

Intro To Insurance: Property And Casualty Insurance

By **Cathy Pareto**

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Property and **casualty insurance** is insurance that protects against property losses to your business, home or car and/or against legal liability that may result from injury or damage to the property of others. This type of insurance can protect a person or a business with an interest in the insured physical property against losses. Let's examine some of the things to look for in the different types of property/casualty insurance. (For background reading, see [Do You Need Casualty Insurance?](#))

Auto Insurance

- **Coverage:** An auto insurance policy typically covers you and your spouse, relatives who live in your home and other licensed drivers to whom you give permission to drive your car. The policy is "package protection", which provides coverage for both bodily injury and property damage liability as well as physical damage to your vehicle. This damage can include both that caused by the collision and damage cause by things "other than collision", such as flood, fire, wind, hail, etc. (For more insight, read [Shopping For Car Insurance](#).)
- **Common Types of Coverage:** Auto insurance typically covers personal injury (PIP), medical payments, uninsured motorist, underinsured motorist, auto rental, emergency road assistance and other damages to your car not caused by a collision such as flood, fire and vandalism. Other coverage is available, too.
- **Deductible:** The deductible is the amount that you will pay out of pocket when you file a claim. Typically, the higher the deductible, the lower your premiums.
- **Insurance Rates:** How much you pay will depends on many factors, including your driving record, the value of your vehicle, where you drive, how much you drive, your marital status, your desired coverage, your age, sex and even your credit history. (For tips on reducing your rates, see [12 Car Insurance Cost Cutters](#).)

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Homeowners Insurance

Our homes and their contents are our greatest assets. That is why it is so imperative that we protect their value. [Homeowners insurance](#) helps us achieve that goal. Let's break down the different concepts that encompass this area. (For background reading, see [Beginners' Guide To Homeowners Insurance](#).)



- **Coverage:** Homeowners insurance typically covers the dwelling (the structure), personal property and contents, and some forms of personal liability. The policy may cover direct and consequential loss resulting from damage to the property itself, loss or damage to personal property, and liability for unintentional acts arising out of the non-business, non-automobile activities of the insured and members of that insured's household.
- **Types of Insurance:** Are you ready to decipher the codes? There are six standard forms of homeowners insurance containing personal property coverage. (For more insight, see [9 Things You Need To Know About Homeowners Insurance](#).)

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1. HO 00 02 (Homeowners 2, Broad Form)

: This form of insurance provides broad form coverage on your dwelling and other structures and insures against loss of use. To be specific, the broad form of coverage insures against windstorm, hail, aircraft, riot, vandalism, vehicles, volcanic, explosion, smoke, fire, lightening and theft, plus rupture of a system, artificially generated electricity, falling objects and freezing of plumbing.

• **HO 00 03 (Homeowners 3, Special Form):** This "special form" insurance offers coverage for more causes of loss than the HO 00 02.

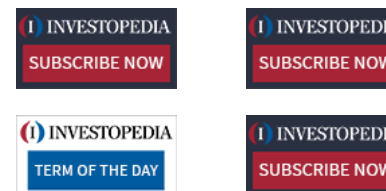
• **HO 00 04 (Homeowners 4, Contents Broad Form):** This is a renter's policy. Even if you don't own your home, you should consider having this type of insurance. Your landlord's insurance will not cover damage to your personal property or liability against you. Think about how much it will cost to replace all of your furniture, clothing etc. If you feel this isn't a loss you could bear, consider buying this type of insurance. (To learn more, read [Insurance 101 For Renters](#).)

• **HO 00 05 (Homeowners 5, Comprehensive Form):** This type of policy essentially combines the HO 00 03 form with the HO 00 05 endorsement into one comprehensive form to provide open perils coverage on personal property in addition to the dwelling, other structures and loss of use. The HO 00 05 rider can only be combined with an HO 00 03 policy.

• **HO 00 06 (Homeowners 6, Unit Owners Form) :** This is a condominium policy. This type of policy is different from a homeowners insurance policy in that it is designed for individuals who live in a unit structure owned and insured by a condo association, townhouse association cooperative, homeowner's association, planned community or other similar type of organization. The insurance the association provides only covers the outside dwelling, not the contents of your unit, so it's important to consider purchasing this type of insurance to protect against personal property losses and liability. (For more on condos, read [Does Condo Life Suit You?](#))

• **HO 00 08 (Homeowners 8, Modified Coverage Form):** This form of insurance settles losses on an actual cash value basis and is usually only used to cover older structures where the cost of replacement far exceeds the value of the structure. This type of insurance is offered when insurers are not willing to offer HO 00 02, 03 or 05 coverage because there may be an incentive to intentionally destroy the structure.

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Now let's take a look at what is usually not covered under these types of insurance. These are known as "exclusions", but you may be able to get coverage in these areas with a [rider](#) or umbrella policy. Your individual policy may exclude more items than listed below, so consult with your agent.

1. **Ordinance or Law:** If the dwelling does not comply with local building codes, the insurer will not be liable for the cost of construction to bring the structure up to code.
2. **Earth Movements:** This includes two distinct types of earth movements, including shifting earth (landslides) in the foundation of a home and earthquakes. These may be considered two separate coverage areas, so being covered for one may not mean being covered for the other.
3. **Water Damage:** This includes flood, water backing up in sewers or drains, water seeping through basement walls etc.

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5. **War:** Damage caused by any type of war or nuclear weapons attack.
6. **Nuclear Hazard:** This defined as any nuclear reaction, radiation, or radioactive contamination, (whether controlled or uncontrolled). Any loss caused by nuclear hazard as it is defined will not be considered loss caused by fire, explosion, or smoke, even if these perils are specifically named in your policy.
7. **Intentional Loss:** Any damage intentionally done to one's own property is excluded for obvious reasons.

As with any type of insurance, it is critical that you read the insurance policy so that you know exactly what it will cover. The amount of coverage you should consider should be based on the replacement cost value of your home or property. Replacement costs on one's dwelling provides that if, at the time of loss, the amount of insurance covers at least 80% of the replacement cost of the dwelling, the loss will be paid on a replacement cost basis. Keep in mind that this still leaves the homeowner on the hook for the remaining 20% in the event of a total loss.

Oftentimes, the bank or institution holding your mortgage will require that you maintain a specific amount of coverage. However, even if your home is paid off, you should still consider having the appropriate amount of insurance protection, which might include coverage for physical damage as well as liability protection for the owners.



Other Considerations

Depending on where you live and given the unpredictability of nature, specifically the weather, you should consider other types of insurance to protect your property. For example:

Flood Insurance

Flood insurance is becoming more and more popular as places that normally would not experience floods are suddenly finding themselves suffering losses as a result of extreme weather. To the surprise of many of these homeowners, their regular homeowners

insurance policy did not cover against flood. This is a separate type of coverage that you will have to purchase if you consider flood to be a risk for your business or property.

If you live in a flood-prone area and you have a mortgage, the lender will require you to purchase adequate coverage to insure the property. If you own the property, you can elect to self-insure and not buy insurance, but you have to remember that any damage caused as a result of flooding will be your financial responsibility. The cost of this kind of damage can run from the hundreds to thousands of dollars, so it's worth considering purchasing the insurance to transfer this risk, especially, if you live in a flood zone. If you don't live in a flood-prone area, you may qualify for a discounted rate, which means a lower premium for you.

Windstorm Insurance

Like flood insurance, windstorm insurance is a separate type of coverage that protects your home or business against wind damage. Wind damage may result from items flying and destroying your property as a result of a hurricane, hail, snow, sand or dust. Coverage for windstorm may be limited in states prone to hurricane and tornadoes. If you live in a state like Florida, Louisiana, Texas or the Carolinas, which are frequently barraged by tropical storms or hurricanes, this should be an integral part of your asset protection planning. Consult with your agent or broker for more details on this type of coverage.

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Umbrella insurance helps you protect your assets if you are sued. If you are worried that the liability insurance coverage you have through your auto or property policies is still not enough, you can consider adding an umbrella policy. An umbrella policy is basically an additional policy that kicks in when your other insurance policies have reached their limits. The amount of coverage and types of coverage offered by these policies varies, as will their premiums. You can tag on an umbrella policy to your homeowners or auto insurance policy to protect your assets against liability or lawsuits. (For background reading, see [Cover Your Company With Liability Insurance](#) and [Filling The Gaps In General Liability Insurance](#).)

Certain exclusions apply, including:

- Owned or leased aircraft or watercraft
- Business pursuits
- Professional services
- Any act committed by the insured with the intent to cause personal injury or property damage

Umbrella policies are fairly inexpensive to acquire, and coverage ranges from \$1 million to \$ 5 million or more. You might expect to pay between \$200 to \$500 for \$1 million in coverage. There is no specific "umbrella deductible". Because an umbrella policy is written on top of any auto or personal property coverage you have, the benefit does not kick in until you satisfy the deductible on those policies and have used up the coverage from either the auto or property policy.

Homeowners Tips

Homeowners insurance is a critical component of anyone's risk management planning. There may always be a threat of property loss from fire, theft or bad weather. Having an accurate home inventory of your possessions can make settlement claims a lot easier and faster. Insurance agents suggest that all homeowners keep receipts, descriptions, photos or video of the items they own. Once your list and evidence of ownership is itemized, store this in a safety deposit box or other safe location outside of your home, along with a copy of your policy.

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