputation and mitigating legal costs associated with such claims.
 3. **Medical Payments Coverage:** This no-fault coverage pays for medical expenses incurred by third parties as a result of accidents occurring on the business's premises or due to its operations. Importantly, it provides immediate compensation for medical costs without needing to establish the business's legal liability. This can help maintain goodwill and potentially avoid more costly legal disputes, as the injured party's medical bills are handled promptly.
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Professional Liability Insurance

Professional liability insurance protects individuals and organizations from claims arising from errors, omissions, or negligence in the professional services they provide. This type of insurance is essential for professionals who offer expert advice or services, as even small mistakes or misunderstandings can lead to costly legal claims or lawsuits.

In the medical field, this insurance is referred to as **medical malpractice** insurance, designed specifically for healthcare professionals to cover claims of medical errors or negligence that result in patient harm. For other professions, such as consultants, lawyers, accountants, and architects, it is commonly known as **errors and omissions** (E&O) insurance. E&O insurance covers legal defense costs, settlements, and judgments stemming from claims that the professional failed to perform their duties to the expected standard, whether through negligence, oversight, or miscommunication.

Cyber Insurance

Cyber insurance is designed to help businesses mitigate risk from cyberattacks, data breaches, and other internet-related incidents. It typically covers both first-party losses (the business's own costs) and third-party liability (legal claims made by others, such as customers or clients affected by a data breach).

Here are some key coverages typically included in a commercial cyber liability policy:

1. **Data Breach Response Costs:** Covers expenses related to notifying affected customers, credit monitoring services, and legal fees.
2. **Business Interruption:** If a cyberattack causes downtime or disruption to business operations, the policy can compensate for lost income.
3. **Ransomware Extortion Payments:** Covers the cost of ransom payments in the event of a ransomware attack, subject to policy limits and legal considerations.
4. **Network Security Liability:** Protects against lawsuits stemming from a failure of network security that leads to unauthorized access, data breaches, or malware spread.
5. **Media Liability:** Covers claims arising from defamation, copyright infringement, or intellectual property violations related to online content.
6. **Regulatory Fines and Penalties:** Covers legal defense costs and fines related to regulatory investigations (e.g., GDPR, HIPAA violations).

This insurance is becoming more crucial as cyberattacks are increasingly targeting businesses of all sizes. Many commercial policies offer customizable options to meet specific business needs, depending on industry, size, and risk exposure.