<u>Chapter 1 Homeowner's Coverages</u>

Policy Structure

The front page, or the "Declaration Page," of the homeowners' policy shows exactly what is covered and for how much. The front page contains the following information:

-Name of the Insurance Company and address
-Name and address of the insured and address of the insured property
-The agent's name, agency name and address
-Policy number
-Policy period showing the effective and expiration date and time
-The coverage and premium breakdown

Homeowners' policies contain two sections: Section I and Section II. Section I contains property coverage (Coverages A through D). Section II contains Liability coverage (Coverages E and F).

Property Coverages – Section I

a. Dwelling Limits
b. Detached Structures Limits
c. Personal Property Limits
d. Loss of Use Limits

Liability Coverage

e. Personal Liability, Each Occurrence Limits
f. Medical Payments to Others, Each Person Limits

Coverage Form Basics

The following is a quick run down of the general characteristics of each Homeowners' Coverage Form. The "HO" stands for Homeowners and the number following that designates the different policy packages.

These policy forms contain a standardized numbering system throughout the United States, except for Texas. They are as follows:

Broad Form (HO-2)

The Broad Form is divided into two sections: Section I and Section II. Section I provides broad form named peril coverage and contains 16 named perils. In most states, property must be insured for at least 80% of the full replacement cost of the home/property at the time it is damaged or destroyed if the insured wants to collect the full replacement cost.

Special Form (HO-3)

Section I is similar to Broad Form. The Special Form brings "special form" coverage to dwelling and other structures, which means it covers all perils *except* those specifically excluded. The 80% rule applies here as well. The Special Form's Section II is identical to the Broad Form.

Contents Form (HO-4)

Section I of the Contents Form provides broad named peril coverage for tenants of apartment units. This coverage is written to insure the tenant's personal property and requires no minimum of coverage. The Section II for this form is identical to the Broad Form.

Comprehensive Form (HO-5)

Section I of the Comprehensive Form provides special form coverage for Personal Property, which means that coverage applies to personal property unless specifically excluded. The 80% rule applies. This form's Section II is identical to the Broad Form.

Unit Owners Form (HO-6)

Section I of the Unit Owners form provides broad named peril coverage to owner-occupants of condo units. This insurance is written to cover the owner-occupant's personal property and requires no minimum of coverage. Section II is identical to the Broad Form.

Modified Coverage Form (HO-8)

Section I of the Modified Coverage Form provides modified named coverage to one-to-four-unit, owner-occupied dwellings. This coverage is used primarily to insure older homes that have large gaps between replacement value and market value. The Modified Coverage Form does NOT require 80% coverage minimums and does NOT include some Additional Coverages that appear in other forms. This form has significantly FEWER perils insured against than other forms. Section II is identical to the Broad Form.

Coverages

As you know, a homeowners' policy is divided into two sections: Section I and Section II. For the most part, Section II, which provides for liability coverage, is pretty much the same for each Form, HO-2 through HO-8. Section I provides for actual property coverages (Coverage A through Coverage D) and differs from one form to the next. We'll discuss each in depth.

Section I provides named peril coverage for property, including 16 perils. This means that unless the peril is named in the policy, it isn't covered. As was mentioned already, Section I of most policy forms is subject to an insurance-to-value condition, which requires the insured to carry insurance equal to 80% of the replacement value of the dwelling at the time of loss. If an insured does not carry the minimum 80%, the loss will be settled on an actual cash value basis.

While this may seem to be basic information, it is important to understand this if you expect to understand other, more complex components of homeowners insurance. The following coverage descriptions are based on the Homeowners Broad Form (HO-2).

Coverage A: Dwelling

This coverage is almost identical to that found in a Dwelling policy. The insurance provided under this section of the policy applies to dwelling buildings and structures attached, as well as construction materials and supplies on or adjacent to the premises. The following locations are covered:

The Dwelling

The dwelling is covered, defined as the house or structure in which one lives. This includes a residence, abode, habitation, apartment, building and/or group of buildings occupied by a family as a place of residence.

Structures Attached to the Dwelling

This includes a garage or storage shed, for example, that is physically attached to the principal dwelling described in the Declarations of the policy. A fence, utility line, or other type of connection does not qualify a structure as "physically attached."

Construction Materials and Supplies

In addition to the dwelling, building supplies and materials, and some equipment are also included under this coverage of the policy. Not everything is covered: there are some conditions.

To be covered, materials must be used to construct, alter or repair the dwelling or other structures. This will be a primary factor in determining whether certain materials/supplies are covered.

Materials must also physically be on or next to the described location. This could be on the location, next to it (like an adjoining street), or even on a neighboring piece of land.

Building and outdoor equipment used to service the location is covered, if not covered under other insurance. This includes lawnmowers, snow blowers, ladders, and other related types of material that one would use to maintain the described location. It may be covered under Coverage A if it is not covered elsewhere.

Land is excluded from coverage, including the land the residence is on. If land is damaged in some way by an insured peril, the insurer will not cover the loss.

Limits
The Coverage A limit is the main limit in the policy – the one other coverages are calculated against. The insured selects the limit for Coverage A, subject the insurer's underwriting rules. For form HO-6, the basic limit for Coverage A is $5,000, but can be higher per the insured's needs.

Coverage B: Other Structures

This coverage is also almost identical to Coverage B of a Dwelling Policy. Other structures on the residence premises that are separate from the dwelling are covered under this coverage. Section B does not appear in forms HO-4 or HO-6. The following conditions apply:

Separation
The structure must be set apart from the dwelling by a clear space. This means that if you can see a clear space between the dwelling and the structure, it will be considered an "Other Structure." Examples of other structures are garages, storage sheds and workshops (not business-related).

Other Structures can be separated from the dwelling by objects attached to the ground. An Other Structure may be connected to the dwelling by a fence or patio. Language in the policy specifically includes connections made with things like fences or utility lines. If the deck off the back of Sam's home connects it to a workshop, the workshop is still technically "separated" from the dwelling.

Exclusions
Coverage B may not cover an Other Structure that is either business-related or rented to someone who is not a tenant of the dwelling.

Other Structures that are rented to someone who is not a tenant of the dwelling, unless the Other Structure is used solely as a private garage, are not covered. If the insured rents a structure on the described location to a neighbor to store his/her car, it would be covered. If a tenant of the dwelling rented the structure from the homeowner to store personal items, it would be covered. But, if the neighbor rented the garage to store his/her personal items, it would not be covered.

For example, Todd has two sons: Tyler and Alec. If Tyler wants to rent the shed to store his personal items in, the shed would be covered as an Other Structure. If Alec allowed his friend TJ to rent the shed to store TJ's car over winter, the shed would be covered as an Other Structure. Now, if Alec were to rent the shed to TJ so that TJ could store his personal items in it, the shed would be excluded from coverage.

Other Structures used in whole or in part for any business are not covered. If Todd's shed were used to rebuild carburetors as a business, the shed would not be covered. Even if just a small portion of the workshop were used for this purpose, it would be excluded.

An exception to this exclusion allows coverage if the insured is storing business property that is solely owned by the insured or by a tenant in an Other Structure. For instance, if business inventory owned by the insured or a tenant of the dwelling is stored in the shed for use in a business run from another location, the shed is covered. However, this business property does not include gaseous or liquid fuel, other than fuel in a permanently installed gas tank of a vehicle parked or stored in the structure. If an insured stores cases of motor oil for an auto repair business in the shed, the shed would not be covered.

Like Coverage A, Coverage B does not cover land, including the land on which residence premises are located.

Limits
The limit for Coverage B cannot be more than 10% of the limit that applies to Coverage A. For example, if the limit of liability for Coverage A is $120,000, the limit for Coverage B cannot exceed $12,000. If the insured uses the 10% limit of Coverage A for Other Structures, the total limit for Coverage A would not be reduced.

Coverage C: Personal Property

Coverage C covers personal property used or owned by the insured. Generally, this is all property other than real property. Items considered to be personal property would be furniture, appliances, jewelry, clothing, and the like that are located in the dwelling, as well as lawn mowers or tools within other structures.

An insured's personal property is covered anywhere in the world. If an insured is on vacation in Hawaii and personal property is stolen or damaged by a covered peril, it's covered.

Personal Property vs. Real Property
Like the Dwelling Policy, some personal property may be considered "real property" by underwriting if certain characteristics exist. A general rule applies that if a structure is bolted or fixed to a permanent foundation or poured in concrete, it would be considered "real property." If a structure sits flat on the ground, it would be considered personal property.

Personal Property of Others
Coverage C of the Broad Form will extend coverage to the personal property of others, but only at the named insured's request. If requested, the insurer will cover personal property owned by the following:

Others while on any part of the residence premises occupied by any insured. For example, if an insured stores property for a friend, it will be covered.

A guest or residence employee while in any residence occupied by an insured. For example, if a friend visits any of the insured's covered residences (primary, secondary, vacation home, etc.), that friend's personal property is covered.

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Coverage C Limits

The limit for Coverage C is usually 50% of Coverage A's limit. However, there are different limits for property at other residences, as well as for certain items.

Limits for Property at Other Residences
The limit for personal property usually located at an insured's residence other than the residence premises is 10% of the limit of liability for Coverage C, or $1,000, whichever is greater. This means that 10% of the limit for Coverage C (or $1,000, whichever is greater) will be paid for personal property that is usually at another insured residence, such as a vacation home or summer cabin.

If the insured's limit for Coverage C is $60,000, $6,000 would be used to cover furniture, appliances, etc. that are usually kept at a secondary insured residence.

This limit has no effect on other personal property coverages and does not apply to these:

> -Personal property that is moved to another residence because the residence premises are being repaired or renovated and is unfit to live in.
> -Cases in which the insured has moved into a newly acquired principal residence. Personal property is covered fully for 30 days from the time the insured begins to move property to

the new residence.

This 30-day limit only applies to instances when an insured is moving into a new home. If an insured is moving to a different insured residence, such as a vacation home, while the principal residence is unfit to live in because of repairs or renovation, the 30-day limit does not apply.

This maximum limit of personal property coverage does not apply to a temporary, non-owned residence if the insured had no intentions to return to his/her principal residence or into a new home.

Not all personal property has the same, standard limit. As you will see in the next section, certain items have certain limits of their own.

Special Limits
Each of the following categories of personal property has special limits under Coverage C. This greatly affects the coverage an insured may think he or she has under Coverage C of his/her homeowners' policy. If an insured has $10,000 worth of jewelry in his/her home and it is stolen, only $1,500 is covered by his/her homeowners' policy. This is an area where an insurance agent needs to carefully discuss the types and value of personal items the insured plans to keep in his or her home. Not knowing what is and what isn't covered – or worse, believing something is covered for its full amount when it is not – makes for an unpleasant claim settlement for both the insured and the adjuster who has to deliver the bad news.

The following amounts show the total limit for each loss for all property in that category. These special limits do not increase the Coverage C Limit.

$200—Money, bank notes, bullion, gold (other than goldware), silver (other than silverware), platinum (other than platinumware), coins, medals, scrip, stored value cards and smart cards.

$1,500—Securities, accounts, deeds, evidences of debt, letters of credit, notes (other than bank notes), manuscripts, personal records, passports, tickets and stamps. This limit applies regardless of the medium on which the material exists, whether on paper or on computer software. This limit includes the cost to research, replace or restore the information from the lost or damaged material.

$1,500—Watercraft of all types, including their trailers, furnishings, equipment and outboard motors or engines

$1,500—Trailers or semi-trailers of all types not used with watercraft

$1,500--- Loss by theft of jewelry, watches, furs, precious and semi-precious stones

$2,500—Loss by theft of firearms and related equipment such as telescopic gunsights, cases, or ammunition.

$2,500—Loss by theft of silverware, silver-plated ware, goldware, gold-plated ware, platinum-ware, platinum-plated ware and pewterware. This includes flatware, hollowware, tea sets, trays and trophies made of or including silver, gold or pewter.

$2,500—Property on the residence premises used primarily for business purposes.

$500—Property away from the residence premises used primarily for business purposes. This limit does not apply to the next two categories.

$1,500—Electronic apparatus and accessories while in or on a motor vehicle, but only if it is equipped to be operated by the power supply of the motor vehicle and/or other types of power supply. This includes CD players or cell phones that can also be plugged into a wall outlet. This also includes CDs, disks and other accessories of these items.

$1,500—Electronic apparatus and accessories used primarily for business purposes away from the residence premises and not in or on the motor vehicle. The apparatus must be equipped to receive power supply from the motor vehicle's electrical system (as with the above category), as well as other types of power supply. This is basically the same category as above for when the items mentioned there are for business purposes.

Readability of the Policy

Personal property is coverage of a homeowners; policy used most often by insureds. This is why it is so important that the insured can read and understand his/her policy. As with most legal documents, insurance contracts can become wordy, complicated and confusing. In response to complaints of insureds that their insurance policies were too difficult to comprehend without a law degree, some states issue a law that requires all language in insurance policies to meet readability standards.

According to the law, every policy must be readable, as measured by the following guidelines.

The text must meet a minimum score of 45 on the Flesch Reading Ease test (or an equivalent score on any other test comparable in result and approved by the insurance commissioner's office). The Flesch scores (Flesch-Kincaid Grade Level and Flesch Reading Ease) are based on the average number of syllables per word and words per sentence. The Flesch Reading Ease score is based on a 100 point scale: the higher the score, the easier it is to comprehend.

The policy must use layout and spacing that separates the paragraphs from each other and from the border of the paper. The contract must have section titles that are captioned in boldfaced type or that otherwise stand out significantly from the text. It must avoid the use of unnecessarily long, complicated, or obscure words, sentences, paragraphs or constructions.

The style, arrangement and overall appearance of the policy must give no undue prominence to any portion of the text of the policy or to any endorsements or riders. Finally, the policy must contain either a table of contents or an index of the main sections of the policy if the policy has more than 3,000 words or is longer than three pages.

Laws like this make insurance policies simpler to read and understand for insurance agents and adjusters.

Coverage C Exclusions

There are many things excluded under Coverage C of a homeowners' policy. This is a very important area of the policy for both an insured and an adjuster. People tend to believe anything they own is considered "personal property." Not so, according to the insurance industry.

Articles separately described and specifically insured. This means that any item that is covered under a separate floater or endorsement is not covered by Coverage C. That specific coverage exists in place of the coverage provided in this section, not in addition to it. This is connected to our earlier discussion of special limits for certain items. An insured who believes she has covered all the bases by purchasing a $1,000 floater to cover her $2,500 necklace will be disappointed to learn that once a floater is applied to a particular item, it is no longer covered by the main policy.

Animals, birds or fish—Pets are not covered even if the loss is caused by a covered peril. People who invest a great deal into acquiring purebred pets should be advised to purchase coverage separately to protect them.

Motor vehicles—This is a broad exclusion and includes motor vehicles used on public roads, antique cars, vehicles in dead storage, and off-road recreational vehicles. This exclusion includes equipment (jacks, tire irons, anti-theft devices, etc.) and accessories (truck bed cap, bra, seat covers, etc.) whether or not they are in or on the vehicle, and electronic apparatus and accessories designed to be powered solely by the vehicle's electrical system only while property is in or on the vehicle.

There is an exception to this exclusion, though. Coverage is provided for motor vehicles that are not required to be registered for use on public property that are used solely to service an insured's residence premises or designed to assist the handicapped.

Aircraft—This includes hot air balloons, hang gliders, and ultra-lites; basically anything that is used or designed for flight. Hobby planes and aircraft not designed to carry cargo or people are covered.

Hovercraft and Parts—A hovercraft is a self-propelled motorized ground effect vehicle, like an air cushion vehicle. They may not be common, but insurers found it necessary to exclude them from Coverage C.

Property of Roomers or Boarders who are NOT Related to the Insured—The roomer or boarder must be related to the insured, and coverage must be requested by the insured to apply.

Property in an Apartment Regularly Rented or Held for Rent to People Other than Insureds—If an insured regularly offers a furnished apartment above his garage for rent, the items in it would not be covered.

Property Rented or Held for Rent to Others Off the Residence Premises—If an insured rents his guitar to a third party, no coverage is provided for the guitar.

Business Data—This excludes business data, such as data stored in accounting records, drawings or other paper records or computers and related equipment. Coverage is provided to pre-recorded data or software available to the public, such as Microsoft Office or Quicken.

Credit Cards, Electric Transfer cards, or Access Cards—This excludes credit cards, fund transfer cards, and access cards used solely for deposit, withdrawal or transfer of funds. They are excluded under this section, but covered under Additional Coverages for up to $500.

Water or Steam—Water or steam are listed as property under the Homeowners' 2000 program to eliminate the possibility of argument that water or steam delivered to the insured was lost or stolen. Hard to believe, but true.

Coverage D: Loss of Use

Coverage D provides coverage for Additional Living Expenses, Fair Rental Value and Civil Authority Prohibits Use. The limit for Coverage D is for the total of these three coverages. This coverage applies when the insured dwelling is damaged by a covered peril so much so that it is unfit for occupancy.

Additional Living Expenses

The Additional Living Expenses for the homeowners' policy is almost identical to the coverage available in the Dwelling Policy. It is intended for cases when the residence is damaged by an insured peril so severely that it is unfit to live in.

Additional Living Expenses are considered to be necessary increases in living expenses in order to keep the insured at his or her normal standard of living. If a family usually spent $300 a month for groceries, and the cost to dine out each night due to the damage to the home is $500, the insurer would pay $200 to make up the difference. If the insured were to submit a claim of $600 for eating expenses, it would obviously be greater than the family's normal living standard and the claim would likely be denied.

Some things, such as cable television and utility costs, may be reduced or eliminated completely. These amounts would then be deducted from the additional living expense determination.

Coverage is limited to the shortest period of time it takes to repair or replace damaged property. If the insured must relocate, coverage is limited to the shortest period of time it takes to settle at a new location. If the dwelling can be repaired in 30 days, but because of the insured's actions it ends up taking 45 days, coverage would only be provided for the first 30 days.

If the policy expires before repairs or replacements are completed on covered losses, the policy will continue until they are completed.

Fair Rental Value

This coverage pays the insured/owner the fair rental value of the unit(s) if a covered Section I property loss causes part of the residence premises that is rented to others to be unfit to live in. If

Mike rents the apartment above his garage for $600 a month, and that unit is damaged severely by tornado, the insured will receive $600 a month until the unit is repaired. Expenses that do not exist while the unit is unfit for inhabitation, such as a cleaning service, would be deducted from the rent amount.

If the insured's residence premises are also damaged in the event, coverage is provided under Additional Living Expenses.

As with Additional Living Expenses, coverage is limited to the shortest period of time it takes to repair or replace damaged property. If the insured must relocate, coverage is limited to the shortest period of time it takes to settle at a new location.

If the policy expires before repairs or replacements are completed on covered losses, the policy will continue until they are completed.

Civil Authority Prohibits Use
This coverage pays the insured Additional Living Expenses and Fair Rental Value if the insured is prohibited from using his or her property by civil authority. This prohibition must arise out of direct damage caused to neighboring premises by a covered peril.

Coverage is provided for up to two weeks to an insured who cannot use the described location by order of civil authority because of direct damage to neighboring premises by a covered peril. A city may not allow people to return to their apartments because of an explosion several blocks away. The loss must include direct damage to the neighboring premises and must be the result of a covered peril.

If the policy expires before repairs or replacements are completed on covered losses, the policy will continue until they are completed.

Coverage D Exclusions
The insurer will not cover loss or expenses due to the cancellation of a lease or agreement. If a tenant's lease is cancelled because the property is unfit to live in, coverage does not apply.

Coverage D Limits
The limit for Coverage D depends on the form used. For HO-2, HO-3 and HO-5, the limit is 30% of Coverage A. For HO-4, the limit is 30% of Coverage C. In HO-6, the limit is 50% of Coverage C. For HO-8, the limit is 10% of Coverage A.

2 Perils Insured Against

Broad Form Perils Insured Against

Section I of the Broad Form lists 16 named perils that are covered by the policy. The Homeowners Broad Form provides coverage for direct physical loss to property described in Coverages A, B and C, and caused by a peril listed in the policy. Each occurrence is subject to Section I Exclusions. We'll number the perils to help you keep track, however this does not represent the way they appear in the policy.

1. Fire
The Standard Fire Policy does not define fire, as a peril. Therefore it is given its ordinary meaning by the courts. Specifically, fire is defined as oxidation of a degree sufficient to produce a visible flame or glow. Exactly when the flame or glow is produced can be significant in some cases. Such is the case of fires in stored food products. One example has to do with what is called "bin burn." This is the organic heating of agricultural crops stored for extended periods of time. Since the storage areas are getting larger and larger and the value higher and higher, the potential loss from fire (or anything else for that matter)is great. Insurance claims become complicated in the

event of fire because it can be very difficult to establish when a flame or glow actually began. If the stored food lost value (due to age or exposure to degenerative elements) prior to the actual flame, this affects how the insurance company would compensate for the loss. By contract terms, the insurer is liable only for the value at the time of fire (an actual flame or glow) although there could have been a loss of value prior to that due to extensive exposure to the elements that caused the fire. Again, the insurer is liable for the fire loss only. Although scientific evaluation will produce some insight, the final decision will depend upon negotiation and probably some compromise.

There can be an additional limitation on loss due to fire. Fire is divided into two categories: hostile fire and friendly fire. A hostile fire is one that is uncontrolled, whereas a friendly fire is one contained in a proper receptacle. If a friendly fire moves from its proper place to an improper place, it changes from a friendly fire to a hostile fire. This is what happens when a campfire becomes a forest fire. The campfire is friendly but once it leaps its proper boundaries into the forest it becomes a hostile fire.

No policy benefits are available as long as a fire remains "friendly." For example, John, Ralph, and Mike are camping. They are sitting around a campfire (contained so therefore friendly) when John accidentally drops his camera into the fire. It probably would not be covered by his policy because the camera was destroyed by a friendly fire. If the camera were lost to a hostile fire, it probably would be covered. John's policy also would not cover any damage resulting from the friendly fire to surrounding items, such as camping equipment.

Using the same example, if John accidentally dropped Ralph's camera into the friendly fire, it is likely that his insurance would cover Ralph's loss since John would be legally liable for it.

Policies generally do not cover loss due to intentional use of fire. The first thing that comes to mind is arson. Policies specifically exclude coverage if the policyholder intentionally burns his own property or pays someone to burn his own property. There are other situations that would also apply. If heat is mismanaged, such as in a manufacturing plant, the policy is not likely to cover the damage sustained as a result of that mismanagement. One authority stated it this way:

If a fire is used for culinary and heating purposes, or for the purpose of generating power, the fire being confined within the limits of certain agencies for producing heat, or if it is used by chemists, artisans, and manufacturers as a chemical agent, or as an instrument of art or fabrication, or for any of the other numerous purposes of like character, and if in such cases it is used or applied by design, and a loss occurs in consequence of over heating or by unskillfulness or negligence of the operator, and his mismanagement of heat as an agent or instrument of manufacture or other useful purpose, this is not a loss within a fire policy. [1]

To make this clear, if the fire or heat remains within the confines it is supposed to be in, any damage sustained to surrounding areas or items is not covered . However, if the fire or heat spreads outside of the intended confines, damage to surrounding areas or items would then be covered by the policy. Friendly fires are those flames within the intended confinement; hostile fires are those flames that spread outside of the intended confinement. Friendly fires are not a covered peril; hostile fires are a covered peril.

Borderline situations can occur where it is uncertain whether the damage would be considered the result of friendly or hostile fires. Cigarette burns often fall into this category. Often cigarette burns are covered for two reasons: (1) Swerdling versus Connecticut Fire Insurance Company stated such burns were hostile fires even though no actual flame or glow existed and (2) for public relation purposes.

Another area that may be borderline when it comes to losses concerns overheating. Whether or not damage from overheating will be covered may vary according to specific situations. There have been successful legal arguments that when there are thermostatic controls and the heat from a fire that was restricted to its normal confines causes damage; the fire is still hostile (rather than friendly) if it was due to a malfunction. Because the fire is then considered hostile, the resulting damage would be a covered peril.

The doctrine of proximate cause states that any loss caused by a hostile fire is a covered peril providing the loss is a direct result of the fire and not a remote consequence. Under this doctrine, when covered property has been damaged by smoke, heat, by the efforts of firefighters, by water used in extinguishing a fire, or damage caused by falling walls or other building structures, insurance companies have commonly been held liable for damages. Courts often settle the extent to which insurance companies are liable.

2. Lightning
Although lightning often causes loss by fire, lightning itself is a peril separate and distinct from fire. However, since fire is so often the result, the two perils are treated together in many cases.

Surprisingly, few statistics have been kept on lightning on a segregated basis (statistics lump lightning in with fire claims in general). One company did keep segregated statistics from 1958 through 1960 in the Midwest. Those figures dealt with an area experiencing 40 to 50 thunderstorm days per year. Florida actually leads the country with 90 thunderstorm days per year. However, 40 to 50 thunderstorm days is considered our nation's "average." Based on those three years statistics, the total number of fire and lightning losses amounted to 11,118. Of these, 8,848 or 79.5 percent were the result of lightning; 22.8 percent of the total dollar losses were the result of lightning.

3. Windstorm or Hail
Windstorm covers the damage caused by the "direct action of wind," including high winds, cyclones, tornadoes and hurricanes. Three factors must be present in order for this loss to be covered. The wind must be unusually greater than normal, strong enough to cause damage, and identifiable as having occurred at a certain time.

Hail is basically little (or large) ice balls that sometimes accompany thunderstorms. Hail can range from the size of a pea to the size of a melon and can cause great damage. Damage caused by hail is only covered when it occurs to the outside of the dwelling, or to the inside if it was able to get inside because of damage caused it already had caused to the outside.

For example, if hail breaks a window and rain, sleet, snow, sand or dust damages the carpet or other personal property, it would be covered. However, if someone leaves the window open and rain, sleet, snow, sand or dust causes the same damage, it would not be covered. This peril also does not include damage to awnings, signs, antennas, masts, towers, canoes or rowboats when outside a building.

4. Explosion
The term "explosion" is not defined as an insured peril, nor is it qualified as one, though the coverage afforded to it is very broad. The courts have established several definitions of "explosion," depending on the circumstances. For general purposes, an explosion must be sudden and involve the breaking forth of a confined substance as the result of an internal force.

5. Riot or Civil Commotion
The inclusion of the word "civil commotion" broadens the scope of what is technically a riot. A riot is basically defined by five factors. It must involve:

-Three or more people assembled together

-With common purpose

-To cause a public disturbance of the peace

-By acting together to execute this purpose by force, resisting authority

-Create some measure of fear

One person who intentionally breaks the windows of homes on his street while enraged would not be considered a riot (it would be vandalism).

6. Aircraft (including self-propelled missiles and spacecraft)
The term "aircraft" includes any machine that flies, powered airplanes, gliders and helicopters. A

missile must be self-propelled in order to be covered and is defined as an object or weapon thrown, shot, or otherwise propelled to a target. A spacecraft is any vehicle capable of traveling through space, outside of the Earth's atmosphere. Who knows how often a claims is filed involving damage caused by a space craft, but it's obviously occurred often enough to be defined in the policy.

This coverage includes parts or debris from any of these objects. If it can be proven that the sonic boom of an aircraft, missile or spacecraft caused damage to a dwelling, it is also covered.

7. Vehicles
In homeowners' coverage, a "vehicle" is any means of conveyance moving on wheels or runners. This includes autos, bicycles, snowmobiles, etc. This peril does not include damage caused by a vehicle that is owned by the insured or operated by a resident of the described location. If Jed backs his car through the garage door, no coverage will be provided. If his neighbor, Aaron, drives his car through Jed's garage door, it will be covered.

8. Smoke (sudden and accidental damage from smoke)
The incident and subsequent damage of smoke must be sudden and accidental. If an insured smokes a pipe frequently, eventually the residence will start to smell "smoky." Since this damage is not sudden or accidental, it would not be covered. Smoke from fireplaces, "smudging" caused by agricultural equipment and smoke from manufacturing equipment are not covered.

9. Falling Objects
This peril covers damage to the exterior and contents of the insured premises if the falling object first damages the roof or exterior walls. In order for interior contents to be covered, the falling object must first damage the roof or exterior walls. If a tree falls and shakes the building, knocking down shelves and pictures, but not damaging the exterior walls, there would be no coverage for the broken items inside. Damage to the falling object itself is also not covered.

10. Vandalism or Malicious Mischief
Vandalism is the willful destruction of public or private property. Remember the guy in the last section breaking windows? This is his peril. He also would be guilty of committing "malicious mischief," which is willful or reckless damage or destruction of another's property.

To be covered, damage must be intentional. This includes things like rocks thrown through windows, spray paint graffiti on the house, or damage caused by burglars. Loss to glass or glazing material that makes up part of the building other than glass blocks, or loss by pilferage, theft, burglary or larceny are not covered. The insurer will cover damage done to the building by burglars, but not what was stolen. If a building is vacant for more than 60 consecutive days immediately prior to the loss, there is no coverage. A dwelling that is being constructed is not considered vacant. This 60-day condition does not apply to any other covered perils, just vandalism. If the insured dwelling burns down after 70 days of vacancy, it is still covered.

11.Theft
This peril includes attempted theft and loss of property from a known place when it is likely that the property was stolen. Theft coverage does not apply in the following four instances:

-Theft committed by the insured or anyone who falls under that definition.

-Theft committed in or to a dwelling under construction, of theft of materials and supplies for use in construction until the dwelling is finished and occupied.

-Theft from the part of the residence premises rented by the insured to someone other than an insured.

Theft that occurs off the residence premises of the following items is not covered:

-Trailers, semi-trailers and campers.

-Watercraft of all types and their furnishings, equipment, and outboard engines or motors.

-Property while at any other residence owned by, rented to, or occupied by an insured except while the insured is temporarily living there.

The property of a student who is away at school is covered as long as the student had been at the residence premises at any time during the 60 days immediately prior to the loss.

12. Weight of Ice, Snow or Sleet
This peril involves damage caused by the weight of ice, snow or sleet. If a large snowfall melts into ice on a roof and the weight causes the roof to buckle, coverage would be provided. This peril does not include eventual damage caused by ice, snow or sleet, such as warping or damage to shingles after several winter seasons. This would be considered wear and tear and would be excluded.

Coverage is not provided for damage caused by the weight of ice, snow or sleet to awnings, fences, patios, pavement, swimming pools, retaining walls, foundations, bulkheads, piers, wharfs or docks.

13. Accidental Discharge or Overflow of Water or Steam
This peril provides coverage for losses caused by the accidental discharge or overflow or water or steam from within a plumbing, heating, air conditioning, or automatic fire protective sprinkler system, or from within a household appliance. Under this peril, a "plumbing system" does not include a sump, sump pump, or related equipment. Basically, if an insured’s clothing washer overflows and causes damage, the damage is covered.

In the case of a loss, coverage is provided for the cost to gain access to the damaged area, which may include tearing out walls. It also covers the cost to repair the damaged area of the building. There is no coverage for the system itself. The insurer will not cover the cost to repair the washer that overflowed.

There are many exclusions and conditions under this peril, since this type of damage is quite common. The following are not covered:

-Loss on the Residence Premises if it has been Vacant for More than 60 Consecutive Days—If the described location has been vacant for more than 60 consecutive days immediately prior to the loss, there is no coverage. Dwellings under construction are not considered vacant.

-Loss to the System or Appliance from which Water or Steam Escaped—This specifically excludes the system or appliance involved in the loss. As mentioned above, the washer that overflowed and caused the damage is not covered, but the damage it caused is covered.

-**Loss Caused by or Resulting from Freezing, Except as Provided in the Peril of Freezing**—Freezing is specifically excluded under this peril, though there is different coverage provided under the Freezing Peril later in this text.

-Loss on the Residence Premises Caused by Accidental Discharge or Overflow that Occurs Off the Residence Premises—If a water main breaks in the neighborhood and causes damage to the described location, no coverage would be provided.

-Loss Caused by Mold, Fungus or Wet Rot, Unless Hidden within the Walls, Ceilings, Beneath the Floors or Above the Ceiling of the Building—This type of damage must be hidden to be covered.

In addition to a sump, sump pump or related equipment, this peril also does not cover a plumbing system, household appliance, roof drain, gutter, downspout or similar fixture or equipment. For example, if a sump pump malfunctions, the water damage it causes would not be covered.

14. Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging
This is an explosion-like peril that includes the sudden and accidental tearing apart, cracking,

burning or bulging of a steam or hot water heating system, an air conditioning or automatic fire protective sprinkler system, or an appliance for heating water. For coverage to apply, the occurrence must be sudden with forcible damage to the system or appliance. Damage to the system and to the dwelling are both covered.

Loss to any system or appliance mentioned above due to freezing is NOT covered under this peril, except as is provided in the Freezing Peril below.

15.Freezing
Coverage is provided for the freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system, or of a household appliance. If a pipe freezes and bursts, the insured is covered for the repair of the pipe, repair of the wall damaged when it burst, and for the repair or replacement of subsequent damage involved. If a pipe freezes and needs to be thawed, coverage is provided for this as well.

There is no coverage provided for freezing losses on the residence premises while it is vacant, unoccupied or under construction, unless the insured has used reasonable care to maintain heat in the building or shut off the water supply and drain the system of appliances that use water. If it is determined that the insured showed reasonable care to prevent freezing, yet freezing still occurred, the losses will be covered.

16. Sudden and Accidental Damage from Artificially Generated Electrical Current
This is any electrical current other than lightning. Lightning is naturally occurring electricity, whereas the electricity supplied to a dwelling as a utility is artificially generated. If a power surge caused by lightning damages an appliance, coverage will be provided.

Damages to certain items specifically excluded under this peril include the following:

> -Damages to a "tube"—A tube is found in a television, radio, phonograph and related devices.
>
> -Damage to a "transistor"—A transistor is defined as an electronic device made of semiconducting material and equipment that has three or more electrodes. A transistor functions like a vacuum tube, without requiring current to heat a cathode.
>
> -Damage to a similar electronic component—This excludes mechanisms that are used to serve the same purpose as tubes and transistors. The circuit board of a computer is a similar device to a tube or transistor, and would therefore be excluded from coverage.

17. Volcanic Eruption
Though uncommon in most parts of the United States, this peril covers losses caused by volcanic eruption. This is physical damage caused by volcanic lava, steam, ashes or airborne shock waves. It does not include earthquake, land shock waves or tremors.

18. Removal of goods
The Standard Fire Policy is a fixed, named location coverage. While it may be possible to literally move buildings from one location to another that is not the usual scenario. Typically, removal of goods refers to types of property that can be moved without severe difficulty. The only variation on the fixed location is found in the section of the insuring agreement, which states “and by removal from premises endangered by the perils insured against in the policy.” This statement allows for removal if it is to protect the property from insured perils. It is important to note that this specifically restricts removal based on “insured” perils. This is important to the insurance company since they based their premium rates on the location of the property. Coverage during the process of removal is held to be virtually “all risk.” At one time, theft was excluded during the removal process, but the courts have generally disallowed this exclusion. Breakage and exposure to weather is typically covered during the removal process. The doctrine of proximate cause provides the rationale during this period of time.

Removal of goods is based upon Line 22 of the policy contract that requires the insured to "use all reasonable means to save and preserve the property at and after a loss." Removal of insured property is often the only way to preserve it. For example, if one's home were burning, it would make sense to remove valuable jewelry and art. Of course, even removing furniture and clothing is preserving insured property, but no insurance company would recommend endangering life in order to preserve property. Since the policy specifically allows the removal of property in order to preserve it, it stands to reason that the company would also insure it during this period of time.

There are restrictions involved. The policies typically provide a window of time during and immediately following a loss that coverage would be active. Companies realize that it would be impractical to expect an insured to arrange for a change of location endorsement, so the insuring agreement provides coverage as follows: "pro rata for five days at each proper place to which any of the property shall necessarily be removed for preservation from the perils insured against in this policy, but not elsewhere."

This includes several situations. First, pro rata means that if property is removed to more than one location, coverage is prorated to each of the locations in relation to what the value at the particular location bears to the total remaining value of the property. This qualification is not so important now because how the policies are written has changed. Originally policies were non-continuous. Non-continuous policies are those in which the amount of coverage is reduced by the amount of loss. Today's policies are continuous . That means any loss paid under the policy does not reduce the amount of insurance remaining. Newer policy forms omit any reference to pro rata distribution and simply state that property removed is still subject to the same policy limits as those that applied at the original location.

The time limitation of five days still applies because it is felt that this provides enough time for the property owner to arrange coverage at a new location. If a home fire is the result of the property transfer, the newer forms include an endorsement that allows thirty days to establish a new location. Under the Standard Fire Policy, once property is removed from the original location and located elsewhere, the coverage reverts back to exactly the same perils as those provided for in the original contract. That is, the "all risk" coverage applies only during the removal process. Newer policy versions are likely to state that the coverage is for direct loss from any cause for up to thirty days.

Americans are a mobile group of people. We tend to move often. As it relates to insurance, this mobility affects how policies are written. Rates are based, in many types of policies, upon the location of the property. Due to the American mobility, policy language has been adapted in recent years. Most policies have adopted rules covering residential contents that provide automatic protection of household contents at new locations if:

-It is the insured's residence and not simply a place of storage, and

-It is in the same state as the previous location.

Exceptions

No policy covers everything. The Standard Fire Policy does not cover everything. It specifically lists several causes of loss that would not be covered under the policy. Those include:

-Loss by fire or other perils insured against in the policy caused directly or indirectly by: enemy attack by armed forces, including actual or an immediately impending enemy attack; invasion; insurrection; rebellion; revolution; civil war; usurped power; order of any civil authority except acts of destruction at the time of and for the purpose of preventing the spread of fire, provided that such fire did not originate form any of the perils excluded by the policy (lines 13-21). The types of losses enumerated in the preceding sentence are not included for the following reasons: they represent a catastrophe exposure which the insurer is unwilling to assume; they are usually extraordinary losses occurring under conditions that make the extinguishments of fire difficult;and in many cases, they may be recovered from the state, or municipality. The readable policy changes are editorial only for this and or number 2 that follows.

-Loss caused by “neglect of the insured to use all reasonable means to save and preserve the property at and after a loss, or when the property is endangered by fire in neighboring premises.” It is not always easy to prove neglect on the part of the insured. The purpose of this exception is to reduce the payable loss due to the insured’s neglect or carelessness.

-Losses caused by theft. This exclusion often applied to “Removal of Goods” which Line 24 expressly excluded. The added peril of theft occurring during the confusion at and following a fire is very high. Unfortunately, there are people who look for the opportunity to steal at this time. Insurance companies are aware of this unusually high risk of theft and wish to limit their liability. When loss to fire is extensive it is hard to prove what was lost to fire and what was lost to theft. However, in the case of multiple-line policies that cover this peril, there is no theft exclusion.

-Loss “as a result of explosion or riot, unless fire ensures, and, in that event for loss by fire only” (lines 36-37). In early legal cases the courts ruled that insurance companies were liable for certain types of explosions that caused fires and combustion losses. To avoid these payments, underwriters inserted clauses either excluding explosion losses entirely, or, as is currently done, excluding only the concussion loss. Proximate cause states that if an explosion is merely an incident of a preceding fire, the entire loss is recoverable even if the principal damage resulted from the explosion, and this is true despite an exception in the policy against explosion. However, the fire must be established as “hostile.” Otherwise, there may not be any coverage. Fire must happen due to a flame or glow that escaped its original “friendly” state into a “hostile” state. In that case, only if fire ensues is there coverage and then only for the fire loss. This is an important point and should not be overlooked. Explosion losses present difficult cases for adjustment because where fire immediately follows an explosion it can be impossible to determine the amount of loss due to the explosion and the amount of loss due to the fire. Since only the fire is covered this is an important point for the insured. Loss by riot is not covered by the policy except where fire results from the riot. Like losses from explosion, the insurance company’s liability is limited to the damage actually caused by the fire rather than by the riot. Both explosion and riot may be covered if there is an endorsement on the policy including them. Newer policies, again, are now multiple-line so they include a sizable number of perils. These policies include riot and explosion (except boiler) so no endorsement would be necessary.

-Losses caused by the intentional acts of the insured are not covered. If it can be proven that the insured purposely caused a fire or other peril for the purpose of collecting on their insurance policy, such losses would not be covered. However, mere negligence or fault by the insured or his or her employees or agents or even the willful act of his or her agents or employees (without the insured’s knowledge) would be covered by their policy.

Additional Coverages

In addition to all the coverages we’ve discussed provided by Coverage forms A through D, Section I of a homeowners’ policy offers 12 coverages that appear in a separate section of the policy: the "Additional Coverages" section. Each additional coverage comes with its own conditions and exclusions, as well as its limit.

Debris Removal

A homeowners’ policy will cover the reasonable expenses for the removal of debris from the residence premises caused by a covered peril.

An additional 5% is available for debris removal in the event of a total loss. If a dwelling is insured for $120,000, and is destroyed totally by fire, an additional 5% of the limit for Coverage A can be applied to cover debris removal. This percentage can be applied to Coverages B and C.

Tree Debris

The insurer will pay $1,000 for the removal of tree debris caused by a covered peril that damages a structure, or a covered peril that does not damage the structure, but blocks the driveway or handicapped ramp. There are coverage conditions, though.

Reasonable Repairs

Reasonable Repairs will pay expenses for necessary steps taken by the insured after sustaining damage from a covered peril for the purpose of protecting the property from further damage. For instance, if a dwelling is damaged by a tornado, the insurer will cover the cost of boarding up windows or covering a damaged roof until permanent repairs can be made. These steps are only covered if they are necessary due to damage caused by a covered peril.

Trees, Shrubs and Other Plants

The insurer will pay for loss to trees, shrubs or other plants or lawns on the residence premises, but only if damaged by one of the following specific perils:

-Fire or Lightning
-Explosion
-Riot
-Civil Commotion
-Aircraft
-Vehicles Not Owned or Operated by a Resident of the Residence Premises
-Vandalism or Malicious Mischief
-Theft

Fire Department Service Charge

If a dwelling is located in an area that does not provide tax-funded fire protection, the insurer will pay up to $500 for the insured’s liability assumed if the fire department is called for service related to a covered peril. This coverage does not apply if a dwelling is located within a tax-funded fire department’s territory. This is additional coverage, and no deductible applies.

Property Removal

If an insured moves covered property from the residence premises to another premises because it is in danger of being damaged by a covered peril, the insurer will cover that property for any cause of loss for 30 days. The cause for the insured to move the property must be an insured peril, but the property itself is protected from all perils while being moved.

Credit Card, Electronic Fund Transfer Card, Forgery or Counterfeit Money

This coverage will pay up to $500 for loss or unauthorized use of credit cards, electronic fund cards, forgery or counterfeit money. This $500 limit applies to all losses resulting from a series of acts committed by any one person or in which any one person is concerned or implicated. This means that a "series" is considered one occurrence.

Loss Assessment

The insurer will pay up to $1,000 for the insured’s share of loss assessment charges as the owner or tenant of the residence premises by a corporation or association of property owners. The assessment must be made as a result of direct loss to property owned collectively by all members. The loss must also be of the type that would be covered by this policy, if owned by the insured and caused by a covered peril OTHER than earthquake, or land shock waves or tremors before, during or after a volcanic eruption.

Collapse

The Homeowners 2000 program defines collapse as: "A collapse is an abrupt falling down or caving in of a building or of any part of a building with the result that the building or part of the building cannot be occupied for its current intended purpose." The Homeowners 2000 program describes conditions and exclusions of this additional coverage in great detail.

Glass or Safety Glazing Material

This coverage is for breakage of glass or safety glazing materials that are part of the building, including storm doors/storm windows. This covers the following:

> -Breakage of glass and safety glazing materials that are part of the building, including storm doors and windows.
>
> -Breakage of glass and safety glazing materials that are part of the building, including storm doors and windows when caused by earth movement.
>
> -Direct physical damage to covered property caused solely by pieces, fragments or splinters of broken glass/safety glazing material.

Landlord's Furnishings

This coverage provides $2,500 for carpeting, appliances and other household furnishings in each apartment on the residence premises that is regularly rented or held for rental for a loss caused by a covered peril other than theft. This coverage is only offered in HO-2, HO-3 and HO-5.

Ordinance or Law

An insured may use up to 10% of the Coverage A limit for the increased costs incurred due to the enforcement of any ordinance or law that requires these things:

> -The construction, demolition, remodeling, renovation or repair of that part of the covered building damaged by a covered peril.
>
> -The demolition and reconstruction of the undamaged part of a covered building when it must be totally demolished because of damage caused by an insured peril to another part of the building.
>
> -The remodeling, removal or replacement of the undamaged part of the building to complete the remodeling, repair or replacement of the part of the building damaged by an insured peril.

The insured may use all or part of this coverage to pay for the increased costs incurred to remove debris resulting from the construction, demolition, remodeling, renovation, repair or replacement of the property as stated above.

This coverage is additional insurance and does not cover loss in value to any covered building due to the requirements of any ordinance or law, or costs incurred to comply with any ordinance or law requirements for testing, monitoring, cleaning up, containing, treating, detoxifying or neutralizing, or in any way to respond to or assess the effects of pollutants.

Grave Markers

The insurer will pay up to $5,000 for grave markers, including mausoleums on or away from the residence premises for damages caused by a covered peril. This coverage does not increase the limits of liability that apply to the damaged covered property.

Homeowner's Exclusions

Though it may seem as though so much is covered by a homeowners' policy, there is still a reasonably lengthy list of exclusions.

The exclusions we're discussing here are applicable to Section I of the homeowners' policy and deal with Coverages A, B and C (these exclusions are in addition to the special exclusions that exist under Coverage C). These exclusions apply whether occurrences were caused directly, indirectly, or in any sequence when a concurrent cause or event is not excluded.

Ordinance or Law

This exclusion negates coverage for a loss that is caused by enforcement of laws, like building codes, that may require changes to foundations, wiring and plumbing systems if a building is damaged by an insured peril. If the plumbing system of an older dwelling does not meet current standards, the insurer will not pay to replace the system.

Costs associated with any compliance requirement of testing for pollution exposures are not covered. The Ordinance or Law exclusion applies whether or not the residence premises has been physically damaged. It is important to first note that this exclusion does not apply to the amount of coverage that may be elected under the Ordinance or Law Additional Coverage.

Earth Movement

For insurance purposes, "earth movement" is an earthquake causing land shock waves or tremors before, during or after a volcanic eruption, landslide, mine, mudflow, and earth sinking, rising or shifting. A loss caused by earth movement is excluded.

Losses caused directly by fire or explosion, though connected with an earth movement, are covered. For instance, if an earthquake causes a shift in a building's foundation, and a fire sparks, damaging the building, the damage caused by the fire would be covered, but the damage to the foundation would not be.

Water Damage

Water damage is excluded. Under the policy, water damage includes the following:

> **Flood**—A flood is a rising and overflowing of a body of water onto normally dry land.
> **Surface Water**—This type of water runs or stands on the surface of the ground, such ponds, lakes, streams, creeks, etc.
> **Waves**—Waves are the curling ridges or swells in the surface of a body of water.
> **Tidal Waves**—A tidal wave is water brought into a dry area by rising tides.
> **Spray from any of these, whether or not driven by wind**—Heavy rains and winds that cause a river to overflow causing property.
> **Water or water-borne material that backs up through sewers or drains that overflows, or is discharged from a sump, sump pump or related equipment**—If there is a back-up or reverse flow of water or water-borne material that causes water damage, no coverage is provided. A back-up is usually caused by excessive rain or lack or sewer/plumbing maintenance. The term "water-borne" was added because courts were beginning to grant coverage to damage caused by back-ups of raw sewage.
> **Water or water-borne material below the ground surface**—Heavy rains can cause this build-up, which can put pressure on foundation walls, causing seepage or leakage into a building.
> **Water damage resulting from human or animal forces, or forces of nature**—These are not covered.

Losses caused directly by fire or explosion, though connected with water damage, are covered. For instance, water damage causes a gas pipe to burst and a fire sparks, damaging the building, the damage caused by the fire would be covered.

Power Failure

A power failure that occurs off the residence premises could be caused by a transformer that has been struck by lightning. If this causes a power failure at the residence premises, the loss will not be covered. If the lightning struck the residence premises, causing power failure, it would be covered.

This exclusion does not include losses covered by the perils of the policy. If an off-location power failure causes a furnace to fail and results in frozen pipes at the residence premises, the loss would be still be covered.

Neglect

If an insured neglects to make a reasonable effort to preserve property at the time of a loss or following a loss, that loss will not be covered. For instance, if a fire ignites in your kitchen, the reasonable thing to do is attempt to distinguish the fire. If it can be proven that you neglected to act, the loss will not be covered. The insurer does not require an insured to make any life threatening effort to preserve property, only a reasonable effort.

War

War and warlike behavior are excluded in a homeowners' policy. The broad term "war" includes these:

> **Undeclared War**—If the parties involved do not formally declare war, and warlike behavior breaks out, it is an undeclared war.
> **Civil War**—Civil war is war that breaks out between people of the same country.
> **Insurrection**—Insurrection is an uprising of people in resistance to their country.
> **Rebellion**—A rebellion is like an insurrection, except a rebellion is deliberate, organized effort made by force or by arms against a country or its laws.
> **Revolution**—Rebellion is the complete overthrow of a government by its people.

Any damage to property caused by warlike behavior is excluded. This includes the accidental discharge of nuclear weapons.

Nuclear Hazard

Losses caused by nuclear hazards are excluded, except those that are caused directly by a fire that ensues from a nuclear hazard. This topic will be examined more thoroughly in the Nuclear Hazard Clause of the Section I conditions.

Intentional Loss

Losses that are caused intentionally by an insured are excluded. This includes actions that are made by direction of the insured. If the insured hires someone to vandalize his house, it would not be covered. This exclusion is common to almost all types of insurance.

Governmental Action

"Governmental action" is the destruction, confiscation or seizure of property described in Coverage A, B or C by order of any governmental or public authority. This does not exclude actions taken by authorities at the time of fire to prevent it from spreading. Damages in those cases are covered.

Chapter 2 Homeowner's Liability

Liability Concepts

Homeowners' policies have two sections: Section I and Section II. Section II contains a homeowners' policy's liability coverage. To help familiarize you with liability in general, we'll cover some basic concepts regarding liability insurance.

Insuring Agreement

A liability policy basically agrees to pay on behalf of the insured "all sums the insured becomes legally obligated to pay as damages." This is stated in the insuring agreement.

Limits

Liability policies have three ways in which limits are applied. With a **single** limit, the amount is the maximum liability of the insurer for any one accident or occurrence. A single limit could also be applied to all people hurt in one occurrence, and another single limit for all property damage incurred.

A **split limit** provides two numbers. For bodily injury, one limit will apply to the each person injured in one occurrence, and another limit will apply to the claims of all people injured in one occurrence.

An **aggregate** limit is the limit that applies to the entire policy as a whole, no matter how many people are involved in an occurrence.

Legalities

Legal Liability

An insurer will pay out under a liability policy if it has been determined that the insured is legally liable. The term "legal liability" refers to the rule that if one injures another due to negligence, the one who caused the injury, must provide reparations to the one injured.

There does not need to be a lawsuit to determine whether or not someone is legally liable. Most liability claims are settled by adjusters who follow the guidelines established by the policy and thoroughly investigate a claim. The most important factor that affects liability claims is whether or not the person considered liable is also considered an insured under the policy.

Torts

Torts are not defined by law. In fact, "new" torts are created all the time. A tort is a civil wrong that does not arise from a contract for which money damages may exist. There are some widely-recognized types of tort, such as an intentional tort (premeditated) and a negligent tort (failure to exercise care). A strict liability is a liability without fault, sort of like pleading "no contest." It’s not guilty or innocent – it’s just liable.

Unintentional, or negligent, torts represent the vast majority of all cases brought for personal injury or property damage.

Law

There are two types of "law" considered in liability insurance – common law and statute law. Common law refers to a body of principles and rules that are based in usage or custom, but not actually codified as "law." Statute laws are laws that have been legislated or created by the state or federal authorities. In many cases, common law is the same as statute law, but any time there is a conflict or contradiction, statute law is applied.

Damages

Liability policies pay "damages," which is an insurance term for "money." There are two types of damages: compensatory and punitive.

Compensatory Damages

This type of damage can be further classified into two sub-categories: special and general. Special compensatory damages are those for actual economic loss, such as medical expenses or loss of earnings. General compensatory damages are not as tangible and involve things like pain and suffering and inconvenience. Both types of compensatory damages are reasonably common for tort actions. General compensatory damages are difficult to obtain in a contract action.

Punitive Damages

Punitive damages may be awarded in addition to compensatory damages. Punitive damages are exacted more to punish the defendant than they are to make the plaintiff whole again. Punitive damages are meant to dissuade the defendant from behaving in a way as to cause a liability claim again. Punitive damages may be awarded in a tort action, but are pretty much nonexistent in contract actions.

Defenses

Once the claimant has issued his or her complaint and proves all the elements of negligence, the defendant may return with one of two defenses: assumption of risk and comparative negligence.

Assumption of Risk

An injured person who knowingly exposed himself or herself to risk is said to have assumed the risk of the injury. Even if the person was injured by no fault of his or her own, if he or she put themselves in that position, it is not the defendant's responsibility.

Let's say Mark has a dog that is kept in a pen in his back yard. The fences in the pen are very high and there is a lock on the gate, keeping the dog inside. If a neighbor finds his or her way into the pen and is subsequently bitten by the dog, it is clear that the plaintiff assumed the risk of being bitten by Mark's dog when he or she decided to climb into the dog's pen. It's not Mark's fault.

Comparative Negligence

In this defense, the defendant asserts that the plaintiff somehow contributed to the injury. If this is proven, the plaintiff's claim will be reduced by the amount for which he or she was negligent or contributed to the injury. A plaintiff who is found to be 25% negligent for his own injury would receive damages that are reduced by 25%.

In this instance, the defendant could cross-claim the plaintiff and recover an amount based on the reduced degree of negligence.

An adjuster must understand how to determine levels of negligence, especially when dealing with claims that involve comparative negligence defenses

Liability - Coverage E: Personal Liability

Coverage E and Coverage F are found in Section II of a Homeowners' Policy. Section II of the homeowners' policy provides liability coverage in the event of a claim or lawsuit being brought against an insured by a third party. Coverage includes both bodily injury and property damage caused by an occurrence to which the policy applies.

Duty to Indemnify

An insurer's Duty to Indemnify is an important principle that is part of the basis of liability insurance. Under this clause, the insurer owes the insured a fiduciary duty to indemnify against liability for bodily injury and property damage. This duty is somewhat narrow and ONLY applicable when the insured is liable on the basis of conduct that falls within the scope of the policy's coverage.

If a claim or suit is brought against an insured for damages because of bodily injury or property damage, the insurer will pay up to the limit of liability for damages an insured is legally liable for.

Duty to Defend

The insurer's Duty to Defend is another important principle of liability insurance. Any doubts regarding the insurer's duty to defend under the policy must be resolved in favor of the insured. If an insurer refuses to defend a claim, it exposes itself to possible punitive damage penalties. The determination of whether a defense must be provided is based on the allegations made in the complaint and the terms of the policy. If there are multiple counts in the complaint, the insurer must defend the insured until any and all counts that fall under the scope of the policy have been settled.

If a claim or suit is brought against an insured for damages because of bodily injury or property damage, the insurer will provide legal defense, choose the legal counsel and pay the expenses, even if the suit is false or fraudulent. The insurer may also investigate and settle a claim as it sees fit. This is what an insured is paying for in liability coverage.

The insurer's Duty to Defend expires when the limit of liability has been exhausted by payment of a judgment or settlement. This does not, however, completely release the insurer from responsibility.

Coverage F: Medical Payments to Others

Coverage F is the other part of Section II's liability coverage. This coverage pays for medical payments to third parties that are incurred or deemed medically necessary within three years from the date of an occurrence causing bodily injury. This is basic accident coverage, since negligence does not need to be established for coverage to apply.

In insurance terms, "medical expenses" are the reasonable charges for these items:

-Medical services
-Surgical services
-X-rays
-Dental services
-Ambulance services
-Hospital services
-Professional nursing services
-Prosthetic devices
-Funeral services

The insured and other people who live in the insured dwelling are not eligible for this coverage. Residence employees, such as a nanny, are covered.

Coverage F applies to the following:

-A person on the insured location with the insured’s permission.
-A person off the insured location, if the bodily injury.
-Arises out of a condition on the insured location or adjoining ways.
-Is caused by the activities of the insured.
-Is caused by a residence employee in the course of his/her employment by an insured.
-Is caused by an animal owned by or in the care of an insured.

Homeowner Claims

What Constitutes a Homeowners’ Loss?

There are four factors necessary in order for a loss to be covered by insurance. They are these:

Losses Must be Accidental
The reason for this is that insurance policies insures against "risks." Therefore, losses must be accidental. If a loss is certain to occur, there is no risk involved. Losses resulting from deterioration are sometimes thought to be the result of a certainty. After all, everything wears out sooner or later. For this reason, should a loss be caused by deterioration, it would not be covered by your insurance.

Losses Caused by Extraneous Factor
This means an external cause of damage, such as wind damaging the patio furnishings. Should a loss be caused by an inherent physical condition, the loss would not be covered.

Losses Caused by Deliberate Action on the Part of the Policy Owner
Any action on your part that causes a loss to any insured property is not covered. You cannot deliberately destroy property that is insured and expect the carrier to pay for it.

Losses Must Involve Legal, Covered Property
Illegal items and contraband are not covered by insurance. If you had an illegal whiskey still in your home and it was damaged by a covered peril, that loss would not be covered. It should be noted that one of the elements of a valid claim is that you must actually sustain a loss. It's not enough to have property by insurance and to have that property damaged or destroyed by a covered peril. It is also necessary that you have a financial and insurable interest in the damaged property in order for a loss to be sustained. The insured must have some degree of ownership in the property in order to have an insurable interest in it.

Filing a Homeowners' Claim

When a claim needs to be filed, the following must be kept in mind:

-A policyholder normally has a strong and favorable position where claims are concerned.

-As a rule, the courts usually resolve questions on claims in favor of the policyholder.

-The overall effect of court decisions has been to broaden the coverage of homeowners' policies.

-Although companies differ in their approach to claims, most work to give good service to their customer.

-Some companies engage in questionable practices, and it is prudent to watch out for activities that might not be proper.

-Consequential losses are not covered by homeowners' policies.

-Negotiation is not necessarily a win/lose proposition. Both parties can come out feeling like winners.

Replacement Costs Coverage

In approximately 80% of all claims, less than 10% of the property insured is affected by loss. Therefore, it could be said that you are buying insurance to only cover 10% of the property in question and coverage will be adequate 80% of the time.

All homeowners' policies contain a replacement cost provision that requires you to purchase an amount equal to 80% of the replacement cost of the dwelling. The purpose of this requirement is to make the determination of insurance rates simple, and allowing premiums to be based on a fixed cost per $100.00 worth of insurance.

Calculating replacement cost for the purpose of buying insurance is somewhat different than estimating the cost of buying a new home. There are two reasons why one needs to accurately determine the replacement cost of their home. First, to be certain that the coverage is adequate and that it complies with the replacement cost requirement. Second, the policyowner wants to be secure in the fact that they are not being sold an excessive amount of insurance and the higher premiums that go along with it.

It must be realized that when a company considers attaching a penalty to a claim due to insufficient coverage, the homeowners' policy stipulates that payment is to be based on replacement cost less the appropriate penalty or the actual cash value of the repairs, whichever is greater. Because of the method used to calculate, the actual cash value of the repairs and the negotiable nature of this issue, it may be best to submit your claim based on the actual cash value of the repairs involved.

When claims are paid under the replacement cost coverage, the company is able to figure its obligation three ways and choose the one that works best for them. These three choices are as follows:

Policy Limits
The most the company ever will pay is the amount of insurance that applies to the property covered.

Cost of Replacement
This would be based on the cost of an equivalent building at the same location.

On the Actual Amount Spent in Completing Repairs
Replacement cost can be defined as the cost to replace damaged property with:

-Like kind and quality
-Similar in basic style

-Similar in basic quality
-Similar in basic function

Remember, the policy provides coverage for replacement costs, not reproduction costs. Reproduction cost is defined as the cost for replacing property exactly as it was, down to the last detail.

There is one interesting loophole in replacement cost coverage: The repair work done to the building NEED NOT BE based on replacing identical property at the same location. Believe it or not, in some states, reconstructing property at any location, including a different city or state, will qualify as a replacement cost claim.

Therefore, when studying the replacement cost coverage, keep the following in mind:

-Replacement cost coverage applies only to buildings and not all property covered under the policy.

-It is important to be aware of what property is not covered under replacement cost coverage.

-Of all provisions of a homeowners' policy, replacement cost is the most important.

-Let the homeowner take an active role in determining what they feel or know to be the replacement cost of their home.

-Be certain to know how this provision works and how penalties are attached to claims.

-The claim payment based on actual cash value is usually better than a claim payment that involves a penalty when the property involved is not properly insured.

-Since there are alternatives for the payment of replacement cost claims try and negotiate the method that works best.

-"What constitutes replacement" can be very critical in filing a replacement cost claim.

-Understanding the meaning of "betterment" is important to the process of filing a claim, and this can be used to your benefit.

Claims on Dwellings and Personal Property

Claims on Dwelling

When an insured has experienced a loss and wishes to file a claim for a damaged dwelling or other structure, he or she must be prepared for an involved and complicated process. There are four important steps to filing a claim on a dwelling, as follows:

Determining Coverages

You need to first determine what is and is not covered by your policy. If there is a difference between the cost to repair and the amount of the claim, it could mean out of pocket expenses to you. In other words, should coverage be lacking in certain areas, it may be necessary to take measures throughout the adjustment process to cover shortages by having money left over to pay for items that are not covered.

It is important to know that most claims representatives (adjusters) do not identify the parts of a loss that are not covered in the areas where betterment applies.

Determining the Scope of Repairs

This is the insurance company's description of work that will be included in repair estimates. It can also be referred to as:

-Scope of damage
-Description of work
-Job description

The claims representative will prepare most scope of repairs. The policyowner should clearly tell the claims representative that they wish to go over the work to be considered in the scope of repairs before they are prepared. Often, there are questionable aspects in the scope of repairs. Say, for example, the adjuster feels the bedroom was not damaged enough by smoke to warrant painting it or that the soiled carpet can be cleaned rather than replaced. Since an adjuster works for the insurance company, he or she may try to get the policy owner to accept alterations that will lower the cost of the repair.

Determining the Cost to Repair
Now we need to convert the scope of repairs into an "Agreed cost to repair." You need to know that as a policyholder your position here is very weak. There are these two reasons for this:

1) Most companies use an estimate to establish a cost to repair. The company representative could obtain a bid from a familiar contact and get a low estimate.

2) The company always retains the right to repair the property. If they use this option, the chances of handling the claim creatively in order to avoid absorbing any shortfalls are ruined.

Determining the Amount to Repair
This part is relatively easy. The appropriate deductibles are subtracted from the cost to repair. Since the deductible will always apply, it must be considered. Parts of the loss that are not covered will be subtracted from the cost to repair. When all these figures are agreed upon, including the cost to repair, the actual cash value amount of claim, and the pending replacement cost claim, you will sign the papers, collect the payment in full and concentrate on repairing your damage.

An insured should keep the following in mind when compiling a claim on a dwelling:

-Always consider variations on reconstruction.

-Profit and overhead allowances are part of the cost to repair and should be part of the claim payment.

-Although building code requirements are a factor, a creative approach can keep them from being a problem.

-Assertiveness on your part in dealing with contractors is usually the key to a positive outcome.

-The construction contract must include all the work you want done in the estimate.

-You can negotiate favorable financial terms with a contractor for payment assignments.

-Most contractors resist using them, but penalty clauses can help avoid delays in construction.

Claims on Personal Property

A personal property claim is very similar to a dwelling claim. Personal property includes things like your clothing, jewelry and other such belongings. First, follow the same four steps described earlier, which are these:

-Determine coverage
-Determine the scope of loss
-Determine the replacement cost
-Determine the amount of the claim

1. Determine what personal property is covered. Review the exclusions in the policy that specifically refer to personal property. Find out if what your loss is covered and what the limit is on that coverage.

2. Establish the scope of the loss. This means that you determine which property is going to be included in the claim. Always complete an inventory on your own. Do not leave this to the insurance company representative. Often, you may find it difficult to determine if damaged items can be cleaned rather than replaced. As a rule, if the company agrees to clean it and this is unsuccessful, the property will be replaced.

3. Establish the replacement cost of the property. This will involve a substantial amount of work, but it needs to do this with every item. Getting replacement cost prices from discount or lower priced stores is not always the best solution. Next to each item that you want replaced should be a record showing the price reference.

4. The final step is the actual cash value of the claim. This is necessary in most cases as the replacement cost coverage on personal property usually requires replacement of the property involved before the difference between the actual cash value and the replacement cost is collectable. This means that the policy owner will probably have to purchase that new chair before the company will pay the full amount of that chair.

When filing a claim for personal property, keep the following in mind:

-Compiling a personal property claim is similar to compiling a building claim.

-Depreciation is highly relevant to personal property claims and is based on the ratio between the life expectancy and the age of the item.

-A well-presented claim will make for a quick settlement. A good format in presenting the claim is important.

-Another important aspect is documentation. The policy owner has both rights and obligations in this area.

-Loss by mysterious disappearance and conversion are not covered under many homeowners' policies.

-An inventory of the personal property will enable the filing a complete claim in the event of a severe loss. Consider photographs or videotaping.

Chapter 3 Important Concepts

Concepts to Remember

Subrogation

Subrogation is the substitution of one party in place of another party in respect to a claim or a lawful right. When one's property is damaged by another party, the individual has a right to recover from the other party for the damage. When the insurance company pays for the loss, it takes over the rights of recovery that previously belonged to the individual.

For example, Bob destroys Scott's guitar, which is covered by Scott's homeowners' policy. The insurance company pays Scott for the covered loss, and then goes after Bob to recover the amount, for which Bob is liable.

Subrogation evolved in order to prevent injured parties from collecting from the insurance company and the responsible party. Scott cannot collect on a claim from his insurance company and then sue Bob as well for the same loss. By accepting payment for the claim, Scott waives his right of subrogation to the insurance company.

Statements

Insured individuals have certain rights regarding claim statements. There are these two kinds of statements that they may be asked to give in regards to a claim:

1. An informal statement taken by the company representatives when they inspect the loss.

This kind of statement is either handwritten or recorded on tape. The statement is taken to record facts, and the policyholder's story. The existence of a statement lessens the probability of a policyholder changing his or her story over time.

2. A formal statement under oath. If requested by the company, a formal statement can be required under a homeowners' policy. It is usually taken by an attorney and is, in effect, sworn testimony. If the insured lies, he or she would be guilty of perjury. If the insured refuses, the claim could be rendered void. Formal statements usually indicate something is suspicious about the claim.

Salvage
The insurance company has the right to salvage property such as fixtures, appliances and any other part of a building as long as the policyholder has been paid for a total loss.

Sometimes, the salvage goods will be sold back to the policyholder, however, they are under no obligation to accept this offer. For the most part, insurance companies will seek the services of a salvage company and do not care to directly involve themselves. After the salvage company subtracts expenses and a percentage for profit, the balance goes to the insurance company as a return on the salvage operation.

Non-Waiver Agreement
By merely investigating the facts of a case, the insurance company can sometimes lose its right to deny a claim. There is a term known as "estoppel," which means that in the event a company leads a policy holder to believe that a claim will be paid or implies that it will be paid in some manner, estoppel prohibits the insurer from denying the claim.

If the investigation uncovers facts that clearly indicate that the claim is not covered, this can still hold true. To avoid this possibility, many companies that investigate questionable claims have the insured sign a non-waiver agreement that states that the insured understands that the company is not committed to paying the claim just because the facts are being explored.

Cancellation
A homeowners' policy may be canceled by the company or the policyholder. If the company cancels, the insured is entitled to the full amount of unused premiums on a pro-rated basis. If the insured cancels, he/she will receive slightly less than the remaining unused premium. In order for a policyholder to cancel, he/she only needs to notify the company in writing to do so. If the company cancels, it must give five days' notice.

Policy Terminology
Like all insurance policies homeowners' insurance has its own definition of terms. Because of consumer complaints and court decisions terms are defined in each policy to reflect their definition within that policy. The following are representative of terms used in homeowners' policies or otherwise relate to homeowners policies.

Additional insured refers to an individual or company in addition to the insured, who is listed on the Declaration page. An example of this is a lien holder, which is usually an insurance company.

Aggregate Limit is a term that refers to the maximum liability limit covered in total for all losses occurring within the policy period.

Appurtenant structure refers to a building of lesser value that is situated on the same land as the main building that is insured by the policy.

Bodily injury means any physical injury that results in bodily harm, sickness or diseases, including the pain and suffering that may result. Also included in this definition is any resulting care, loss of services or death caused by the bodily injury.

Broad theft endorsement is a dwelling endorsement that covers theft, attempted theft, vandalism and malicious mischief resulting from the theft. Property is covered while it is on or off the premises.

Burglary is defined as the taking of property by a person, unlawfully entering or leaving the premises, as evidenced by visible signs and physical damage.

Business is a term that includes any trade, profession or occupation. It applies to any type of usual or ongoing business pursuit, from a professional office in the home to weekly garage sales.

Business Pursuits Endorsement refers to a homeowners' policy endorsement that provides Liability coverage for a business conducted away from the residence.

Earthquake Endorsement is available as an add-on endorsement to the Dwelling or Homeowner policy.

First Named Insured is the first named individual in the Declaration page. The first named insured may have higher degree of rights, responsibilities and duties under the policy.

Insured means the person named on the Declaration page, spouse, any relatives and persons under the age of 21 and in the care of any of the persons previously named, if they live in the insured residence. Under Section II of the policy, the definition also means persons who, with permission, are responsible for watercraft or animals owned by the insured. Coverage of the watercraft and animals are excluded if used for business purposes. The definition also applies to the insured's employees and other persons while they are operating vehicles covered under the policy on an insured location, as long as they have permission of the insured.

Insured Location includes the residence premises, any other residential premises listed in the Declaration page, and any residence premises acquired after the inception date of the policy. Also included are any premises the insured does not own but where he or she temporarily resides (such as a motel or hotel).

Also included is vacant land owned (excluding farmland) or rented by the insured, land on which a one or two-family residence is being built for the insured, individual or family cemetery plots or burial vaults owned by an insured. Additionally, any premises the insured occasionally rents, such as a banquet hall, as long as the reason is not for business purposes.

Types of Coverage

Business Coverage

Property Insurance

Property insurance protects an owner's buildings and equipment, stock, furniture and fixtures. Some policies include equipment breakdown and business income coverage. Basic property insurance will generally cover a business for losses in the event of a fire or lightning strike and will pay the cost of removing property to protect it from further loss. Additionally, a standard small business insurance policy will usually cover losses from windstorm, hail, explosion, riot and civil commotion and damage caused by aircraft, automobiles or vandalism.

How much property insurance does a small business need?

Property insurance can be purchased on the basis of the property's actual value (the replacement cost minus depreciation), its replacement value (the cost of replacing the item without deducting for depreciation), or an agreed-upon amount.

Liability Insurance

How does liability insurance coverage protect a small business?

There are many different types of third-party liabilities to be covered for a business. Business liability insurance may protect from claims arising from someone's bodily or personal injuries.

Other items that could be covered are damage to the property of others, products-completed operations, advertising, premises operations, fire, legal liability and related legal defense costs.

For instance, liability insurance will not only pay the cost of covered damages but also the attorney fees and other costs associated with your defense.

What exactly does the term "bodily injury" in a liability insurance policy mean?
"Bodily injury" refers to the injury, sickness, disease, or even death, of any person that occurs during the policy period.

What does "personal and advertising injury" mean in general liability insurance coverage?
Personal and advertising injury means being responsible for libel, slander or any defamatory or disparaging material, or a publication or utterance in violation of an individual's right of privacy; wrongful entry or eviction, or other invasion of the right of private occupancy; false arrest, wrongful detention, false imprisonment, or malicious prosecution; which occurs during the policy period.

What's the difference between claims-made coverage and prior acts coverage?
While claims-made coverage applies to a claim that is made during the policy period, prior acts coverage offers protection for wrongful acts that happened before the inception date of an insurance policy...but have yet to become known.

For example, a buyer of errors and omissions (E&O) Insurance may want to extend coverage for a period of time prior to when the coverage becomes effective...just in case.

Umbrella Policy

How does an umbrella insurance policy work?
A policy designed to provide protection against catastrophic losses, the umbrella insurance policy is generally written over various primary liability policies, such as a general liability insurance policy, business auto policy and employers' liability coverage. Once the underlying limits of these primary policies are exhausted, the umbrella liability policy would provide further coverage beyond the limits of those policies.

What is a personal umbrella liability policy?
This is an insurance contract designed to accomplish two goals. First, it increases liability protection beyond what individuals have in homeowners' and automobile insurance policies. Second, it aims to fill gaps in the liability coverage since some things are simply not covered by automobile and homeowners' policies - for example, libel and slander. Together with homeowners' and automobile insurance policies, a personal umbrella policy gives the highest level of protection.

How do I know if I need a personal umbrella liability policy?
In the past, people who purchased personal umbrella liability policies were wealthy individuals, with sizable amounts of personal assets that would be at risk in a lawsuit. However, our society has become more litigious, and many people desire more liability insurance than that provided under their homeowners and automobile insurance policies. How much protection an individual wants against potential lawsuits is a choice he/she should make based on his/her personal circumstances and what he/she needs to feel comfortably protected.

What coverage is provided in the typical personal umbrella liability insurance policy?
Before we discuss the contents of the typical personal umbrella liability (PUL) policy, it should be noted that these contracts often vary substantially from one insurance company to another.

Therefore, when comparison shopping, one should look closely at the extent of the liability protection provided under each policy to be considered. There are several common characteristics in most umbrella insurance policies. First, umbrella policies only pay liability claims when the policy limits on the underlying insurance policy are exhausted. For example, suppose an individual is found negligent in an automobile accident and the court requires them to pay damages of $500,000. The umbrella insurance policy will only pay that portion of the $500,000 that exceeds the policy limit in the private passenger automobile insurance policy. Second, an umbrella insurance policy is going to provide broad coverage.

Workers’ Compensation Insurance

What does workers’ compensation insurance do?

Workers’ compensation pays for the rehabilitation, recovery and medical bills of employees’ work-related injuries, as well as lost time when they are unable to work because of a work-related injury. Workers’ compensation is not a substitute for health or medical insurance, since employees are only covered for on-the-job injuries. This is also due to the fact that health and medical policies exclude job-related injuries or illnesses.

When does an employer need to buy workers’ compensation insurance?

In most states, workers’ compensation is required when there are one or more employees. There are a few states that do not require employers to carry workers’ compensation coverage. Those states are Texas and New Jersey.

Not providing workers’ compensation coverage is usually a bad idea, even if you have the option of opting out. When an injured employee accepts the benefits of his or her employer’s workers’ compensation, he or she cannot also sue the employer for those injuries/illnesses. This is called "exclusive remedy."

Who provides workers’ compensation?

Almost all states are "open market," which means the coverage is underwritten by private insurers. Some states are "closed" or "monopolistic." This means that coverage is underwritten by a state-sponsored fund (ND, OH, WA, WV, and WY). In states that are open, rates can vary between insurance carriers depending on the type of business the carrier is attempting to attract. In an open market, the rates for workers’ compensation are competitive.

How much does workers’ compensation insurance cost?

Workers’ compensation pricing is based upon employee payroll, the number and job classification of the employees, classification of the business and past loss experience. The employer pays for the cost of the workers’ compensation.

Commercial Auto Insurance

Why should someone purchase commercial auto insurance?

Many personal auto insurance policies exclude coverage if a vehicle is used mainly for business. A commercial auto policy provides coverage for autos owned by a business if these vehicles are in an accident. The insurance pays to repair or replace the vehicle and the vehicle of the third party damaged by the employee. It also pays for the medical expenses of those injured in an accident.

Are employees’ personnel covered under a commercial auto policy if they are using their cars for business?

Most commercial auto insurance policies cover the liability for a business if employees use their own cars for business, provided that the business owner has purchased coverage for non-owned liability. Separate non-owned physical damage coverage is available to cover actual damage to the auto. However, the employees’ personal auto policy would be the primary coverage for damage to their automobiles.

Errors & Omissions Insurance

What is errors & omissions insurance?

Errors & omissions insurance provides coverage for people who give advice, make educated recommendations, design solutions or represent the needs of others. "E&O" is also referred to as professional liability or malpractice insurance. This type of liability insurance would cover the owner and the employees in the event someone claims that services were incorrectly performed or failed to perform the agreed upon professional duties.

Business Owners’ Policy

What is a business owners’ policy or a "BOP"?

A BOP is a customized policy for small businesses that combines property insurance and liability insurance in one policy, and generally includes additional coverages at little or no additional premium. It allows one to have broad coverage at affordable premiums. Most insurance carriers have customized BOPs for particular industries and services.

Even if a business owner has a BOP, most small business owners should consider adding coverage for conditions that might not otherwise be covered. Additional coverages tailored to their industry are often available, such as temperature changes, equipment breakdown, or computer equipment failure.

Business Income Insurance

What is business income insurance?
This insurance reimburses for the net income that would have been earned if, for example, a fire or other covered causes of loss had not occurred. Losses due to down time or extra expenses needed to restore operations (such as additional property rental) also may be covered.

Employment Practice Insurance

What is employment practices liability insurance?
Employment practices liability insurance (EPLI) is designed to protect employers against claims of employee sexual harassment, discrimination, wrongful termination and other employment-related litigation. Many insurance companies offer employment practices liability insurance as part of their business owners' policy or as a stand-alone policy.

Inland Marine Insurance

What is inland marine insurance? Why does someone need it for his/her business?

Despite its misleading name, inland marine is a broad type of insurance that covers articles that may be transported from place to place as well as via bridges and tunnels. Specifically, this type of insurance protects a wide range of high risk, mobile items, including specialized contractor's tools and equipment, electronic data processing systems, from mainframe computers to laptops, fine art objects and jewelry.

Watercraft and Boat Insurance
If an individual is an avid watercraft enthusiast with some nice toys in the garage, that person might want to check into watercraft insurance. Some consumers assume that their craft is covered under homeowners' insurance, and in most cases, they aren't. The first thing a consumer must do is know his/her watercraft! Fully understanding all operational aspects and characteristics before heading out onto the open water is a critical element to safety. The personal watercraft is considered a powerboat, so all the rules governed for powerboats by the Coast Guard and other marine authorities must be obeyed. Local waterways sometimes have their own guidelines for use, so a consumer must get to know and understand them as well in order to promote public safety.

Who and What Is Covered?
It comes down to the policy specifics, but in most cases, the policy will cover the insured, the spouse, or any other household members that have permission to ride the craft. The policy will pay for bodily injury or other property damages caused by the craft. Various available coverages include medical payments, physical damage, uninsured boater, and personal effects.

Medical Payments: This extra coverage will pay for the cost of necessary medical treatment which results from an accident involving the watercraft.

Physical Damage: This will cover the cost of repair to the watercraft if there is a collision with another craft or other object. In most cases, there will also be coverage in cases of theft, vandalism, or fire.

Uninsured Boater: This coverage pays for medical treatment which results from an accident with another boater who does not have insurance.

Personal Effects: This optional coverage will cover some of the various common contents kept within a watercraft. These may include cameras, binoculars, clothing, or assorted accessories.

Lowering the Premium: Taking a watercraft safety course not only will make the insured a more proficient rider, but will help him/her receive a premium discount from most providers. It can range anywhere from 10-15 percent off.

Personal Property
If an unfortunate occurrence such as a fire or theft should happen, it is best to have an accurate and detailed inventory of personal property.

Having an inventory list not only helps the insurance company give a more accurate replacement value for personal property, but the insured will be assured that he/she remembered everything he/she owned, which, when it is all gone, may sometimes be hard to do.

The first step is to encourage the insured to take a few minutes to list everything he/she owns. It may be easier to start the list in categories such as furniture, clothing, personal items, jewelry, etc.

Next, there should be a notation as to the estimate of what it would cost to replace the items on the list. In making the estimate, it must be kept in mind that some things appreciate in value while others depreciate. Clothing is a good example of something depreciating, and a jukebox is something that would typically appreciate.

The personal property inventory list, along with photos and/or inventory videos, should be kept in a safe place away from home, such as in a bank lock box.

The most used method by insurance companies to calculate the value of personal property that has depreciated is to subtract the estimated depreciation (dollar amount the property has decreased) from the current cost.

Here are a few more tips when taking an inventory of personal property:

-Keep sales receipts and attach to the personal property inventory list.

-Keep a video inventory or photographs of the personal property in addition to the inventory list.

-List any serial #'s that may be on the personal property.

-A serial number should be engraved into items that are of value.

Chapter 4 Inland Marine Floaters

Background

The basic homeowners' policy usually contains various limitations and exclusions on coverage. Therefore, persons who are owners of valuable personal property often need broader and more comprehensive coverage than is provided by the basic homeowners' policy. This broader and more comprehensive coverage may be obtained through the appropriate Inland Marine Insurance Policy.

The very first form of personal property insurance coverage was an Ocean Marine policy. The policy was written to provide financial protection for owners of ships in case their property or cargo was lost at sea.

Ocean marine policies insured the cargo from port to port. Later on, a clause was added to also insure cargo while it was being transported on land. As an end result, policy coverage extended from the original point of departure until their final destination point to include both ocean and inland transportation of those goods.

Eventually, a separate policy was developed that dealt only with the insuring of the goods while being transported on land, and the policy became known as an inland marine policy verses an ocean marine policy.

Inland Marine policies eventually began to provide a broad coverage for other property of a “floating” or moveable nature. Since these policies did not come under any state jurisdiction, they could be tailor made to the need of the insured.

Inland marine policies were offered on an “all risk basis” rather than a “named peril” basis as offered in most casualty policies.

Definition of Inland Marine Insurance

In 1933, the NAIC drafted a definition used in limiting the insuring power of marine underwriters that specified the risks and coverage which could be written as marine insurance. The definition was revised in 1933 and in 1976. In the 1976 version, due to legal concerns, the definition now simply defines and describes the risks and coverage that are subject to marine insurance. This definition has been adopted by many states as a form of identifying a marine policy.

Property that is transported from one place to another, goods in transit (the exception being over oceans), bridges, television broadcasting towers, tunnels, and other instrumentalities of transportation and communication would be covered under Inland Marine Insurance.

Various floater policies can also be used to cover personal effects and property. The floater policy will provide coverage to items that “float” or move along with the covered property while it is changing locations.

Inland Marine coverage was developed from ocean marine insurance in the 1920s. In the early years, the marine insurers covered transportation loss exposure. Fire and casualty insurers had difficulty in competing because the fire and casualty lines had to be written separately, and the rates they could charge were subject to state regulation.

The marine insurers, however, were able to write property and casualty lines under an “all-risks” contract and they were not bound by state regulation.
Inland Marine Floaters Characteristics

Inland Marine Floater Characteristics:

-Tailored Coverage
-Selection of Policy Limits
-Extensive Coverage to Perils Covered
-Worldwide Coverage

Tailored Coverage
A personal articles floater provides coverage for nine optional classes of personal property including these:

-Jewelry
-Coin Collections
-Cameras

This permits the insured to select coverage for the class or classes of property needed. It is also possible to write the coverage separately such as these:

-Jewelry Floater
-Fur Floater
-Coin Collection Floater
-Stamp Floater
-Camera Floater

Selection of Policy Limits
As you know the basic homeowners' policy has limitations on coverage of certain types of valuable property. The insured must look to a floater policy in order to get higher limits of coverage. Also, as a rule, when a basic homeowner's policy combines the value of certain types of personal property with the value of unscheduled personal property it is possible that the combined total may exceed the homeowners' policy limits on personal property. Here again, the floater policy can provide higher limits.

Extensive Coverage to Perils Covered
When a floater is written, it usually provides coverage on a "risks of direct physical loss" basis. The floater covers risk of direct physical loss to the property that is described except for certain losses that are commonly excluded. The commonly excluded losses will be discussed shortly.

Worldwide Coverage
The property described in most floaters will be covered anywhere in the world with the exception of FINE ARTS, which are usually covered only in the United States and Canada.

Policy Provisions of Floaters
The following policy provisions appear in most Inland Marine Floater policies:

-Loss Settlement
-Loss to a Pair, Set, or Parts
-Loss Clause
-Claim Against Others
-Insurance Not to Benefit Others
-Other Insurance

Loss Settlement
Except for fine arts, the amount that will be paid for a covered loss will be the LOWEST of the following four amounts:

-The actual cash value at the time of loss or damage
-The amount for which the insured could reasonably be expected to have the property repaired to its condition prior to the loss
-The amount for which the insured could possibly be expected to replace the property with property substantially identical to the article lost or damaged
-The amount of insurance stated in the policy

The third exception above is going to require the following brief explanation.

The insurance company, at a discounted price, can purchase much of the property insured in a floater. Therefore, the insurance company may want to replace the lost or damaged item rather than make cash reimbursement. Should the insured reject the replacement offer, the insurance company's cash reimbursement will then be limited to the amount for which the insured could reasonably be expected to replace the item.

This amount is the insurance company's discounted price since the insured can be reasonably expected to replace the item at that price.

Loss to a Pair, Set or Parts
In the event that there is loss or damage to a covered property in a pair or set, such as the loss of one earring, the amount to be paid is not based on a total loss. The insurance company may either repair or replace any part to restore the pair or set to its value before the loss or pay the difference between the actual cash value of the property before and after the loss.

Lost Cause
Under this policy provision, the amount of insurance provided will not be reduced except for the total loss of the scheduled article. If the insurance is reduced because of a total loss of a scheduled article, the insurance company will either refund the unearned premium or apply the unearned premium to the current premium due if the scheduled article is replaced.

Claim against Others
This policy provision is very similar in nature to the subrogation clause. If a loss occurs and the insurance company believes they can recover the payment for that loss from the person or parties responsible, then the loss payment to the insured will be considered a loan that must be repaid out of any funds recovered from others. The insurance company will expect the insured to cooperate with any attempt the insurance company makes to recover from others responsible for that loss. Should the recovery attempt be unsuccessful, the insured will not be required to pay the "loan" on the loss settlement.

Insurance Not to Benefit Others
No organization or other person that may have custody of the property and who is paid for services can benefit from the insurance on the property. The purpose of this provision is to prevent a third party who caused the loss from denying liability for payment because the property is insured. Thus the insurance company's right of subrogation against the neglect party is retained.

Other Insurance
In the event that there is other insurance at the time of loss that applies to the property, that insurance is considered excess insurance over the other insurance.

Insuring Agreement
As a rule, Marine floaters provide coverage to property on an "all-risks" basis. Physical loss to covered property is provided except for the following exclusions:

- Wear and Tear
- Deterioration
- Inherent Vice
- Insects or Vermin
- Mechanical Breakdown or Failure
- Electrical Breakdown or Failure
- Repairing the Property
- Adjusting the Property
- Servicing the Property
- Maintaining the Property

General Exclusions
General exclusions that appear in all floater policies are war, nuclear reaction, and radiation.

Personal Articles Floater
Often referred to as PAF the Personal Articles Floater provides coverage on nine optional classes of personal property. As mentioned earlier, coverage is worldwide except for fine arts. These nine classes of personal property that can be insured are:

-Jewelry
-Furs
-Cameras
-Musical Instruments
-Silverware
-Golfer's Equipment
-Fine Arts
-Postage Stamps
-Rare Coins/Current Coins

Certain newly acquired property such as jewelry, furs, cameras, and musical instruments will be automatically covered for 30 days, providing that insurance was already written on that class of property.

The amount of insurance on newly acquired property is limited to the lower of 25 percent of the amount of insurance for that class of property or $10,000. The property must be reported to the company within 30 days of purchase in order for the coverage to continue. You will be charged an additional premium for coverage from the date of acquisition.

Jewelry
Coverage on personal jewels applies anywhere in the world. Each item of jewelry must be scheduled with a specific amount of insurance shown for it. This includes watches, necklaces, and rings. Because of the moral hazard, jewelry will be very carefully underwritten. As a rule, the insurance company will require either the original bill of sale or a signed appraisal before the jewelry is insured. The insured must also have satisfactory resources, and the insurance company will want to know that the insured is not in the habit of losing or misplacing articles.

Furs
The Personal Articles Floater can be used to insure these items:

-Personal Furs
-Items Consisting Principally of Fur
-Garments Trimmed in Fur
-Fur Rugs
-Imitation Fur

Again, each item must be separately listed with a specific amount of insurance shown for it. As with jewelry, because of the moral hazard furs are very carefully underwritten.

Cameras
A Personal Articles Floater can also be used to insure the following items. Each of these items must be individually described and valued:

-Photographic Equipment
-Cameras
-Projection Machines
-Portable Sound Equipment
-Recording Equipment
-Motion Picture Cameras
-Motion Picture Projectors
-Films
-Binoculars and Telescopes

Exceptions to the rule regarding scheduling items would be these:

-Miscellaneous Smaller Items
-Carrying Cases
-Filters

…. providing the total value of the blanketed items is not more than 10% of the total amount of insurance on cameras.

Musical Instruments
The following items can be covered under a Personal Articles Floater:

-Musical Instruments
-Instrument Cases
-Sound Equipment
-Amplifier Equipment

Should a musical instrument be used and played for pay during the policy period, it will not be covered unless an endorsement is added reflecting this use and a much higher premium paid.

Silverware
Silverware and gold-ware may also be covered under a Personal Articles Floater. Pens, pencils, smoking implements and jewelry may not be insured as silverware. These kinds of property can be insured as jewelry.

Golfer's Equipment
Golf equipment such as golf clubs and golf clothes will be covered. Other golf equipment may be insured under a Personal Articles Floater.

Clothing contained in a locker is also covered while the insured is playing golf. Golf balls are covered only by fire and burglary, providing there are physical marks of forcible entry into the building, room or locker.

Fine Arts
Fine arts can include the following:

-Paintings
-Antique Furniture
-Rare Books
-Rare Glass
-Bric-a-brac
-Manuscripts

Fine arts are insured on a valued basis, and must therefore be on a schedule with the amount that was paid for that item clearly stated. Damages paid on an actual cash value basis up to the stated value. Newly acquired fine arts will be automatically insured for ninety days. The insured is required to notify the insurance carrier within ninety days of acquisition, and the additional premium due will accrue from date of acquisition. The limit on fine arts property is subjected to 25% of the total insurance.

Fine arts are subjected to these three major exclusions:

-Damage caused by repairing or retouching

-Breakage of art glass windows, glassware, statuary, marble, bric-a-brac, porcelains, and similar fragile articles. However, the exclusion does not apply if fire, lightning, explosion, aircraft, collision, windstorm, earthquake, flood, malicious damage or theft, and derailment or overturn of a conveyance causes the breakage

-Loss to property on exhibition at fairgrounds or at national or international expositions is excluded unless the premises are covered by the policy

Stamp and Coil Collections
These collections are insured for loss anywhere in the world. The stamps and coins may be insured in one of two ways: scheduled basis or blanket basis.

The scheduled basis is suggested if the items are extremely valuable. In this way, each item is specifically listed and insured.

Under the blanket basis, the insurance applies to the entire collection since each item is not separately described. In the event of a loss to a scheduled item, the amount to be paid is the LOWEST of the following:

-The amount for which the property would reasonably be expected to be repaired
-The amount for which the property would reasonably be expected to be replaced
-The amount of insurance

In the event of a loss to an item covered on a blanket basis, the amount paid will be the cash market value at the time of loss. There is a $1,000.00 maximum on any unscheduled coin collection. There is a $250.00 maximum limit on any of the following:

-Single Stamp or Single Coin
-Individual Article
-Single Pair
-Single Block or Single Series
-Single Sheet or Single Cover
-Single Frame or Single Card

The following limit is also applied to stamps or coins insured on a blanket basis. This limit has the effect of a 100% co-insurance clause.

It states that the company is not liable for a greater proportion of any loss than the amount of insurance that the blanket property bears to the cash market value at the time of loss. In other words, say the insured has an un-scheduled coin collection on a blanket basis valued at $500.00. One coin worth $50.00 is stolen. At the time of theft, the entire collection had a current market value of a $1,000.00. The insured's maximum recovery is $25.00. Had the insured purchased $1,000.00 worth of insurance, the $50.00 loss would have been paid in full.

Exclusions
The following is a list of important exclusions that apply to damage to stamp and coin collections from the following:

-Fading
-Creasing
-Denting
-Scratching
-Tearing
-Thinning
-Transfer of Colors
-Inherent Defects
-Dampness

-Extremes of Temperature
-Depreciation
-Damaged from Being Handled
-Damage from Being Worked On
-Mysterious Disappearance

NOTE this exception: If the item is scheduled or specifically insured, or is mounted in a volume and the page to which it is attached is also lost under these conditions:

-Property lost in the custody of transportation companies
-Shipments by mail other than registered mail
-Theft from any unattended motor vehicle
-Losses to property not part of a stamp or coin collection

Personal Property Floater

This floater provides extensive coverage on personal property owned or used by the insured that is kept at the insured's residence. This rider will also provide worldwide coverage when this property is temporarily away from the residence. The property is issued on a special all-risk basis. This means all direct losses are covered except specifically excluded.

Scheduled Personal Property Floater

This floater is used to provide coverage for personal articles and valuable items that do not fall within the nine categories previously listed. Examples of such items are these:

-Dentures
-Typewriters
-Camping Equipment
-Wheelchairs
-Stereo Equipment
-Grandfather Clocks

This is not a complete list but it can be said that almost any kind of personal property may be insured under a scheduled personal property floater. Since coverage is provided on un-filed forms said coverage could be adapted to meet the needs of the individual insured.

Scheduled Personal Property

A question is often asked about when personal property should be scheduled. As a rule, people who own valuable personal property should have it scheduled and specifically insured under a floater policy. Diamond rings, fur coats and other jewelry of high value should be specifically scheduled. These following types of personal property should also be considered for scheduled coverage:

-Unique Objects
-Works of Art
-Rare Antiques
-Paintings
-Stamp Collection
-Rare Coin Collection
-Portable Property
-Cameras
-Camera Equipment
-Musical Instruments
-Sports Equipment
-Fragile Articles
-Glassware

-Statuary
-Scientific Instruments
-Typewriters
-Home Computers
-Business or Professional Equipment

Since the basic homeowner provides coverage for personal or business property only to a maximum of $2,500.00 on the resident premises and $250.00 away from the resident premises it is suggested that the property be more adequately insured by scheduling the property with a stated amount of insurance shown for it.

Un-Scheduled Personal Property
A personal property floater may be used to insure the following thirteen classes of un-scheduled property:

-Silverware, Gold Ware, Pewter ware
-Clothing
-Rugs and Draperies
-Musical Instruments and Electronic Equipment
-Paintings and other Art Objects
-China and Glassware
-Major Appliances
-Guns and Other Sports Equipment
-Cameras and Photographic Equipment
-Building Additions and Alterations
-Bedding and Linens
-Furniture
-All other Personal Property and Professional Books While on the Residence

The total amount of insurance in each of the above categories is the maximum limit for recovery in any single loss in that category. The total amount of the thirteen categories is the total policy limit.

Newly Acquired Property
Any newly acquired property will automatically be covered up to the LOWER of 10% of the total amount of insurance or $2,500.00.

Insurance on newly acquired property may be applied to any of the numbered classes. Newly acquired property at the principal residence of the insured will be covered for thirty days from the time the property is moved there. The coverage on the newly acquired property is subject to the amount of the insurance for each numbered class.

Property Not Covered
Personal property floater will not cover the following personal property:

-Animals, Fish, Birds
-Boats, Aircraft
-Trailers, Campers
-Motorcycles, Motorized Bicycles
-Motor Vehicles Equipment, Motor Vehicles Furnishings
-Property Pertaining to a Business, Property Pertaining to a Professional
-Property Pertaining to an Occupation
-Property Usually Kept somewhere Other than the Insured's Residence Throughout the Year

Additionally, the personal property floater places specific limits on certain property.
For example:

-A $100.00 limit on Money
-A $100.00 limit on Numismatic Property
-A $500.00 limit on Securities, Notes, Stamps, Passports, Tickets, Jewelry, Watches, and Furs

All Risks Coverage, Watercraft Coverage

Personal Property Floater Exclusions

The personal property floater also excludes certain losses such as the following:

-Animals owned or kept by the insured
-Mechanical or structural breakdown
-Water damage exclusion clause
-Any work on covered property except jewelry, watches, or furs
-Dampness/extreme changes of temperature except if caused by snow, rain, hail, or sleet
-Bursting of pipes
-Bursting of apparatus
-Acts or decisions of any person, group, organization or government body
-Wear and tear
-Deterioration
-Inherent vice
-Insects or vermin
-Marring or scratching of property
-Breakage of eyeglasses
-Glassware
-Fragile article
-Lightning
-Theft
-Vandalism
-Malicious mischief

Should personal property that is separately described and specifically insured by any other insurance have a loss, it will be excluded under a standard homeowner policy. Therefore, the amount of insurance under a floater policy should be sufficient to pay for losses in full to cover the property.

As a rule, unscheduled personal property under a homeowners' policy is insured on a replacement cost basis. Consequently, the advantages and risks of direct loss coverage under the PPF must be carefully weighed against the possibility of being underinsured.

Personal Effects Floater (PEF)

The PEF is designed for travelers who want coverage on their personal effects while traveling. The PEF will provide coverage on the personal property of tourists and travelers anywhere in the world. However, this will only be in effect while the covered property is away from the residence premises. This coverage will apply to the insured, his or her spouse, and any unmarried children who permanently reside with the insured.

Personal Effects Coverage

Property normally worn or carried by an individual comes under the heading of personal effects. Coverage for personal effects will include personal effects, luggage, clothes, cameras, and sports equipment while the insured is traveling or on vacation.

Property Excluded
The following property is excluded under PEF coverage:

-Automobiles, Motorcycles, Bicycles or Boats
-Accounts, Bills, Currency, Deeds, Evidence of Debts, or Letters of Credit
-Passports, Documents, Money, Notes, Securities or Tickets
-Transportation
-Household Furniture
-Household Animals
-Automobile Equipment
-Salesperson Samples or Merchandise for Sale or Exposition
-Physicians/Surgeons' Equipment
-Artificial Teeth
-Artificial Limbs
-Theatrical Property

All-Risks Coverage
Personal effects will not be covered on an all-risks basis. Risks of direct physical loss to a property are covered, except as follows:

Damage to personal effects from:

-Wear and tear
-Gradual deterioration
-Inherent vices
-Vermin
-Insects
-Damage while property is being worked on

Breakage of articles of a brittle nature unless caused by

-Fire
-Theft
-Accidents to a conveyance

Other Exclusions
In addition to the exclusions previously mentioned, the following exclusions also are present:

-Personal effects are not covered while on the named insured's residence premises
-Property in storage is not covered
-Personal effects in the custody of students while in school are not covered, except for loss by fire

Limitations on Certain Personal Effects
Jewelry, watches and furs are subject to a single article limit of 10% of the total amount of the insurance, with a maximum of $100.00.

Insurance on Watercraft
Watercraft can range in size as follows:

-Rowboats
-Canoes
-Outboard motorboats

-Inboard motorboats
-Dinghies
-Sailboats
-Speedboats
-Houseboats
-Yachts

Hull and Trailer Loss Exposures
Watercraft as well as their equipment, trailers and furnishings may be exposed to a wide variety of theft and physical damage loss. Examples of a few are as follows:

-Two speedboats collide.
-A sailboat is overturned in heavy winds.
-A boat sinks in a severe storm.
-A sandbar strands a houseboat.
-An outboard motor falls into a lake.
-A boat trailer is stolen.
-An explosion seriously damages a boat.

Homeowners' Policy Physical Damage Coverage
Watercraft and trailers are covered under Section One of a homeowner's policy for physical damage and theft. However, this coverage is very limited. The major limitations on coverage are as follows:

Direct loss to:

-Watercraft
-Trailers
-Furnishings
-Equipment
-Outboard motors from windstorm or hail are covered ONLY if the property is inside a fully enclosed building

Theft of:

-Watercraft
-Trailers
-Furnishings
-Equipment

Outboard motors away from the resident premises are specifically excluded.
Watercraft and other boating property are covered only for a limited number of named perils.

Coverage on:

-Watercraft
-Trailers
-Furnishings
-Equipment
-Furnishings

…Is limited to a maximum of $1,000.00.

Covered property is written on an actual cash value basis and may contain a deductible of

-$25.00
-$50.00
-$100.00
-Or more

Covered Perils
The floater can be written on named perils of risks of direct loss basis. Most floaters currently are written on the risks of direct loss basis. The coverage does not include the liability for bodily injury, loss of life, or illness of individuals.

It is assumed that the insured has proper liability insurance under a homeowners' or liability policy to cover any third party bodily injury claims. The floater, however, may provide collision damage liability insurance that protects the insured from a claim for property damage from the owner of another boat, if the insured's boat happens to collide with another boat while it is afloat.

Exclusions
Outboard motor and boat insurance contracts do have exclusions. Some of the common exclusions are as follows:

-Business pursuits
-Use as a public conveyance for carrying passengers' compensation
-If the boat is rented to others
-Use as race boats or speed contests
-Repair or service

Also excluded are loss or damage from:
-Refinishing
-Renovating
-Repair.
The person who is repairing the boat would be responsible for any damage

General risks of direct loss exclusion
Coverage will not be provided for loss or damage from these:

-Wear and tear
-Gradual deterioration
-Vermin
-Marine life
-Rust
-Corrosion
-Inherent vices
-Latent defect
-Mechanical breakdown
-Freezing
-Extremes of temperature

Personal Auto Policy Personal Damage Coverage
An automobile policy is not designed for, nor does it cover, any physical damage to boats. The boat trailer, however, can be insured for physical damage loss under a personal auto policy. The trailer must be described fully in the declarations of the auto policy.

Liability Loss Exposures
When you own or operate a watercraft, you can be exposed to a wide variety of liability losses exposures such as the following:

-A water-skier is injured because of excessive speed
-A speedboat swamps another boat causing it to turn
-A boat runs into swimmers and seriously injures them
-A boat collides with a dock causing property damage
-Two boats collide injuring the occupants
-A child falls overboard and drowns and was not provided with a life preserver by the boat
-operator

Homeowners' Policy Liability Coverage

Section II of a homeowners' policy provides personal liability insurance, and it covers certain watercraft loss exposures providing the boat is under a specified size and length. Personal liability provides the insured with protection against bodily injury or property liability that arises out of the use or operation of certain owned watercraft. The liability protection can also apply on an excess basis for certain covered non-owned watercraft.

There are, however, several important categories of watercraft liability that the homeowners' policy excludes from coverage. They are the following:

-Owned watercraft regardless of size with inboard or inboard/outboard motor power

-Rented watercraft with an inboard or inboard/outboard motor power with more than 50 horsepower

-An owned or rented sailing vessel that is more than 26 feet in length

-Watercraft powered by one or more outboard motors with more than 25 horsepower if the motors were owned by the insured at the inception of the policy and not declared or reported. However, watercraft powered by outboard motors with more than 25 horsepower are covered if the motors were acquired prior to the policy period and providing the insured declared them at the time of policy inception or declared them within forty-five days of acquisition.

The above exclusions do not apply when the craft is in storage.

Outboard Motor and Boat Coverage

This type of insurance is designed for those who own motorboats and for those who have adequate personal liability coverage under their homeowner's policy, or under a comprehensive personal liability policy, but desire broader physical damage insurance on their boat. Inland Marine Floater can provide this protection. Although floaters are not standard, they do contain some common features.

Covered Property

The insured selects the property to be insured. The floater can be written to cover the following:

-Hull
-Motor or Motors
-Boat Equipment
-Boat Accessories
-Boat Carrier
-Boat Trailer

Watercraft Package Policies

Many insurance companies have developed special boat owner's policies that combine liability coverage, physical damage coverage, and medical payments coverage.

Boat owner’s policies contain certain common characteristics, which are these:

Physical Damage Coverage
Currently most boat owner’s policies are written on a direct and accidental loss basis. The insurance company agrees to pay for direct or accidental loss due to covered property under the physical damage insuring agreement. All losses are covered except those specifically excluded.

The physical damage covers the boat, equipment, accessories, motor, and trailer. In addition, if the boat collides with another boat, gets damaged from heavy winds, or is stolen, the loss is covered.

Liability Coverage
Liability insurance that covers the insured for bodily injury and property damage, liability from a neglect ownership or operation of the boat, is included in a boat owner’s policy. Should the insured accidentally damage another boat or injure swimmers, for example, protection is provided under the liability coverage.

Medical Payments Coverage
This is similar to the medical payments found in an automobile insurance contract. Medical payments will be made for all medical expenses incurred within three years from the date of a watercraft accident that causes bodily injury to a covered person.

Under medical payments coverage, a covered person is defined as the insured, a family member, or any person while occupying the covered watercraft. Medical expenses will be paid for reasonable charges for the following:

- Medical
- Surgical
- X-ray
- Dental
- Ambulance
- Hospital
- Professional Nursing
- Prosthetic Devices
- Funeral Services

Other Coverages
The following may also be found in a boat owner’s policy:

- Cost of removing a wrecked vessel
- Cost of removing a sunken vessel
- Life salvage

Exclusions
The following are commonly excluded in a boat owner’s policy under physical damage coverage:

- Wear and Tear
- Inherent Vice
- Latent Defect
- Mechanical Breakdown
- War
- Nuclear Hazard
- Damage Caused by Repair (except fire)
- Damage Caused by Restoration Process (except fire)
- Carrying Persons for a Fee

-Carrying Property for a Fee
-Renting Covered Property
-Racing Covered Property (except sailboats)
-Speed Testing Covered Property (except sailboats)
-Infidelity of Persons to Whom Covered Property is Entrusted
-Portable Electronic Equipment
-Photographic Equipment
-Water sport's Equipment
-Fishing Gear
-Cameras
-Fuel
-Portable Radios
-Fishing Equipment

The following are commonly excluded from a boat owner's policy under medical expense coverage:

-Intentional Injury
-Intentional Damage
-Renting the Watercraft to Others
-Carrying Persons for a Fee
-Carrying Property for a Fee
-Using Watercraft in a Race (except sailboats)
-Using Watercraft in a Speed Test (except sailboats)
-Losses Covered under Worker's Compensation
-Losses by a Nuclear Energy Liability Policy
-Contractual Liability

Personal Yacht Coverage

This type of policy is for larger boats such as inboard motorboats and cabin cruisers. Personal Yacht insurance provides hull insurance, protection and indemnity insurance, optional coverage and warranties.

Hull Coverage
This protection refers to physical damage on the boat. This coverage also applies to sails, tackle, machinery, furniture, and the boat itself.

This insurance provides "all-risks" protection. For example, if the boat is damaged by heavy seas, collision, flood or sinking because of an insured peril, the loss is covered. A deductible of varying amounts will apply to all physical damage and losses.

Protection and Indemnity Insurance
This coverage provides the boat owner with coverage for bodily injury and property injury on an indemnity basis. If, for example, the boat were to smash into a marina and injures several persons, the loss to the dock, as well as any bodily injury, would be covered under P&I.

Optional Coverages
You may add several options to your personal yacht policy, such as medical payments coverage, liability of the insured to maritime workers injured in the course of employment, boat trailer insurance, land transportation insurance and water-skiing clause.

Warranties
Several warranties and promises are provided with yacht insurance. Should a warranty be violated higher premiums may be required. The major warranties on yacht insurance are as follows:

-Seaworthiness warranty
-The insured warrants that the vehicle is in seaworthy condition
-Lay-up warranty
-The insured warrants the vehicle will not be in operation during certain periods, such as winter months
-Navigational limits
-The vessel will be used only in territorial waters described in declarations
-Private pleasure warranty
-The insured warrants the vessel will not be hired or chartered

Uninsured Boaters' Coverage

As is the case with automobile insurance where you can purchase uninsured motorist protection, boat packages also include an option for uninsured boat coverage. The company agrees to pay damages that a covered person is legally entitled to recover from an insured boat owner or operator due to bodily injury sustained by a covered person in a boating accident.

Exclusions

The uninsured boater's coverage has several exclusions. Bodily injury from the following are excluded:

-While occupying or struck by any watercraft owned by the insured or family member that is not insured under the policy
-If the bodily injury claim is settled without the insurance company's consent
-While operating a covered watercraft which is carrying persons or property for a fee
-While occupying a covered watercraft being rented to others
-Using a watercraft without a reasonable belief that the person is entitled to do so
-Occupying a watercraft without the reasonable belief that the person is entitled to do so

In the event there should be a disagreement as to whether a covered person is legally entitled to recover damages from the uninsured boat owner or operator, or on the amount of damages, the coverage has an arbitration provision, which states, "Each party selects an arbitrator. The two arbitrators then select a third arbitrator. They have thirty days to agree. If they go beyond thirty days, a judge in a court of law appoints the arbitrator."

Chapter 5 Specialized Coverages

Specialized Coverages

Marine insurance is a broad term including ocean and inland marine insurance. The Nationwide Marine Insurance Definition, published by the National Association of Insurance Commissioners, includes imports, exports, domestic shipments, means of communications, and personal and commercial property floaters as marine insurance.

Ocean Marine

Ocean marine insurance covers ships or hulls, goods or cargo, earnings (such as freight, passage money, commissions, or profit) and liability (known as protection and indemnity). The vessel owner, or any party interested in or responsible for insurable property by reason of maritime perils, may purchase this insurance.

Protection and Indemnity Insurance

Protection and indemnity insurance(P&I) is a broad form of marine liability insurance that covers the operator of a ship for such things as liability to crew members and other individuals on board the vessel, and for damage to fixed objects, such as docks, resulting from the insured's negligence.

Inland Marine Insurance

Inland marine insurance is for coverage of property that involves an element of transportation. The property must be actually in transit, held by a bailee, at a fixed location that is an instrument of transportation, or be a movable type of goods that is often at different locations.

Bumbershoot Liability
Bumbershoot coverage is a particular form of umbrella liability designed for accounts where the principal exposure is marine and involves the operation of vessels and use of docks.

The Bumbershoot covers protection and indemnity, general coverage, collision, salvage charges, sue and labor, all other legal and contractual liability including employers liability, liability under admiralty laws or the Longshoremen's Act, automobile liability, and those hazards usually associated with general liability insurance. Insured's net retention of at least $100,000 is usually required.

Charter Boats
Standard protection and indemnity forms issued in conjunction with Hull insurance policies on vessels exclude coverage on the use of a boat for hire or charter. Under certain circumstances, a P & I form, broader in coverage than a standard general liability contract, is issued to an owner or operator of such a vessel used for carrying passengers for sightseeing, fishing, transportation, entertainment or marine observations on a fee basis.

Coverage for liability also may be arranged on an OL&T liability form with rates set in the specialty market at a surcharged rate. Vessels under 40 feet in length are rated at 50% of those over 40 feet. Coverage usually is subject to a deductible. Liability exposure is of more concern to underwriters than loss or damage to the hull.

Restaurant and serving of alcoholic beverages are also principal hazards on larger vessels.

Ship Charterer Legal Liability
This insurance is designed to protect a vessel chartered against liability incurred for loss of, or damage to, the vessel hired under the charter party. Liability is ordinarily limited to damage caused in loading or unloading or failure to provide a safe berth. Policies may be written on an open basis with a flat premium charged for each voyage, or each voyage may be placed separately.

Ship Repairer Legal Liability
Ship repairer legal liability protects an individual ship repairer, marina or boat yard operator for legal liability to the vessel's owner for damage to the vessel being repaired. This "care, custody or control" coverage provides only property damage liability and may be extended to include insured's legal liability for damage to other property caused by a collision (or otherwise), while the vessel is being repaired or tested.

There are times when situations call for specialized coverage…the type of coverage that can only be realized with an Inland Marine policy.

Some of the types of coverages that can be found in Inland Marine policies are these:

Builders' Risk
Builders' Risk policies cover buildings or structures during the construction, renovation or repair process. While coverage is often tailored to meet the needs of each customer, the vast majority of policies also cover building materials destined to become a permanent part of the building or structure. This property is covered while in transit, at temporary storage locations and while stored at the job site.

Builders' Risk policies are an important insurance product within the construction industry because the vast majority of banks require evidence of Builders' Risk insurance prior to closing on a construction loan.

In addition, two of the most frequently used construction contracts (the Association of General Contractors and the American Institute of Architects Contract for Construction) contain specific provisions outlining requirements for Builders' Risk insurance.

Even putting these requirements aside, few if any companies can afford to invest in construction without insurance protection.

Any business entity with a financial interest in property under construction, renovation or repair needs Builders' Risk insurance. Typical policyholders include:

-Real Estate Developers
-Building Owners
-Home Builders
-General Contractors
-Municipalities
-Colleges and Universities
-Street and Road Contractors
-Excavation Contractors
-Port Facilities
-Warehouse Operators

Computerized Business Equipment
Computerized Business Equipment policies can cover all types of automated equipment capable of accepting and processing data. While we typically think of computers as the primary subject of this coverage, automated manufacturing equipment, computerized medical equipment, flight simulators and any number of other specialized equipment can be eligible for coverage.

Coverage may also include the software and data used by this equipment as well as business income and extra expense exposures that may arise for a loss to such equipment or data. Coverage typically applies on premises, while in transit and while temporarily away from covered locations. Laptops and portable computers are covered worldwide.

Technology represents a significant investment to many businesses. Computerized Business Equipment coverage is important to any business entity that relies on technology in their daily operations. The greater the dependence on technology, the more important it becomes to purchase specialized coverage on such a critical aspect of consumers operations.

Contractors Equipment
Contractor's Equipment Coverage can cover scheduled, leased and miscellaneous property of the contractor. In addition, coverage is extended to include any similar property of others for which he is liable. Coverage extensions can include these:

-Additionally Acquired Equipment for up to a policy limit on the equipment, which the insured buys, leases, rents or borrows for defined period of days.

-Rental Expense Reimbursement, which pays up to a defined limit in expenses – rent – if covered equipment is damaged in a covered loss.

-Installation Floater coverage extends to property intended for installation while at job site, at any other location, or in transit.

-Valuable Papers coverage provides for such items as blueprints and other documents of value to the contractor.

-Contractors Equipment is owned or leased to perform a specific function. Use of the equipment is directly related to generating revenue, fulfilling a contract or providing maintenance. Without working equipment, or the means to replace equipment as soon as possible, a contractor's obligations cannot be fulfilled.

-Contractors Equipment policy helps owners expedite the repair or replacement of damaged or stolen equipment. In addition, because of the high cost of the equipment, many banks and lending institutions require insurance on the equipment.

Any business entity with a financial interest in construction or other heavy equipment needs Contractors Equipment insurance. Typical policyholders include the following:

-Real Estate Developers
-Building Owners
-Home Builders
-General Contractors
-Municipalities

Fine Arts
Coverage for works of art at a permanent location, in transit and while loaned to others. Agreed Value Fine Arts coverage ensures that collections are treated properly with a form that addresses the specific collection needs, with availability of breakage coverage, special pairs and sets coverage, and flood and earthquake coverage.

For significant corporate collections, or for artwork and collectibles in commercial settings, Insurers offer comprehensive coverage for a broad spectrum of paintings, sculpture, prints and multiples, as well as more specialized collections of historical, cultural or technological significance.

Who Needs Fine Arts Coverage?
Corporations and commercial accounts may have valuable works of art not specially covered as Fine Arts under standard package policies, and Marine coverage fits the bill.

Installation Coverage
Installation policies insure building materials and components, machinery, and specialized equipment while being installed in a building or structure, or erected or fabricated at a specific location. Typical types of property include heating, ventilating, air conditioning and electrical systems; and wallboard, tile, carpeting and other interior finish material.

More specialized installations include wastewater treatment facilities and controls, pipelines, electrical, telephone and cable television lines, and radio and cellular telephone towers.

Coverage is typically effective from the time the customer's financial interest in the property begins until their interest ceases, including while the property is in transit, at temporary storage locations and while stored at the job site.

The vast majority of Installation policies are written for subcontractors (trade subcontractors in particular). Any business entity having a financial interest in property being installed, erected or fabricated may have a need for Installation coverage.

Typical policyholders include these:

-Specialty Contractors

-Government Authorities and Municipalities
-Utilities (Water, Gas, Telephone, Electrical)
-Manufacturers, Wholesalers, and Retailers of Machinery, Equipment and Materials, Who also Install what they Sell

Marine underwriting specialists have written all types of installation projects - from low hazard residential electrical systems and tenant finish-out, to helicopter assisted tower installations, to the delicate relocation of erosion threatened lighthouse.

Standard programs offer coverage against risks of direct physical loss or damage (subject to certain policy exclusions), or coverage tailored to a specific, complex project.

Manufacturers
Manufacturers' Output Policy (MOP) includes coverage for the personal property of a business at specific, as well as unnamed locations, including while in transit.

Personal property coverage includes such items as machinery, equipment, furniture, fixtures and stock, improvements, and includes any other similar property of others for which an insured is liable.

Coverage Extensions include: Accounts Receivable and Valuable Papers coverages, and Fire Protection System Recharge Expenses.

Motor Truck Cargo Legal Liability
Motor Truck Cargo policies insure common and contract carriers for loss or damage to cargo in their care, custody or control.

Coverage is provided on a legal liability basis as determined by the contract of carriage between the motor carrier and the shipper (Bill of Lading or other specially negotiated contract). Generally, a carrier is liable for the safe delivery of the property entrusted to them, not only while on their vehicles, but also while temporarily at terminals awaiting shipment.

An insurer's Motor Truck Cargo Legal Liability policy is designed to cover that liability on behalf of the carrier.

Anyone who carries the property of others in return for a tariff should have Motor Truck Cargo Liability including:

-Common Carriers
-Contract Carriers
-Non-trucking risks whom backhaul property of others on their own truck

Museums
Some Marine policies offer coverage developed specifically to insure museum-quality objects.

The policy insures museum owned property at scheduled locations, on exhibition or on loan to other organizations. The policies also offer coverages for property in transit and the property of others for which the policyholder is legally liable. Coverage is available for art, history, natural history, science and technology and sports museums.

Some insurers also offer coverage for specialized institutions such as aviation and automobile museums.

In the United States, there are more than 12,000 museums eligible for this coverage. The market is expected to expand as the number of specialty museums and local historical societies continues to grow. Many of these smaller museums have no coverage for their collections because they perceive that one-of-a-kind objects are invaluable and therefore uninsurable.

Although an exact replacement is not available, insurance can offer curators the opportunity to supplement the remaining collection with artifacts of the same genre to keep and preserve the mission of the museum. Insurers such as Travelers, and others, provide coverage for these types of unique situations. Whatever the risk, from local special interest museums to large national museums, companies such as Travelers provide Insurance coverage for the art world's special insurance needs.

Scheduled Property

Scheduled Property coverage is designed to cover property that is unique or unusual or is not typically covered under any other marine or property coverage. Coverage is available to protect against risks of direct physical loss or damage (subject to certain inland marine exclusions).

Any commercial property owner with property that travels from location to location or needs coverage for other than real property or contents is a candidate for Scheduled Property.

Scheduled Property is for any business entity that wants insurance protection for unique property ranging from structures outdoors to movable property.

Some of the unusual types of risks eligible for this coverage include:

-Circus rides
-Locomotives and rail cars
-Voting machines
-Transit systems
-Water storage tanks
-Antique and race cars
-Ski lifts

Program can be tailored to the specific property. Scheduled Property is completely flexible in coverage scope. Coverage applies to property wherever it is located - at a specific location, in transit or at a temporary location. Valuation options of all types are available, including agreed amount, actual cash value or replacement cost. Coverage is tailored to the specific types of property.

Transportation

Transportation insurance typically covers shippers' interest in their property while in transit by public motor carrier, contract carrier, railroad, air carrier, or while on their own vehicles. The coverage form is often extended to provide insurance for loss to property while it is being loaded and unloaded.

A Transportation policy pays up to the limit of insurance, regardless of the extent of the carrier's legal liability or the carrier's ability to meet their financial obligations. In today's fast paced world, insureds don't have time to spend collecting reimbursement from a carrier in the event of a loss. Some Transportation policies also pay for certain losses, even when the carrier may not be liable, such as Acts of God (flood, earth movement, etc.). And if the insured ships F.O.B. and cannot collect the invoice amount from the consignee because of loss or damage during the shipment, the policy will cover the insured's interest in the lost or damaged property.

Any business that deals in a product, such as manufacturers, wholesalers, retailers and distributors, need coverage for incoming and outgoing shipments:

Wholesalers and Retailers

Accounts Receivable Coverage covers the cost of re-establishing records of Accounts Receivable, as well as the actual loss caused by damage.

Camera and Musical Instrument Dealers Coverage protects merchandise while at the premises of the insured, in transit, or away in custody of employees. Coverage is also provided for the property of others while in the insured's custody.

Equipment Dealers Coverage allows coverage for dealers' property, such as mobile, agricultural and construction equipment and related accessories.

Fine Art Dealers Coverage provides for dealers' stock and the property of others, which could consist of sculpture, paintings, drawings, lithographs and other types of fine prints, antiques or collectibles.

Floor Plan Coverage Form protects merchandise for sale that has been financed. This Inland Marine form covers the single interest of the dealer or the lending institution or covers their dual interest.

Furriers Block protects a furrier's stock – consisting mainly of furs, fur garments, garments trimmed with fur and fur accessories.

Jewelers Block covers merchandise while at the premises of the insured, in transit, away in custody of employees, and elsewhere.

Transportation Coverage Form covers property shipped via common carrier or owned vehicles.

Chapter 6 Automobile Insurance Overview

Auto insurance companies use various types of criteria when evaluating an auto insurance application. Each car insurance company has specific groups of drivers they will accept and those they may refuse or charge higher rates. It is all based on risk factors. Guidelines are different from company to company, meaning two companies comparing the same driver may arrive at different conclusions. Even so, most companies consider the same risk factors.

During the underwriting process, car insurance applications are placed in a group based on how much money and how many claims the insurance company believes it may have to pay. Software is used for much of the underwriting process. The facts have been entered into software programs relating to past claims service and analysis of existing risk. The insurance company looks at motor vehicle records to determine how many accidents or tickets a driver has received. Many companies also use an insurance history report to see if the driver has made any auto insurance claims and the amount of money that was paid as result of those claims. Although accidents and violations can only affect the rates received for a specified period of time, many companies look back five or more years when deciding whether to accept the risk and issue the policy. Additionally many auto insurance companies look at the individual's credit history if allowed by the state. Insurers use credit history to determine which group the applicant belongs in; they don't look at the actual credit report.

Insurance does not completely eliminate anyone's risk because achieving an infinite number of exposure units is not possible. There may always be some deviation of actual results from expected results. Statistics upon which the predictions are based can never be perfect. Even if the statistics used for predictions are absolutely accurate there is no reason to believe that tomorrow's losses will duplicate the losses of today. Even minute changes in existing conditions can alter the results. As a result there will always be uncertainties in predicting insurance losses.

Auto Insurance

Many states mandate drivers to carry minimum amounts of liability insurance in order to guarantee compensation if they are at fault for an accident. Despite this requirement, not all drivers comply. Therefore it is recommended that individuals carry uninsured motorist coverage. It is never wise to believe other drivers will be responsible enough to have purchased insurance.

An insurance policy is a contract between the insured and the insurance company. The insured pays a premium, which is the price or cost of the policy purchased. The insurance company agrees to pay for the insured's losses resulting from events covered by the policy. Only events covered by the policy will be reimbursed. Property and casualty policies cover such things as fire, burglary, car collisions, and any other item specifically stated in the policy. Policies typically have what is referred to as policy limits. This means there is a limit to the amount of money the insurance policy will pay on a loss, even if the loss exceeds the specified coverage. Obviously it is wise to buy policy limits that are adequate.

If a driver causes an accident or is shown to be at fault for an accident, it will not matter how large or small his or her policy is. Damages will be awarded according to many factors but not the amount of insurance purchased. If the driver receives a judgment for $100,000 for example, and his or her liability policy has a $25,000 limit, he or she will still be required to pay the full amount awarded. People have lost their homes, savings, and other assets due to under-insuring. A higher insurance policy limit not only assures compensation for those who are wronged; it also protects the insured driver from financial consequences.

Whether a policy is for property and casualty or life and health, insurance policies seldom, if ever, cover every possible kind of loss. If an insured is concerned about a specific cause of loss questions should be asked to be sure whether or not coverage exists. Wise agents always specifically tell their clients of any policy limitations.

Many insurance contracts or policies contain deductibles. A deductible is a specific amount of money that the insured must pay on a claim before the insurance company will begin to pay anything. The deductible is usually per claim or per accident so it may apply as often as a claim or accident occurs. Any losses lower than the deductible amount will be the responsibility of the policy owner. For example, a policy with a $1,000 policy deductible will not cover a loss of $750 because it has not met the deductible amount. The higher the deductible listed in the policy, the lower the premium cost will be. This makes sense because a higher deductible saves the insurance company money since they are not liable for claims under that amount.

It is human nature to want an insurance policy to return the amount of premiums paid, whether through claims that are paid or other types of returns. However insurance is never intended to enrich the policyholder; the intention is to cover risks that could result in losses.

Auto Insurance Basics

An auto insurance policy is a package of different coverages. Most states require drivers to purchase a minimum amount of certain types of coverage, though it makes sense to buy more than what's required. Here we'll present a brief overview of auto insurance. We'll get into the details later.

Liability Insurance

Liability coverage is the core of any auto insurance policy and is required in most states. If an individual is at fault in an accident, liability insurance will pay for the bodily injury and property damage expenses caused to others in the accident, including the legal bills.

Bodily injury coverage pays for medical bills and lost wages. Property damage coverage pays for the repair or replacement of things damaged other than the insured's own car. The other party may also decide to sue the insured to collect "pain and suffering" damages.

Limits for liability are usually presented as a series of three numbers. For example, your agent might say that your policy carries liability limits of 20/40/10. That stands for $20,000 in bodily injury coverage per person, $40,000 in bodily injury coverage per accident, and $10,000 in property damage coverage per accident.

Minimum insurance may not adequately cover an individual in a major accident. This is why it's a good idea to buy more than the state requires. If an individual owns a home or other assets, he/she should consider purchasing more liability insurance because, in most states, the injured person(s) are allowed to sue the other driver who is at fault in a car accident.

Collision Coverage
Collision coverage will pay to repair the insured's vehicle. The insured usually can't collect more than the actual cash value of the car, which is not the same as the car's replacement cost. Collision coverage is normally the most expensive component of auto insurance.

By choosing a higher deductible, say $500 or $1,000, the insured can keep the premium costs down. However, the insured must keep in mind that he/she will have to pay the deductible before the insurance company pays anything on a claim.

Replacement Cost vs. Actual Cash Value
We've described the difference between replacement cost and actual cash value already, but it's a key concept of property insurance. Replacement cost is the amount it would take to replace the vehicle or repair damages with materials of similar kind and quality, without deducting for depreciation. Depreciation is the decrease in vehicle value because of age or wear and tear.

Actual cash value (ACV) is the value of the property when it is damaged or destroyed.

Claims adjusters usually figure ACV by taking the replacement cost and subtracting depreciation.

Sometimes insurance companies will "total" the car if the repair costs exceed a certain percentage of the car's worth. The critical damage point varies from company to company, from 55 percent to 90 percent.

Comprehensive Coverage
Comprehensive coverage will pay for damages to the insured's car that weren't caused by an auto accident, such as damages from theft, fire, vandalism, natural disasters, or hitting a deer. Comprehensive coverage also comes with a deductible, and the insurer will only pay as much as the car was worth when it was wrecked.

Because insurance companies normally will not pay more than the insured's car's Blue Book value, it's helpful to have a rough idea of this amount. If the car is worth less than the cost for the coverage, a consumer is better off not having it at all. Comprehensive coverage is not required by law the way liability coverage often is.

Medical Payments
Pays doctor and hospital bills and if necessary, funeral expenses for the policy owner and members of his or her family living in the same household regardless of who caused the accident.

It is important to realize that liability insurance will not pay for injuries sustained by the policy owner and members of his or her family living in the same household. That is because liability coverage refers only to third-party claims. The policyholder and family members are first parties in the contract. The insurer is the second party to the contract. The third-party is the other driver.

Medical payments insurance covers any passengers riding in the car, including someone else's car being driven by the policy owner and covered family members as long as they had permission to drive the car. Medical payments insurance would also cover pedestrians that were injured.

PIP and No-Fault Coverage
Personal injury protection (PIP) and broader "no-fault" coverages are expanded forms of medical payment protection that may be required in some states. Some states have optional PIP or no-fault coverage. Expanded features include payments for lost wages and child care.

If an individual has a good health insurance plan, there might be little need to buy more than the minimum required PIP coverage.

Some states have "no-fault" laws, meaning the auto policy must pay medical bills for injuries suffered in an auto accident regardless of who caused the accident. The laws were enacted in an attempt to reduce auto-injury fraud and keep insurance cost down.

Uninsured/Underinsured Motorists Coverage
Uninsured motorists (UM) coverage pays for injuries if the insured is struck by a hit-and-run driver or injured by someone who doesn't have auto insurance. It is required in many states.

Underinsured motorists (UIM) coverage will pay if the at-fault driver causes more damage than his or her liability coverage can cover. In some states, UM or UIM coverage will also pay for property damages.

An individual probably will want to have at least the minimal amount of UM/UIM because if the other driver can't be found, the insured will at least have some coverage for pain-and-suffering damages. We'll be discussing UM/UIM coverage in more depth later on.

Add-on Features
Several supplemental auto coverages are available, either as separate premium items or included in augmented policies.

Rental reimbursement is a common add-on that covers the cost of insuring vehicle rentals from damage or theft.

Coverage for **towing and labor** charges in case of a road breakdown is also common.

Gap coverage for a new car will pay the difference between the actual cash value received for the car and the amount left on the car loan if the new vehicle is totaled in an accident.

Minimum Coverage Requirements
All 50 states have different requirements when it comes to auto insurance. In some states, motorists can't register a car without showing proof that they have liability insurance, while other states use an "honor system" that doesn't ask for proof of insurance until drivers have accidents or tickets on their records.

Premium rates for automobile insurance are higher in cities and suburbs in most cases. That is because there are larger numbers of vehicles in cities and suburbs, which is then likely to also experience the highest number of claims. Rates are rising everywhere however, and ultimately are determined by the number of claims in that particular area.

There are many reasons for rising automobile insurance rates. For example, the type of car driven affects insurance rates. The Highway Loss Data Institute compiles insurance accident statistics for various types of cars. Many insurance companies use such data when setting prices for their insurance. Cars that are expensive to repair will cost more to insure than those that are less expensive to fix. Vehicles more likely to be stolen will cost more to insure than vehicles rarely stolen. Since rates are based on more than just the car however, all factors combined will determine the auto insurance

Leased Cars
If an individual finances or leases a car, the lender may require that the insured select a low deductible. This is because the lender still has an investment in the car. The lender can also require an individual to carry collision insurance in addition to liability to make sure the car is repaired after an accident.

Finance companies and dealers don't want an individual to end up defaulting on his/her lease because they don't have enough insurance to cover repairs and have to pay out of pocket, and they don't want to get a damaged vehicle returned to them at the end of the lease.

Insuring a New Vehicle
Buying a new car can be exciting; insurance is often the last thing on the buyers mind as he or she test drives various vehicles. However, it may be wise to check with one's agent prior to making a decision since the type of car owned can and does affect insurance rates. Some vehicles are stolen more often than others; some vehicles are more costly to repair than others.

Although agents would always prefer their clients immediately notify them of a vehicle change, many insurance policies have grace periods during which a new vehicle is covered even if the agent or insurer has not been notified of the purchase (30 days for example). During the grace period the old policy will cover the new car. After the grace period has expired there may be no coverage at all, however, or limited coverage.

Generally the old car's coverage will transfer "as is" to the new vehicle. This means that if only the state's required minimum liability was placed on the old car, this is the same coverage the new vehicle will have. Unless the buyer paid cash for their new car, lenders are likely to require full coverage; they want to know they will be reimbursed if the vehicle is totaled in an accident. In fact, lenders often refuse to release funds for the purchase until proof has been received of auto insurance. Often collision and comprehensive coverage is required.

Graduated Drivers Licensing Programs
The Insurance Institute for Highway Safety (IIHS) reports that vehicular crashes killed 5,648 teenage drivers in 2000.

Drivers between the ages of 16 and 19 have the highest crash rates relative to other age groups. The risk of a crash per mile driven among teens is four times higher than for older drivers says Pete Moraga, a spokesman for the Insurance Information Network of California.

States, seeking to curb the high death rate among teenage motorists, have adopted at least one of three components of a graduated drivers licensing (GDL) system. GDL programs allow teenagers to receive full driving privileges in stages. IIHS defines the graduated drivers licensing system as a program that phases "in young beginners to full driving privileges as they mature and develop driving skills." Versions of GDL are found throughout the United States, as well as in Canada, Australia and New Zealand.

More than 40 states have implemented GDL programs since the mid-1990s. A three-pronged system is applied in 34 states, but program guidelines vary widely from one state to the next.

Sound GDL programs have three "distinct phases" to a full graduated system. Beginners must stay in each of the first two phases for a minimum amount of time, with the restrictions lasting until the driver turns 17.

The three steps are a "supervised learner's period," and an "intermediate license," which allows the teen to drive unsupervised with certain limitations and "licensing with full privileges" after completion of the first two phases.

Florida, which in 1996 became the first state to adopt GDL, has experienced a 21 percent drop in teen driver fatalities since the program got started. In South Carolina, the percentage of teenagers involved in crashes declined to 13 percent in 1999 from 14.5 percent in 1998, the year that state's GDL law took effect.

Underage drinking remains an element in teenage highway fatalities, although not as much as before GDL programs got under way. Among drivers 16 to 20 years of age, 22 percent who died in traffic accidents had a blood alcohol level at or above .10 percent. This is a sharp decrease from 49 percent in 1980. In some states, a blood alcohol level of .10 percent is the legal limit. In other states, .10 is well above the level where drivers are considered legally drunk.

Pay-As-You-Go Policies
Most Americans buy auto insurance that is continuous, but pay-as-you-go auto insurance offers an alternative to this tradition. It is based on the number of miles driven. Many people would be surprised to learn that pay-as-you-go driver's insurance has been available since 1998, but it did not become widespread until ten years later. According to Ceres, an environmental advocacy group, more than two dozen companies offer this type of insurance as of 2009. It may be necessary for the state to approve this type of insurance, so therefore, not all states allow it. California, for example, just approved pay-as-you-go policies in 2011.

Although each company will develop their own way of offer pay-as-you-go coverage, the general idea is the same: the less the car is driven, the less the driver pays for auto insurance. For many drivers, pay-as-you-go equates into big savings on auto insurance rates. The Brookings Institution found that many drivers in the U.S. would save an average of $270 per car on their insurance premiums. Additionally, this type of coverage encourages drivers to be economical when it comes to the number of miles they drive. Obviously, fewer cars on the roads are also good for our health since it means less harmful emissions and pollutants are put into the air.

Safe Drivers Pay Less for Insurance
Aggressive or reckless driving, speeding tickets, and driving while impaired will be reflected in the rates paid for auto insurance. By now, everyone should know this. Even so, we continue to see too many people who disregard safety in favor of speed, road rage, and stupidity.

The National Highway Traffic Safety Administration (NHTSA) defines aggressive driving as "the operation of a motor vehicle in a manner that endangers or is likely to endanger persons or property." Aggressive driving includes a wide range of offenses, such as reckless driving. Even when there is no intent to harm others, actions that do so anyway will be considered reckless. Aggressive driving accounts for more than 6,800,000 wrecks each year. Aggressive driving is a major reason for the insurance rates we pay today.

Aggressive driving includes passing on the right shoulder, tailgating, weaving in and out of traffic, making obscene gestures or shouting obscenities to other drivers, flashing lights, or horn honking in non-emergency situations. Drivers who engage in such behaviors are high risk as far as any underwriter is concerned. Such individuals seem unable or perhaps unwilling to consider the risk they pose to other people on the road, and certainly they don't consider what it does to the premium rates of all drivers who bear the consequences of accidents and even fatalities.

Speeding is perhaps the most common moving violation; unfortunately it is also one of the most deadly. The Insurance Information Institute says that the faster a driver goes, the more deadly an accident will be. According to the National Highway Traffic Safety Administration (NHTS) speeding accounts for one-third of all traffic fatalities. Those who speed endanger everyone around them, not just themselves. The biggest financial hit from speeding violations will not come from the judge in court, but rather from the insurance company issuing the auto insurance policy. Insurers may increase premium rates by as much as 50 percent for just one speeding ticket in a three-year period. Although not all insurers do so for a single speeding ticket, many do. Changing companies may not be possible since once a speeding ticket is issued, all insurers will consider the driver a higher risk.

Insurers take an even dimmer view of driving while impaired, whether from drugs or alcohol. Recently even sleepy drivers are being penalized by their insurer if an accident is the result of the sleepiness. Impaired drivers (from alcohol, drugs or lack of sleep) are considered the most likely to experience an accident.

The economy is forcing many to make tough decisions about their household expenses, including automobile insurance. Many drivers are cutting out some aspects of their auto and homeowner coverage in order to reduce monthly expenditures. According to the National Association of Insurance Commissioner's (NAIC) survey, more than half of United States drivers have changed their insurance coverage or driving habits in order to reduce their auto insurance payments.

Some drivers are staying home more and driving less since the miles driven can affect the rates of premium paid. Nearly 40 percent of those surveyed said they drove less, instead joining car pools, walking to work, using public transportation, or biking when possible. This reduces fuel consumption and costs and, where rates are determined partially by mileage, their insurance costs. When rates are based on Pay-as-you-go insurance, mileage is especially important.

Many of those surveyed said they have reduced the amount of auto insurance they carry. Roughly 20 percent said they had streamlined their coverage and some, unfortunately, canceled it entirely, even when there were state requirements regarding coverage. Liability insurance is mandated in most states.

Most of the people surveyed did not cancel their coverage entirely, but they did reduce the types of coverage, often carrying only what was state mandated. Extras like uninsured motorist coverage or comprehensive coverage, was dropped entirely even though they would have liked to continue carrying it.

About 20 percent responding to the NAIC survey said they got rid of a vehicle in order to reduce costs. In some cases, two vehicles were traded in for one with better mileage records. Getting a car that goes further on less gasoline seemed practical to many people, even if it meant two workers in the household sharing one vehicle.

These changes were made to deliberately cut automobile costs, for both insurance and fuel.

Some people have attempted to cut automobile costs by registering their vehicles not in the state where they live, but in a neighboring state if auto rates are less there. It means registering with a false address, such as a friends or family members, in order to get the insurer to issue the policy. Obviously, the insurer would not issue the policy unless they believed the applicant lived in the state where issued. It must be emphasized that falsifying an address is insurance fraud.

Those who have been caught using a false address in order to achieve lower automobile insurance rates say they did so because insurers seemed indifferent to the misrepresentation. In fact, we are told that several websites actually walk people through the process of committing this type of fraud. Whether or not that is true, it is still insurance fraud and therefore illegal. Any agent found to be helping their clients do this would likely lose their insurance license or at least be sanctioned by the state.

Auto insurance companies lost $15.9 billion due to premium rating errors for private-passenger premiums in 2009 according to Quality Planning Corporation. Insurance rate evasion, which is what using a false address is called, contributed to these losses. What these drivers may not realize is that it also contributes to the higher rates of other drivers. Part of the problem is the difficulty in detecting this type of fraud. It can be very difficult to prove dishonesty since drivers move often. Thousands of Americans move each day and more than 25,000 vehicles are registered every hour nationwide. So it is not really true that insurers are indifferent to this type of fraud; rather it is just another problem among the many insurers already have regarding fraud.

Distracted Driving

We are seeing new factors affecting car insurance rates. A recent factor has to do with technology. Some groups, such as Focus Driven, compare texting while driving to reckless driving resulting from alcohol impairment. An advocacy group for victims of car crashes resulting from cell phone use has requested states to pull driver licenses of those receiving tickets while texting or using the telephone. It is likely that statistics will eventually be available regarding accidents resulting from texting and telephone use. When this information becomes available to insurers, those statistics will impact automobile insurance rates.

In 2010, according to the Governor's Highway Safety Association, at least 3,092 people were killed in distraction-related crashes across the United States. In June of 2011 the Transportation Secretary called distracted driving an epidemic and endorsed a national ban on using cell phones behind the wheel.

The Association has also broadened its stance regarding drugged driving. It supports what is called "zero tolerance" laws. Under such laws, a driver could be charged with impaired driving solely for having a drug in his or her system, regardless of the detected levels. The Governor's Highway Safety Association states that talking and texting on cell phones while driving are two of the most common behind-the-wheel distractions. In addition to the 3,092 people killed, an estimated 416,000 people were injured in distraction-related wrecks. As these factors become national statistics, those statistics will be factored into automobile insurance rates.

The driver's cell phone is not necessarily the only driving distraction. Although many people automatically think of telephones as the major reason for recent distracted-driving legislation, there are other causes.

Pets have been found to be a driving distraction in many cases. While a dog may be a man's best friend, he does not belong on the driver's lap or even in the front seat. A 2010 AAA survey found that nearly 60 percent of drivers with pets are guilty of at least one distracting behavior while driving with their pet in the car. One-fifth of those surveyed admitted to allowing their pet to sit on their lap while driving. Some said they played with their pet while driving, or even poured water for their pet while driving.

An unrestrained pet in a vehicle is never wise. Besides the threat to those riding in the car, an unrestrained pet may sustain injuries from falls or by being thrown if the driver must suddenly break.

In June 1999 Stephen King was nearly killed by a distracted driver reaching into the back seat of his van to push his Rottweiler dog away from a cooler. Losing control of his van he struck the famous writer head on.

Four out of five drivers report taking their pets along for the ride according to survey results released in August 2010. Only 17% of these drivers used any form of pet safety restraint inside their vehicles. A single distracted-driving accident can cause an individual's premiums to rise but few pet owners seem to be considering this.

When a pet is injured in an accident, the owner’s car insurance might not cover the veterinary bills. While some collision coverage will pay up to $1,000 for pet injuries most auto policies do not. Dogs also create dangerous distractions for other drivers, such as barking out the auto’s windows or making sudden movements.

We have to wonder what the attraction is to having a pet in the car. In the summer leaving a pet in a hot car can cause its death, which should certainly indicate dogs are better off at home. Younger dogs and puppies are prone to motion sickness and larger dogs can block the driver's view. Unrestrained pets, reported Paws, result in more than 30,000 auto accidents each year in the United States. This translates to a loose pet causing an accident every 18 minutes. A survey conducted by the AAA Foundation for Traffic Safety found that the chance of being in a car crash doubles after just two seconds of driver inattention. The impact of a collision can launch an unsecured dog like a projectile, resulting in severe injuries or death for both humans and the pet. Larger dogs, of course, are the most likely to cause injuries to human passengers when thrown during an accident. An unrestrained 10 pound dog in a crash at 50 miles per hour will exert approximately 500 pounds of pressure. An unrestrained 80 pound dog in a crash at only 30 miles per hour will exert 2,400 pounds of pressure. Children are especially vulnerable to injury from impact with a dog.

Following an automobile crash an unrestrained dog, out of fear or pain, might attack others or impede emergency medical personnel from reaching critically injured persons trapped inside the vehicle. In an attempt to protect injured owners, dogs have been known to become very aggressive towards emergency personnel or citizens simply wanting to help injured passengers. Dogs thrown out of vehicles after a collision may be in shock and disoriented, often leaving the scene and dying alone when they cannot be found. Some wounded or disoriented dogs have been known to attack passersby or wander into traffic causing other accidents.

Dogs and other animal passengers, if owners insist on bringing them, need to be in approved animal harnesses to protect both the animal and humans. Those who truly love their pets will either leave them at home or use appropriate vehicle restraints for the pet’s own protection and the protection of humans. By reducing pet distractions and using safety products to prevent accidents it is possible to prevent increased auto premiums as well since there will be fewer claims.

Obviously children will be riding in cars. Most parents have found themselves turning towards the back seat to attend to children while driving. Parents may also have found themselves being hit by thrown toys, baby bottles, and other items. According to the AAA Foundation for Traffic Safety, children are one of the biggest driving distractions at any given time. Children are four times as likely as adult passengers to be the cause of a distraction resulting in an accident. While there may not be a good solution to this problem, it is important for adults to be aware of the disastrous effects a moment of distraction can have. It is better to pull to the side of the road to attend to a child's needs than to attempt doing it while driving. Most feel education is the best solution to the distractions caused by children while driving. When parents are aware of the dangers posed they can make decisions more effectively.

Many people eat and drink in their cars, although safety experts warn against the practice. This requires removing hands from the steering wheel momentarily to grab a coffee cup or French fry. Few people realize the distraction this poses. Spilling a hot beverage or dropping food in one's lap distracts the individual long enough to cause an accident. Pedestrians have been hit and killed while drivers attempted to retrieve a sandwich or hamburger they dropped.

Listening to the radio while driving is common but music and talk radio can also be a distraction. A dangerous distraction is taking one’s eyes off the road to change stations or adjust the radio. Any distraction can cause an accident so it is important to pay attention to the road at all times.

Distracted driving of all types can indirectly affect auto insurance premiums by raising the likelihood of accidents. Approximately 20 percent of accidents involving injuries were the result of distracted driving according to NHTSA. More accidents equate into more claims and more claims mean higher automobile insurance rates.

When a Car is Totaled

What happens when a traffic accident totally devastates an insured's auto? It's not a scenario most drivers want to think about.

When an automobile is substantially damaged, the insurance company has the right to decide that the car isn't worth fixing. The decision to "total" is a function of the car's worth. Minor damage to a 10-year-old Chevy might result in totaling the car, whereas major damage to a brand-new Mercedes might not. Auto insurance claims adjusters usually determine a car's actual cash value by using their company's proprietary database of prices.

Some companies total vehicles at 51 percent of its actual worth: some total at 80 percent. The insurance company will pay the car's actual cash value, minus any deductible on the coverage.

Once a car is totaled, the car goes to a salvage yard where it's auctioned off to the highest bidder and usually chopped up for parts. The insurance company keeps whatever money it got for the car in salvage.

What if an insured doesn't agree with the insurance company's assessment of the damages? What if the insured really loves his car and doesn't want it taken away? Does he have any recourse?

When a person buys an auto policy, he signs a contract with his/her insurance company. He/she cannot force the insurer to pay out more than the car is worth. That is a part of the contract.

On the other hand, the insured was supposed to be "made whole" by the insurer, meaning he/she should be put back into relatively the same spot that he/she was before the accident.

If the car is a total loss but the insured wants to have it repaired anyway, he/she should be able to retain it. The insurer still has to pay the car's actual cash value, minus the deductible and minus what the company would have gotten for it at the salvage yard.

If it is the decision of the insured to keep the car, the claims adjuster should know up front that he/she wants to keep the car. The insured then will to have to pay for the repairs out of pocket.

If the car is a newer model and its parts would get a lot on the auction block, the insurance company may decide to send it to salvage despite the insured's protests.

In most states, the car is gone for good once it goes to auction. Regulations vary, but in many places, the insured won't even be able to attend the auction without a special license for auto salvagers or auto dealers.

Not Satisfied with the Buyout

People who complain about their total loss settlements generally don't want their old, crashed cars back. Instead, they complain that their insurer didn't give them enough money to buy a similar car.

However, the insurance company's estimate of what a comparable car will cost may differ from the realities of the marketplace. There are many variables that determine the value of the car, such as miles driven, pre-accident condition, special equipment installed, and local market conditions for the vehicle.

If an insured disagrees with the insurance company's assessment of the vehicle, he/she can hire an independent appraiser at the insured's own expense to perform an inspection of the vehicle.

If the insurance company refuses to give the insured more money, the insured has two options: arbitration and litigation.

Arbitration is a process in which they and the insurance company present the facts to a third-party arbitrator. Arbitration can be binding (which means the arbitrator decision is final) or non-binding (meaning the insured can still take the insurer to court if they are unsatisfied). Litigation, as you know, is a lawsuit.

Motor Vehicles and Child Safety

Motor vehicle crashes are a leading cause of injury and death for children in the United States. At particular risk are infants and other children who ride unrestrained or are too close to the instrument panel during a collision.

When used correctly, child restraints and safety belts, according to the American Medical Association, are 50 to 70 percent effective in preventing fatalities and reducing serious injuries. Unfortunately, despite the existence of laws in all 50 states requiring the use of child restraints, many young children still ride unrestrained in motor vehicles.

Tragic reports of children being seriously injured or killed by air bags have raised public awareness and concern about our ability to adequately protect children who ride in motor vehicles. Air bags can seriously injure or kill occupants, especially those who are not properly restrained in the front seat.

Studies show that when combined with safety belts, air bags are effective in reducing injury and preventing death in adults. But neither safety belts nor air bags are designed to protect infants and other young children, who need protection of appropriate restraints.

Drivers have a responsibility to ensure that all passengers, including infants and children, are properly restrained in the vehicle. All infants should be secured in a child restraint that is appropriate for their age and size.

The back seat is the safer place for all children to be secured. If a toddler or older child must ride in the front seat, the vehicle seat should be adjusted as far back as possible. During the trip, the child's restraint must be properly sitting up against the seat back and not leaning forward.

Safety Precautions

Parents should read and follow the vehicle owner's manual and the instructions provided with the child restraint system for proper usage. It is important that the restraint selected fits securely in the vehicle before the child is transported in it.

If it is necessary to use an infant car bed, parents must be sure it is secured properly with the infant's head resting toward the center of the vehicle.

A rear-facing infant restraint should never be placed in the front seat of a vehicle that has a passenger side air bag, unless the vehicle has an air bag cutoff switch and the air bag is turned off.

A booster seat should be used until the child outgrows it, at which time the child can use an adult safety belt. Shoulder belts should never be placed behind a child's back or under the arm.

Child Restraint Recommendations

The American Medical Association recommends that the proper restraint be used in accordance with the appropriate age and size of the child.

Premature and low birth weight infants: An infant car bed should be used.

Children of normal weight from birth to one year old who do not exceed 20 to 30 pounds (depending on the restraint used): A rear-facing infant restraint should be used.

Children one to four years old of 20 to 40 pounds and 26 to 40 inches tall: A forward-facing child restraint should be used.

Children four to eight years old and of 40 to 80 pounds: A booster seat should be used.

Summary of Child Safety
The following points should be remembered in summarizing child safety.

All infants and young children should be secured correctly in appropriate child restraints.

A rear seat is the safer place for all children to be secured. A rear facing infant restraint should never be placed in the front seat of a vehicle having a passenger side air bag unless the air bag is turned off. If a toddler or older child must ride in the front seat, it is important that the child is restrained properly and the vehicle seat is adjusted as far back as possible.

Air bags do not replace the need for all motor vehicle occupants to be properly restrained. Unrestrained occupants of any age are at increased risk of being injured or killed in a collision. Unrestrained occupants in the front seat are especially at risk of possible injury or death from an inflating air bag.

The use of child restraints and safety belts is a learned habit. Parents getting in the habit of using an appropriate restraint device the day their baby leaves the hospital and everyday thereafter that they transport their child in a motor vehicle, are establishing reflexive habits that will last for a lifetime.

Informing your clients and customers of these safety tips when not only help them but also the companies you represent. By preventive measures both the insurer and insured will benefit from reduced claims.

Saving on Auto Premiums

Insurance companies would rather not pay claims. Therefore, they offer incentives to insureds in an effort to lessen the chances of a loss. If insureds take steps to reduce their chance of loss, their premiums will go down. Understanding the discounts the insurer you represent offers is helpful in selling policies.

Higher deductible: A higher deductible mean lower premiums. For example, increasing the deductible from $200 to $500 on collision coverage could reduce your premium by as much as 30 percent — potentially saving the insured hundreds of dollars.

No collision and/or comprehensive coverages on older cars: If the insured owns a car that's worth less than $1,800, he/she would probably pay more for the coverage than would ever be collected on a claim.

Buy a "low-profile" car: Cars that are expensive to repair or that have a high theft rate generally have higher insurance costs.

Low-mileage discounts: Some insurance companies offer discounts to drivers who put less than a predetermined number of miles on their vehicles each year.

Discounts for safety features: Most policies give discounts for air bags.

Antilock brake discounts: Florida and New York require insurers to give discounts for cars equipped with antilock brakes. Some insurance companies give the discount no matter what state the insured lives in.

Other discounts: Some companies offer discounts for insuring more than one car, insuring a car and home with them (multi-line discount), having no accidents in three years, being a driver over age 50, taking driver training courses, and having antitheft devices. Plus, remember good-student discounts when you are insuring a family with a student who drives.

The Cost of Driving

Since the first horseless carriage rolled of the line, Americans have had a love affair with the automobile. Sometimes the price we pay for that affinity is high.

Believe it or not, between five and six million auto accidents occur every year in the United States. The majority of these accidents are property-damage only accidents – such as fender benders and rear-ending. Unfortunately, about 2.5 million people are injured each year in accidents and about 40,000 people are killed.

These may seem like high figures, but when you consider the fact that there are tens of millions of drivers on the road each day, accidents are bound to occur. The National Highway Traffic Safety Administration (NHTSA), which reports accident figures annually in its analysis of motor vehicle traffic crashers, keeps track of the number of accidents that occur so that it can recommend methods for improved highway safety. Its purpose is to help protect people on the roads. The auto insurance industry's purpose is to protect people financially when accidents occur.

Personal Auto Policies

Personal auto policies, often called PAPs, include coverage for the insured auto owner as well as coverage for people injured and damage caused by the insured auto owner or his or her insured auto.

Auto insurance is considered the most important of coverage available through Property and Liability lines because it affects so many people. Virtually every individual and family are at risk for a loss related to an automobile. A minimum amount of auto insurance is required by law in every state of the union.

The Cost of Auto Insurance

Almost everyone is familiar with auto insurance. Commercials flood the television screens about every ten minutes advertising better rates or more comprehensive coverage. The cost of auto insurance is a significant factor to auto buyers, since most dealerships and banks require that a new leased or financed car be insured before it can roll of the lot.

Not all state auto insurance requirements are the same, though most require a minimum amount of liability coverage. Only two states do not require "liability" coverage: New Hampshire and Wisconsin. In place of liability coverage, auto owners in these states must accept financial responsibility for accidents they cause or are partially at fault for.

"Proof of insurance" laws vary by state as well. If you've ever had the misfortune of being pulled over by the police in most states, you've been asked to hand over your license, registration and proof of insurance. Those states require drivers to carry proof of insurance at all times. Some states only require drivers to provide proof of insurance at the scene of an accident, but, since it is pretty difficult to predict an accident, it's best to just keep it in your glove box, even if the state doesn't require it.

An automobile policy is really a combination of several different coverages combined into one package. Some coverage in this package protects you: some protects third parties, and some are even mandatory. Some can be optional. The coverages are priced separately and added together to come up with your total premium.

PAP Coverages – Liability

The most expensive and controversial of the automobile coverage is liability. Basically, liability insurance protects you against the cost of being sued should your negligence while driving cause injury to someone else. Negligence can be defined by stating that you were "driving outside the standard of care" required while you were operating your automobile.

In order for you to be liable, there must be actual harm, often referred to as "damages," which are a result of your bad driving. For example, you could improperly pass a car on a hill or curve without incident and you are not subject to liability from anyone.

Bodily Injury

Should your driving cause injury or death of another, you will be responsible for monetary damages as a result of this accident. This may include the following:

-Medical payments – Costs of the injured person's medical bills
-Lost wages – If the injured is not able to work, you may have to pay lost wages
-Pain and suffering – This is bit of a wild card and can amount to the largest payout on your end

Property Damage

This portion of an automobile policy pays for damages to someone else's property caused by negligent driving. In most cases the damage is to another vehicle, but it doesn't have to be a vehicle. You could hit a guardrail, someone's picket fence, or a utility company's telephone pole and you would be responsible for the cost of repairs to these items.

Of course, you would transfer this responsibility to your auto insurance company under the property damage portion of your policy. Property damage, like coverage for personal injury, does have a maximum benefit, say $50,000. Like personal injury, coverage for property damage is based on negligence. Since the extent of risk for property damage is less than personal injury, the cost is also less.

A recent survey noted that over 50% of all insurance payouts are made for property damage and not for personal injuries. If claims or lawsuits are brought against you, property damage liability insurance provides protection in the form of legal defense and payment for damages that you are legally liable for, up to the limits of the policy.

Liability Limits

When you buy liability insurance you choose the amount of protection that you wish to purchase. You may purchase insurance one of two ways: Single limit or Split limit.

A single limit means that one limit will apply to all claims for bodily injury and property damage arising from a single accident. Single limit liability is usually offered in the following amounts:

-$30,000
-$50,000
-$100,000
-$300,000
-$500,000

Split limit means that these three separate limits apply:

-One for each person injured
-One for the claims for all persons injured in one accident
-One for all property damage in one accident

The choices for split limit coverage are as follows:

-$10,000, $20,000 and $10,000, which is usually expressed as 10/20/10
-$15,000, $30,000 and $25,000
-$25,000, $50,000 and $100,000
-$50,000, $100,000 and $50,000
-$100,000, $300,000 and $100,000
-$250,000, $500,000 and $250,000
-$500,000, $1,000,000 and $500,000

The first two numbers are for bodily injury, with the first number representing per person and the second number per accident. The third number is for property damage.

For example, if your limits of liability were 100/300/50, this would mean that you are protected for $100,000 of personal injury per person, $300,000 of personal injury per accident and $50,000 total for property damage. In comparing the relative values of single and split limits, compare the following: $30,000 single limit vs. 10/20/10.

In this example, the yield would be the same for all injuries and damages in a single accident. If, however, the insured were liable only for one person's bodily injuries, the single limit form could pay $30,000, but the split limits could pay only $10,000.

Chapter 7 Automobile Coverages

Uninsured Motorist Coverage

Far more people than you believe are driving around with no auto insurance and are causing serious injuries and even death. Then there are those who cause an accident and run from the scene. These are a few reasons why uninsured motorist coverage on your automobile insurance policy is so important. This coverage not only insures you against the "Uninsured Motorist" but also protects you against the "Underinsured Motorist."

It's a Law

Not all states require Uninsured Motorist Coverage, or "UM coverage." In those states that do, the state decides the terms of the coverage, but there are some minor variations from one insurer to another.

One of the things the state will determine about UM is the minimum limit required. Higher limits can be purchased, but that is up to the insured.

Damages in a UM claim are determined by either agreement between the insured and the UM insurer, arbitration between the insured and the insurer, or by lawsuit jointly between the insured against the UM insurer against the other party. As an adjuster, the best case scenario is to be able to settle the claim amicably.

Though it may be tedious having to almost "over-insure" one's self to compensate for the insufficient or non-existent liability coverage of others, it's probably better than having to pay for it completely out of pocket. Yes, one could file a civil suit to recover damages, but when you're dealing with an uninsured individual who cannot afford to pay an insurance premium, the chances of actually receiving a payment through settlement or judgment are pretty slim.

How it Works
"Uninsured" is a simple blanket term for this coverage, but it also helps protect drivers against underinsured individuals. When a driver causes bodily injuries to another in an amount that exceeds the driver's liability coverage, the injured driver's UM will help make up the difference.

It is important to remember that uninsured motorist protection has absolutely nothing to do with property damage. It is for losses for bodily injury only. Here are some important points that you need to know about uninsured motorist:

It is based on fault. Therefore, if you cause the accident, and the other driver was not insured, there are no benefits. It pays you what you would have been entitled to had the other driver been properly insured. Therefore, the other driver, the uninsured driver, must have been liable in order for you to collect.

It pays for pain and suffering. When it comes to court measuring damages in legal proceedings, the measure is the same in uninsured motorist cases as it is under normal liability cases. Medical bills, lost wages, pain and suffering, and loss of consortium are all included in determining what you may receive.

There are three groups that can be covered under the uninsured motorist provision:

-The insured
-Members of his or her household
-Any other person entitled to recover damages

This coverage also applies to injuries sustained while you or an insured motorist injures members of your household as pedestrians.

Some companies can provide you with UNDERINSURED motorist coverage. This protection provides that if you are in an accident and the at fault person is underinsured to pay the total damages, and if you had purchased underinsured protection from your carrier that protection will pay the amount not covered by the other driver's insurance to the maximum of your policy.

Medical Payments Coverage
This coverage under the liability portion of your automobile insurance policy is designed to pay some of the medical consequences that may result from an accident. While the liability portion of the auto policy has fault attached to it, medical payments has no relationship to fault but, in fact, it will pay benefits to eligible beneficiaries for the cost of medical bills and/or funeral expenses to the policy limits.

There are two types of people who are entitled to receive benefits under the medical pay portion of the policy:

-The insured and his or her family members living in the same household
-Any passenger injured while riding in the covered vehicle

Most people do not select large amounts of medical payments since they are usually covered by health insurance either at work or through private purchase, and this could cause duplicate coverage.

It is important to note, however, that medical payments will provide coverage in one area that health insurance will not and that is funeral expense. Medical payment coverage is relatively inexpensive, and it is always a good idea to carry at least a few thousand dollars of coverage. Medical payments do have exclusions. There is no coverage for injuries:

-While in a motorized vehicle with less than four wheels
-While using your covered auto to carry persons or property for a fee
-If Workers' Compensation benefits are payable
-While occupying an auto other than your auto, which is owned by or furnished or available for the regular use of the named insured or a family member
-While occupying a vehicle without reasonable leave or permission
-While occupying an auto for business purposes, other than a private passenger auto, owned pick-up or van, or trailer used with one of these

Comprehensive and Collision Coverage

This part of an automobile insurance policy protects your vehicle. Comprehensive coverage provides for protection against the following:

-Fire
-Theft
-Malicious mischief
-Windstorm
-Flying objects
-Hail
-Hitting an animal
-Broken windows

If the damage is considered from a cause "Other than collision," it is more than likely going to be covered under the comprehensive portion of your insurance policy. Comprehensive coverage is often sold with a deductible ranging from $50 to $30.

Comprehensive coverage can be issued alone without including collision coverage, but collision coverage will not be issued unless comprehensive coverage is included.

There are exclusions under comprehensive coverage and some of the more common ones are as follows:

-Electronic equipment not permanently installed. This may include but is not limited to radios, stereos, tape decks, and compact disc players.
-Other electronic equipment included but not limited to CB radios, telephones, two-way mobile radios, scanning monitor receivers, television monitor receivers, videocassette recorders, audiocassette recorders, and personal computers.
-Tapes, records, disk, or other medial used in conjunction with the equipment described in 1 and 2 above.
-If your covered auto or non-owned auto is destroyed or confiscated by governmental or civil authorities because you or a family member was engaged in illegal activities.
-A camper body or trailer that is not shown on the declaration page of your policy.
-Awnings, cabanas, or equipment designed to create additional living facilities.
-Radar detectors.
-Custom furnishings or equipment in a pickup or van such as special carpeting, furniture, bars, sleeping and cooking facilities, height extending roofs, custom murals, paintings, decals, or graphics.

Collision

The collision portion of your auto insurance policy constitutes about one third of its total cost. Collision is defined as "The upset of the auto covered or its impact with another vehicle or object." In other words, there has to be a physical contact between the covered auto and another car, truck, or object, which then causes physical damage to your auto.

The collision portion of your policy is subject to a deductible. The deductible is the amount you must pay before insurance benefits begin paying. Collision deductibles can range from 0 dollars to $1,000. Remember, the higher the deductible, the lower the collision premium.

Should your car be damaged or stolen, the company has the right to choose which of the two following ways it may pay you:

> -They may give you an amount that is necessary to repair your automobile or replace the property that was lost.
> -They may give you the actual cash value of the damaged property or stolen item. Sometimes people are upset with this method, because the company can deduct for depreciation and adjust for a deteriorated physical condition of your vehicle.

You have heard the term "totaling the vehicle." This occurs when the insurance company decides not to repair your vehicle but to pay you for its value instead. Unfortunately, when the company totals your car you usually receive what the vehicle is worth on the open market. Usually this amount is less than what it will cost to actually repair the car.

It should be noted that collision is not mandatory coverage. You do not have to buy this portion of the policy, and those with older vehicles usually do not. If it's simply not worth the money if the company is likely to total the vehicle rather than repair it, than purchasing collision is not practical.

Should you have your car financed, that institution will require that you carry comprehensive and collision coverage until the vehicle is paid for, and that institution will want to be listed as what is known as the "Loss payee." This means the institution is the first in line to be paid in the event of a loss.

Collision coverage is not dependent on fault. Regardless of who caused the accident, you are entitled to collision benefits. Collision benefits can be paid to vehicles you don't own. Should you be driving a car you do not own, and are involved in an accident, or the car is stolen while in your possession, benefits will be paid. If you are covered for auto theft, there may be a transportation benefit.

If your car is stolen, you can be entitled to reimbursement for some of the transportation costs that you incur. Benefits are usually $10.00 per day or so and there will be a maximum benefit.

Emergency Roadside Service

Emergency road service is often provided by independent contractors who are part of a membership group such as AAA Motor Club or other national organizations. Emergency towing is intended to remove a disabled vehicle to a place of safety or repair. It is not intended to provide towing to a dealer or auto salvage.

Service normally applies to all properly-licensed, four-wheeled vehicles of the passenger, pleasure, or recreational-type vans, campers and motor home.

Emergency road service can include on the road repair to a vehicle that won't start as a result of a deficient battery or simple mechanical adjustments if they can be made in a safe and effective manner where the breakdown occurs.

Roadside tire repair is also provided under this coverage. A flat tire will be changed if the insured has an inflated spare. If for some reason due to safety, or if for any reason the inflated spare is not usable or the lug nuts cannot be removed from the flat tire on the vehicle, or if the vehicle has two flat tires and one usable spare, towing is provided in accordance with towing provisions. Towing will also be provided in lieu of a tire change if the tire cannot be safely changed.

Towing
If a vehicle cannot be made to operate safely under its own power, towing from the point of disablement will be provided. Towing provisions usually provide towing for towing to a repair facility within a prescribed distance of the disablement. If the insured wishes to have the vehicle towed outside of the prescribed area, usually an additional mileage charge will apply.

If the insured wants the vehicle towed to a closed garage, the insured must sign a disclaimer of liability for the towing company. The disclaimer releases the towing company from responsibility for the vehicle when it has reached the "closed facility."

Local ordinances may prohibit the towing company from carrying more than one passenger to accompany the vehicle to its delivery location. Flatbed service is available to the insured and may require an additional charge.

Towing service is sometimes delayed as a result of weather conditions, call volume, or equipment availability. Vehicles involved in an accident will be towed provided a police release has been obtained.

Other Roadside Services
Emergency road service organizations, such as the AAA Motor club, also provide services beyond general towing of a disabled vehicle. Such services are outlined below.

Extricating or Winching Service - A service that is normally provided if the insured's vehicle is stuck in a ditch, mud, sand, or other similar situation. The vehicle must be accessible from a normally traveled roadway and require no more than one man, one truck at the scene. Any additional manpower and equipment is usually at the insured's expense.

Fuel Delivery - A limited supply of fuel can be delivered to the disabled vehicle to enable the driver to reach the nearest open service station. The insured must pay for the fuel at the current pump price and the service only applies when government regulations permit it and supplies are available

Lockout and Locksmith Service - This service is provided when a driver loses or locks the vehicle's keys in the car or trunk. In some instances a maximum fee is paid by the insurance company and the balance must be paid by the insured.

Excessive Use of Services - Most "Club" type organizations have a provision that kicks in for excessive use of service. This provision normally kicks in after five service calls within a 12-month period and subjects the insured to the possibility of cancellation of membership.

Reimbursement for Independent Services
When Club-type organizations are used, should a member call other than a prescribed contractor, reimbursement is limited to the amount the Club would have paid the nearest member contract station. When service is requested and is unavailable, reimbursement is based on the prevailing commercial rate for the region where the vehicle was disabled and is subject to the benefits of the membership.

Car Rental/Travel Expense
This provision of the auto policy entitles reimbursement for the expense of renting an automobile while the car is being repaired. It may have a daily expense maximum as well as a total per accident benefit. Some policies also pay benefits for travel expense following an accident that may include food and lodging, providing the insured is more than a certain number of miles from home

when the accident occurs.

Automobile Insurance Policy Endorsements
You may purchase extra protection under your automobile insurance policy for an extra premium. These are called "Endorsements." The following represent a few that are available:

Towing and Labor Costs
This endorsement, which we discussed in detail in the previous section, is added to the physical damage coverage, provides reimbursement up to a specified limit to tow your vehicle or pay for on-site labor costs.

Auto Glass Insurance
This endorsement offers a lower deductible or no deductible for when repairing any broken window on your car is required.

Tapes Coverage
Should audio or disc tapes be lost or stolen, or should you have a valuable or extended collection of such items in your vehicle, you may obtain coverage for them via this endorsement.

Sound Components or Equipment
Coverage for your car phone and CB can be acquired under this endorsement.

Drive-Other-Car Endorsement
Optional coverage that broadens the definition of a covered auto to include non-owned vehicles the insured person operates.

Stated Amount
A stated amount endorsement allows the insured and the insurance company to come to agreement on an antique or otherwise unusual vehicle's value, which will be applied to the policy. This is because an antique car is worth more than the cost to replace its engine, parts, etc.

Custom Equipment
Vans and pickup trucks which have been altered or customized to include refrigerators, special carpet, cooking or sleeping facilities can be protected by adding this endorsement.

Non-owner Coverage
Should you know in advance that someone who does not own your car or is not a covered family member is going to be driving your car, you can add this person's name as a covered driver through this endorsement.

Extended Liability
This insurance is used to cover automobiles that are not legally owned by the insured, such as an auto owned by the employer but furnished for the use of the insured, which would not generally be insured.

Miscellaneous Vehicle
This endorsement provides coverage for vehicles that are normally excluded, such as motor homes, recreational vehicles and motorcycles.

Exclusions
The insurance carrier will tell an insured exactly and specifically what will not be covered in its exclusions. Simply stated, if something is excluded, there is no protection afforded by the policy for that item or items. Often exclusions are considered unfavorable because people feel the insurance company gives protection with one hand and then takes it away with the other hand through exclusions.

In reality, exclusions were designed to prevent coverage that would be better sought in other types of insurance. Exclusions are also a method by which the insurance industry can eliminate exposures that could not be covered without charging an unbearable premium.

Exclusions are divided into these two parts:

-Persons not protected
-Vehicles to which coverage does not apply

Typically, liability coverage is not provided to any person

-Who intentionally causes injury or damage
-For damage to property owned or being transported by that person
-For damage to property rented to, used by or in care of that person
-For injury during the course of employment by an employee
-For liability arising from the use of the vehicle as a public or livery conveyance
-That is employed in a business of repairing, storing, parking or servicing vehicles
-That uses a vehicle without permission

Typically, liability coverage is not provided or afforded to the following types of vehicles:

-Motorized vehicles with less than four wheels
-A vehicle furnished, available for the regular use of the person insured other than the covered auto
-A vehicle furnished or available for the regular uses of a family member other than the covered auto

Auto Insurance Provider Rating

In the next section, we're going to get into the factors insurers use to rate auto insurance for the driver. But the insurers themselves are also rated in terms of their quality of customer service, claims experience, rates, etc. JD Power and Associates distributes a rating of auto insurers that measures the following factors.

Overall Experience
This score is based on how customers rate every aspect of their service experience with their current auto insurance provider. This is sort of like the insurer's overall "average."

Policy Offerings
This score is based on how customers rate the variety of coverage options offered by auto insurance providers and the extent to which they meet their needs.

Pricing
This score is based on how customers rate their current auto insurance provider on the price of the policy given the level of coverage.

Billing and Payment
This score is based on how customers rate the timeliness, clarity, and accuracy of their billing statements and the payment process of their current automotive insurance provider.

Contacting the Insurer
This score is based on how customers rate their experience interacting with their current auto insurance provider, whether through a local agent, a call-center representative, an automated phone system, or the company's Web site.

Consumers and insurance agents alike can gain valuable information about an insurer through ratings such as these. A.M. Best's ratings judge insurers as a whole, whereas specific rating systems focus on one line of coverage. This pointed attention to one line of coverage makes it easier for agents to recommend one insurer over another when a client is in need of that particular type of coverage unless, of course, the agent is a staff agent representing one insurer. But, even in that case, knowing where your insurer ranks on the rating system is important, as well.

Insurance Rating

Rating Auto Insurance Policies

Several factors are used in determining the cost of auto insurance. They are as follows:

Territorial Rating

The neighborhood where you reside is the largest factor in determining what your automobile insurance rate will be. This is called "territorial rating." Insurance companies take each state, and within that state they break down the various locations into what are known as "territories." They may do this in one of the following four methods:

-Zip code
-Neighborhood
-City
-County

Whatever method is used, companies will resort to their statistical gathering ability to determine what claims they can expect in any particular territory. Since most accidents occur within a few miles of where the vehicle is kept, the insurance industry uses this fact for their reasoning in the pricing mechanism.

Thus, the underwriter can then determine from these statistics the risk of loss for cars kept in each territory. Once this has been done, then a BASE RATE can be determined for each territory. This becomes the starting point upon which the premium is based.

Personal Statistics used in Rating

There three factors are taken into consideration. They are age, gender and marital status.

Age

Since it's known that younger drivers tend to be more accident prone, drivers under the age of 25 are going to pay more for their auto insurance than those ages 25 to 64. It is also known that drivers over the age of 65 have more accidents than younger drivers, and they usually have higher premiums established for them.

Gender

Past experience of claims and statistics prove there is a definite gender difference in the rate of automobile accidents. Statistically speaking young, unmarried males are the worst. Therefore, they will pay more in premiums than females in the same age group.

Marital Status

For the most part, a married driver will probably have fewer accidents than a single driver will. Add children to the married driver and it's found that the driver becomes more cautious and concerned and has even fewer accidents.

You and Your Automobile

What you do with your car when you use it is also an important factor in what it will cost to insure it. The following are commonly used:

-Pleasure only
-To and from work less than five miles one-way
-To and from work five to ten miles one-way
-To and from work more than ten miles one-way
-Business use
-Farm use

The most expensive of these is business use that typically carries a 50% higher premium over pleasure only.

Type of Car Driven
Basically, insurance companies rate the kind of car you drive using the following factors:

-Make
-Model
-Size of engine
-Hardtop or convertible
-Age
-Original cost
-Ease of repair
-Popularity for theft

Your Driving Record
From the time you received your driver’s license, your parents advised you on the importance of having a good driving record. Tickets cost money not only for the fine but in increased automobile insurance rates. The fact of the matter is if you have a bad driving record, your chances for an accident are higher than for a person with a good driving record.

Convictions for moving violations and the type of violation are factors that generate higher insurance premiums. For example, speeding tickets will get an underwriter's attention quicker than an illegal left turn. Then of course, drunk driving and running red lights rank up there at the top also.

Purchasing Auto Insurance

As you can imagine, the higher the limits of liability, the higher the cost of an automobile insurance policy will be. A higher deductible on collision and other than collision will lower the cost of the policy. There are also discounts available, based on things such as the number of cars insured by the same insurer and safety features, such as anti-theft equipment and a promise to wear your seatbelt.

Discounts Available
Depending on the insurance company, there are many discounts available. A few are the following:

Multi-Car: Should you insure more than one car with the same company, you will probably receive a discount for doing so.

Multi-Policy: It's always a good idea to purchase as many of your insurance needs as possible from the same company so that you can enjoy this discount. For example, putting your homeowners and automobile policy with the same company affords a definite advantage.

Driver Education: Here discounts are given to drivers who have taken and successfully completed a driver’s education course. These are typically offered at local high schools.

Anti-theft: If you spend the money to install an alarm, anti-theft device or a steering wheel locking mechanism, most companies will be willing to give you a discount on the comprehensive premium portion of your policy.

Passenger Restraints: More and more states have now passed laws requiring the use of seat belts. Whether or not the injured person was wearing a seat belt is always a very important consideration given in the processing of claims for injury.

Claims adjusters do not look favorably in the amount that they award to those who were not wearing a passenger restraint at the time of the accident. Statistics have proven it is more advantageous to wear a passenger restraint than not.

Good Driver: Many states now have a space on your driver’s license to insert the words "Safe Driver" or "Good Driver". This designation is given to those who have not been convicted of a moving violation or have not been involved in an automobile accident during the last three to five years.

Good Student: Any student who maintains an average grade of B or above can receive a discount of up to 25% of their insurance premium.

Standard Risk: This discount is given to those that meet certain criteria to qualify for it. Factors that are considered in determining a standard risk discount are as follows:

-No tickets within a certain time period
-No accidents within a certain time period
-No drivers under the age of 25
-No drivers over the age of 65
-No high performance vehicles

Anti-Lock Brakes: The anti-lock brake is probably most responsible for reducing the numbers of serious accidents than any other factor other than seat belts and air bags. The anti-lock brake is a computer system that stops a vehicle more quickly and prevents the loss of control through skidding. This reduces accidents and produces discounts.

Air Bags: Before the turn of the century, all automobiles on the road will be required to have air bags for both driver and passengers alike. A great deterrent to serious injury to passengers, the air bag produces big discounts in your automobile insurance coverage.

Auto Insurance Claims

When you are involved in an accident, you are responsible to follow specific guidelines given by your carrier as to what to do and what not to do. Naturally, the assumption must be made that you are conscious and physically capable of doing these things. Included in these guidelines are some of the following:

Notification

A major misunderstanding regarding notification is that regardless of who you think may be at fault, you must notify your carrier promptly. The company needs to be given the opportunity to conduct an investigation if they so desire before too much time passes.

How the Accident Occurred

It is important for you to make notes of exactly how the accident occurred while it is still fresh in your mind. Some things you may wish to jot down that will be helpful for future reference may be the following:

-Time of day
-Weather conditions
-Location
-Road conditions such as construction barricades or heavy traffic
-Contributing factors such as curves, hills, railroad crossings, or traffic control devices

Who was Involved
It is important that you obtain the name, address, home and work phone numbers, name of the other driver's insurance company and the policy number as well as the make, model and license number of any other vehicles involved.

Also, know what injuries were sustained, who was injured, how they were injured, by whom they were transported for treatment and where. For the most part, the police officer will have this information contained in his or her accident report, a copy of which is usually available within a day or two of the accident.

Witnesses
You've heard the phrase there are three sides to every story? Well, witnesses are the ones who tell the third side and usually the correct one. It is very common for those involved in an auto accident to give different versions (often self-serving) on exactly what happened. Therefore, it is vital that you obtain the names and addresses of witnesses who can assist in determining what happened. Determining fault is a vital issue in exactly what the company may or may not pay in a lawsuit.

The Police
Each state has laws regarding when the police must be notified. Most base it on the amount of damage. However, the policy probably will require that you report the incident to the police no matter what the circumstances. Bottom line is that it is always best under all circumstances to have the police present to take a report.

Cooperating with the Investigation
You may be called upon to either meet with investigators from the company, lawyers of the company, or claims adjusters concerning the accident and other areas of concern. You will need to give them your full cooperation.

Submitting to Examinations
If you or others have been injured in an automobile accident, the insurance company may ask you to be examined at their expense by a physician that they choose. They also may wish to examine what happened in what is called a "deposition." Usually you will receive a subpoena to take a deposition under oath.

Access to Relevant Personal Records
Often, you may have to produce past medical records or information regarding previous accidents. The company may ask you to sign authorizations for release of this information. You must do this unless you feel that you have valid grounds for denying their request.

Policy Cancellation
Sometimes it seems that the first time you submit a claim the company either raises your rates or cancels your policy. How many of you have had the experience of having been with a company 10, 15, or 20 years without a claim, you've always paid your premium on time. All of a sudden, you have an accident, the claim is paid, and then they want to cancel you? How can they do this?

First, the language of the contract permits them to do it. And second, for the most part, the state insurance departments have inadequate enforcement to stop companies from engaging in this unfair practice.

Canceling an Existing Policy while in Effect
Cancellation can occur while the policy is in effect. Although rare, it can happen for the following reasons:

-If you fail to pay your premiums in a timely fashion, the company can cancel you on a 10 days or so written notice.

-A policy is subject to cancellation upon reasonable notice, often 10 days, for any reason during the first 60 days it is in effect. This type of cancellation usually occurs because the insured misrepresented facts or circumstances regarding the issuance of the policy.

-Should your driver's license be canceled or revoked, the company may follow suit by doing the same to your insurance coverage.

-Should you, or a member of the covered family, be convicted of a drunk driving charge, the insurance company will more than likely cancel your policy.

-If you submit a fraudulent claim or misrepresent information to the company in an attempt to obtain benefits to which you are not entitled, and get caught, you will probably be canceled.

Refusing to Renew a Policy at its Expiration
The real fear in the cancellation arena is the fear that the company will refuse to renew a policy at the end of the coverage period. Auto insurance companies do not issue policies that are guaranteed to be renewable. A company can refuse to renew your policy or raise your rates for the following terms and conditions:

-The company has told you at least 30 days prior to the end of the policy period that they will not renew your policy. This is done so that you are able to make other arrangements. However, you must realize that if you have been non-renewed by one company, other companies may not want to take you and this could force you into the Assigned Risk Pool.

-Any refusal to renew must be in writing.

-Although most states allow a company to refuse to renew you for just about any reason, some do not allow it if it is based on age, race, sex or occupation.

No-Fault
As we discussed earlier, there are about a dozen states that impose a "no-fault" law on drivers. The purpose of the no-fault law is to create a system of benefits payable by an insured's own insurer, rather than having to deal with numerous liability claims clogging up the courts. Another cause for this law's creation is the rising cost of Auto Liability coverage.

No-Fault coverage only applies to bodily injury claims, not property damage. The law covers all four-wheel vehicles designed for use on public roads and required by the state to be registered. Mobil home and "governmentally owned vehicles used in mass transit" (AKA city buses), are exempt. Taxis, limos and school buses, though technically meeting the above definition, are also exempt from having to carry No-Fault insurance.

Insureds who are subject to and comply with the No-Fault law are not subject to legal liability for causing bodily injuries to another person(s), regardless of who is at fault. Of course, there are some exceptions to this rule, which we'll go over later.

Since people who are in an accident with someone subject to and in compliance with the No-Fault law cannot seek legal liability damages for bodily injury, this law substitutes that coverage with Personal Injury Protection (PIP), which provides first-party benefits for economic loss, no matter who is at fault.

In some states, drivers must carry PIP insurance by law. There are penalties for failing to do so, including suspension or loss of license and registration. If an owner does not meet the state's compulsory insurance requirements, he or she will be denied the immunities from legal liabilities that the No-Fault law provides. An owner who does not meet the requirements is also responsible for paying the PIP benefits for those entitled to them.

It seems confusing, but that's how what happens when one reads the law. In layman's terms, the No-Fault Law requires drivers to carry PIP so that their own bodily injuries will be covered under their own insurance policies. Why? Because No-Fault means no liability, and no liability means the other driver's insurance won't be dropping a dime to cover the first driver's injuries (and vice versa). If someone foolishly chooses not to carry No-Fault insurance, not only will he or she be liable for the bodily injuries of the other driver, but they'll be paying for their own, too (unless their Medical Payments coverage can do it).

Does No-Fault really mean no one is at fault? Of course not. It means that it doesn't matter who is at fault.

Non-Standard Market

When a risk is particularly hard to place, non-standard and insurance needs cannot be satisfied through the standard market, and when people have bad accident or driving records or have high-powered or sports cars, they may be forced to be placed with an assigned risk facility.

Non-standard companies offer a market usually at a higher than normal price for such persons, as well as for others who are acceptable to the assigned risk plans but who want more than the limited amount of coverage some of those plans offer.

Each auto insurance company doing business in a state must write insurance for those who cannot obtain it in a standard market. The insurance company must write the same percentage equal to its percentage share of that state's auto insurance market. Therefore, if an automobile insurance company issues 20% of the auto insurance in a particular state, then it will have to provide insurance for 20% of those in the non-standard market.

There is an association known as the "JUA" or the Joint Underwriter's Association. This is a form of pooling association that sells insurance to the otherwise uninsurable. All companies writing insurance in a particular state share in the profit and loss of the insurance business written by the JUA.

Usually, a re-insurance facility, which is an organization, that issues insurance-to-insurance companies, will allow companies to transfer percentage of their policies to the re-insurance facilities so that no one can be refused a policy.

Teenage Drivers

While any individual may be distracted while driving resulting in an accident, teenage drivers seem to be especially vulnerable. Teen drivers are more at risk and this is reflected in state laws that restrict their driving privileges and in the higher rates paid for insurance. As we know, premium rates are based on statistical information. Every parent should, therefore, realize that the higher rates they pay for their teenage daughter or son directly reflects the rate of claims for this age group.

A study zeroed in on the moments directly before teen drivers were involved in an accident to determine what decisions and mistakes were involved. This study published in the journal of Accident Analysis and Prevention in 2011 was performed by Children's Hospital of Philadelphia and State Farm insurance company. Researchers took a look at 800 automobile crashes involving teenage drivers to see what common facts emerged. Their findings indicate that the majority of accidents were not caused by aggressive driving or thrill-seeking, as many people might have expected. Instead accidents were caused by:

Failure to scan, which was the reason for 21% of teen-caused accidents. What do we mean by "failing to scan?" Scanning the road visually for potential hazards is routinely done by experienced drivers even though they may not be aware they are doing so. Scanning might be considered a "high level" skill that becomes a habit only after months of experience on the road. Older drivers, with experience, develop the habit of looking to each side and far ahead whereas teen drivers appear to focus only directly in front of their vehicle. This limits their ability to respond to such things as fast approaching cars coming from behind.

Driving too fast. Excessive speed was cited as the reason for 21% of teen crashes. This includes speeding around corners and subsequently losing control of their vehicle. It also includes failing to take into account unsafe conditions, such as icy roads or other weather conditions calling for reduced speeds.

Distractions, such as texting and phone use, caused 20% of teenage driver wrecks. This cause was not a surprise. One distraction that is often unrecognized is having other teenagers in the car with the driver. Even distractions outside of the car were sometimes the reason for the accident. For example, in one case the teenage driver was distracted when she saw friends standing in front of a mall store, causing her to rear-end the driver in front of her.

Researchers concluded that most teen crashes are not related to emotional aggression or deliberately taking risks but instead were caused by lack of experience. Some researchers feel the solution calls for graduated driver licensing (GDL) laws, which are already on the books in many states. For example, before earning full driving privileges many states require teens to go through a stage that limits the number of passengers allowed in their vehicle with them and bans all cell phone use.

We have known for years that automobile insurance rates have reflected the higher risk teenage drivers pose. We have known for years that inexperienced drivers have more accidents than experienced drivers. This study merely exposed the causes of those accidents, eliminating some of the industry's misconceptions. With additional facts come additional solutions. Hopefully knowing what allows accidents to happen will bring about new solutions to prevent them. As the rate of accidents decline, as we hope they will, automobile premiums will decline accordingly (at least that is the theory).

A recent poll from Nationwide Insurance found that parents are struggling to afford gas and increased automobile insurance premiums for their teenagers. The result seems to be a delay in teens getting their driver licenses. The Texas study surveyed 326 parents of children between the ages of 15 to 19 years old.

Due to higher claims, automobile insurance for teen drivers has been higher than that for more experienced drivers. Adding a teenager to an auto policy in Texas, according to the Nationwide Insurance study, increased the parent's policy cost by an average of $1,100 per year. That does not include the increased cost of gas used or the wear and tear on the vehicle. When gas and other factors are added in, the increase over the year amounts to approximately $4,000. In these tough economic times many families find that unaffordable.

The high cost of teenage driving has resulted in fewer policies being issued that include new drivers. These policies previously made up 5.8% of Nationwide policies in 2008; this dropped to

5.4% in 2011. About 60 percent of surveyed parents said they had to make these cutbacks because they could not afford the additional costs of allowing their teenager to drive.

As we have discussed, higher rates for teenagers are the result of the risk new drivers represent. Young drivers are involved in more accidents and receive more moving violations than older experienced drivers. According to the Insurance Institute for Highway Safety, the crash rate for drivers between the ages of 16 and 19 are five times higher than for drivers older than 20. Death rates for teenage drivers are also higher. IIHS reports that 35% of all deaths among 16 to 19 year olds were the result of automobile accidents.

While death rates are the most alarming statistic, property damage is significantly higher among teenage drivers too. A study conducted in 2000 by IIHS' Highway Loss Data Institute found that collision losses for cars driven by teenagers were more than twice those of vehicles driven by adults. In other words, when accidents occur, vehicle damage was more severe when the driver was a teenager. While there may be no hard facts on this as to cause, most feel it has to do with speed at the time of the accident or inexperience relating to road conditions.

As every agent knows, teenage risk is not the same for every individual. Those with the highest grades in school seemed to have the fewest claims. Therefore many companies offer a good-student-discount for those with a B average or higher. The rate of discount will vary but any discount can be an advantage in today's financial climate. Insurers feel students with better grades tend to be more responsible in all areas of life, including how they drive.

Those who take specific driver education may also have fewer accidents. An approved driver education course demonstrates that the teen is likely to be responsible on the road. Therefore a discount on premium cost may be available.

Automobile crashes are the leading cause of teen deaths in the United States according to the federal Centers for Disease Control and Prevention. More than 80% of teen drivers surveyed by the Allstate Foundation and the National Organizations for Safety have talked on their cell phone or texted while driving. Around 73 percent of teens surveyed in Southern California said they had been exposed to reckless driving (either as a driver or passenger), speeding, and intoxicated driving according to the National Highway Traffic Safety Administration. More than half of teenagers involved in fatal crashes were not wearing their seat-belts.

In some states driving privileges for teenagers are becoming restricted. Driving privileges could become more restricted as states impose additional rules in an attempt to reduce teenage fatalities. Federal legislation that was introduced in March 2011 by United States Senator Kirsten Gillibrand (D-NY) and U.S. Representative Tim Bishop, also of New York, mandate national graduated driver licensing requirements. This includes a three-stage licensing system, a learner's permit at age 16 rather than 15, restricted nighttime driving unless supervised by an adult, passenger restrictions of one non-family person until age 18 and fully licensed, and a ban on cell phone use, both texting and telephone usage, until age 18. Under this proposal states have three years to carry out the standards or face penalties that would cost them 3% of the federal highway money in the first fiscal year, 5% in the second year, and 10% in the third year.

Affordable Coverage

There are many reasons why auto insurance premiums rise. Today's new cars are increasingly more complex and, therefore, more expensive to repair. Another factor is the steadily increasing number of vehicles on the roads. As roads become more congested, more accidents are bound to happen. In rush hour traffic one accident often involves more than two cars as chain reactions occur.

Theft is one reason automobile insurance costs are rising. While some cities have more problems with this than others all are affected to some degree. Insurers are concerned with anything that increases the risk of claims and the likelihood of auto theft certainly does so.

Covered under the comprehensive portion of an auto policy, theft coverage pays to repair or replace stolen automobiles and the expensive parts they contain. Some vehicles are stolen merely to harvest specific parts from them. These parts are easily sold on the black market, resulting in claims and higher premiums.

An automobile is stolen in the United States about every 29 seconds. Although this statistic represents a downward trend over the past few years, the dollar amount per claim is increasing because parts are increasingly more expensive. In other words, fewer cars are being stolen but the cost of the claim to replace or repair the vehicle is rising.

Luxury cars with all the latest technology are especially expensive to repair or replace. Bodywork is much more expensive today than it was a few years ago. Insurers pass along the increased risk and higher claim costs to their policyholders. The good news is that automobile manufacturers are getting increasingly good at including technology that reduces theft. However this has resulted in higher theft rates of older cars that do not contain anti-theft technology.

To determine the cost of auto insurance and target possible rate quotes, most insurers consider the following factors:

-**Car price and value**: the cheaper the insured automobile, the lower the auto insurance.
-**Car model and type**: sedans cost less to insure than sports cars; basic models cost less than the luxury models. It is just common sense: the more expensive the vehicle, the higher the insurance will be.
-**Geographic location**: areas with lower crime rates mean lower automobile insurance premiums.
-**Safety measures taken**: such things as locking doors, removing valuables when parking, using well lit areas and other safety measures means lower claims and saving premium.
-**Safety components installed**: items such as airbags, traction control systems, and antilock brakes make safer automobiles. Safer automobiles generally mean lower insurance rates.
-**Tracking systems**: global positioning systems (GPS) like On-Star and LoJack use a hidden transmitter allowing police to track stolen vehicles. This increases the likelihood of recovery which allows lower premiums. Additionally professional thieves often bypass vehicles they know have GPS systems in favor of those that do not have them.

Many cars have interchangeable parts, which is more attractive to thieves. With a few simple changes criminals can find and swap parts from one model to another. This drives up insurance rates in the process. Because the parts or vehicles are easily sold there are some models of vehicles that are most often stolen. Those who drive these particular models should expect more expensive insurance policies due to the increased risk of theft.

According to the National Insurance Crime Bureau popular models include:

Rank by Year, Make, and Model:

1995 Honda Civic

1991 Honda Accord

1989 Toyota Camry

1997 Ford F-150 series pickup

1994 Chevrolet C-K 1500 pickup

1994 Acura Integra

2004 Dodge Ram pickup

1994 Nissan Sentra

1988 Toyota pickup

2007 Toyota Corolla

Trucks are stolen much more often than cars; in fact the ratio is at least three trucks to every one car stolen. Truck drivers are also much more likely to be seriously injured or killed in accidents when compared to cars due to reduced occupant protection.

While theft certainly plays a role in premium costs other factors also affect rates. Medical costs play a major role in the soaring costs of auto insurance since medical care can be extremely high.

Typically rates are set according to three basic desired goals:

> -To make enough money to cover all their policyholder's claims and pay the company's overhead expenses.
>
> -To charge higher rates for drivers who file more costly claims and lower rates for drivers whose claims occur less often or are smaller.
>
> -To stay competitive with other insurance companies in the same markets that they hope will be most profitable.

Another factor in rates will be based to some degree on the state in which the driver lives and drives. The insurer must follow state regulations of course. As a result, rates for particular cars and drivers may differ from state to state.

When determining a driver's premium rate one of the first things considered is the amount of risk that particular person represents. We have discussed some of the elements that determine premium rates including age of the driver, the type of car driven, the number of miles driven, and any other factors the insurer considers relevant. Underwriters determine the rate and they may have developed personal prejudices based on past experience. Therefore statistics play a major role in determining rates and preventing underwriter prejudices. Many years of record-keeping supports statistical judgments. A 21-year-old with a sports car will pay higher rates than would a 50-year-old person driving an economy car. The underwriter understands the risk imposed by the 21-year-old driver because he or she has multiple statistics to back up higher premium costs.

Risks are stated in one of three ways:

Preferred, which is low risk;

Standard, which is average risk; and

Nonstandard, which is high risk.

No study on risk analysis would be complete without an adequate definition of insurance. The often-used definition (the transfer of risk) is not totally accurate. A more fully expanded definition of insurance would be either the accumulation of a fund or a transfer of risk, though not necessarily both. In addition it must include a combination of a large number of separate, independent exposure units to make somewhat predictable the possible individual losses. The predictable loss is then shared proportionately by all units involved. This definition of insurance makes the point that both uncertainties are reduced and losses shared. Both are important aspects of insurance.

Insurance policies allow an individual or business to substitute a relatively small defined premium cost for a possibly large, although uncertain, loss. The fortunate many that do not experience a loss will compensate the unlucky few who do.

It is the "cookie jar" classic: many people put cookies into the jar but only a few will remove cookies. A policyholder puts one cookie in but may find him or herself needing to withdraw a dozen. The same application applies to insurance: we each pay a premium on a regular basis and if a loss occurs we withdraw an amount determined to be fair compensation, which is likely more than the premium we paid in.

When a new policy of any type is received both the agent and buyer are wise to check for errors. Upon policy delivery, the agent should advise the policyholder to check his or her policy for errors, including the copy of the application that will be included with the contract. If the issued policy is first sent to the agent he or she should check for errors prior to delivery. Delivering a policy containing errors makes both the agent and the insurer look incompetent.

Insurance products of all kinds have developed a reputation (not always deserved) of being easily misunderstood. There are several reasons for this consumer misconception. Certainly it is a field with a variety of products, each having their own criteria, policy layout, and legal terms. Some insurance fields, such as Medicare supplements, have attempted to standardize products in an effort to make them consumer friendly. Other types, out of necessity, allow great variations. Confusion often arises from a lack of understanding or knowledge of insurance terms. However, many analysts feel a major problem is simply the preconceived idea held by consumers that all policies are unreadable. Because they believe this, many consumers never attempt to read their policies nor try to understand them.

The insurance producer is in an ideal position to help their clients learn how to read and understand the policies they buy. Of course, in order to fulfill this role the agents must understand the policies they sell and be able to communicate this understanding to the buyers.

An insurance policy is the document containing the contract between the issuing insurance company and buyer. The length and complexity of the policy will vary with the type of contract and the depth of coverage. Regardless of the length or complexity of the document, however, the policy will define the rights and duties of the contracting parties.

Insurance policies follow the same basic format, including:

-Declarations

-Insuring Agreements

-Exclusions

-Conditions and Miscellaneous Provisions

-Definitions

Some types of policies will follow this format precisely while others may consist of multiple parts, which must be combined to make a complete contract.

An automobile policy tends to follow this format with easily recognizable parts. Homeowner policies, on the other hand, consist of two parts which must be combined to make the complete contract.

Since endorsements and riders are important to the contract, agents and consumers alike are wise to read them. Endorsements and riders are often used when the standard or preprinted policies do not meet a specific situation. Modification of the standard or mass-printed policy is possible by adding special provisions to the basic contract. The term "endorsement" is used in property and liability insurance; the term "rider" is used in life insurance contracts.

Endorsements and riders are used to complete a contract, alter coverage, or change a policy currently in effect. For example, a standard fire policy is not considered complete until the endorsement is added, describing the property to be covered. Without this endorsement the contract could not state exactly what is insured.

A peril is defined as the cause of a potential loss. The loss may be due to multiple causes, such as accident, fire, explosion, flood, negligence, or theft.

A peril is different than a hazard. A hazard is anything that increases the seriousness of a loss or increases the chances that a loss may occur. There are four types of recognized hazards:

Physical Hazards, which come from material, structural, or operational features. A physical hazard is, as the name implies, something that exists physically.

Moral Hazards involve people and their actions. Arson is a moral hazard because it involves the actions of people.

Morale Hazards are different than moral hazards, as noted by the difference in spelling. Morale (with an 'e' on the end) involves human carelessness or irresponsibility rather than an intentional act.

Legal Hazards come as a result of court actions increasing the likelihood of a loss or increase the size of the loss itself. Due to the lawsuit prone society we live in legal hazards are becoming increasingly common.

We recognize that authorities do not always use the same definitions for the same terms. The terms perils and hazards, for example, are often interchanged from one policy to another and from one text to another. Even with these variations, most authorities consider:

-Perils to be the things that caused the loss and
-Hazards to be the catalysts that bring about or increase perils.

Consumers are increasingly aware that comparing prices may save them money. Every state requires drivers to carry vehicle insurance. Not doing so could result in license suspension or license revocation, fines, higher insurance rates, or even confiscation of personal assets if an at-fault auto accident occurs and someone gets hurt.

Most vehicle insurance is placed on the automobile rather than the driver. However, there is coverage that insures the driver instead of the vehicle. Insurance that is placed on the vehicle (not the driver) will cover an accident or loss even if a non-owner was driving in most cases. Higher insurance rates may result.

Items left in a vehicle are often not covered under a traditional car insurance policy. Such items might be compensated for under a renter’s or homeowner’s policy however.

Some insurance companies writing auto coverage offer what is called “accident forgiveness” that might keep auto premiums from going up following an accident. Consumers are wise to ask about this although agents are likely to disclose this option if offered by their company.

High-mileage driving raises vehicle insurance rates. It makes sense to charge higher rates to those who are on the roads more often. Insurers base auto premiums partially on the miles driven annually since risk is higher when more miles are driven.

Some people feel it is not wise to make numerous small auto claims since doing so may cause higher premium rates. For those who feel this way it is wise to set up a savings account used for minor damages to vehicles or injuries to others.

It is cheaper to insure multiple vehicles under the same policy versus using separate insurance plans. Bundling cars together earns the insured a discount. Additional discounts may be gained by bundling multiple types of insurance, such as homeowner’s coverage, life insurance, or other types issued by the insurer.

Several companies offer discounts to military personnel and their families. To achieve maximum benefits consumers should let the insurer know before being deployed overseas including an anticipated return date.

Both bodily injury and property damage liability plans will pay for legal defense if claims or lawsuits are brought against the policyholder. This is important since legal defenses can be extremely expensive. Generally there will be policy limits however, meaning the insurer will not pay more than a specified amount.

Personal injury protection (PIP) is a broader form of medical payments and it may vary from state to state. PIP covers such things as lost wages and the cost of replacing personal services, such as cooking, in addition to medical payments. Personal injury protection is sometimes called no-fault coverage because it is required in some states having no-fault laws. Even in “fault” states, however, PIP is typically available.

Uninsured motorist coverage pays for injuries caused by a driver without insurance. In many states this type of coverage is mandatory.

Each of the six automobile coverages has its own separate premium. The total cost of the policy is the sum of all its components. It could be said that buying auto insurance is like going to a restaurant and ordering a gourmet hamburger. The bun and meat patty is just the basic meal; everything else, such as lettuce or tomato, is additional. Most people buy at least the minimum insurance protection; if they don't add the extras they may find themselves paying out-of-pocket for other costs.

Legal contracts can be intimidating. Breaking down an automobile policy into its separate parts is often the first step to understanding how it works. By looking at each of the six available components the consumer is able to understand and purchase the parts they wish to have. Some parts are mandated by state law but all parts play a role in complete coverage.

Classic Cars

Generally any insurance company will insure a classic vehicle, but the rates from a standard car insurer may be higher than that charged by specialty insurers, so it may be best to look around for insurance companies specializing in this type of coverage.

Since classic cars may have special value, an appraisal from an appraiser specializing in cars may be sensible prior to seeking coverage. Like artwork or coin collections, cars can have values beyond their repair costs.

Most insurance companies require vehicles to meet specific criteria before the vehicle can be considered collectible or classic. While the requirements may vary from insurer to insurer, usually the following is required:

-The vehicle must be at least a certain age.

-The car must be stored in a locked, enclosed structure such as a garage or storage unit when not in use.

-Often the car must be in excellent condition (restored in other words). Some insurers may deny coverage when the vehicles have too many miles, damage, or extensive wear.

-The car must not be used on a regular basis as a family car would be. It must be drive only for special occasions, car club events, or for limited periods of pleasure driving. Often they may not be drive more than 5,000 miles per year.

Even when the vehicle is a classic car, the owner’s driving record is still important. Since collectible cars are often more expensive to repair or replace, there must usually be no major violations. Minor traffic violations, such as parking tickets, are not likely to have an adverse effect, but any serious infractions, such as speeding or reckless driving, will result in a denial of coverage.

When seeking coverage from a specialty insurer for collectible or classic vehicles, it is likely that the owner will buy what is called "agreed value coverage." This type of contract provides full coverage at a specified collector value that is listed in the policy. This type of coverage is not just for cars; it can apply to collectible dolls, toys, china, or any type of collectible item.

Unlike regular cars that depreciate in value, collector cars may actually increase in value over time. Inflation guard protection is offered by companies that specialize in collectibles. An inflation guard protection is designed to automatically increase the coverage amount placed on collectible cars of up to 8% annually.

Of course, it is also important to carry collision coverage and comprehensive coverage in order to protect the classic car against non-collision-related incidents, such as vandalism.

Delivery Drivers

Delivery drivers have unique automobile insurance needs. A job requiring an individual to make deliveries or perform other errands without a company-provided car must be aware of insurance coverage. The personal auto insurance policy probably will not cover on-the-job accidents including injuries to clients or coworkers riding in the vehicle and damages to goods, property, or other damaged vehicles. Personal auto insurance policies do not cover individuals on-the-job because delivery drivers are considered especially high risk according to the food industry website FoodServiceWarehouse.com. The risk is partially due to the amount of miles driven in a delivery capacity; the more miles driven the higher one's risk of an accident.

It is possible to purchase insurance providing on-the-job auto coverage. The employer might provide what is called non-owned vehicle liability insurance for its employees. Non-owned vehicle liability insurance is a special type of insurance available to businesses that rely on their employees using personal cars.

For those who are independently employed, commercial automobile insurance might be the option chosen. This type of insurance is most commonly used for fleets and large scale transportation businesses. It is also available to individuals such as pizza delivery drivers, providing profession-related liability coverage.

Small independent pizza parlors may not have sufficient coverage, leaving their employees under-insured. Pizza delivery has become such a commercially significant job market that some specialty insurers actually offer coverage specifically for pizza delivery.

RV Insurance
RV insurance was created as special coverage for owners of motorhomes, travel trailers, truck campers, and fifth wheels. There may be financial assistance in these policies for unexpected events that interrupt a road trip.

While standard car insurance protects only drivers and their vehicles, recreational vehicle insurance is more comprehensive; in a way they are a cross between auto and homeowner's coverage. Since RVs are often lived in for extended periods of time, they are considered "home" by insurers. As a result, they are vulnerable to theft, damage, and the risk of personal injury just as traditional homes are. Without RV-specific coverage, bills due to accident or injury could result in financial problems.

Depending on the insurance carrier, RV owners have numerous options when insuring their RVs:

-Collision, covering damage to the RV and all its components resulting from collision with another object (not necessarily a motor vehicle).

-Theft/Vandalism, which reimburses the owner for stolen items from the RV or damage during a break-in.

-Property Damage, which pays to repair the damages an RV driver causes someone else.

-Uninsured or Underinsured motorist, which works just like it does with a car. It covers repairs when the at-fault driver is underinsured or not insured at all.

-Vacation liability, which pays for bodily injury and property damage occurring at a vacation site.

-Towing and labor, which pay when the rig breaks down. This covers the cost of transportation and mechanic time.

-Total loss, which provides a replacement vehicle when the RV is completely destroyed.

Roadside Assistance, which covers charges when the RV owner breaks down and needs help. Even running out of gas is covered.

Most professionals recommend drivers purchase total replacement coverage. Doing so helps guarantee payment in full when the vehicle is irreparable, rather than reimbursement that is based on current market values.

Motorcycle Insurance
As gas prices went up, drivers began looking for cost effective ways to go from point A to point B. Many of these drivers looked at motorcycles as a means of saving fuel costs.

State laws vary, but most require a minimum amount of liability coverage. Some insurance companies have policies specifically designed for motorcycles while others offer coverage as part of an endorsement on an existing auto policy. There may be discounts for bundling policies.

Many states have helmet laws. According the U.S. Department of Transportation, 63 percent of motorcyclists wore helmets in 2008, which was an increase over the previous year (we were unable to find more current figures). Whether or not the driver's state has mandatory helmet laws, most professionals highly recommend using them.

There are factors that determine premium rates for motorcycles, such as the type of bike and its intended use. A high-performance sport bike may cost more to insure than a touring cruiser since sport bikes (like sport cars) tend to be used by those favoring more dangerous habits. Many companies simply look at the size of the engine to determine premium rates.

Some insurers have lower rates when the motorcycle is only used for part of the year, typically during the summer. Since risk is higher in the winter, those who ride yearlong are likely to pay higher premiums since they are riding during bad weather conditions.

Storage is also an insurance issue since motorcycles are easy to steal if left outside in a driveway versus being stored in a secure garage.

As with all vehicles, the driving record of the motorcycle's owner will impact the premium rate charged by the insurer. As always, a clean driving record equates into lower premiums. Even though most people recognize this connection by now, it still needs to be said that safe drivers pay less for insurance than unsafe drivers do.

Mechanical Breakdown Insurance (MBI)
When an individual buys a new car (or even a used car in some cases) the dealership may offer, at the time of purchase, the option to buy extended coverage through a separate insurance policy. Extended warranty coverage is a limited arrangement (typically more limited than the new car warranty) sold by dealers that covers specific components such as the transmission or engine up to certain dates or mileage. A new car at a dealership typically has a factory warranty that provides bumper-to-bumper coverage for a specified period of time or through a specified mileage limit. This factory warranty is primarily meant to cover defects in material and workmanship.

For those who wish more coverage than that offered by the manufacturer mechanical breakdown insurance, called MBI, is an option. MBI is not the same as extended warranty coverage; in fact it is not a warranty at all. Rather it is an auto insurance product sold by insurance companies regulated by the issuing state and guaranteed by state insurance funds. Generally MBI is broader coverage than that offered through extended warranties so many feel it is a better choice. Since mechanical breakdown insurance is paid through premiums, rather than in a lump sum as extended warranties are, the purchaser may drop it at any time by simply discontinuing premium payment. Some MBI policies are transferrable to other vehicles or even to other drivers, but this should not be assumed. Extended warranties may require owners to go to certain repair shops, but MBI allows vehicle owners to go to any repair shop they wish.

Mechanical breakdown insurance may vary from company to company and there are generally restrictions in the policy (as there is in any type of policy). Some companies will only issue MBI policies on vehicles with low mileage at the time of policy issue, but once purchased the coverage continues as the miles pile up. Usually the policies can be renewed up to 100,000 miles or seven years of vehicle ownership. There are deductibles, but the policies cover virtually all parts. Regular maintenance is not typically covered since maintenance is simply part of car ownership.

Like all insurance, MBI must be purchased when the vehicle is new or nearly new in most cases; it is not possible to buy it after an incident occurs in an attempt to get that situation covered. Like all policies, there are exclusions. However, when compared to extended warranties, MBI is often a better choice.

Foreign Travel

As more Americans travel abroad, renting cars while they travel, insurance is an important element of vacation planning. Not all auto policies provide coverage on foreign soil. It is always important to check and agents may want to specifically cover this point when they place a policy.

In general U.S. auto insurance will not cover an individual while traveling abroad, but it may cover if the foreign country borders U.S. soil, such as Canada. Even if there is coverage, drivers must be aware that many countries have minimum requirements that exceed those of the United States. For example, Mexico requires drivers to carry civil liability insurance covering them if they cause injury or damage to others. U.S. liability insurance is not valid in Mexico for bodily injury although some U.S. insurance policies will cover insured drivers for physical damages, according to the Insurance information Institute.

Those paying for their rental cars through Visa may have coverage, but this should never be assumed since some countries are specifically excluded, such as Israel, Jamaica, and Ireland. When coverage is extended through Visa, all car rental transactions must be charged to the Visa card for coverage to remain intact; the auto rental company's collision coverage would then be declined.

Those driving in Europe should check the country's auto insurance requirements since it may require drivers to buy specific coverage. For example, in Italy, visitors are required to purchase a collision damage waiver and theft protection, according to Auto Europe, and provider of car rental services in 130 countries.

Driving after drinking in Europe and some other countries can be especially stupid since they often have much tougher drinking-while-driving laws. For example, in Iceland, drivers can be charged with driving under the influence with a blood alcohol level as low as 0.05 percent.

Drivers should not assume anything while traveling in other countries. Whether coverage is obtained through a U.S. policy, a Visa card, or through a travel agency, proof of coverage should be kept with the driver and the vehicle.

Senior Drivers and Safety

While it's true that people of 55 years of age or more are less likely to drive fast or aggressively, they are prone to hearing impairments, slower reflexes and using prescription drugs. Not to mention generally having poorer eyesight.

Then there is the problem of the senior driver who hasn't owned a car for some time. Perhaps he lived in a big city and used cabs or public transportation to avoid the hassles of parking his car. Upon retirement, he moves to Florida and decides he wants to now get a car. The carrier finds that it has been 20 years since the senior had bought auto insurance. The senior now finds that the insurance company is reluctant to accept him because they consider him to be an inexperienced driver.

Transportation Alternatives

Taking the license to drive from an elderly person can rob the driver of independence, but it also may save the person's live and the lives of others, statistics show.

The 86-year-old man who drove his car through a crowded farmers' market in California, killing 10 people and injuring scores of others, is part of a broad age group that generally is considered safe behind the wheel, experts said.

While older drivers do have higher-than-average rates of accidents when measured by collisions that cause injury or deaths per million miles driven, that is mitigated by the fact that they drive far fewer miles than most people.

Drivers age 70 and older also tend to regulate their own driving by restricting when and where they drive.

According to Dan Foley, an epidemiologist with the National Institute on Aging, "Older drivers are a fairly safe group."

For drivers up to age 69, fatal accident rates are far lower on average than for people in their 20s, according to federal highway statistics. After age 70, the rates gradually increase, and drivers 85 and older are involved in fatal crashes at a time comparable only to 16-years-olds, the next-highest category.

Although many people think older drivers should undergo vision testing when their licenses are renewed, experts say vision is not the main problem that older drivers face. It's their basic ability to drive safely.

"When you put your foot on the gas instead of the brake, that is not vision, it's cognition," Foley said.

The regulation of older drivers differs from state to state. In Illinois and New Hampshire, for example, rules are strict: Drivers 75 and older have to take a road test when renewing their licenses. In Nevada, drivers age 70 and older must submit a medical report when renewing their licenses by mail. Missouri allows people to file confidential reports that an older driver is no longer safe on the road. The state then can require the targeted person to pass a driving skills test or physical examination.

No state formally tests for cognitive impairment among drivers of any age.

"The problem is that not everybody ages at the same rate," said Gerald McGwin, an associate professor of ophthalmology at the University of Alabama Birmingham.

The American Association of Motor Vehicles Administrators, a non-profit group that coordinates policies among the nation's departments of motor vehicles, opposes testing on the basis of age.

"We don't believe that there should be age-based testing," said Jason King, a spokesman for the association. "That's because it does not work."

Experts on aging agreed. AARP, the advocacy group for people 50 and older, and the auto club AAA both argue that people should be allowed to drive as long as they can do it safely and effectively. But how to determine that is a problem.

"When do we start testing?" asked Joe Coughlin, the director of the Age Lab at the Massachusetts Institute of Technology. "Who should we test? And we don't have an adequate test to start with."

Diminished Capacities at Issue

The problems facing older drivers are diverse, according to Martin Gorbien, director of geriatric medicine at Chicago's Rush-Presbyterian-St. Luke's Medical Center.

He said diseases such as arthritis, diabetes, Parkinson's, eye and ear ailments, and various forms of dementia such as Alzheimer's disease can combine to greatly diminish the capacity of older drivers. Gorbien said that even if each problem is not severe, the cumulative effect of several ailments could be serious.

"I've just described five million people," he said of people with such combined ailments. "Instead of focusing on age and disease states, we need to focus on function."

And as Baby Boomers grow older, the problem will increase, King said. There were 19.1 million licensed U.S. drivers age 70 and older in 2001. King also said that by 2020 that number will increase to 30.7 million.

He said people need to start thinking about how they will get around once they are no longer able to drive.

"We want people to think about their driving future the same way they plan for retirement with 401K and regular visits to the doctor," King said.

Indeed the loss of mobility that comes with losing access to driving an automobile means profound life changes and severely limits freedom.

"Driving is like electricity," said Coughlin of MIT. "When you pull the plug, everything goes out."

He and others said local, state and federal leaders need to address ways of dealing with the problem, particularly as the nation's population ages.

"The real policy debate is not the testing or the aging," Coughlin said. "The real issue is that the nation has failed to provide a lifetime mobility plan."

The motor vehicle administrators' group and AARP and other groups offer classes for aging drivers to help them identify problems that occur as people grow older and guidelines for doctors and family members on how to counsel elderly people on the judicious use of their cars.

"We want to keep people in their cars as long as it is safe, because there are so few alternatives," said King of the administrators' group.

Gorbien said doctors have not been trained in how to determine whether a patient age 70 or older should stop driving.

"We need more means of evaluating older drivers," he said, adding that when he met with multiple generations of the same family and discussed whether to stop the eldest member from driving, he used a simple question to focus the middle generation's thoughts.

"I asked if they would let their 3-year-old ride with Grandpa," Gorbien said. "I see a lot of people shaking their heads."

Statistics from the Insurance Institute for Highway Safety indicate older drivers generally are as safe as other age groups until they reach 75, after which they tend to have more accidents.

Drivers 85 and older are about as likely to be involved in a fatal crash as those ages 16 to 19, but they're more likely to die than others in car accidents because their bodies are frailer.

Recently, the University of Connecticut's Center on Aging studied the signs that older drivers were losing their capacity to operate a vehicle safely.

Among these signs were inability to locate familiar places, failing to observe traffic signals making slow or poor decisions, driving at inappropriate speeds, and becoming angry or confused while driving.