

Property & Casualty Insurance



Course Manual
6 credit hours
Online Non-Interactive



Important Information

Course Intent

Mountain CE, LLC does not render legal services or advice. This course is not intended as an authority on legal matters. The purpose of this course is to provide continuing education (CE) for insurance licensees. We have attempted to provide the most accurate information available. As rules, regulations, and industry practices change, some aspects of this course may become outdated. This course will be updated on a periodic basis as deemed necessary.

Terms of Use

This course is the sole property of Mountain CE, LLC. This course cannot be duplicated, copied, reproduced or used for any other purpose—without the consent of Mountain CE, LLC.

CE Credits

This is a non-interactive (non-classroom) CE course. It does not qualify for classroom equivalent credits. To obtain CE credits, you must read and study this course manual and then pass an exam to demonstrate what you have learned. For further instructions, visit our website at www.mountainCE.com.

Acknowledgement

Some of the information presented in this course was obtained from the following websites:
insurance.utah.gov

Table of Contents

Unit One — Concepts & Terms	11
Concepts & Terms — Loss	12
Concepts & Terms — Exposure.....	12
Concepts & Terms — Risk.....	13
Concepts & Terms — Managing Risk with Insurance.....	14
Concepts & Terms — Peril.....	15
Concepts & Terms — Hazard	15
Concepts & Terms — Liability	16
Concepts & Terms — Insurable Risk.....	17
Concepts & Terms — Legal Contracts	18
Concepts & Terms — Legal Insurance Contracts	19
Concepts & Terms — Unilateral	20
Concepts & Terms — Aleatory	20
Concepts & Terms — Contract of Adhesion	21
Concepts & Terms — Indemnity	21
Concepts & Terms — Conditional	22
Concepts & Terms — Written	22
Concepts & Terms — Policy Components	23
Concepts & Terms — Declarations Page.....	24
Concepts & Terms — Insuring Agreement.....	25
Concepts & Terms — Definitions.....	25
Concepts & Terms — Exclusions	25
Concepts & Terms — Conditions	26

Unit Two — P&C Insurance Industry	27
P&C Insurance Industry — History of Insurance	28
P&C Insurance Industry — Definition & Comparison	31
P&C Insurance Industry — Types of Providers	32
Types of Providers — Lloyd’s Association	33
Types of Providers — Stock Company	33
Types of Providers — Mutual Company	34
Types of Providers — Demutualization.....	34
Types of Providers — Government Programs.....	35
Government Programs — Flood Insurance	36
Government Programs — Crop Insurance	36
Government Programs — Workers Compensation	37
P&C Insurance Industry — Regulation	38
P&C Insurance Industry — State Regulation.....	38
P&C Insurance Industry — State Duties.....	39
P&C Insurance Industry — NAIC.....	40
P&C Insurance Industry — Financial Ratings	40
Unit Three — Insurance Company Operations	41
Company Operations — General Operations.....	42
Company Operations — Marketing	42
Marketing Distribution Systems — Exclusive Agency	43
Marketing Distribution Systems — General Agency	43
Marketing Distribution Systems — Direct Sales	44
Marketing Distribution Systems — Independent Agency	44
Company Operations — Sales Management	45

Company Operations — Actuarial.....	46
Company Operations — Underwriting.....	47
Underwriting — Adverse Selection	48
Underwriting — Adverse Selection and Pricing.....	49
Underwriting — Measurements.....	50
Underwriting — Results	51
Company Operations — Policy Processing	52
Company Operations — Claims	52
Company Operations — Legal	53
Company Operations — Accounting & Finance.....	54
Company Operations — Loss Reserve	55
Company Operations — Investments	56
Company Operations — Risk Management.....	57
Company Operations — Reinsurance.....	58
Company Operations — Brokerage	59
Unit Four — Producer Requirements & Responsibilities.....	60
Insurance Licensing — Licensing Steps.....	61
Insurance Licensing — Types of Professionals	62
Insurance Licensing — Types of Licenses.....	63
Insurance Licensing — Resident Requirements	64
Insurance Licensing — Fingerprinting.....	65
Insurance Licensing — Initial / Renewals.....	65
Insurance Licensing — Reinstatements.....	66
Insurance Licensing — Records	67
Insurance Licensing — Email Address.....	68

Continuing Education – Requirements	69
Continuing Education – Exceptions	70
Producer Responsibilities – To Insurer	71
Producer Responsibilities – Marketing.....	71
Producer Responsibilities – Prospecting	71
Producer Responsibilities – Explain Coverages.....	71
Producer Responsibilities – Field Underwriting	72
Producer Responsibilities – Gather Information	72
Producer Responsibilities – Quoting	72
Producer Responsibilities – Application Completion	72
Producer Responsibilities – Payment Processing	73
Producer Responsibilities – Servicing.....	73
Authority	74
Authority — Express	75
Authority — Implied.....	75
Authority — Apparent	76
Producer Conduct – Fiduciary Responsibilities	77
Producer Conduct – Misrepresentation	78
Producer Conduct – Churning.....	79
Producer Conduct – Twisting.....	79
Producer Conduct – Rebating	80
Producer Conduct – Social Courtesies	80
Producer Conduct – Illegal Discrimination	81
Producer Conduct – Forgery.....	81
Producer Conduct – Application Alteration	81
Producer Conduct – Commissions	82

Producer Conduct – Money Handling	83
Unit Five – Homeowners Insurance Policy	84
Homeowners – Organization and Terminology	85
Homeowners – Declarations.....	85
Homeowners – Declarations Information	86
Homeowners – Declarations Information (cont.).....	87
Homeowners – Definitions	87
Homeowners Section I – Property Coverages	88
Homeowners Section I – Dwelling.....	88
Homeowners Section I – Dwelling Limit.....	89
Homeowners Section I – Dwelling Extension	90
Homeowners Section I – Personal Property	91
Homeowners Section I – Loss of Use.....	92
Homeowners Section I – Additional Coverages	93
Homeowners Section I – Property Perils Insured Against	94
Homeowners Section I – Property Exclusions	95
Homeowners Section I – Property Conditions	96
Homeowners Section II – Liability Coverages	97
Homeowners Section II – Personal Liability	97
Homeowners Section II – Personal Liability Locations.....	97
Homeowners Section II – Personal Liability Defense Costs	98
Homeowners Section II – Personal Liability Limit.....	98
Homeowners Section II – Medical Expense	99
Homeowners Section II – Additional Coverages.....	100
Homeowners Section II – Exclusions.....	100

Homeowners Section II – Conditions.....	101
Homeowners – General Conditions	102
Homeowners – General Conditions (cont.)	103
Homeowners – Options and Endorsements	104
Homeowners – Options and Endorsements (cont.).....	105
Homeowners – Options and Endorsements (cont.).....	106
Homeowners – Options and Endorsements (cont.).....	107
Homeowners – Options and Endorsements (cont.).....	108
Homeowners Policy Forms	109
Homeowners Policy Forms – HO-3	110
Homeowners Policy Forms – HO-4	110
Homeowners Policy Forms – HO-5	111
Homeowners Policy Forms – HO-6	112
Homeowners Policy Forms – HO-8	112
Unit Six – Personal Auto Insurance Policy.....	113
Personal Auto – Organization and Terminology.....	114
Personal Auto – Declarations.....	115
Personal Auto – Declarations Information	115
Personal Auto – Declarations Information (cont.).....	116
Personal Auto – Declarations Information (cont.).....	117
Personal Auto – Motor Vehicle Insurance Cards	119
Personal Auto – Definitions	120
Personal Auto – Liability Coverage	120
Personal Auto – Insured	121
Personal Auto – Defense Costs	122

Personal Auto – Additional Payments	122
Personal Auto – Liability Exclusions.....	123
Personal Auto – Financial Responsibility	124
Personal Auto – Negligence.....	125
Personal Auto – Comparative Negligence.....	126
Personal Auto – PIP	127
Personal Auto – PIP Medical Expense	127
Personal Auto – PIP Work Loss	128
Personal Auto – PIP Special Damage Allowance.....	128
Personal Auto – PIP Funeral Expense	129
Personal Auto – PIP Survivor’s Loss	129
Personal Auto – PIP Summary.....	130
Personal Auto – PIP Coverage Eligibility.....	131
Personal Auto – Uninsured Motorist (UM).....	131
Personal Auto – Uninsured Motorist Definitions.....	132
Personal Auto – Underinsured Motorist (UIM).....	133
Personal Auto – Physical Damage	133
Personal Auto – Physical Damage Collision.....	134
Personal Auto – Physical Damage Comprehensive.....	134
Personal Auto – Physical Damage Requirements.....	135
Personal Auto – Physical Damage Exclusions.....	136
Personal Auto – Physical Damage Theft.....	137
Personal Auto – Multiple Policies.....	137
Personal Auto – Policy Provisions.....	138
Personal Auto – Policy Provisions (cont.)	139
Personal Auto – Policy Provisions (cont.)	140

Personal Auto – Other Optional Coverages.....141

Unit Seven – Personal Liability Umbrella..... 142

Personal Liability Umbrella.....143

Personal Liability Umbrella – Benefits.....143

Personal Liability Umbrella – Coverage.....144

Unit One — Concepts & Terms

Concepts & Terms — Loss

A **loss** is a **financial consequence**. A **loss** occurs when an event happens resulting in someone losing something. If lightning strikes a house and destroys it, that is a **loss**. If someone is involved in an auto accident—but no damage is done to anyone or anything— there is no **loss**.

Concepts & Terms — Exposure

Exposure is a **unit of measurement** that measures the **amount of risk**. **Exposure** is often measured in dollars. For example:

- A house is insured for \$200,000
- If a particular car were totaled in an accident, \$7,500 would be paid

Concepts & Terms — Risk

Risk is the **chance that a loss will occur**. As exposure increases, **risk** also increases. A **risk** must have the element of uncertainty. The chance of a driver having a loss due to an auto accident is an example of a **risk**. If something is certain to happen, it is not a **risk**. For example, an event such as tires wearing out on a car after many miles of use is not a **risk**, because it is certain to happen.

Losses result in **financial consequences**. People are generally aware of the financial **risk** involved in owning property. Therefore, they look for ways to manage the **risk** of financial loss. For example regarding the risk of a car accident, a person may choose to:

- **Eliminate** their risk of a car accident by selling their car. This, of course, is not a practical solution for most people.
- **Reduce** their risk by driving their car less.
- **Retain** or keep their risk by not buying insurance. This is usually not a good idea, since the risk of financial loss can be enormous when a person is involved in a car accident. Furthermore, state laws require motorists to purchase auto insurance.
- **Transfer** risk to someone or something else. Many people choose to buy auto insurance to **transfer** the risk to an insurance company.

Concepts & Terms — Managing Risk with Insurance

Although insurance does not eliminate or reduce risk of property or liability loss, people buy insurance to **manage** their **risk** of financial loss. Insurance transfers risk of property or liability loss from one party to another. With insurance, people pay premiums to an insurance company in exchange for a promise by the insurance company to pay for insurable losses they incur. It is often said that insurance insures property. Technically that is incorrect, because it's actually the property owner that is insured. More specifically, the property owner is insured for the **risk** of financial loss.

Insurance is based on statistics and predictions of how likely it is a particular event will happen. Insurance companies rely on the **law of large numbers** to make their predictions more reliable. Most insurance companies sell insurance to thousands—or even millions—of people. Therefore, insurance companies can predict—with reasonable accuracy—the chance of loss for a particular customer. This allows insurance companies to know how much premium must be collected to satisfy their promises.

Concepts & Terms — Peril

A **peril** is the reason a loss occurred. It is also known as the **cause of loss**. **Risk** and **peril** are not the same. For instance, **risk** is the chance a fire will destroy a house. If a house is destroyed by fire, then fire is the **peril** that caused the loss.

Concepts & Terms — Hazard

A **hazard** is something that increases the likelihood a loss will occur. For example, an icy sidewalk is a hazard, because it greatly increases the chance someone will slip, fall, and be injured. In other words, a **hazard** is something that causes the risk to be much greater than it should be.

The icy sidewalk is an example of a **physical hazard**. There are two other types of hazards that are similar to each other—**moral** and **morale**. The difference between the two lies with the **intent** of the person(s) who created the hazard. A **moral hazard** is an increase in exposure resulting from intentional and corrupt action. If someone intentionally sets their car on fire so they can collect the insurance money, the loss is a result of a **moral hazard**. On the other hand, a **morale hazard** is the result of a careless action. For instance, smoking a cigarette in bed or driving a car with worn out tires are examples of **morale hazards**.

Concepts & Terms — Liability

A person is **legally liable** when they commit a **tort**—which is also known as a **civil wrong**. Unlike crimes, **torts** are not prosecuted by the government, since they are considered private matters between two parties. **Liability insurance** provides protection only for **unintentional torts**—commonly called **negligence**. A person is **negligent** if all four of these conditions exist:

- **Legal duty**—humans have a duty to protect the well-being of other people and their property. There are varying degrees of legal duty. For example, a homeowner owes more duty to a person they invite to their property than a person who is trespassing.
- **Breach of duty**—this occurs when a person does not take measures to protect the well-being of other people and their property. Breach of duty could include action, as well as lack of action.
- **Proximate cause**—this means the breach of duty by one person directly caused damage to another person or that person's property.
- **Damage**—a person who claims to have been damaged must be able to prove he or she was damaged.

Liability insurance provides protection for insureds that are determined to be **negligent**, and therefore **legally liable** for causing damage to someone or something. In insurance terminology, the **insured** is known as the **first party**, the **insurance company** is the **second party**, and the **claimant** who suffered the damages is the **third party**. Therefore, **liability insurance** pays for **third party losses**.

Concepts & Terms — Insurable Risk

Insurance companies sell insurance only for risks that are **insurable**. Although the rules and regulations vary with each type of insurance, there are a set of standards that all **insurable risks** must meet.

Insurance can only be purchased by someone who has an **insurable interest** in the property being insured. A person has an insurable interest when they will suffer a financial loss as a result of a property or liability loss. For example, if Sam's house burns down, he will suffer a financial loss. Therefore, Sam is allowed to purchase insurance on his home, so in the event of a fire, the insurance company can reimburse him for the loss. Sam is also allowed to purchase insurance on his automobile. That's because he needs liability protection in the event he injures someone or damages someone's property while driving his car.

To be insurable, a risk must be for a **significant financial loss**. This means a loss that a reasonable person would consider a hardship. For example, the risk of losing a \$3.00 pen is not insurable. The **significant financial loss** must also be **calculable**. For example, it is possible to determine the value of a car. Therefore, if the car is destroyed in an accident, the loss can be **calculated**.

Only risks that have **unexpected loss** can be insured. For example, normal wear of tires on a car is not insurable, since it is expected.

Insurance policies only cover **pure risks**. A **pure risk** is where the chance of loss exists, and the chance of gain does not exist. The chance that a house might be destroyed by fire is a **pure risk**. On the other hand, insurance does not cover **speculative risks**. Investments and gambling are **speculative risks**, since they involve a chance that either a gain—or a loss could occur.

Concepts & Terms — Legal Contracts

Like all valid contracts, an insurance contract must have these characteristics:

- **Agreement**—one party makes an offer and the other party accepts the offer.
- **Competent parties**—both parties must be sane, cannot be under the influence of drugs or alcohol and cannot be under the age of 18.
- **Legal purpose**—it must not violate any federal, state, or local laws.
- **Consideration**—one party gives something of value to the other party who provides a promise to perform. In most insurance contracts, the insured pays money (premium) to the insurance company for an insurance contract. In return, the insurance company promises to pay the insured for losses that are covered by insurance.
- **Good faith**—the courts usually do not enforce contracts if one of parties has taken unfair advantage of another party. Both parties must be truthful and act with integrity. For instance, the courts look unkindly upon contracts that mislead or deceive people—even if no law is otherwise broken.

Concepts & Terms — Legal Insurance Contracts

For many generations our society has realized that insurance contracts need additional rules and regulations. That's primarily due to the fact that insurance is usually sold by insurance companies that have billions of dollars in assets—and quite often purchased by individuals or organizations with comparatively few assets. Our culture recognizes that consumers would be at a huge disadvantage without the assistance of additional standards for the insurance industry. Therefore, in addition to the characteristics of legal contracts already listed, insurance contracts (policies) also have these characteristics:

- **Unilateral** (one-sided)
- **Aleatory** (contingent on unpredictable loss)
- **Contract of adhesion** (prepared by insurance company)
- **Indemnity** (to make whole)
- **Conditional**
- **Written**

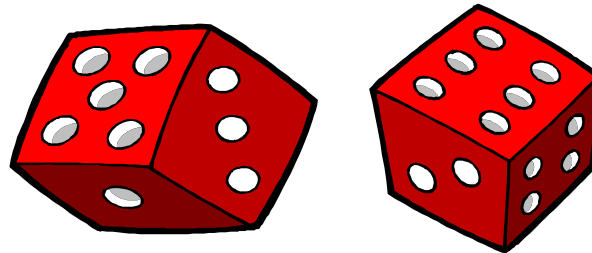
These characteristics will be covered in more detail on the following pages.

Concepts & Terms — Unilateral

Insurance contracts are **unilateral**—meaning **one-sided**. The insurance company has a higher legal obligation to perform. For instance, a customer can choose to cancel their insurance policy for any reason at any time. However, an insurance company does not have the same freedom.

Concepts & Terms — Aleatory

Insurance contracts are **aleatory**—meaning **contingent on unpredictable loss**. Only events that cannot be predicted can be covered under an insurance contract. For example, lightning striking a house is unpredictable and is an insurable risk. On the other hand, it is predictable that asphalt shingles on a roof will need replacing after many years of use; therefore, that type of risk is not insurable.



Concepts & Terms — Contract of Adhesion

Insurance contracts are **contracts of adhesion**—meaning one party (the insurer) has the advantage of writing the contract. The customer usually does not have a say in the provisions and wording of the insurance contract. Since the terms and conditions of insurance policies are determined by the insurance company, the courts usually favor the policyholder when there is any uncertainty about what the insurance contract says or does not say. Another name for **contract of adhesion** is **take it or leave it**.

Concepts & Terms — Indemnity

Indemnity means **to make whole**. An insured who suffers a loss that is insured by an insurance policy, should be made whole. For instance, if an insured's house is completely destroyed by fire, he or she should receive an amount that will allow a new house to be built of similar quality and value. In other words, **indemnity** means the insured should be put back to the same financial situation they were in before the loss occurred.



Concepts & Terms — Conditional

Both parties must follow the **conditions** specified in the insurance policy.

For instance, the **customer** must:

- Provide complete and accurate information when applying for insurance
- Pay premiums to keep the policy in force
- If a loss occurs, do their best to prevent further loss from occurring.

On the other hand, the **insurance company** has obligations such as:

- Provide the policyholder with all the required legal insurance documents and notifications
- Pay covered claims within a reasonable period of time.

Concepts & Terms — Written

Insurance contracts are in **writing**. According to business law, legal contracts can sometimes be oral—they do not have to be written. However, insurance contracts are written agreements to avoid any misunderstanding between the parties. Written contracts are important when settling claims: they are reviewed to determine what coverage was in place at the time of loss.



Concepts & Terms — Policy Components

An insurance contract is also known as an insurance policy. Insurance policies must follow strict standards regarding what information is included. Although there is more than one accepted method of **organizing** the policy information, most property and casualty insurance policies have five major components:

- **Declarations page**
- **Insuring agreement**
- **Definitions**
- **Exclusions**
- **Conditions**

These will be explained in further detail on the following pages.

Concepts & Terms — Declarations Page

This component is often referred to as the **dec page** or simply the **dec**. It is prepared by the insurance company. Unlike the other policy components, it contains information specific to the insured and the risk being insured. For property and casualty policies, the **declarations page** usually contains the following information:

- Policy number, policy type, and coverage types
- Insured's name and address
- Description and identification of the vehicle or home covered by the insurance policy along with the coverage limits; a home is usually identified by its address; an Auto policy is usually identified by its vehicle identification number (VIN) and its year, make, and model
- Effective date and expiration date of the policy
- Agent's name, address, and phone number
- If the home is mortgaged, the name of the mortgagee
- If the vehicle has a lien, the name of the lien holder
- Optional coverages the insured has selected
- Premium discounts the insured is receiving

Concepts & Terms — Insuring Agreement

This is one of the most important components of an insurance policy. It describes what losses will be covered and to what extent they will be covered. It indicates what is covered and what perils are covered. For instance, the insuring agreement of a Homeowners policy is likely to indicate the home is insured against risk of direct physical loss—which may include perils such as wind, lightning, and fire. Likewise, the **insuring agreement** of an automobile policy is likely to indicate under what conditions the policy will pay if the insured injures someone or damages something in an auto accident.

Concepts & Terms — Definitions

This component clarifies the meaning of the terms and jargon used in the policy. For example, it is likely to explain who is considered to be an **insured** and what is meant by **bodily injury**.

Concepts & Terms — Exclusions

This component spells out circumstances in which the insurance company will not pay a claim. For instance, most property and casualty insurance policies will not pay a claim if the damage or injury resulted from an intentional act by the insured.

Concepts & Terms — Conditions

The duties, responsibilities, and rights of both the **insured** and the **insurance company** are explained.

For example, the **insured** has a responsibility to pay the premiums if they want to keep the policy in force. Also, in the event of a loss, **insureds** have a responsibility to do their best to keep further damage from occurring.

In the event of a loss, the **insurance company** has a right to inspect the damaged property to properly access the damages and determine the claim amount.

Unit Two — P&C Insurance Industry

P&C Insurance Industry — History of Insurance

The following article was written by Gareth Marples and is reprinted with permission from the Zongoo.com **Daily Press & Consumer Information** website:

Shipping/transportation insurance—first guarantee against loss

We look back in history at who first felt the need for a guarantee against loss, and who gave them that guarantee. Way back in Babylonian times, around 2100 B.C., the Code of Hammurabi was the first basic insurance policy. This policy was paid by the traders in the form of a loan to guarantee the safe arrival of their goods by caravan. Of course, caravans faced the same kind of perils our transportation industry faces today—like robbery, bad weather and breakdowns.

As history progressed, the needs for insurance increased. The Phoenicians and the Greeks wanted the same type of insurance with their seaborne commerce. The Romans were the first to have burial insurance—people joined burial clubs which paid funeral expenses to surviving family members. In medieval times, the guilds protected their members from loss by fire and shipwreck, paid ransoms to pirates, and provided respectable burials as well as support in times of sickness and poverty.

*Then came the very first actual insurance contract, signed in Genoa in 1347. Policies were signed by individuals, either alone or in a group. They each wrote their name and the amount of risk they were willing to assume under the insurance proposal. That's where the term **underwriter** came from.*

Underwriters play a big part in the insurance industry. They're the ones who calculate the risk, based on statistics, and decide what the premiums will be. In 1693, the astronomer Edmond Halley created a basis for underwriting life insurance by developing the first mortality table. He

combined the statistical laws of mortality and the principle of compound interest. However, this table used the same rate for all ages. In 1756, Joseph Dodson corrected this error and made it possible to scale the premium rate to age.

By this time, the practice of insuring cargo while being shipped was widespread throughout the maritime nations of Europe. Then in London, in 1688, the first insurance company was formed. It got its start at Lloyd's Coffee House, a place where merchants, ship-owners, and underwriters met to transact their business. Lloyd's grew into one of the first modern insurance companies, Lloyd's of London.

As commerce grew—so did the need for insurance

In the 17th and 18th centuries, British commerce was rapidly growing. As commerce grew, risks increased. In a way, progress was actually working against the insurance industry—there were more and more ways of goods being damaged or lost, as goods were shipped greater distances and by more advanced methods. Therefore, there were higher payouts for claims.

The members of stock companies saw an opportunity for a profitable business here. They were chartered in the insurance business in England in 1720, and in 1735. The first American insurance company was founded in the British colony of Charleston, SC. In 1787 and 1794 respectively, the first fire insurance companies were formed in New York City and Philadelphia. The first American insurance corporation was sponsored by a church—the Presbyterian Synod of Philadelphia—for their ministers and their dependents. Then other needs for insurance were discovered and, in the 1830s, the practice of classifying risks was begun. Although there was religious prejudice against the practice of insurance by a church, after 1840 it declined and life insurance boomed.

Preparing for large losses

So everybody was getting into the swing of insurance. People accepted the fact that they needed

to pay premiums to protect themselves and their loved ones in case of loss, including major losses like fires. The insurance companies had a rude awakening to this fact in 1835 when the New York fire struck. The losses were unexpectedly high and they had no reserves prepared for such a situation. As a result of this, Massachusetts led the states in 1837 by passing a law that required insurance companies to maintain such reserves. The great Chicago fire in 1871 reiterated the need for these reserves, especially in large dense cities.

Insurance companies had to work together to find a solution to the challenge of large losses. So they got together and devised a system called reinsurance whereby losses were distributed among many companies. This system is now commonly used in all types of insurance.

P&C Insurance Industry — Definition & Comparison

Property insurance is insurance coverage that provides protection in the event the insured suffers a financial loss if **something owned or cared by the insured** is damaged or destroyed by an unexpected incident. Property insurance usually covers **first party** losses. (The insured is considered the **first party** in an insurance contract. The insurance company is the **second party**. Claimants other than the insured are the **third party**.) When people consider the meaning of Property insurance, they often think of Homeowners insurance. However, Property insurance includes much more than insurance on a home. For example, it also includes physical damage insurance on a car: if a car is damaged by hail, it is covered by the Property insurance that is provided by a Personal Auto policy.

Casualty insurance is insurance coverage for **liability loss** for damages to **someone else** or **someone else's property** due to an unexpected event—and caused by the insured's negligence. Therefore, Casualty insurance usually covers **third party** losses. When people consider the meaning of Casualty insurance, they often think of liability coverage to protect a driver if they strike and injure someone in a car accident. But, Casualty insurance is also present in a Homeowners insurance policy. For example, if a house guest slips, falls, and is injured on a homeowner's sidewalk, a Homeowners insurance policy can protect the insured for a liability loss.

The term **Property & Casualty** insurance is generally used to describe the protection collectively provided by Personal Auto, Homeowners, Personal Liability Umbrella, and Commercial policies. It does not include other types of insurance such as Life, Health and Disability.

P&C Insurance Industry — Types of Providers

A majority of property and casualty insurance **providers** fall into one of four categories:

- Lloyd's association
- Mutual company
- Stock company
- Government owned

We will discuss each one in more detail on the following pages.



Types of Providers — Lloyd's Association

Lloyd's associations are named after the famous Lloyd's of London which is actually not an insurance company. Instead it is a network of individuals and groups who agree to share insurance risks. This type of arrangement is known as a **Lloyd's association**. Its origin dates back to 1688 at the Lloyd's Coffee Shop in London.

Types of Providers — Stock Company

A **stock insurance company** is owned by **stockholders**—who may or may not be policyholders. Many **stock companies** own a large number of their own stock shares. This allows a company to have more control of its operations.

A big advantage of a **stock organization** is it is able to raise additional business capital by creating and selling additional stock shares.

There are some disadvantages of **stock companies**. Since the shares of **stock companies** are publicly traded, there is a tendency to please the shareholders—who often have a short-term focus instead of long-term.

Stock shareholders are usually able to publicly sell their shares. Sometimes this can lead to instability for the organization. Allstate and Progressive are examples of **stock insurance companies** with large market shares of the property and casualty insurance business in the state of Utah.

Types of Providers — Mutual Company

A **mutual insurance company** is owned by its **policyholders**. In other words, it is owned by the people it serves. The policyholders elect a board of directors—who in turn hire the top management to run the company.

An advantage of the **mutual organization** is since there are no stockholders to answer to; the company can have a long-term focus instead of short-term. Since policyholders cannot sell their mutual ownership rights, this usually allows for more stability in the organization.

A disadvantage of a **mutual organization** is it is unable to raise business capital by selling shares of stock.

State Farm, American Family, and Bear River are examples of **mutual insurance companies**; they have large market shares of the property and casualty insurance business in the state of Utah.

Types of Providers — Demutualization

Some large mutual insurance companies have converted to stock companies over the past decades. This process is known as **demutualization**. When this happens, the prior owners (policyholders) usually receive consideration such as cash or stock in exchange for giving up their mutual form of ownership. Mutual insurance companies that have **demutualized** include Prudential, MetLife, Provident, John Hancock, and Principal.

Types of Providers — Government Programs

In the United States, the federal and state **governments** participate in providing insurance programs—sometimes because particular programs cannot be underwritten by private insurance companies. Some examples of **government** insurance programs related to property and casualty insurance include:

- Flood Insurance
- Crop Insurance
- Workers Compensation

These will be explained in further detail on the following pages.

Government Programs — Flood Insurance

The Federal Emergency Management Agency (FEMA) oversees the National Flood Insurance Program (NFIP). This program makes **flood insurance** available in designated areas at a low cost. To qualify for **flood insurance** through this program, the property must be located in a community that has agreed to implement strategies to prevent or reduce flooding in the future. Private insurance companies are permitted to sell **flood insurance** under a "write-your-own" program. This program is backed by the United States government.



Government Programs — Crop Insurance

The Risk Management Association (RMA) is part of the United States Department of Agriculture (USDA) and operates the Federal Crop Insurance Corporation (FCIC). The FCIC promotes economic stability of the agriculture industry by providing policies for more than 100 crops. The corporation is managed by a board of directors under the supervision of the Secretary of Agriculture.



Government Programs — Workers Compensation

In a handful of states, employers are required to purchase **workers compensation** insurance policies for their employees through a monopolistic state-owned insurance fund.

In the other states—which are called non-monopolistic states—employers can purchase **workers compensation** insurance from the state fund (state pool) or from private insurance companies. In these states, the state pool caters to employers who are unable to purchase **workers compensation** insurance from private insurance companies. That's because they have a poor safety record or excessive claim history. Utah is a non-monopolistic state.



P&C Insurance Industry — Regulation

For hundreds of years, our society has recognized the importance of a stable and fair insurance industry. If the insurance industry were left unchecked, consumers could be subjected to unfair, unstable, and fraudulent practices. Therefore, insurance is a heavily regulated industry. In the United States, each state is charged with the responsibility of regulating the insurance business that is done within its border.

P&C Insurance Industry — State Regulation

The insurance department of each state is responsible for protecting the interests of insurance consumers. Important objectives include allowing consumers to have a wide variety of insurance products to choose from and making sure the insurance companies remain solvent (financially stable). In most states, the head insurance regulator is called a commissioner. In other states the title is director or superintendent. The head insurance regulator in Utah has the title of commissioner.



P&C Insurance Industry — State Duties

Duties of the state insurance departments include:

- Examine and approve property and casualty insurance forms and rates filed by the insurance companies
 - Filed rates must be appropriate—not an excessive amount—but enough for the company to meet its promises to its customers
 - Forms and rates must not illegally discriminate against groups of people
- Respond to legal questions about insurance
- Regulate the licensing for insurance professionals and organizations, including initial licenses, renewal licenses, and continuing education
- Determine which insurance companies are authorized to conduct business in the state
- Analyze and verify the financial information of insurance companies; identify insurance companies who have financial difficulties and assist in rehabilitation; manage liquidation of insolvent insurance companies
- Provide assistance to consumers by handling complaints and inquiries
- Enforce compliance with insurance code and rules; conduct fraud investigations and prosecute individuals, organizations, and companies who violate insurance law; violators are subject to license suspension, license revocation, fines, or jail time

P&C Insurance Industry — NAIC

The National Association of Insurance Commissioners (NAIC) is an organization consisting of the head insurance regulator from each state, including Washington D.C. and four United States territories. It was created in 1871. The NAIC's website is www.naic.org. Main objectives of the NAIC include:

- Promote communication and exchange of ideas between the individual state insurance regulators
- Develop uniform insurance regulations when appropriate
- Provide recommendations and expectations regarding insurance law changes in the individual states

P&C Insurance Industry — Financial Ratings

The financial strengths of insurance companies are rated by several organizations. Insurance companies are rated on their ability to meet ongoing obligations to both policyholders and creditors. Rating organizations include:

- A.M. Best – www.ambest.com
- Moody's Investors Service – www.moodyys.com
- Standard and Poors – www.standardandpoors.com

Unit Three — Insurance Company Operations

Company Operations — General Operations

Like many other organizations, insurance companies have departments such as human resources, public relations, education, information systems, customer billing, and office administration. The next slides focus on the functions that are unique to insurance companies.

Company Operations — Marketing

Marketing encompasses many important functions of insurance companies including advertising, sales promotion, agency development, product design and development, and distribution.

Insurance companies utilize one (or a combination) of four types of distribution systems:

- Exclusive (captive) agency
- General agency
- Direct sales (direct response)
- Independent agency

These will be explained in more detail on the next slides.

Marketing Distribution Systems — Exclusive Agency

This distribution system is also known as **captive agency**.

Insurers provide their insurance products through agents who are independent business owners

The insurer will prohibit the agent from selling the insurance of carriers not authorized by the insurer.

Exclusive agents are paid on a commission basis; however, some insurance companies provide new agents with additional financial support while their agency is getting established.

Marketing Distribution Systems — General Agency

General agency is similar to **exclusive (captive)** agency—except the **general agent** is an entrepreneur that can market, advertise, and appoint subagents to sell and service insurance policies.



Marketing Distribution Systems — Direct Sales

This distribution system is also known as **direct response**.

Insurers advertise and sell directly to the public via the TV, radio, Internet, mail, etc.

Insurance is sold and serviced by employees that are usually paid a salary with bonuses for good performance.

Marketing Distribution Systems — Independent Agency

Insurers market their insurance products through agents who are independent business owners.

Independent agents are allowed to sell insurance for multiple insurance companies.

Independent agents are paid a commission for the policies they sell and do not receive a salary.

If the agency's relationship with the insurer is terminated, the agent is normally able to keep the rights to his or her policies and place them with another insurance company.

Company Operations — Sales Management

Sales management is charged with supervising the agents who represent the company. It must pursue and recruit new agent candidates. Once a decision is made to bring a new agent on board—and the candidate has secured an agent license with the state—**sales management** must appoint the new agent by submitting the necessary requirements to the state department of insurance.

Utah administrative rule **R590-244-9** states:

- An insurer shall electronically appoint an individual or agency licensee with whom the insurer has a contract.
- The appointment shall be submitted (to the state insurance department) no later than 15 days after the identified effective date of appointment or receipt of the first insurance application.
- Appointments are continuous until terminated by the insurer or canceled by the department.
- It is not necessary for an insurer to appoint an individual who is listed as a designee on an appointed agency's license.
- An insurer shall electronically terminate the appointment (no later than 30 days after the identified effective date of termination) of any previously appointed individual or agency no longer authorized to conduct business on behalf of the insurer in this state.

Sales management is also responsible for mentoring and directing new agents to help them be successful. This department examines the sales production to make sure each agent is producing a high quantity and quality of business and doing a good job of retaining existing customers.

Company Operations — Actuarial

The **actuarial** department develops and maintains pricing techniques and rating plans.

Actuaries are well-trained professionals in mathematics and statistics. Their primary role is to predict, with reasonable accuracy, the probability that people of a particular risk classification will suffer a financial loss. Then keeping in mind the company is in business to make a profit, they determine the price people in that risk classification need to pay.

Actuaries ensure the company's products meet the necessary regulatory requirements related to pricing. They also make sure the insurance company has enough funds in reserve to pay future claims and provide advice on how to invest the insurance company's assets.



Company Operations — Underwriting

Underwriters analyze insurance risks. Based on the standards established by the insurance company, each risk is either accepted or rejected. **Underwriting** duties related to property and casualty insurance include examining the physical hazards and condition of the property—and examining the eligibility of the proposed insured based on criminal history, driving record, and prior claim history.

For most insurance companies, the job of underwriting is a balancing act. On one hand, they strive to increase their market share and policy count. That way of thinking results in lenient **underwriting** rules so more policies can be written. On the other hand, insurance companies are in business to make a profit. That school of thought dictates that **underwriting** should only accept the very best risks so losses can be minimized.

Underwriting departments have other important objectives. One is to classify the accepted risks so that the appropriate premiums can be charged. Another is to protect the company by making sure the policy application was submitted with the correct options and endorsements for that type of risk.

Underwriting — Adverse Selection

Underwriters must be aware of **adverse selection**, which is the natural tendency for people of higher than average risk to want insurance or keep the insurance they already have. Some examples of **adverse selection** include:

- Joe doesn't have physical damage (collision and comprehensive) insurance on his car, since he is a safe driver and not likely to cause an accident. However, his 16 year-old son Peter recently obtained his driver's license. Therefore, Joe now decides to add physical damage insurance on his car due to the increased chance of an accident now that Peter is driving.
- Sally has renters insurance. She is considering cancelling her renters policy because she doesn't want to pay the premium. Then she finds out several of her neighbors were robbed recently. Sally decides to keep her renters insurance policy, since she is concerned that she might get robbed also and doesn't want to be without insurance protection.

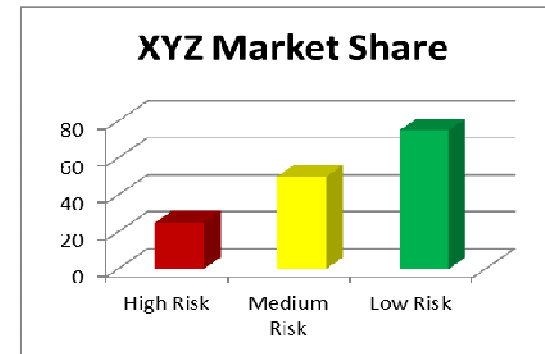
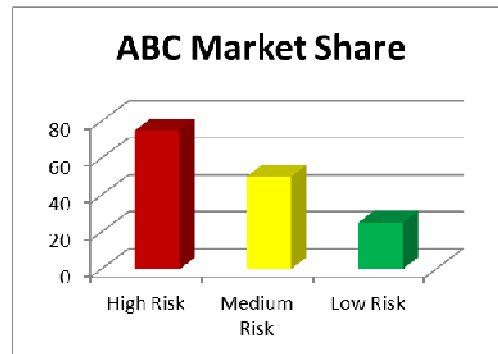
Underwriters can protect insurers against **adverse selection** by carefully analyzing risk and performing these actions when necessary:

- **Reject the risk** completely
- **Restrict the coverages** on the risk
- **Charge the appropriate premium** for the risk being insured—knowing that people who want insurance are more likely to have losses than the general public

Underwriting — Adverse Selection and Pricing

Adverse selection also includes the natural tendency for people to want the most amount of insurance coverage—for the least price. Consider this scenario:

- Insurer ABC charges all auto insurance customers the same price—high risk, medium risk, and low risk insureds all pay the same premium.
- Insurer XYZ is smarter—and charges higher risk insureds more and lower risk insureds less.
- Assuming that ABC and XYZ are competitors, ABC's policies will be more cost attractive to higher risk insureds, and XYZ's policies will be more cost attractive to lower risk insureds.
- As a result, ABC will have more high risk insureds than XYZ—and will pay out more in claims than XYZ. In other words, ABC will be **adversely selected** against.



Insurance companies must be smart in determining the amount of risk (chance of loss) each potential insured brings to the table—and offering insurance coverage at a price that accurately reflects that amount of risk.

Underwriting — Measurements

Proper underwriting practices and techniques have a critical role in the financial performance of an insurance company. The property & casualty insurance industry uses three **standard measures** to evaluate a company's financial results during a specific period of time:

	<i>Description</i>	<i>Formula</i>
Loss Ratio	The percentage of premium received that is paid out in claims (including claim adjusting expense)	Loss Ratio = $(\text{Incurred Losses} + \text{Adjusting Expense}) / \text{Earned Premiums}$
Expense Ratio	The percentage of premium received that is paid out in expenses (commissions, marketing, salaries, supplies, and other overhead expenses)	Expense Ratio = $\text{Underwriting Expenses} / \text{Written Premiums}$
Combined Ratio	The sum of loss ratio and expense ratio; ideally, an insurance company seeks a combined ratio that is less than 100% — which means it has an underwriting gain (takes in more money than it pays out in claims and expenses)	Combined Ratio = $\text{Loss Ratio} + \text{Expense Ratio}$

Underwriting — Results

As explained on the previous page, insurance companies strive to have a **combined ratio** less than **100%** — which means it takes in more money than it pays out in claims and expenses.

Nevertheless, insurance companies often do not meet the **100% combined ratio** goal during a particular year. According to an April 2012 press release by the Insurance Information Institute (www.iii.org), U.S. property and casualty insurance companies had a **combined ratio** of approximately **108%** in 2011. That means for every **\$100** that insurance companies received in premium payments, **\$108** was paid out for claims and expenses. The net underwriting loss in 2012 was \$36.5 billion. These numbers illustrate the important role that investments make in the financial solvency of insurance companies.

	2011 (\$ billions)	Results
Net Earned Premiums	\$433.9	
Incurred Losses + Loss Adjusting Expense	\$344.5	Loss Ratio = 79.4%
Expenses	\$124.0	Expense Ratio = 28.6%
Combined Losses & Expenses	\$468.5	Combined Ratio = 108%
Net Underwriting Gain (Loss)	(\$36.5)	

U.S. Property & Casualty Insurance Industry Results (2011)

Source: April 2012 Press Release by the Insurance Information Institute (www.iii.org)

Company Operations — Policy Processing

This area works closely with underwriting. In fact at some companies, underwriters and policy processors work together as a single unit. The responsibilities of **policy processing** include: application screening, rating, issuing, and assembling. Most companies have computerized systems that assist in these functions. **Policy processing** is also involved in servicing the policy after it has been issued. They perform maintenance tasks to satisfy insured requests to add or remove coverages and cancel the policy.

Company Operations — Claims

The concept of insurance hinges on an insurance company's promise to pay a **claim** if certain conditions have been met. Therefore, the **claims** department's job is to make sure insureds and other claimants are "made whole" if they suffer a covered financial loss. When an insured reports a loss, an underwriter is assigned to investigate the loss and determine if it is a covered loss. That involves gathering information about when the loss occurred, how it occurred, where it occurred, who was involved, and what financial loss occurred. This information is then compared to the insured's policy that was in force at the time of loss to determine if the loss will be paid.

Company Operations — Legal

The **legal** departments of insurance companies have functions unique to the industry. For example, they must determine how the state insurance laws affect their business. They must ensure the company's insurance policies are compliant with state regulation. The legal staff also plays a crucial role in settling claims. Sometimes disputes arise between claimants and insurance companies regarding if a claim should be paid and how much should be paid to settle a claim. Attorneys represent insurance companies in negotiations and in court.



Company Operations — Accounting & Finance

Insurance companies are heavily regulated by state insurance departments. Accountants and other financial experts are relied upon to make sure all the rules and regulations are followed regarding payment of agent commissions, handling of customer premium payments, standardized reporting, and reserves.

Utah administrative rule **R590-147-5** states:

- The annual statement, quarterly statements, and required supplemental schedules, exhibits, and documents shall be prepared in accordance with the latest edition of the NAIC annual and quarterly statement instructions and the accounting practices and procedures manual published by the NAIC.
- All insurers shall file their annual statements, quarterly statements, and required supplemental schedules, exhibits, and documents electronically with the NAIC in accordance with the NAIC annual and quarterly statement instructions. The commissioner may allow insurers that operate only in Utah to file hard copy forms with the department and exempt them from filing electronically with the NAIC.
- Domestic insurers ONLY shall additionally file two paper copies of all documents required by rule with the department, in accordance with the deadlines established in the NAIC annual and quarterly statement instructions.

Company Operations — Loss Reserve

Loss reserve is the term used to describe the insurance company's liability for losses that have already occurred—but have not yet been settled. For instance:

- If an insured gets into an accident today, it may take several years before the attorneys and the court system are able to determine who is liable for the accident and how much the damages are.
- Therefore, the insurer's **loss reserve** experts must estimate how much money will be needed to pay the insurer's future obligation for the accident.

According to an April 2012 press release by the Insurance Information Institute (www.iii.org), U.S. property and casualty insurance companies had **loss & loss adjustment expense reserves** of \$572.6 billion at the end of 2011.



Company Operations — Investments

Insurance companies have unique requirements regarding **investments**. As mentioned previously, **loss reserves** must be available to pay possible future claims. Although it is prudent for insurance companies to invest their reserves so they can grow in value, preserving the capital is the primary investment goal. Therefore, insurer investment experts are challenged to choose investment strategies that are safe and secure. High quality corporate bonds and preferred stocks are often utilized by insurance companies for investing **loss reserves** due to their conservative nature.

According to an April 2012 press release by the Insurance Information Institute (www.iii.org), U.S. property and casualty insurance companies had net investment gains of \$56.2 billion in 2011. As indicated below, this was more than enough to overcome the net underwriting loss of \$36.5 billion.

	2011 (\$ billions)
Net Earned Premiums	\$433.9
Combined Losses & Expenses	\$468.5
Net Underwriting Gain (Loss)	(\$36.5)
Net Investment Gains	\$56.2

U.S. Property & Casualty Insurance Industry Results (2011)

Source: April 2012 Press Release by the Insurance Information Institute (www.iii.org)

Company Operations — Risk Management

The term **risk management** can mean different things to different people. For instance, individuals purchase insurance as a form **of risk management**. Insurance companies also need to manage their risk to reduce their chance of severe financial loss. For example:

- Suppose an insurance company sold a large number of Homeowners policies with earthquake coverage in an area that is high risk for earthquakes. If a large earthquake occurred in that area, the insurance company could suffer an unusually large number of claims and put it at risk of being insolvent.
- Insurance companies also need to monitor the business written by their agents. Suppose 75% of an insurer's auto insurance policies are written with a **good student discount**. However demographic data reveals that only 20% of the households would have student that was a "good student." This situation would put the company at risk of financial loss, because they wouldn't be charging the correct amount of premium for the autos they are insuring.



Risk management experts identify situations that put the company at too much risk of financial loss. They also recommend corrective strategies.

Company Operations — Reinsurance

One method of managing an insurance company's risk is through **reinsurance**. **Reinsurance is insurance for insurance companies.**

Reinsurance is purchased by insurance companies to reduce the risk of large financial loss. For instance, the risk management experts at Edgar Insurance Company are concerned their exposure to storm losses is too high. Therefore, Edgar Insurance purchases a **reinsurance** policy from Athens Insurance Company, which stipulates that Edgar Insurance is entitled to receive a payment from Athens Insurance if losses exceed a specific amount (e.g. \$50 million). **Reinsurance** allows Edgar Insurance to take on more exposure than it otherwise could without **reinsurance**. The **reinsurance** contract described above is known as **treaty reinsurance**.

Another type of **reinsurance** is known as **facultative reinsurance**, which provides an insurer with coverage for certain individual risks that are too large or too unusual to be covered by **treaty reinsurance**. For example, suppose Edgar Insurance writes an insurance policy on a \$25 million building. Edgar Insurance then purchases a **reinsurance** policy from Athens Insurance, which stipulates that Edgar Insurance is entitled to a payment from Athens Insurance if a loss causes damage to the building costing more than a specific amount (e.g. \$10 million).

Company Operations — Brokerage

Some property and casualty insurance companies distribute their insurance products utilizing an **exclusive (captive)** distribution system. This means that its agents are not allowed to sell insurance products of another carrier. Doing so would be a violation of the agent contract.

However, many insurers that utilize an exclusive (captive) distribution system also have a **brokerage** department which allows their agents to sell insurance products that are not underwritten by that company.

For instance, suppose Marathon Insurance is a multi-line company specializing in Auto, Home, Health, Commercial, and Life insurance. One of Marathon's agents has a customer who has already purchased six insurance policies. The customer just bought a new helicopter and would like to purchase insurance for it from the Marathon agent. Although Marathon Insurance Company does not underwrite helicopter insurance, it has a brokerage department that will act as an intermediary between the customer and an insurance company that does underwrite helicopter insurance. Therefore, the customer will be able to continue to have all his or her insurance policies through the Marathon agent, and the Marathon agent will get a commission for selling the helicopter policy.

Unit Four — Producer Requirements & Responsibilities

Insurance Licensing — Licensing Steps

These are the steps to obtain a Utah resident insurance license:

1. Pass the required exam(s) at a Prometric exam center
2. Complete and submit a license application electronically with the Utah Insurance Department via the Sircon kiosk at the exam center.
3. Pay all nonrefundable fees
4. Have fingerprints taken at the exam center (if applying for an initial resident license)



Insurance Licensing — Types of Professionals

The Utah Insurance Department licenses the following insurance professionals:

- **Producer** – Someone appointed by an insurer to solicit applications for insurance or negotiate insurance on its behalf. A producer represents the insurance company, and usually receives a commission selling insurance products.
- **Consultant** – Someone who receives compensation (other than sales commissions) for giving advice, rendering an opinion or providing information about insurance. A consultant usually represents the insurance consumer. To qualify for a consultant license, a person must have been acting in a capacity that would provide him or her with the preparation to act as an insurance consultant for an aggregate period of not less than three years during the four years immediately preceding the date of the application. The qualifications must relate to the line of insurance for which the person plans to consult.
- **Adjuster** – A person licensed to evaluate losses and settle insurance claims for or against authorized insurers. Utah law states that a “regular salaried employee of an insurer” does not require a license to adjust losses for that insurer. “Insurance adjusting” or “adjusting” means directing the investigation, negotiation, or settlement of a claim under an insurance policy, on behalf of an insurer, policyholder, or a claimant under an insurance policy.

Insurance Licensing — Types of Licenses

The Utah Insurance Department issues the following **types of licenses** (indicated by a check):

	<i>Producer</i>	<i>Consultant</i>	<i>Adjuster</i>
Life	✓		
Variable Contracts	✓		
Accident/Health	✓		✓
Life and Accident/Health	✓	✓	
Property and Casualty	✓	✓	✓
Marketing Representative's Title	✓		
Title Search	✓		
Escrow	✓		
Personal Lines	✓		
Surplus Lines	✓		
Property	✓		
Casualty	✓		

The Department issues **limited lines licenses** for: Credit, Bail Bond Producer, Legal, Car Rental, Motor Club, Crop, Self-Service Storage, and Travel. Unlike the licenses listed above, an exam is not required for **limited lines licenses**.

Insurance Licensing — Resident Requirements

To qualify for a Utah **resident producer** license, a person must:

- Be at least 18 years old;
- Be a resident of Utah;
- Be of good character and competency; and
- Pass the license examination(s) required by statute.

To conduct insurance transactions in Utah as a **producer**, a person must:

- Hold a current license for the line of insurance being transacted;
- Be appointed and/or designated by an authorized insurer or licensed insurance agency; and
- Be under contract with that insurer or insurance agency.

If a person is not contracted or affiliated with any insurer or insurance agency, his or her license remains active, but he or she cannot conduct insurance transactions.

Insurance Licensing — Fingerprinting

The Utah Insurance Department requires all individuals applying for a resident insurance license to be **fingerprinted**.

Fingerprinting must be done at a Prometric exam center, using a technology called “live scan.” This process digitally captures and transmits the **fingerprints** to the Utah Department of Public Safety, Bureau of Criminal Identification (BCI), and the Federal Bureau of Investigation (FBI).

Fingerprinting is required only for first-time licensees; it is not required for resident licensees adding a line of authority to their existing license.

Insurance Licensing — Initial / Renewals

New **individual licenses** expire on the last day of the licensee’s birth month that is two years or more after the date the licensee initially received the license. For example, Madelyn received first received her license on July 1, 2012. Her birthday is October 25. Madelyn’s **initial license** will expire on October 31, 2014—and should be renewed on or before that date.

After the first renewal, an **individual licensee’s** license will expire every two years on the last day of his or her birth month. Continuing the scenario above, Madelyn’s **second renewal period** will expire on October 31, 2016.

Agency licenses expire every 2 years from the date of issuance, on the last day of the month.

Insurance Licensing — Reinstatements

A licensee that **fails to renew** a license before the expiration date is entitled to **reinstate** that license for a period of one year from the expiration date.

Required continuing education (CE) must be completed **prior** to license renewal.

Fingerprints are not required for **reinstatements**.

A licensee is responsible to notify insurance companies he or she is appointed with, and agencies he or she is designated with, of the **reinstatement** of his or her license and request a new appointment or designation. A **reinstated** agency is also responsible for reinstating all designees to its license.

After **reinstatement** of an inactive license, the reinstated license will expire on the same date it would have expired had the license not become inactive.

A licensee who **fails to reinstate** an inactive license within **one year** of the inactivation date may not apply for **reinstatement** and must apply for a **new license** as a new applicant.

Insurance Licensing — Records

All individual licensees must provide and maintain valid and current contact information with the State. This information includes:

- Address and phone number for principal place of business
- Address and phone number for residence
- Valid business email address where the person can receive communication from the department

Failure to notify the State within **30 days** of a change in contact information may result in penalties.

A producer must maintain records for all insurance transactions at their place of business. The records must be available immediately—either physically or electronically—upon request by the State for review.



Insurance Licensing — Email Address

A licensee must have and maintain a valid **email address** on file with the commissioner where the person can receive communication from the Department such as:

- General notification;
- License renewal notice;
- Billing invoice;
- Consumer complaint;
- Request for information; or
- Other correspondence.

A person to whom this rule applies must confirm that the spam filter for the required email address will accept email correspondence from the Department.

Continuing Education – Requirements

Continuing education (CE) requirements for all Utah **licensed adjusters** and **resident producers** (except title producers and limited lines licensees):

- A total of 24 credit hours of continuing education are required
- At least 12 credit hours must be in the classroom or classroom equivalent type courses
- At least 3 credit hours must be in ethics training; and the remaining 21 credit hours can be in any line of insurance
- All 24 credit hours must be from courses approved by the Utah Insurance Department

Continuing education (CE) requirements for all Utah **resident title producers**:

- A total of 12 credit hours of continuing education are required
- At least 6 credit hours must be in the classroom or classroom equivalent type courses
- At least 3 credit hours must be in ethics training; and the remaining 9 credit hours can be in any line of insurance
- All 12 credit hours must be from courses approved by the Utah Insurance Department
- If licensed for 20 or more consecutive years, a total of 6 credit hours is required, with 3 credit hours of ethics

Only **CE** credits taken during a renewal period can count for that renewal period. CE credits cannot be rolled over to the next renewal period.

A course cannot be repeated in the same renewal period. If the same course is taken again in a different renewal period, it can count for **CE** in both renewal periods.

Continuing Education – Exceptions

Producers that have only a **limited lines license** are not required to take continuing education.

A **nonresident producer** who has complied with continuing education requirements in his or her home state is not required to complete additional CE for their non-resident license in Utah.

A licensee whose license lapses due to **military service, voluntary service** for a period of time designated by the person for whom the licensee provides **voluntary service, or some other extenuating circumstance**, such as long term medical disability, may be exempt from the continuing education requirements in order to reinstate the license.

A licensee who was first licensed before **April 1st, 1978** may be exempt from continuing education requirements.

Producers holding and maintaining the following **designations** are deemed to have met the CE requirements: CLU, ChFC and RHU with completion of the PACE program; CPCU with completion of the CPD program; and CFP, REBC, CIC, ACSR, CRM, SOFE, or IRES with completion of their continuing education requirements.

A **title producer** who is an active member in good standing with the **State Bar**, and has met the continuing education requirements of the Utah State Bar, is considered to have met the continuing education requirements for the Utah Insurance Department.

Producer Responsibilities – To Insurer

Insurance producers are expected to act on behalf of the insurance company. They are the eyes, ears, mouth, and hands of the insurance company. The process of selling insurance involves several responsibilities which are presented next.

Producer Responsibilities – Marketing

This includes activities such as advertising and establishing solid relationships with influential community business leaders (centers of influence).

Producer Responsibilities – Prospecting

This means targeting and contacting specific individuals with the desire it will lead to a sale. The producer has a responsibility to the insurance company to seek customers that qualify based on the company's underwriting rules.

Producer Responsibilities – Explain Coverages

Insurance producers are expected to be knowledgeable regarding insurance products so they can educate customers and answer questions that arise. They must be able to analyze the customer's exposures and provide advice to the customer regarding the type and amount of insurance coverages needed.

Producer Responsibilities – Field Underwriting

Prior to submitting an application to the insurance company, a producer is expected to review the risk and determine with reasonable certainty the risk meets the insurance company's underwriting rules.

Producer Responsibilities – Gather Information

The producer is responsible for collecting all the information required by the company so the risk can be correctly underwritten and priced.

Producer Responsibilities – Quoting

This means calculating policy premiums based on the coverages, options, limits, available discounts, and deductibles—and preparing a written quotation for the prospect to review and consider.

Producer Responsibilities – Application Completion

Once the prospect agrees to purchase a policy, the producer must complete a policy application and submit it to the insurance company for its review.

Producer Responsibilities – Payment Processing

Producers are usually responsible for collecting and processing a payment equal to one or two months of premium at the time the policy is written—this is called a down payment. Thereafter, some customers prefer to make regular payments in the producer's office which need to be processed by the agency. Regardless of what payment processing method is used, it is extremely important that premium payments are not **commingled** (mixed together) with other funds.

Producer Responsibilities – Servicing

Producers are often responsible for **servicing** their clients which could include the following activities:

- Answer questions about coverages and billing
- Responding to customer change requests



Authority

Insurance companies grant insurance producers the **authority** to act on their behalf. When producers exercise their authority, their actions are considered to have been performed by the insurance company. For instance, if a producer accepts a premium payment from an insured, it has the same significance as if the insured paid the money directly to the insurance company.

In many **property & casualty** sales situations, producers have the authority to **bind coverage**. This means the producer has the authority to make the coverage effective at the time the application is completed.

Generally, there are three types of **authority** that insurance producers have:

- Express authority
- Implied authority
- Apparent authority

These will be explained on the following pages.

Authority — Express

This is the authority that is **spelled out** in the written contract between the insurance company and the producer. For example, the contract may indicate the producer is authorized to sell certain insurance products in a specific geographical area.

Authority — Implied

This is the authority an insurance company intends the producer to have, but is **not expressed** in writing. There is a need for **implied authority**, since it is impossible to write a contract that spells out every possible scenario that may occur. **Implied authority** is granted based on previous words or actions of the insurance company. For instance, Jane is a producer for Rietbrock Insurance Company and is expected to generate new business. She most likely has **implied authority** from Rietbrock Insurance Company to set up a booth at a county fair to represent and promote Rietbrock Insurance—even though that specific action is not expressly authorized in the producer contract.

Authority — Apparent

This type of authority is a bit more difficult to understand. It is a legal doctrine stating that a producer has whatever authority a reasonable person would think the producer has—even if the insurance company does not want the producer to have that authority.

Here are two examples of **apparent authority**:

- Bonnie is a producer with Black Creek Insurance Company. Then, however, her contract with that company is terminated. If she continues to represent herself to the public as a producer with Black Creek Insurance, many people might buy insurance from her and pay her premiums—even though Bonnie has no express or implied authority to do so. Because the public still thinks Bonnie represents Black Creek Insurance, that company could still be bound by Bonnie's actions.
- Assume Barbara is also a producer with Black Creek Insurance Company. Further assume that one of Barbara's customers calls Barbara and says she has a claim on her Homeowners policy. Barbara then tells the customer that the policy will pay for the damage. The insurance company that Barbara represents would not want Barbara to tell the customer that—since Barbara is an insurance producer—not an insurance adjuster. Barbara does not have the authority to settle claims—she has **over-stepped her boundaries**.

Producer Conduct – Fiduciary Responsibilities

Producers are considered to have **fiduciary responsibilities**. In other words, producers are **fiduciaries** for the insurance companies they represent. A **fiduciary** is a person who is in a position of trust with someone else's money.

Here are two examples:

- If a producer accepts a downpayment from a customer, the moment the producer receives the money, it is the insurance company's money. The producer must act in such a way to keep the money safe and forward it to the insurance company as soon as possible.
- The producer is expected to do field underwriting and is the eyes, ears, nose, mouth, feet, and hands of the insurance company. Anything the producer knows about the customer related to an insurance transaction—the company is deemed to know it also.



Although producers are not considered **fiduciaries** (in a legal sense) for the customers they sell insurance to, producers are expected to adhere to strict standards and rules of conduct required by their state insurance department. Some important topics regarding producer conduct are explained on the following pages.

Producer Conduct – Misrepresentation

Simply stated, insurance producers must disclose the complete and accurate truth about insurance policies and the companies they represent.

Regarding insurance contract law, a customer is not required to make sure what a producer says is true about an insurance policy. Therefore, when disputes or lawsuits arise, the courts often rule in favor of customers—instead of insurance producers and insurance companies.

Misrepresentation can either be unintentional negligence or intentional.

If it is unintentional, the **misrepresentation** can result in civil court penalties and also penalties and fines imposed by the state department of insurance. Unintentional **misrepresentation** is usually covered by the producer's errors and omissions (E&O) policy.

The consequences for intentional **misrepresentation** are much more severe. It is considered fraud and can result in criminal prosecution in addition to the consequences already mentioned for unintentional **negligence**. A producer's E&O policy does not cover intentional acts.

Producer Conduct – Churning

Churning is the illegal practice of selling a new policy to a current or former customer with intent by the producer to make a larger commission. Many producers who receive commissions get a higher commission for selling a new business policy than for renewing an existing policy. Therefore, some producers are tempted to cancel an existing policy and then write a new policy so he or she can receive a new business commission. Such actions are usually a detriment to an insured since policy cancellation tarnishes their policy history and makes them ineligible for longevity discounts.

Producer Conduct – Twisting

Twisting is similar to **churning** and is also illegal. There are a few variations of **twisting**. A typical form of twisting is the practice of persuading a person to cancel a policy that an insured has with another company—and replacing it with a policy issued by the company the producer represents—even though it is not in the best interests of the insured.

Producer Conduct – Rebating

A licensee may not give or offer to give any prizes, goods, wares, merchandise or item of value as an inducement to enter into any insurance or annuity contract or as an inducement to receive a quote, submit an application or in connection with any other solicitation for the sale of an insurance or annuity contract. However, anything with an acquisition cost of **\$3.00** or less shall not be considered an inducement.

This does not prohibit the giving of promotional gifts or merchandise that is generally available to the public and not given in a manner to constitute an inducement to receive a quote or other solicitation or to purchase any insurance or annuity contract, nor does it prohibit insurers from providing sales incentives to producers.

Producer Conduct – Social Courtesies

Social courtesies provided by a licensee are not prohibited as long as they are not related to a particular transaction. If the receiving of the **social courtesy** is dependent on obtaining a quote, submitting an application or purchasing a policy or contract, it is related to a particular transaction.

A gift or meal not to exceed **\$25.00** for each individual receiving the gift or meal is presumed to be a **social courtesy** not conditioned on the purchase of a particular insurance product.



Producer Conduct – Illegal Discrimination

Some forms of **discrimination** are legal in the insurance industry. For example, it is legal in most states to charge men a higher rate than women for Auto and Life insurance. Other forms of discrimination are illegal. Regarding Homeowners insurance for instance, it is illegal to charge a different rate or determine eligibility based on an insured's gender, age, race, or religion.

Producer Conduct – Forgery

It is criminal offense for a producer to sign someone else's signature.

Producer Conduct – Application Alteration

It is illegal for a producer to make a change to a policy application without the written consent of the applicant.

Producer Conduct – Commissions

Anyone receiving a **commission** as a result of an insurance transaction must be licensed.

For example, suppose:

- Jane (a licensed producer) hires Bob (an unlicensed individual) to find customers
- Bob finds 20 people that purchase insurance from Jane
- Jane pays Bob \$30 for each person who purchased insurance—for a total of \$600 in commission

The above example is illegal, since the compensation to an unlicensed individual was dependent on the purchase or sale of insurance.

However, compensation for a referral of a potential client that is not dependent on whether the referral results in a purchase or sale is legal—as long as the unlicensed person does not sell or provide opinions or advice on the product.

Producer Conduct – Money Handling

Producer responsibilities may include collecting premium payments from customers and submitting them to the insurance company in a timely manner. Producers who collect premium payments and fail to submit them to the insurance company may be subject to criminal prosecution.

Producers must also avoid mixing premium payments with their ordinary business and personal funds. Such a practice is known as **commingling funds** and is also illegal. To avoid problems, producers should have three separate checking accounts—**premium trust, business, and personal**. It is crucial that producers keep accurate records of all banking transactions and money flows.



Payments from customers must be forwarded to the insurer or deposited into a **premium trust** account by the **end of the next business day**.

Unit Five — Homeowners Insurance Policy

Homeowners – Organization and Terminology

How insurance policy information is organized—and the terminology used to describe the policy components—varies by insurance company.

Some Homeowners policies identify dwelling coverage as Coverage A, other structures coverage as Coverage B, and personal property coverage as Coverage C. Other policies may identify dwelling and other structures coverage as Coverage A and identify personal property coverage as Coverage B.

This unit does not focus on how each company organizes the information—or how each insurance company identifies the various sections and coverage parts. Rather, the intent of this unit is to focus on the basic fundamentals of Homeowners insurance policies.

Homeowners – Declarations

Once an insured purchases a Homeowners policy, the insurance company produces a declarations page that is usually delivered to the insured by mail. Unlike other sections of insurance contracts, the declarations page is tailored and created specifically for the customer. A Homeowners policy declaration may contain the information described on the following slides.



Homeowners – Declarations Information

Homeowners policy declarations generally contain the following information:

- **Insured**—name and mailing address of the person who is insured
- **Property Location**—address of the risk if different than the mailing address
- **Policy Period**—effective date and expiration date of the policy
- **Coverages and Limits**—coverages listed depend on what type of Homeowners policy was purchased by the insured. For Homeowners policies, coverages listed may include: dwelling, dwelling extension, personal property on premises, personal property off premises, loss of use, personal liability, and medical expense. The limit of insurance for each coverage is also listed. These limits specify the maximum amount the insurance company will pay on a claim for each coverage.
- **Loss Deductible**—amount of each covered loss the insured must pay. The insurance company pays the rest of the loss up to the policy limits.

Homeowners – Declarations Information (cont.)

Homeowners policy declarations also generally contain the following information:

- **Third Party Interest**—name and address of a person or business who is interested in knowing that insurance is in force for this property. The most common type of third party interest is a mortgagee. For example, a bank that holds the mortgage on a property wants to make sure it will get paid if the house is lost in a fire. Therefore, the insurance company may send evidence of insurance to the mortgagee each time the policy renews. For many policies, the mortgagee actually pays the annual Homeowners insurance premium by using funds collected monthly from the insured through escrow.
- **Additional Information**—policy number; name, address, and phone number of the agent who services the policy; any policy discounts granted by the company to the insured; any endorsements or options included in the purchased policy that are not specifically included in the standard policy text.

Homeowners – Definitions

This section of the policy explains the meaning of terms used in the policy. Some common terms explained in the definitions section of a Homeowners policy include: insured, insured location, property damage, bodily injury, occurrence, and vacant.

Homeowners Section I – Property Coverages

The property portion of Homeowners insurance policies is usually identified as **Section I**. **Section I** includes five types of property coverages: (a) dwelling, (b) dwelling extension, (c) personal property, (d) loss of use, and (e) additional coverages.

Homeowners Section I – Dwelling

This is the residence the insured lives in and the structures attached to it—including attached garages, wall-to-wall carpeting, built-in appliances, plumbing, and permanently installed heating and air conditioning systems.

Also included are construction materials located on or next to the residence (if used to construct, alter, or repair the dwelling). **Dwelling** coverage does not include the land on which the residence is located.



Homeowners Section I – Dwelling Limit

The **dwelling** is covered for losses up to the **dwelling limit** specified in the declarations. Most Homeowners policies provide **dwelling** coverage based on the replacement cost of the damaged building. That means the insurance company will pay out the amount needed to rebuild the damaged building—as opposed to merely paying out the actual cash value of the building or building portion that was damaged. To clarify, the insurance company will pay the entire replacement cost on a total loss if the insured has met the requirements of the policy. For example, some policies require that the **dwelling** must have 80% coinsurance. This means the **dwelling** must be insured for at least 80% of the cost to replace the **dwelling**. Other policies require 100% coinsurance. When a loss occurs and the insurance company determines these requirements were not met, the amount paid will be reduced.

It is critical the **dwelling** limit is based on the actual replacement cost of the **dwelling**—not including the land. Other **dwelling** valuations such as market value and tax assessment value are quite often meaningless when it comes to determining the **dwelling** limit. Appraised values may be helpful, but cannot be relied upon. The best method is to use a long series of calculations that consider dozens of variables such as location, total square feet, finished square feet, number of stories, foundation shape and type, roof type and pitch, exterior type, property slope, wall height, flooring type, wall type, kitchen square feet, number of bedrooms, number of bathrooms, heating type, air conditioning type, and number of fireplaces. There are several computerized systems on the market that assist insurance professionals in calculating replacement cost.

Homeowners Section I – Dwelling Extension

This is also known as **other structures** coverage. It includes structures not attached to the dwelling such as detached garages, sheds, driveways, sidewalks, fences, patios, retaining walls, and permanently installed yard fixtures. Structures used for business purposes are not covered under a Homeowners policy

In most Homeowners policies the limit of insurance for dwelling extension is an automatic 10% of the dwelling limit. The **dwelling extension** limit is in addition to the dwelling limit. If the insured needs a limit more than 10%, the other structures option or endorsement must be purchased.



Homeowners Section I – Personal Property

This is the personal belongings owned by or used by the insured anywhere in the world. If requested by the insured, the insurance company will also cover **personal property** owned by others.

For **personal property** not included in categories having special limits (as identified below), **personal property** is covered for losses up to the **personal property** limit specified in the declarations. In most Homeowners policies, the **personal property** limit is automatically calculated based on a percentage (usually either 50% or 75%) of the dwelling limit. For **personal property** taken outside the United States or normally at another residence, the limit is normally 10% of the dwelling limit.

Homeowners policies have special limits for certain categories of **personal property**. This means these items have limits that are much lower than the overall **personal property** limit. For instance, here are some of the categories along with their special limit as described in a “standard” **Homeowners** policy: money (\$200), securities (\$1000), jewelry (\$1000), theft of firearms (\$2000), silverware (\$2500), business personal property (\$2500), and electronic apparatus (\$1000). These limits can be increased by including or purchasing an option or endorsement.

The “standard” **Homeowners** policy provides **personal property** coverage based on actual cash value, which is calculated as the cost to replace the damaged **personal property** minus depreciation. Many **Homeowners** policies include an option that provides **personal property** coverage based on the replacement cost of the damaged **personal property**. This means the insurance company will pay out the amount needed to replace the damaged **personal property**.

Homeowners Section I – Loss of Use

This coverage will pay for **additional living expenses** an insured incurs when living away from the residence because of damage to the residence due to a fire or natural disaster. It covers the cost of hotel, meals, and other living expenses while the home is uninhabitable.

The coverage limit for **additional living expenses** varies from company to company. But as a general rule, the reimbursement of expenses is limited to the amount necessary for the family to maintain its normal standard of living.

If the insured rents out part of their house, **loss of use** coverage reimburses the insured for the rent that is lost because the home is uninhabitable.

Loss of use also provides coverage for situations where a civil authority prohibits the use of the residence due to direct damage to neighboring premises—for a period up to two weeks.



Homeowners Section I – Additional Coverages

Homeowners policies include coverages such as debris removal, emergency removal of property, trees, plants, shrubs, fire department service charge, property removal, credit/debit card, forgery and counterfeit money, loss assessment, collapse, glass or safety glazing material, landlord's furnishings, grave markers, lock replacement, refrigerated foods, and outdoor antennas.

Policies have limitations on **additional coverages**. For example, there is a \$500 limit on any one tree, plant, or shrub, with a limit for all trees, plants, and shrubs of not more than 5% of the dwelling limit. Trees, plants, and shrubs are not covered for loss due to wind or disease.

The **fire department service charge** has a limit of \$500 for any one loss.

Inflation Protection—this feature automatically increases the property limits to keep up with inflation. The amount of increase is determined by dividing the current year cost index by the cost index of the previous year.

Some policies describe **additional coverages** as supplementary coverages.

Homeowners Section I – Property Perils Insured Against

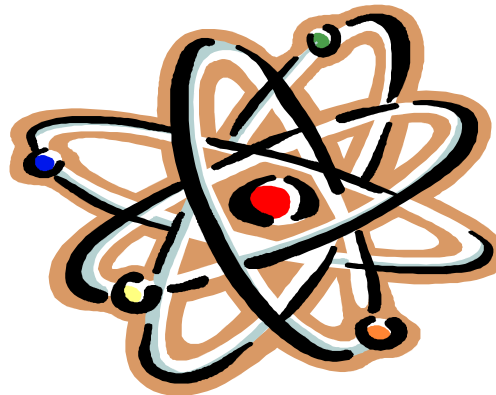
Now that we have discussed what **things** are covered, we will explain what **perils** are covered. The **perils** are the **causes of loss** are the events that trigger a loss to be paid.

- **Dwelling**—most Homeowners policies sold today provide **open peril** coverage on the **dwelling** and other structures. **Open peril** is also sometimes called **special form**. **Open peril** means the policy provides insurance on the building for all **risks of direct physical loss (RDPL)** that are not explicitly excluded in the policy. For instance, fire, lightning, wind, hail, explosion, riot, aircraft, vehicles, smoke, vandalism, malicious mischief, and theft are not explicitly excluded in the policy. Therefore, they are **covered perils**. An example of a **peril** that is explicitly excluded is a loss caused by vandalism and malicious mischief if the dwelling has been vacant for more than 30 (or 60 in some policies) straight days immediately before the loss. Other examples of **excluded perils** are: flood, earthquake, theft in or to a dwelling that is being built, wear and tear, marring, inherent vice, deterioration, latent defect, mechanical breakdown, smog, rust, mold, wet or dry rot, settling, shrinking, bulging, pavement expansion, patios, foundations, walls, floors, roofs or ceilings, birds, vermin, rodents, or insects, or animals owned or kept by an insured.
- **Personal Property**—some **Homeowners** policies provide **open peril** coverage on **personal property**. Other **Homeowners** policies provide **named peril** coverage on **personal property**. **Named peril** means the policy covers the insured's property for only the **causes of loss** specifically listed in the policy. For example, fire, lightning, wind, hail, explosion, riot, aircraft, vehicles, smoke, vandalism, malicious mischief, theft—and several others—are specifically listed. Any **perils** not specifically listed—such as flood, earthquake, mechanical breakdown, smog, rust, and mold—are not covered.

Homeowners Section I – Property Exclusions

The **exclusions** portion of the property section describes causes of loss in which loss caused directly or indirectly by that situation will not be covered. The **exclusions** apply to the five types of property coverages: dwelling, dwelling extension, personal property, loss of use, and additional coverages.

Some common **exclusions** are loss due to: routine wear and tear, earth movement including earthquake, enforcement of law or ordinance, water damage including flood, intentional loss by caused by insured, nuclear hazard, war, power failure off premises, and the insured's failure to preserve property when a loss occurs.



Homeowners Section I – Property Conditions

The **conditions** portion of the property section describes the duties, responsibilities, and rights of both the **insured** and the **insurance company**. Some common **conditions** related to property coverages are:

- The insurance company will pay the amount of covered loss that is above the deductible amount—as specified in the declarations; insurance professionals usually recommend a property deductible of either \$500 or \$1000 to their clients
- The insured cannot abandon the property
- If the insured and the insurance company cannot agree on the amount of loss, either party may demand an appraisal of the loss
- If a loss is also covered by other insurance, the insurance company will only pay it's proportion of the loss
- If the insured or the insurance company recover property on which the insurer has made loss payment the other party must be notified
- The loss will be paid by the insurance company within 30 days of reaching an agreement with the insured
- When a loss occurs to an item that is part of a pair or set, the insurance company is not obligated to pay the value of the entire set

Homeowners Section II – Liability Coverages

The liability portion of **Homeowners** insurance policies is usually identified as **Section II**.

Section II includes three types of coverages: (a) personal liability, (b) medical expense, and (c) additional coverages.

Homeowners Section II – Personal Liability

Personal liability covers damages the insured is legally liable to pay due to **bodily injury** or **property damage** caused by an occurrence covered in the policy. **Bodily injury** includes bodily harm, sickness or disease, loss of services, required care, and death. **Property damage** includes physical damage to or destruction of tangible property, including loss of use of this property. **Personal liability** coverage applies to liability for **bodily injury** or **property damage** that occurs anywhere when caused by unintentional acts of the insured or acts of the insured's pets.

Homeowners Section II – Personal Liability Locations

This coverage also applies to liability for bodily injury or property damage that arise from the **insured's locations**—regardless if they are directly caused by the insured's personal activities. The **insured's locations** include: the premises described in the declarations, newly acquired residences in the policy period, location an insured is renting for personal use, location where an insured is temporarily residing, vacant land owned or rented by the insured, land in which the insured's residence is being built, and cemetery plots.

Homeowners Section II – Personal Liability Defense Costs

Personal liability coverage also provides for **defense costs**. If a suit is brought against any insured because of bodily injury or property damage caused by a covered occurrence, the insurance company will provide **legal defense** at the insurance company's expense.

Homeowners Section II – Personal Liability Limit

A policy's **personal liability coverage limit** is specified in the declarations. For most Homeowners policies, the standard **personal liability limit** is usually either \$100,000 or \$300,000. Most insurance professionals usually recommend at least \$300,000 to their clients.

Homeowners Section II – Medical Expense

This coverage is sometimes called **medical payments** to others. The insurance company will pay the necessary **medical expenses** incurred within three years from the date an accident occurred that caused bodily injury to another party. In order for coverage to apply, the injured party must have sustained the injuries while the party was on the insured's location with the insured's permission. It will also be covered if the injury was sustained off the insured's location and was caused by the activities of the insured or by an animal owned by or in the care of the insured.

Injury to the insured or residents of the insured's home are not covered. However, injury to a resident employee in the course of employment can be covered—if not covered by **workers compensation**.

Unlike personal liability, with **medical expense** coverage, the insured does not have to be **legally liable** for the injuries.

A policy's **medical expense** coverage limit is specified in the declarations. For some Homeowners policies, the standard **medical expense** limit is \$1,000. Higher limits are available.



Homeowners Section II – Additional Coverages

Most Homeowners policies include coverages such as claim and defense expenses, damage to property of others, first aid expense, and property owner loss assessments. Some policies describe these coverages as **supplementary coverages**.

Homeowners Section II – Exclusions

The **exclusions** portion of the liability section describes causes of loss in which loss caused directly or indirectly by that situation will not be covered. The **exclusions** apply to both personal liability and medical expense. Some common **exclusions** are loss due to: intentional acts of the insured, business pursuits, rendering or failing to render professional services, aircraft ownership or use, ownership or use of motor vehicles that are subject to motor vehicle registration, ownership or use of some watercraft, war, sexual or physical abuse, transmission of communicable disease, law violation, and pollution.



Homeowners Section II – Conditions

The **conditions** portion of Section II describes the duties, responsibilities, and rights of both the insured and the insurance company. Some common **conditions** related to Section II coverages are:

- Bankruptcy or insolvency of the insured will not relieve the insurance company of its obligations
- For any one occurrence, the insurance company will not pay more than the personal liability limit stated in the declarations regardless of the number of persons injured, number of claims made, or number of insureds
- To any one person, the insurance company will not pay more than the medical expense limit stated in the declarations
- Payment under medical expense coverage by the insurance company is not an admission of liability by the insured or insurance company
- If an accident or event occurs that the policy may cover, the insured must notify the insurance company promptly

Homeowners – General Conditions

The **general conditions** portion of the Homeowners policy applies to both Sections I & II. They describe the duties, responsibilities, and rights of both the insured and the insurance company.

Some **general conditions** related to Sections I & II include:

- Insurance on the property described in the declarations begins and ends at 12:01 A.M Standard Time on the dates listed on the declarations; most Homeowners policy periods are for 12 months
- The insured may cancel the policy at any time for any reason
- The insurance company may cancel the policy by notifying the insured in writing of the cancellation date; the cancellation notice may be hand delivered or mailed to the insured
- If the insurance company decides to cancel the policy due to non-payment of premium, the insured must be notified at least 10 days before the policy is cancelled
- If the policy has been in force for less than 60 days, the insurance company can cancel the policy for any reason; however, the insured must be notified at least 10 days before the policy is cancelled
- If the policy has been in force for 60 days or more, the insurance company can cancel the policy if there was material misrepresentation, substantial change in the risk, or substantial breach of duty or warranty by the insured; in these situations, the insured must be notified at least 30 days before the policy is cancelled

Homeowners – General Conditions (cont.)

Additional **general conditions** related to Sections I & II include:

- If the policy is cancelled, any paid but unused premium will be refunded; the insurance company has a duty to refund the money within a reasonable time
- The policy may be continued for successive policy periods by payment of the premium on or before the effective date of the next policy period; if payment for the next policy period is not paid by the insured, the policy will expire at the expiration date of the prior policy period
- The insurance company is allowed to not renew the policy; if so, the insured must be notified at least 30 days before the policy expiration date
- The entire policy is void if the insured commits fraud or intentionally misrepresents or conceals information
- If any part of the policy conflicts with state law, the insurance company will change that part of the policy to agree with state law
- The insurance company is allowed to inspect the property being insured
- The insurance company has the option of whether or not to renew the policy; if the company decides to not renew, the insured must be notified at least 30 days before the policy expiration date

Homeowners – Options and Endorsements

Various **options and endorsement** are available for Homeowners policies. This allows a customer to purchase a customized policy just for their situation.

The term **option** is used to describe additional available coverages that are listed and explained at the end of the policy.

The term **endorsement** is also used to describe additional available coverages. However, each endorsement is explained on a separate document—outside the regular policy.

Any **options and endorsements** included in the policy or purchased by the customer at additional cost are listed in the declarations. Homeowners policies are usually not consistent regarding options and endorsements—one policy might call a particular coverage an option; another policy might call it an endorsement.

The following slides explain some of the most common Homeowners **options and endorsements**.

Homeowners – Options and Endorsements (cont.)

- **Personal Property Replacement Cost** — with this feature, the insurance company will pay to replace damaged personal property, without deducting for depreciation. (As stated earlier, the “standard” Homeowners policy provides personal property coverage based on actual cash value, which is calculated as the cost to replace the damaged personal property minus depreciation.) Some Homeowners policies include the personal property replacement cost coverage at no additional cost. With other policies this feature can be purchased for an additional cost.
- **Earthquake** — for an extra charge, this option or endorsement adds earthquake as a cause of loss to the policy and applies to Section I dwelling and personal property. (As stated earlier, cause of loss due to earthquake is excluded in a “standard” policy.)
- **Extended Coverage on Jewelry, Watches, Stones, Gems, and Furs** — this option or endorsement provides open peril coverage for these items. (As stated earlier, personal property is only covered for named perils in a “standard” policy.) Additionally, some insurance companies offer this option or endorsement with an increase of the limit for these items from \$1,000 to \$1,500 on any one article, with an aggregate limit of \$2,500. The same deductible shown in the declarations also applies to loss under this option or endorsement.



Homeowners – Options and Endorsements (cont.)

➤ **Scheduled Personal Property**

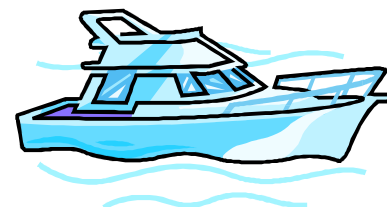
- With this option or endorsement, valuable property is specifically described in the declarations along with the limit it is insured for. This means these individual property items are not subject to the special limits that apply in a “standard” policy and allows these items to be insured for their full value. The insurance company usually requires the personal property to be appraised before it can be scheduled.
- This option or endorsement provides open perils coverage (instead of named perils). One important peril included in open perils is accidental disappearance, which covers an item if you lose it.
- No deductible applies to the scheduled property.
- There are several categories of valuable property: jewelry, cameras, furs, silverware, fine artwork, coins/stamps, golf equipment, tools, and musical instruments.



- **Additional Premises Coverage** — this option or endorsement extends the Section II coverages to cover an additional one or two family dwelling.
- **Other Structures** — this option or endorsement extends the Section I dwelling extension limit for unattached structures to include the additional limits shown in the declarations. (As stated earlier, on the “standard” policy the dwelling extension limit is automatically set at 10% of the dwelling limit.)

Homeowners – Options and Endorsements (cont.)

- **Watercraft Liability and Medical Expense** — this option or endorsement extends the Section II coverages to cover damage caused by watercraft that are owned by an insured and described in the declarations. (As stated earlier, liability is excluded for some types of watercraft in a “standard” policy.)
- **Home Day Care Liability and Medical Expense** — this option or endorsement extends the Section II coverages to cover an insured that provides day care in their home. (As stated earlier, liability is excluded for business pursuits in a “standard” policy.)
- **Office, School, or Studio Use** — this option or endorsement is for an insured that also uses their home for business use as an office, school, or studio that they own. Section I Personal Property is extended to a higher limit for business personal property such as equipment, supplies, furnishings, and merchandise while it is on the insured’s premises. This option or endorsement also provides Section II coverage for business pursuits of the insured.
- **Employee Business Pursuits** — this option or endorsement is for an insured that is an employee and uses their home for business use. It extends Section II coverages and specifically covers an employee who is a sales person, teacher, clerical worker, collector, or messenger.



Homeowners – Options and Endorsements (cont.)

- **Increased Building Limits** — having this policy feature means the insurance company will settle covered dwelling losses at replacement cost for an amount that is more than the dwelling limit specified in the declarations. The amount is usually limited to 120% of the dwelling limit. For example, let's say the dwelling is insured for \$200,000 and there is a total loss. If the cost to replace the dwelling runs over the limit of \$200,000, the insured will receive an amount up to \$240,000. However, to take advantage of this feature, the insured is required to insure the dwelling for at least 100% of replacement cost.

Homeowners Policy Forms

The most popular **Homeowners** policy forms are:

- **HO-3**
- **HO-4**
- **HO-5**
- **HO-6**
- **HO-8**

These will be explained further on the next slides.

Homeowners Policy Forms – HO-3

Many consider this to be the “standard” Homeowners policy that other policy forms are compared to. Many of the features and characteristics previously mentioned are included in the **HO-3**.

This policy is also called special form, since the dwelling is insured for open perils.

On some **HO-3** policies the personal property is insured for open perils —on other **HO-3** policies the personal property is insured for named perils.

Dwellings are insured on a replacement cost basis, and personal property is insured on an actual cash value basis.

Most insurance companies require 80% coinsurance for **HO-3** policies. That means they have the dwelling limit set to at least 80% of replacement cost. The minimum personal property limit is 50% of the dwelling limit. The minimum personal liability limit is \$100,000.

The **HO-3** provides the following coverages: dwelling, dwelling extension, personal property, loss of use, additional coverages, personal liability, and medical expense.

Homeowners Policy Forms – HO-4

This form is for insureds who rent (not own) the home they live in. This policy is very similar to the HO-3, except it does not provide dwelling or dwelling extension coverage. It is also known as the **tenants** form or **renters** policy.

Homeowners Policy Forms – HO-5

The **HO-5** is a newer policy form. Insurance companies have developed many variations of the **HO-5**. These products have a wide range of names including comprehensive form, gold star, and special deluxe form.

As a general rule, the Homeowners policies in this category have many of the same features as the HO-3—plus much more. Like the HO-3, they provide the following coverages: dwelling, dwelling extension, personal property, loss of use, additional coverages, personal liability, and medical expense.

Like the HO-3, dwellings are insured on a replacement cost basis. Unlike the HO-3, personal property is also insured on a replacement cost basis.

The dwelling is insured for open perils. In some **HO-5** policies, personal property is insured for open perils and in others named perils.

Most insurance companies that sell this policy require the dwelling limit set to at least 100% of replacement cost. The personal property limit is usually set at a minimum of 75% of the dwelling limit. The minimum personal liability limit is usually \$300,000.

Other features that usually are automatically included in the policies in this category include: Increased Building Limits and Extended Coverage on Jewelry, Watches, Stones, Gems, and Furs.

Homeowners Policy Forms – HO-6

This form is for people who own and live in a condo. This policy is very similar to the HO-3, except it provides limited dwelling coverage. To help determine the amount of dwelling coverage needed, the condominium owner should refer to the condominium association agreement or bylaws—which will explain what part of the building the insured is responsible for.

This policy is also known as the **condominium form** or **condo policy**.

Homeowners Policy Forms – HO-8

These policies are generally designed for older homes or unusual homes having replacement values that are much greater than their market value. The need for this type of policy arises from the situation where it doesn't sense to insure a home for an amount that is at or near the replacement cost of the structure. This type of policy allows the home to be insured for much less than the replacement cost.

A significant difference with this type of policy is it provides actual cash value coverage—instead of replacement cost on the dwelling.

Insurance companies have developed different variations of the **HO-8**. These policies are sometimes called **modified coverage form** or **custom value**.

Unit Six — Personal Auto Insurance Policy

Personal Auto – Organization and Terminology

When studying the Homeowners insurance policy, we learned the organization of insurance policy information—and the terminology used to describe the policy components—varies by insurance company. The same is true regarding the **Personal Auto** insurance policy.

For instance, some **Personal Auto** policies identify the coverages (liability, medical expense, uninsured motorist, physical damage) as parts I, II, III, and IV. Other **Personal Auto** policies identify these coverages as parts A, B, C, and D.

As it was in the Homeowners chapter, the focus is not on how each company identifies the coverages. Rather, the focus is on the basic fundamentals of **Personal Auto** insurance policies.

Personal Auto – Declarations

Once an insured purchases a **Personal Auto** policy, the insurance company produces a declarations page that is usually delivered to the insured by mail. Unlike other sections of insurance contracts, the declarations page is tailored and created specifically for the customer.

Personal Auto – Declarations Information

Personal Auto policy declarations generally contain the following information:

- **Policy Number**—a number that uniquely identifies the policy
- **Named Insured**—includes the name, address, city, state, and zip code of the named insured
- **Policy Period**—effective date and expiration date of the policy; many auto policies have six-month policy periods
- **Vehicle Description**—the year, make, model, vehicle identification number (VIN), and vehicle symbol
- **Rating Information**—includes the rating classification that represents the primary use of the vehicle (pleasure, work, school, business, farm); number of miles driven annually; primary driver's age, gender, and marital status; territory that identifies the area where the vehicle is primarily stored and driven; demerit points reflecting driving violations

Personal Auto – Declarations Information (cont.)

- **Coverages and Limits**—the automobile coverages shown in the declarations list only the coverages the insured has purchased. Coverages and limits listed on the declarations may include:
- **Bodily Injury Liability Limit**—there are two numbers show for this limit. The first one is the most the insurance company will pay for bodily injury to any one person injured in an auto accident. The second number is the most the insurance company will pay for total bodily injuries from any one auto accident (occurrence) no matter how many people were injured. Most insurance professionals recommend their clients purchase bodily injury limits of at least \$100,000/\$300,000.
- **Property Damage Liability**—this number is the most the insurance company will pay for property damage resulting from any one auto accident (occurrence) no matter how many vehicles or claimants were involved. Most insurance professionals recommend their clients purchase a property damage limit of at least \$100,000.
- **Comprehensive Deductible**
- **Collision Deductible**

Personal Auto – Declarations Information (cont.)

- **Uninsured Motorists Bodily Injury (UM)**—there are two numbers shown for this limit. (Uninsured motorist bodily injury is defined later in this chapter.) The first one is the most the insurance company will pay for bodily injury to any one person injured in an auto accident. The second number is the most the insurance company will pay for total bodily injury from any one auto accident—if two or more persons were injured. Most insurance professionals recommend their clients purchase uninsured motorist bodily injury limits of at least \$100,000/\$300,000.
- **Underinsured Motorists Bodily Injury (UIM)**—there are two numbers shown for this limit. (Underinsured motorist bodily injury is defined later in this chapter.) The first one is the most the insurance company will pay for bodily injury to any one person injured in an auto accident. The second number is the most the insurance company will pay for total bodily injury from any one auto accident—if two or more persons were injured. Most insurance professionals recommend their clients purchase underinsured motorist bodily injury limits of at least \$100,000/\$300,000.
- **Underinsured Motorists Property Damage (UMPD)**—this is an optional coverage that is available for insureds that do not have collision coverage on their auto. UMPD will pay if the insured's car is damaged by a motorist who does not have insurance and is unable to pay the damages. Insurer must provide UMPD if Collision is not provided. The limit is 3,500 or the motor vehicles ACV whichever is less. A \$250 deductible applies. This coverage may be rejected.

- **Utah Personal Injury Protection (PIP) Coverage Amount**—the declaration shows the limits for each PIP benefit—or a coverage designation code that represents the limits for all PIP benefits.
- **Lienholder**—if the insured has taken out a loan on the vehicle, the bank or lending institution is considered a lienholder; the lienholder is listed on the declarations and will receive the claim payout in the event the vehicle is destroyed.
- **Titleholder**—if the insured operates a leased vehicle, the lessor that retains title to the vehicle is considered a titleholder; the titleholder is also an additional interest; the titleholder and additional interest are listed on the declarations and will receive the claim payout in the event the vehicle is destroyed.
- **Additional Information**—name, address, and phone number of the agent who services the policy; any policy discounts granted by the company to the insured; any endorsements or options included in the purchased policy that are not specifically included in the standard policy.

Personal Auto – Motor Vehicle Insurance Cards

At the time the auto declarations are issued, the insurance company normally will also provide **service cards** and **proof of insurance cards** to the insured.

A **service card** identifies the insured as having an Auto policy and provides instructions on what to do in case of an auto accident. It is intended to be kept with the insured or in the vehicle at all times.

A **proof of insurance card** provides evidence of auto insurance and describes the vehicle and the coverages on the policy. Many states require proof of insurance cards to be presented when obtaining vehicle registration. Some states also require insureds to carry a proof of insurance card or have it in the vehicle at all times, so it can be presented to law enforcement officers when requested.

Personal Auto – Definitions

This section of the policy explains the meaning of terms used in the policy. Some common terms explained in the **definitions** section of an Auto policy include: car, private passenger car, your insured car, utility car, utility trailer, auto business, bodily injury, occupying, property damage, relative, state, and use.

Personal Auto – Liability Coverage

This coverage pays for compensatory damages the insured is legally liable for because of **bodily injury** or **property damage** due to an accident involving the use of a car or utility trailer.

It is important to note that **liability coverage** is provided for the insured when using any vehicle—not just the insured's vehicle. For instance, if Tom borrows his friend Jane's car to run an errand, the **liability coverage** on Tom's Auto policy will pay for any damages Tom is legally liable for. However in the scenario just described, Jane's insurance will most likely be primary (pays first) and Tom's insurance will most likely be secondary (pays second).



Personal Auto – Insured

Regarding auto liability coverage, under most circumstances an **insured** is defined as any of the following:

- The named insured as listed on the policy declaration
- The named insured's relative who lives in the insured's household and is related by blood, marriage or adoption
- Any person using the named insured's auto who has the insured's permission to use the auto
- Any person or organization that has vicarious liability due to the acts of an insured. For example, suppose Kenneth drives his car to perform a job for his employer and gets into an accident that causes damage. Because the accident was during the course of employment, Kenneth's employer may be vicariously liable for the accident. In this situation, the liability coverage on Kenneth's Auto policy may also cover the liability of his employer. However, if Kenneth was driving his employer's car, coverage from Kenneth's Auto policy would not extend to cover the employer's liability.

Personal Auto – Defense Costs

The insurance company will defend or settle any claim or lawsuit and will pay **defense costs** incurred by the insurance company. But, the insurance company will not defend or settle any claims or lawsuits once the limit of liability for damages as listed on the declarations has been offered or paid to the claimant.



Personal Auto – Additional Payments

Most Personal Auto policies will also pay for **additional payments** (or supplementary payments). These payments could include:

- Charges up to \$250 for the cost of a bail bond that is required due to an accident or related traffic violations
- Premiums on appeal bonds or release attachment bonds
- Accrued interest on damages awarded but not yet paid to the claimant
- The expenses of the insured for rendering first aid to others at the time of an accident involving the insured's auto
- Loss of wages, salary, or earnings up to the amount stated in the policy due to the attendance of court hearings or trials at the request of the insurance company

Personal Auto – Liability Exclusions

The liability coverage part has a list of situations that are not covered. This list is called the **exclusions**. Most **Personal Auto** policies have exclusions for the following:

- Bodily injury or property damage caused by intentional acts of the insured
- Bodily injury or property damage arising out of using a vehicle to carry people for a fee; this exclusion does not apply to cost sharing situations such as carpooling
- Damage to property that is owned by—or cared by—the insured
- Bodily injury or property damage when the insured's car has been leased or rented to others
- Bodily injury or property damage that occurs during an organized racing event, including preparation for such event
- Bodily injury or property damage that occurs when using a vehicle—other than a covered vehicle—that is owned by the insured or otherwise available for regular use by the insured
- Bodily injury to an employee of the insured caused by an accident during the course of employment (this exclusion does not apply to some domestic employees)
- Bodily injury or property damage when the insured is covered under a nuclear energy liability insurance policy
- Bodily injury or property damage arising out of the use of motorized vehicles having less than four wheels or motorized recreation vehicles designed for all terrains

Personal Auto – Financial Responsibility

Nearly all states require motorists to conform to financial responsibility laws. Utah state law requires motorists to carry bodily injury and property damage liability insurance to help pay for damages they cause in an auto accident. The minimum amounts drivers are required to carry are:

- **\$25,000** – bodily injury per person; and
- **\$65,000** – bodily injury for two or more persons; and
- **\$15,000** – property damage liability.

Insurance companies certify that their Personal Auto policies provide proof of future financial responsibility. That means the policy is guaranteed to meet the requirements of the financial responsibility laws—even if the laws change in the future.

Since vehicles are often driven in more than one state, Personal Auto policies have an out of state insurance provision. This means the policy coverages automatically change to conform to the insurance laws of the state in which the car is being used.

Personal Auto – Negligence

The **liability coverage** of a **Personal Auto policy** will pay for negligent acts of the insured. In order to prove negligence, the injured party must demonstrate these four elements:

Legal duty—an obligation in our society to act (or not act) in such a way to not harm others or damage their property

Breach of the legal duty—a failure to act (or not act); this standard of conduct is based on what a prudent person would do in similar circumstances

Damage—the injured party must show how they were damaged financially and how much they were damaged

Proximate cause—the breach of the legal duty directly led to the injured party being damaged; this is evidenced by a continuous succession of events from the breach of the legal duty to the damage

Personal Auto – Comparative Negligence

Utah law uses the legal doctrine of **comparative negligence** to determine how negligence for an accident is determined. An injured person can:

- Collect from an at-fault driver only if he or she is less than 50% at-fault for the accident;
- Only collect for damages in proportion to the amount of fault attributable. For example, if Samuel is involved in an accident and the adjuster determines he is 20% at-fault for the accident:
 - Samuel can collect from the other driver, since Samuel is less than 50% at-fault
 - Samuel cannot collect any more than 80% of the damages from the other driver, since the other driver is only 80% at-fault.

Personal Auto – PIP

Personal Injury Protection (PIP) is a package of coverages that provides protection in accordance with the **Utah Automobile No-Fault Insurance Act**.

This law requires Utah motorists to buy **PIP** coverage. No-fault legislation is designed to discourage small lawsuits by allowing policyholders to recover financial losses from their own insurance company without proving an accident was someone else's fault.

Next we explain the five coverages that the **Utah PIP** provides to an eligible person when injured by a motor vehicle.

Personal Auto – PIP Medical Expense

Utah law requires motorists to buy a minimum of **\$3,000 per person** in **medical expense** coverage, such as: (i) medical services; (ii) surgical services; (iii) X-ray services; (iv) dental services; (v) rehabilitation services, including prosthetic devices; (vi) ambulance services; (vii) hospital services; and (viii) nursing services.

Some policies provide the option of purchasing up to \$100,000 per person of **medical expense**. The insurance company will not pay more than the purchased per person limit.



Personal Auto – PIP Work Loss

This benefit pays a weekly amount to a person who **loses earnings** because he or she is unable to work. Coverage for work loss usually begins once a person is unable to return to work after missing 72 hours of work. Generally speaking, Utah law requires motorists to purchase coverage that protects at least 85% of gross income up to a maximum of \$250 per week for 52 weeks maximum. However, some policies allow work loss to be excluded for situations where the insured does not work.

The insurance company will not pay more than the purchased weekly limit.

Personal Auto – PIP Special Damage Allowance

This benefit is also known as **essential services**. It provides benefits such as babysitting and housekeeping needed because an injured person is unable to perform these duties.

Utah law requires motorists to purchase coverage that provides **\$20 per day** up to a **maximum of 365 days**. This benefit need not be paid for the first three days after the date of injury unless the person's inability to perform these services continues for more than two consecutive weeks.

The insurance company will not pay more than the purchased daily amount.



Personal Auto – PIP Funeral Expense

This benefit pays funeral, burial, or cremation expenses. Utah law requires motorists to purchase coverage that provides a **funeral expense** benefit amount of **\$1,500 per person**.

The insurance company will not pay more than the purchased per person limit.

Personal Auto – PIP Survivor's Loss

This benefit pays upon the death of an eligible person. Utah law requires motorists to purchase coverage that provides compensation on account of death of a person, payable to the person's heirs, in the total of **\$3,000**.

The insurance company will not pay more than the purchased limit.

Personal Auto – PIP Summary

This chart summarizes the minimum **PIP** limits that Utah motorists are required by law to purchase:

<i>Medical Expenses</i>	<i>Work Loss</i>	<i>Essential Services</i>	<i>Funeral Expenses</i>	<i>Survivor's Loss</i>
\$3,000 per person	85% of gross income up to a maximum of \$250 per week for 52 weeks maximum	\$20 per day up to a maximum of 365 days	\$1,500 per person	\$3,000

Personal Auto – PIP Coverage Eligibility

The following persons are eligible to receive benefits under the Utah PIP:

- The named insured or relative who is injured while occupying a motor vehicle or while a pedestrian when struck by a motor vehicle
- A person other than the named insured or relative who is injured while occupying the insured's motor vehicle with the named insured's consent
- A person other than the named insured or relative who is injured while a pedestrian if the accident involves the insured's motor vehicle within the state of Utah

Personal Auto – Uninsured Motorist (UM)

Uninsured Motorist (UM) coverage provides bodily injury coverage for the insured when involved in an accident where the legally liable party was an **uninsured motorist**. It is important to note that **UM** only provides bodily injury coverage—not property damage coverage. Therefore, damage caused by an **uninsured motorist** to an insured's car is not covered by **UM**. Utah law says **UM** must be provided unless the insured rejects this coverage in writing. Most insurance professionals in Utah highly recommend **UM** to their clients.

Personal Auto – Uninsured Motorist Definitions

Under most circumstances, an insured under **UM** coverage is defined as any of the following:

- The named insured as listed on the policy declaration
- The named insured's relative who lives in the insured's household and is related by blood, marriage or adoption
- Any person occupying the insured's car
- Any person who has a right to recover damages due to bodily injury of an insured

Regarding **UM** coverage, an **uninsured motorist** is defined as any of the following:

- A person who operates a motor vehicle and is not insured by bodily injury liability coverage at the time of the accident—or has bodily injury liability coverage but the limits are less than the Utah state minimums of \$25,000/\$65,000 (however, a person operating a vehicle that is owned by the insured or available for regular use by the insured is not considered an uninsured motorist)
- An unknown hit-and-run driver who hits an insured, the insured's covered vehicle, or any auto the insured occupies
- A person who has bodily injury liability coverage at the time of the accident, but the insurance company does not pay due to insolvency, denial, or dispute.

Coverage for UM is excluded if bodily injury to a person occurs while occupying—or when struck by—a vehicle that is not insured by the policy and is owned by the insured.

Personal Auto – Underinsured Motorist (UIM)

Underinsured Motorist (UIM) coverage provides bodily injury coverage for the insured when involved in an accident where the legally liable party was an **underinsured motorist**. As it is with UM, **UIM** only provides bodily injury coverage—not property damage coverage. In Utah, **UIM** must be provided unless the insured rejects this coverage in writing. **UIM** is not contingent upon UM. An insured may select or reject either or both coverages. Most insurance professionals in Utah highly recommend **UIM** to their clients.

The **UIM** rules and concepts are similar to those of UM. The difference is an **underinsured motorist** is a person who operates a motor vehicle and is insured by bodily injury liability coverage at the time of the accident—but the coverage limits are not enough to fully compensate the injured insured for damages.

Personal Auto – Physical Damage

Physical damage coverage pays for accidental loss to the named insured's covered auto, permanently attached equipment, utility trailer, and a non-owned car or utility trailer the insured is temporarily using or caring for.

Physical Damage includes **collision** and **comprehensive** coverages. The difference between them is the perils (or causes of loss) that each one covers. The combination of these two provides coverage for nearly all types of car damage.



Personal Auto – Physical Damage Collision

Collision pays for car damages that result from:

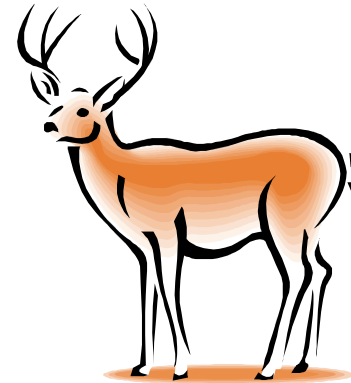
- Impact with another car, including when the other car was driven by an uninsured motorist
- Impact with objects—other than animals, missiles, and other falling or moving objects
- Car roll-over
- Hitting road potholes



Personal Auto – Physical Damage Comprehensive

Comprehensive pays for car damages that result from:

- Glass breakage—other than due to a collision
- Fire, explosion
- Falling or moving objects and missiles
- Wind, hail, flood, earthquake, and water
- Theft, vandalism, and riot
- Contact with animals



Personal Auto – Physical Damage Requirements

None of the states require motorists to purchase **collision** or **comprehensive** coverage. However, most **lenders** and **lessors** require these coverages if there is a loan on the vehicle or it is leased. For older vehicles with no loan or lease, it is common for an insured to decline collision and comprehensive coverages.

Insurance companies will reimburse the insured for the cost to repair the damaged car—minus the deductible. Most auto policies have a variety of deductibles for the insured to choose from. Insureds can lower their premium by choosing high deductibles. **Collision** and **comprehensive** coverages are sold with separate deductibles – each ranging usually from \$250 to \$1,000.

Personal Auto – Physical Damage Exclusions

Physical damage coverage excludes damage for the following losses:

- When the insured's vehicle is used to carry persons for a fee
- War or nuclear hazards
- Tapes, discs, or similar devices used to record or reproduce sounds, videos, or pictures, and radar detectors or similar devices
- Electronic receiving or transmitting devices—other than factory installed equipment supplied by the manufacturer
- Wear and tear, breakdown, freezing, and road hazard tire damage
- A vehicle not owned by the insured when used in an auto business such as selling, repairing, servicing, transporting, delivering, customizing, testing, storing, or parking vehicles
- The insured's car when rented or leased to others
- Occurring during an organized racing event, including preparation for such event
- Custom furnishings or equipment—other than factory installed equipment supplied by the manufacturer



Personal Auto – Physical Damage Theft

Most auto insurance policies automatically provide **theft** coverage which will pay up to \$20 per day up to a maximum of \$600 for transportation costs incurred by the insured that is without a car due to total **theft** of their vehicle. Theft coverage begins 48 hours after the **theft** is reported to the insurance company and the police.

Personal Auto – Multiple Policies

When there are two auto insurance policies that cover a loss, an insurance company will pay only its share of the loss amount.

If an **insured** is involved in an accident when using someone else's car, the **car owner's** insurance is **primary**, and the **insured's** insurance is **excess**. That means the **driver's** insurance will only pay the amount that is beyond what the **car owner's** insurance will pay. So if there is a \$75,000 loss and the **car owner's** insurance will pay \$50,000, the **insured's** insurance will only pay \$25,000.

Personal Auto – Policy Provisions

The terminology and organization of additional Auto policy **provisions** or **conditions** can vary by insurance company. Generally, policies contain the following **provisions**:

- The insured may cancel the policy at any time for any reason
- If the policy has been in force less than 60 days, the insurance company may cancel the policy by mailing notice of cancellation to the insured at least 10 days before the effective date of the cancellation
- If the policy has been in force 60 days or more and the company desires to cancel the policy due to non-payment of premium, the insurance company may cancel the policy by mailing notice of cancellation to the insured at least 10 days before the effective date of the cancellation
- If the policy has been in force 60 days or more and the company desires to cancel the policy due to a reason other than non-payment of premium, the insurance company may cancel the policy by mailing notice of cancellation to the insured at least 30 days before the effective date of the cancellation

Personal Auto – Policy Provisions (cont.)

- If the policy has been in force for at least 60 days—or the policy has renewed—the insurance company can cancel the policy only for the following reasons:
 - Non-payment of premium
 - License revocation or suspension of the insured or anyone who customarily drives the insured's car
 - Fraud by the insured
 - Significant change in the risk
- The insured can choose not to renew by the policy failing to pay the renewal premium or by notifying the insurance company. If the insured chooses not to renew, coverage will end on the expiration date of the policy term.
- The insurance company can choose not to renew the policy by mailing notice of non-renewal to the insured at least 30 days before the end of the policy term. If the insurance company chooses not to renew, coverage will end on the expiration date of the policy term.

Personal Auto – Policy Provisions (cont.)

- If an accident or loss occurs, the insured has a responsibility to promptly notify and fully cooperate with the insurance company and provide all the information required by the insurance company. Furthermore, the police must be promptly notified in the following situations:
 - The insured's vehicle is stolen
 - A person is claiming uninsured motorist coverage because they were struck by a hit-and-run driver

Personal Auto – Other Optional Coverages

The terminology describing Personal Auto **optional coverages** varies among insurers. If coverage applies, it will be listed on the declarations. **Optional coverages** may include:

- **Emergency Road Service (ERS)**—pays for reasonable towing and labor costs if the insured's vehicle becomes disabled or stuck; also pays for delivery of gas, oil, loaned battery, or change of tire; ERS does not pay for the cost of the delivered item; most insurers offer ERS only to auto customers that also have comprehensive and collision coverage
- **Uninsured Motorist Property Damage**—pays for damage to the insured's vehicle when caused by an uninsured motorist; this coverage will only pay if the owner, operator, or license plate number of the uninsured vehicle can be identified; this coverage is purchased only if the insured does not have collision coverage
- **Rental Reimbursement**—covers the cost of renting a substitute vehicle while the insured's vehicle is being repaired due to a covered loss; most insurers offer rental reimbursement coverage only to auto customers that also have comprehensive and collision coverage
- **Newly Acquired Vehicle**—provides up to 30 days of coverage for the insured's newly purchased vehicles; includes replacement vehicles and additional vehicles and provides same coverage as the insured's other vehicles
- **Death and Dismemberment**—provides payment of specified amount listed on the declaration if the insured or someone riding in the insured's vehicle dies or is dismembered as a direct result of an automobile accident (regardless of who is at fault)

Unit Seven — Personal Liability Umbrella

Personal Liability Umbrella

As presented previously, the Homeowners and Personal Auto policies provide liability protection. A **Personal Liability Umbrella** policy extends liability coverage by adding a layer of protection over and above the primary protection provided by the Homeowners and Personal Auto policies. If a liability loss exceeds the primary coverage limits, the **Personal Liability Umbrella** policy takes over.

Personal Liability Umbrella – Benefits

A **Personal Liability Umbrella** policy provides the following benefits:

- Adds perils not normally covered in underlying coverage including:
 - Personal Injury—libel, slander, humiliation, defamation of character, false arrest, invasion of privacy, wrongful entry, and wrongful eviction
 - World-Wide Protection—events that occur anywhere in the world, including renting or driving cars in other countries
 - Non-Owned Watercraft
 - Certain Claim and Defense Expenses
- Provides coverage for **liability** losses that exceed the limits of the **underlying insurance** such as insurance policies for automobiles, motorcycles, primary and seasonal homes, recreational vehicles, watercraft, and one or two family dwelling rental dwellings

Personal Liability Umbrella – Coverage

A **Personal Liability Umbrella** policy is often written for **\$1,000,000** of additional coverage, but higher limits are usually available. To qualify for a **Personal Liability Umbrella** policy, the insured must maintain minimum liability limits on the **underlying primary** policies.

As an example, an insurance company may require a family to have the following **underlying liability limits** before it will sell that family a **Personal Liability Umbrella** policy:

	Example Underlying Limit Requirements for a Personal Liability Umbrella
Personal Auto	\$250,000 / \$500,000 / \$100,000
Homeowners	\$500,000