6 -Homeowners Liability, Conditions, Coverage Forms, and Endorsements

**1 – HO-3 Section II – Liability Coverages**

Homeowners forms are not all alike. Some insurers draft their own homeowners forms and endorsements. Also, state-by-state variations on all forms are common. ISO homeowners policy forms combine property and liability coverages (Section I and Section II) to meet the common loss exposures faced by individuals and families. Section II provides coverage for an insured’s third-party loss exposures.

The HO-3’s Section II contains the same coverage provisions found in the other ISO Homeowners program policy forms (HO-2, HO-4, HO-5, HO-6, and HO-8). The basic coverage provided by the HO-3 Section II-Liability coverages applies to losses related to an insured’s premises, (dwelling location); personal activities (for example, pet ownership); and other incidental sources of personal liability, such as residence employees.

**Coverage E – Personal Liability**

The Coverage E-Personal Liability Coverage provisions provide coverage if a claim is made or a suit is brought against an insured because of bodily injury or property damage arising from a covered occurrence.

The term “occurrence” is particularly important in homeowners insuring agreement. Liability coverage applies only to bodily injury and property damage that results from an occurrence during the policy period. One accident is an occurrence, even if it involves injury to more than one person or damage to more than one piece of property. Also, an occurrence can be a sudden event, a gradual series of incidents, or a continuous condition, as long as it is fortuitous. An example of a non-sudden occurrence is a gradual yet accidental seepage of pollutants from an insured’s defective septic system into a neighbor’s supply of drinking water.

The insurer pays up to the limit of liability for the damages for which an insured is legally liable. Liability coverage which applies worldwide, applies to bodily injury and property damage arising from the insured’s activities or premises.

Defense cost coverage, which is supplemental to the liability limit, is provided even if a suit is groundless, false or fraudulent. The insurer provides for defense costs in addition to any coverage.

**The insurer’s obligation to defend ends only when the liability limit for the occurrence is exhausted by payment of a settlement or judgement (even if policy limits are exhausted by the costs of the claim).**

Who is an insured for liability coverage:

* Policyholder and the spouse if a resident in the same household
* Residents of the household who are relatives
* Residents of the household who are under the age of 21 and in the care of the named insured or resident relatives
* A full-time student who resides in the household before moving out to attend school (under the age of 21) or a relative of the named insured under the age of 24
* Any person or organization legally responsible for animals or watercraft that are covered by the policy and owned by a person defined in the first 3 bulleted items. Example, a neighbor who walks the named insured’s dog.
* Anyone employed by a person defined in the first 3 bulleted items. Example, a gardener
* Other persons using any vehicle covered by the policy on an insured location with the insureds consent.

**Coverage F – Medical Payments to Others**

**Coverage F – Medical payment to Others covers medical payments incurred by others (not insureds or regular household residents) within three years of an injury. These medical expenses include reasonable charges for medical, surgical, x-ray, dental, ambulance, hospital, professional nursing, and funeral services, and prosthetic devices. The limit is generally $1,000 per person for a single accident. This limit can be increased for an additional premium**.

Medical Payments to Others coverage (sometimes simply called “medical payments”) may be considered to overlap with bodily injury liability coverage. However, liability coverage applies only when an insured is legally responsible for damages. Claims for medical payments are often paid when the insured feels a moral obligation to another person, even though the insure dis not negligent or legally responsible. When a bodily injury claim involves a relatively small amount of money, paying it as a Medical Payments to Others claim simplifies matters by eliminating any need to determine whether an insured was legally responsible for the injuries.

Coverage F – Medical Payments to Others coverage applies under these conditions

* The injury occurs to a person who has the insured’s permission to be at the insured location
* The injured person is away from the insured location, and the bodily injury arises out of a condition at the insured location or on property immediately adjoining the insured location (example, draining your pool into the street and someone slips on the water)
* A person is injured while away from the insured location by an activity performed by an insured

**Section II – Additional Coverages**

The Section II – Additional Coverages provisions supplement the protection provided by Coverages E and F. Amount payable under this portion of the policy are in addition to the Coverage E- Personal Liability and Coverage F – Medical Payments to Others limit of Liability. Section II – Additional Coverages claims are usually incidental in nature or related to claims already made by an insured under Coverages E and F.

**Claims Expenses**

**The claims Expenses additional coverage specifies expenses the insurer will pay when handling a claim. In addition to any judgement or settlement an insurer pays (subject to the Coverage E liability limit) on behalf of an insured, and insurer covers these claims expenses**

* **“Expenses we incur”**
* **Premiums for bonds**
* **Reasonable expense**
* **Post judgment interest**

**First Aid Expenses**

**The First Aid expenses additional coverage states that an insurer will reimburse an insured for expense the insured has incurred when rendering first aid to others as a result of any bodily injury covered under the policy**.

**Damage to Property of Others**

**The Damage to Property of Others additional coverage, sometimes called “voluntary property damage” coverage, pays up to $1,000 for damage to property of others caused by an insured, regardless of fault or legal liability.**

An insurer will not pay under this additional coverage for property damage to the extent of any amount recoverable under Section I of the policy. For example, a camcorder you borrowed from a neighbor was damaged by fire, a peril covered under Section I, the insurer would pay only the deductible amount under the Damage to the Property of Others coverage; the remaining amount would be payable under Section I.

The insurer will not pay for any property damage in these circumstances:

* The damage is caused intentionally by an insured 13 years or older
* Property owned by an insured is damaged
* Property owned by or rented to a tenant of an insured or a resident of the insured’s household is damaged
* The damage arises out of a business engaged in by an insured
* The damage is a result of an act or omission in connection with the premises (other than an insured location) that the insured owns, rents, or controls
* The damage arises out of the ownership, maintenance, or use of any motor vehicle, watercraft, aircraft, or hovercraft (other than a recreational vehicle designed for use off public roads that is not subject to motor vehicle registration and not owned by an insured).

**Loss Assessment**

Homeowners are sometimes billed with an assessment by their homeowners association or other similar organizations when the organization sustains a loss for which their officers failed to secure a sufficient amount of insurance. **The Loss Assessment additional coverage provides up to $1,000 for an insured’s share of a loss assessment** charged to the insured by a corporation or an association of property owner for these types of losses:

* Bodily injury or property damage that is not excluded under Section II of the homeowners policy
* Liability that results from an act of an elected an unpaid director, officer, or trustee

**2 – HO-3 Section II – Exclusions**

Exclusions are designed to limit or preclude coverage, but because of how some exclusion provisions are worded, limited personal liability coverage may, in fact, be provided by a particular provision. Therefore, the provisions contained in Section II – Exclusions should be carefully considered with the general terms of coverage provided by Coverage E – Personal Liability and Coverage F – Medical Payments to Others as well as Section II – Additional Coverages and Section II – Conditions, to determine the full scope of Section II Coverages.

HO-3 Section II contains 22 exclusions that are divided into sets. Some Sets apply only to Coverage E or Coverage F.

**Motor Vehicle and Other Motorized Craft – Exclusions**

These are the first four exclusions of the HO-3 Section II that apply to losses arising from motor vehicles, watercraft, aircraft and hovercraft:

* The ownership, maintenance, occupancy, operation, use, loading, or unloading of a motor vehicle or craft by any person unless it appears in a specific exception to the exclusion
* Negligent entrustment, by an insured, or an excluded motor vehicle or craft
* An insured’s failure to supervise, or negligently supervising a person
* An insured’s “vicarious liability” for the actions of a child or minor

**Motor Vehicle Liability**

The homeowner policy defines a motor vehicle as any self-propelled vehicle, including an attached trailer. **The Section II Motor Vehicle Liability Exclusion is designed to limit the majority of personal motor vehicle loss exposures that would typically be insured under a Personal Auto Policy (PAP).** Coverage does not apply to a motor vehicle that meets any of these criteria:

* Is required by law to be registered for use on public roads or property
* Is involved in an organized race
* Is rented to others
* Is used to carry persons or cargo for a charge
* It sued for any business purpose, except for motorized golf carts used on a golf course

Although the motor vehicle exclusion is intended to allow the auto policy it provide virtually all motor vehicle liability coverage, the homeowners policy provides some Section II – Liability coverage

* Motor vehicle designed as a toy for use by children under the age of 7, powered by one or more batteries and has not been modified after being manufactured
* Motor vehicle used solely to service a residence (2011 expanded to include not only the insured’s residence but also any residence)
* Motor vehicle designed for assisting people who are handicapped
* Motor vehicle designed for recreational use off public roads an not owned by an insured or owned only while on an insured location
* Motorized golf carts not capable of exceeding 25 mph, owned by an insured an used to play golf or used legally within a private residential association
* Trailers currently not towed by, hitched to, or carried on another motor vehicle

**Watercraft Liability**

The watercraft exclusion, which apply to both Coverages E and F, are similar to the motor vehicle exclusions. However, watercraft might be covered under one of the exceptions to the watercraft exclusions. In general, small, low-powered watercraft, or watercraft the insured uses but does not own, are included for Section II coverage.

Watercraft covered by Section II of the Homeowners Policy Forms:

|  |  |
| --- | --- |
| Watercraft that are stored | A 30’ sailboat stored out of the water at a marina |
| Sailboats (with or without power shorter than 26’ | A 17’ catamaran |
| Sailboats longer than 26’ not owned | A 32’ sailboat the insured borrowed |
| Inboard or outboard with 50 hp or less no owned | A 50 hp jet ski rented to an insured |
| Inboard with motors with more than 50 hp no owned | A 150 hp inboard motor boat borrowed from a neighbor |
| Watercraft with one or more 25 hp or less | A fishing boat with 15 hp engine owned by insured |
| Watercraft with on or more outboard engines with more than 25 hp | A boat with a 75 hp outboard, borrowed from a friend |

**Aircraft and Hovercraft Liability**

The homeowners policy excludes all aircraft liability under Coverages E and F. However, because model airplane or hobby aircraft that do not carry people or cargo are excluded from the policy’s aircraft definition, they are covered.

As with aircraft, hovercraft liability is excluded under Coverages E and F. Hovercraft are self-propelled motorized ground-effect air-cushion vehicles. No exceptions to this exclusion are available in the homeowners policy.

**Coverage E - Personal Liability and Coverage F – Medical Payments to Others**

Some bodily injury and property damage loss exposures are beyond the scope of a homeowners policy or are effectively covered under other policies. 8 exclusions apply to both coverages E and F.

**Expected or Intended Injury**

**The Expected or Intended Injury exclusion applies to any bodily injury or property damage caused by an insured when the bodily injury or property damage is intentional or expected, even if the actual injury or damage resulting from the action was unintended when the intentional action took place**.

**Business**

**The Business exclusion is designed to exclude coverage for bodily injury or property damage arising out of the business activities of an insured while provided coverage for occasional or part-time activities, such as insureds under the age of 21 selling lemonade, delivering newspapers, maintaining lawns, or babysitting.** The exclusion states that no coverage for bodily injury or property damage relating to a business operated from the residence premises or another insured location.

Business is broadly defined in the definitions section of the policy to include a full-time, part-time, or an occasional trade, profession, occupation, home-sharing, host activity, or any other activity engaged in for money or other compensation, **with these exceptions:**

* **Activities for which the insured earns $2,000 or less during the year**
* **Volunteer activities**
* Home daycare services not involving compensation but possibly involving an exchange of services
* Home daycare services rendered to a relative

**Renting property to others and home-share hosting qualify as a business, as defined by the policy. However, these 3 exceptions to this exclusion allow for some common rental situations.**

* **Rental of an insured location on an occasional basis is a covered loss exposure if the location is used only as a residence**
* **Rental of part of an insured location as a residence is a covered loss exposure as long as the occupying family takes not more than two roomers or boarders in a single-family unit.**
* **Rental of part of an insured location is a covered loss exposure if it is used only as an office or a school, studio, or private garage.**

Several endorsement related to home business insurance, business pursuits, and incidental occupancies are available to provide limit liability coverage for certain business activities.

**Other Coverage E and Coverage F Exclusions**

These are the remaining exclusions applicable to Section II – Coverages E and F:

* Professional Services – insured rendering or failure to render professional services
* Insured’s Premises Not an Insured Location (not an insured location)
* War
* Communicable Disease – transmission of any communicable disease by an insured
* Sexual Molestation, Corporal Punishment, or Physical or Mental abuse
* Controlled Substance – use, sale, manufacture, delivery, transfer or possession

**Exclusions That Apply Only to Coverage E**

6 exclusions apply only to Coverage E – Personal Liability and not to Medical Payments to Others:

* **Loss Assessment and Contractual liability – The policy excludes liability assumed under contract or agreement. However, there are two exceptions. Contracts relating to the ownership, maintenance, or use of an insured location. And contracts relating to the liability of others assumed by the named insured before an accident occurs**.
* Damage to the insured’s Property
* Damage to Property in the Insured’s Care
* Bodily Injury to Persons Eligible for Workers Compensation Benefits
* Nuclear Liability
* Bodily Injury to an Insured

**Exclusions that Apply Only to Coverage F**

4 exclusions apply only to Coverage F – Medical Payments to Others

* **Residence Employee Off Premises**
* **Bodily Injury Eligible for Workers Compensation Benefits**
* Nuclear Reaction
* Injury to a Home-Sharing Occupant
* Injury to Residents

**3 - HO-3 Section I Conditions**

**Conditions Applicable to Section II**

Section II – Conditions establishes the duties and responsibilities of the insurer and the insured. Additional requirements are described for 3rd parties making a claim under Section II. The duties and responsibilities described for the insurer, insured, and 3rd parties include how Section II claims will be handled.

**Limit of Liability**

**The Section II Limit of Liability provision stipulates that the limit of Coverage E – Personal Liability appearing on the Declarations page is the total limit of coverage for any one occurrence. This limit does not increase, regardless of the number of insureds, claims made, or people injured**.

The Limit of Liability condition also states that all bodily injury and property damage that result from continuous or repeated exposure to the same harmful conditions are considered to be one occurrence.

**This condition further states that the limit of liability applicable to Coverage F – Medical Payments to Other for all medical expenses for bodily injury to one persona as a result of an accident cannot exceed the coverage F limit shown on the Declarations page. The Coverage F limit can apply to more than one person per accident**.

**Severability of Insurance**

**For some occurrences, a claim can involve several insureds. Under the Severability of Insurance Condition, each insured seeking protection is treated as if her or she has separate coverage. A policy condition that applies insurance separately to each insured; does not increase the insurer’s limit of liability for any one occurrence.**

**Duties After “Occurrence”**

The Duties after an occurrence include these requirements:

* **Give written notice to the insurer as soon as practical**
* **Cooperate with the insurer’s investigation, settlement and defense activities**
* **Forward legal documents promptly**
* **Provide claims assistance to the insurer in making a settlement, enforcing any right of contribution against another party, attending hearings and trials, securing and giving evidence, and obtaining the attendance of witnesses**
* **Submit evidence for damage to property of others when a claim is made under the additional coverage for damage to property of others; the insured must submit to the insurer a sworn statement of loss and show the damaged property to the insurer**
* **Do not make voluntary payment; if the insured does so, it will be at the insured’s own expense**

**Duties of an Injured Person – Coverage F – Medical Payments to Others**

**This Section II – Coverage F condition stipulates that if an individual makes a claim for an occurrence under the Medical Payments to Others coverage, the insured person must fulfill these requirements:**

* **Give the insurer written proof of the claim as soon as possible**
* **Authorize the insurer to obtain copies of medical reports and records**
* **Submit (the injured person) to a physical exam by a doctor chosen by the insurer as often as the insurer requires such examinations**

**Payment of Claim – Coverage F – Medical Payments to Others**

This Coverage F condition stipulates that the insurer’s payment of Medical Payments to Others claim is not an admission of liability by the insured or the insurer**. The purpose of Section II medical payments coverage is to prevent suits or to reduce the possible damages resulting from claims by providing prompt payment for injured parties’ medical expenses without the need to determine fault**.

**Suits Against Us**

The Suit Against Us condition states that an insurer cannot be sued under the homeowners policy until certain provisions and terms have been met:

* The insured has met all of its obligations under Section II of the policy
* The insurer cannot be joined as a party to any action against an insured
* The obligation of the insured has been determined by a final judgment or agreement signed by the insurer

**Additional Section II**

The Bankruptcy of an insured condition stipulates that if the insured becomes bankrupt or insolvent, the insurer is still obligated to handle the occurrence as it normally would.

The policy period condition stipulates that coverage applies only to bodily injury or property damage that occurs during the policy period.

**The Concealment or Fraud condition excludes coverage only for the insured(s) involved in the concealment or fraud, or those making false statements. Other innocent insureds would not be excluded from liability coverage**.

**Conditions Applicable to Sections I and II**

**Liberalization Clause**

The Liberalization Clause Specifies how broadened coverage applies to the policy. Only homeowners with the same edition of a policy that is subsequently changed by the insurer are affected by this condition. When an insurer broadens coverage on new and renewal policies, the current policies of the insurer also receive the broader coverage.

**Waiver or Change of Policy Provisions**

**A waiver or change of provision condition states that a waiver f a right or change of a policy provision is only valid if the insurer makes it in writing. Despite this condition, courts have permitted use of oral waivers by claims representatives made during the adjustment of a loss and after the written policy was issued, because claims representatives are the insurer’s representative and have apparent authority to modify policy conditions. As the insurer’s agents, insurance agents with binding authority also are authorized to make policy changes through an oral binder that is effective until a written policy change endorsement is produced**.

**Cancellation**

The Cancellation condition specifies the requirements for a valid termination of the policy by either the insured or the insurer. The number of days are determined by state regulation.

**Nonrenewal**

The insurer has the right to decide not to renew a policy when it expires. The insurer is required to provide 30 days written notice.

**Assignment**

**The insurance policy is a contact between the insurer and the policyholder. Therefore, the insurer must be able to choose whom it will insure. The assignment conditions states, that any assignment of the policy without the insurer’s written consent is invalid**.

**Subrogation**

Subrogation refers to the insurer’s right to recover its claim payment to an insured from the party responsible for the loss. Under the Subrogation condition, the insured can waive all rights to recovery against any person, provided the waiver is in writing and is made before a loss.

**Death**

The Death condition stipulates that if the named insured or his or her spouse should die, the insurer agrees to cover the decedent’s legal representative (usually the executor or administrator of the estate) as an insured.

**5 – Coverage Variations in ISO Homeowners Forms**

The ISO homeowners insurance program includes six coverage forms

* HO-2 Broad Form
* HO-3 Special Form
* HO-4 Contents Broad Form
* HO-5 Comprehensive Form
* HO-6 Unit-Owners Form
* HO-8 Modified Coverage Form

**While HO-3 is the most widely used, the other form address different coverage needs or preferences;**

* **Apartment dwellers and condominium unit owners do not need full insurance on the buildings in which they live**
* **Some customers will accept more restricted coverage than the HO-3 provides in exchange for lower premiums**
* **Some customers are willing to pay for broader coverage than the HO-3**
* **Some older homes that have depreciated substantially are not well-suited for the replacement cost coverage provided by the HO-3**

An ISO homeowners form exists to address each of these situations. **The primary differences between the HO-3 form and the other homeowners forms are in each form’s Section I – Property Coverages. The Agreement, Section II – Liability Coverages and Section II – Conditions are identical in all ISO homeowners forms.**

**HO-2 Broad Form Compared with HO-3**

**Like the HO-3, the HO-2 is designed for the owner-occupant of a house. An HO-2 has a slightly lower premium than an HO-3, while covering the same property for the same limit. The lower premium results from the fact that the HO-2 covers the dwelling and other structures against fewer causes of loss.**

The HO-2 provides named perils coverage for Coverages A, B and C. In both forms, Coverage D – Loss of Use is triggered by any loss covered under Coverage A, B, or C that makes the building unusable.

**With named perils coverage, such as the HO-2, the insured must prove the loss was caused by a covered cause of loss for coverage to apply. The burden of proof is on the insured.**

**With open perils coverage, if a loss to covered property occurs, the initial assumption is that it is covered. To deny coverage, the insurer must prove the loss was caused by an excluded cause of loss. In this case, the burden of proof is on the insurer**.

By shifting the burden of proof, open perils coverage can provide an important advantage to an insured who suffers a property loss as a result of an unknown cause.

The list of named perils in the HO-2 encompasses most common insurable perils faced by homeowners. It closely resembles the list of named perils applicable to Coverage C in the HO-3 with a few minor differences.

* The vehicle perils is found in both policies, but the HO-2 policy has an exclusion to loss to a fence, driveway, or walk caused by a vehicle owned or operated by a resident of the premises
* For accidental discharge or overflow of water or steam, the HO-2 excludes coverage if the building is vacant for more than 60 days.

**HO-4 Contents Broad Form Compared with HO-3**

**The HO-4 s designed specifically for people who live in rented houses or apartments**. The HO-4 is essentially the same as an HO-3 without coverages for A and B.

* The HO-4 coverage C is written at a limit the insured selects as adequate to cover personal property. In the HO-3, HO-2 and the HO-5 the coverage C is typically 50% of the Coverage A limit.
* Coverage D in the HO-4 is provided automatically at 30% of the Coverage C limit, rather than as 30% of the Coverage A limit in the HO-2 and HO-3.
* HO-4 provides an additional coverage for building additions and alterations, with a limit equal to 10% of the Coverage C limit.
* HO-4 does not include an additional coverage for furnishing provided by a landlord, because the occupant-insured of the apartment does not have an insurable interest in such property
* Both the HO-3 and HO-4 provide an additional coverage for increased cost imposed by a building ordinance or law. The HO-3 limit is 10% of the Coverage A limit, while the HO-4 limit is 10% of the building additions and alterations limit.
* Trees, shrubs and other plants are covered at 10% of the Coverage C limit in the HO-4 policy, while the hO-3 provides coverage for up to 5 percent of the Coverage A limit.

**HO-5 - Comprehensive Form Compared with HO-3**

The HO-5 provides the broadest property coverage of any ISO homeowners form. The HO-5 is essentially an HO-3 modified to provide open perils coverage, not only for the dwelling and other structures but also for coverage C – Personal Property - The HO-5 Pays Actual Cash Value less the deductible.

The HO-5 broadens personal property coverage in some areas simply by not excluding an exposure that has been excluded by the HO-3 policy.

* The HO-5 covers water damage, including flood damage, for personal property away from a location owned, rented, occupied or controlled by an insured.
* The HO-5 covers personal property damaged by rain through an open window, door, or roof opening, even if the building itself is not damaged.

HO-5 special limit of $1,500 for jewelry and furs, $2,500 for firearms and $2,500 for silverware apply not only to items that are stolen, but also to items that are misplaced or lost.

**HO-6 Unit Owners Form Compared with HO-3**

The HO-6 is closely related to the HO-4 form. This form is tailored to cover the exposures faced by unit owners in a condominium or cooperative corporation. The HO-6 provides coverage for unit owner’s property and liability exposures. It differs from the HO-3 in these ways:

* The Ho-6 with a mandatory residence Premises definition endorsement defines the premises as the unit where the insured resides on the inception date of the policy.
* The HO-6 Description of Coverage A – Dwelling under Section I – Property Coverages includes: (1) alterations, appliances, fixtures, and improvements that are part of the building contained within the insured unit; (2) items of real property that pertain exclusively to the insured unit; (3) property that is the unit owner’s responsibility under a condominium or cooperative association’s property owners; agreement; and (4) structures owned solely by the insured at the residence location (such as storage shed or garage).
* Coverage A – Dwelling provides a basic limit of $5,000 which can be increased if needed
* Coverage B – Other structures is eliminated
* Coverage C – Personal property is subject to the limit the insured selects.
* Coverage D – Loss of Use is provided automatically at 505 of the coverage c limit
* Section I – Perils insured against – Named Perils for Coverage A and C
* Loss Assessment Coverage is identical to the HO-3 which is more applicable to a condo or coop than a private dwelling. Condos and coops have many elements such as driveways, outdoor lighting, swimming pools, that belong to all unit owners collectively. Damage to these commonly owned elements could result in an assessment against each individual unit owner
* Trees, Shrubs and other plants are covered for up to 10% in contrast the HO-3 is 5%
* The additional coverage for landlord’s furnishing is not included in the HO-6
* The HO-6 policy, coverage for debris removal does not cover the cost to remove trees that damage a covered structure or block a driveway or ramp.

**A condominium ownership deed (called a condominium declaration or master deed) usually contains insurance requirements and describes the insurance provided for the jointly owned property (called condominium association insurance, or condominium master policy). Property not covered by this insurance is usually individual unit owner’s responsibility**.

**HO-8 Modified Coverage Form Compared with HO-3**

**The Ho-8 is designed for use when the replacement cost of an owner-occupied dwelling is significantly exceeds its market value.**

**An example would be an older house with obsolete construction features that would be expensive to replace, such as hand-carved wooden moldings. A house that has a market value of $100,000 but would cost $200 to rebuild. A homeowner may be unwilling to pay the high premium necessary to buy $200,000 of insurance on a house purchased for $100,000. In addition, the homeowner could receive more money by collecting the insurance proceeds than by selling the house, which creates a moral hazard**.

**The HO-8 provision specifies that if the insured makes repairs after a loss, the insurer will not pay more than the cost of “common construction materials and methods” that are “functionally equivalent to and less costly than obsolete, antique, or custom construction”.**

The HO-8 covers 10 named perils, and it limits or eliminates other coverages in the HO-3 policy. The additional coverages for collapse, landlord’s furnishings, ordinance or law, and grave markers are not included in the HO-8. The HO-8 policy provides limited coverage for property not on the insured premises. There are no special limits for jewelry, firearms, silverware and similar items because the theft peril provides coverage only up to $1,000

These are other limitations in the HO-8 policy:

* Smoke from a fireplace is an exclusion
* Glass or safety glazing material is limited to $100
* Under debris removal coverage, the amount available is included in the policy limit with no additional insurance available if the policy limit is exhausted
* Windstorm is the only peril covered for trees, shrubs and plants and only up to a limit of $250 per item
* There is not coverage for personal property owned by a guest or residence employee while the property is in any residence occupied by an insured
* The theft peril provides off-premises coverage limited to property in banks, trust companies, self-storage facilities and similar locations.

**6 – Commonly Used Endorsements That Modify the 2011 Homeowners Policies**

**Personal Property Replacement Cost Loss Settlement**

On all homeowners form, losses to items covered under Coverage C – Personal Property are settled on an actual cash value (ACV) basis. **This endorsement provides replacement cost coverage on personal property.** This endorsement lists certain types of personal property, such as antiques and fine are, ineligible for replacement cost coverage. Remember Covered Cause of Loss…..

**The value of personal property based on replacement cost is usually higher than the value of personal property based on ACV. Accordingly, when this endorsement is used, many insurers require a Coverage C – Personal Property limit that is higher than the usual Coverage C limit of 50% of the Coverage A limit (used with actual cash value coverage).**

**Scheduled Personal Property**

An unendorsed homeowners policy (except the HO-5) provides personal property against named perils only. Additionally, all homeowners policies impose special sub-limits on coverage for certain types of property such as stamps and coins regardless of the cause of loss and they include special sub-limits on coverage for theft of jewelry and other types of property.

The Scheduled Personal Property Endorsement provides scheduled coverage for specific items. The scheduled Personal Property Endorsement covers more causes of loss than the HO-3 and other homeowners forms. The special limits and coverage C deductible do not apply.

**Inflation Guard**

**The Inflation Guard Endorsement is designed to help prevent underinsurance caused by economic inflation and rising replacement costs. Rather than increasing coverage by a fixed amount, the endorsement gradually and automatically increases limits for Coverages A, B, C and D throughout the policy period by a percentage mutually agreed upon by the insured and the insurer**.

**Earthquake**

**All unendorsed homeowners form exclude damage resulting from any kind of earth movement – including earthquake and landslide. The Earthquake endorsement provides a means to buy this coverage. The mandatory deductible is usually 5% of the limit that applies to either Coverage A or Coverage C, whichever is greater, but not less than $500**

**Assisted Living Care Coverage**

Provides coverage to a relative of the insured who is a resident of a facility that provides assisted living services, such as meal, medical supervision, house-keeping, and social activities. This person must not be a resident of the insured’s household. Special limits apply to certain types of property, such as $250 hearing aids and $500 medical alert devices.

**Credit Card, Electronic Fund Transfer Card or Access Device, Forgery and Counterfeit Money Coverage – increased limit**

**Section I of the homeowners policy provides coverage up to a limit of $500. The Endorsement provides a higher limit of coverage to as much as $10,000**

**Home Business Insurance Coverage (HOMEBIZ)**

**For insureds who operate an office or business form their homes, the Home Business Insurance Coverage, or HOMEBIZ, endorsement provides a comprehensive business package policy when attached to a homeowners form. The endorsement, which specifically excludes professional liability coverage, also limits may examples of professional activities that re excluded, ranging from legal, insurance, or accounting services to body piercing services.**

**There are minimum requirements for a home business to be covered under this endorsement, such as ownership by an insured, operation from the residence premises, and a maximum of 3 employees.**

**For eligible businesses, this endorsement provides valuable commercial coverages.**

* **Section I – Property Coverage provides full Coverage C – Personal Property limits for business property, accounts receivable, loss of business income, extra expense and increased Coverage C limits for other property**
* **Section II – Liability Coverages provides products-completed operations coverage up to an annual aggregate limit equal to the Coverage E Personal Liability limit; provides all other business liability coverage (including personal and advertising injury).**

**Ordinance or Law – Increased Amount of Coverage**

Increases the coverage that is provided by an HO-3 of 10% of Coverage A by increments of 25%

**Limited Water Back-Up and Sump Discharge or Overflow Coverage**

Unendorsed homeowners policies exclude property coverage for water or waterborne materials that originate from within the insured’s dwelling and back up through sewers or drains, or that overflow from a sump, sump pump or related equipment. The Limited Water Back-Up and Sump Discharge or Overflow coverage endorsement adds this coverage back in.

**Supplemental Loss Assessment Coverage**

The unendorsed homeowners policy provides some limited coverage under the Additional Coverages of Section I – Property Coverages and Section II - Liability Coverages. The Loss Assessment Coverage Endorsement supplements those additional coverages with an additional amount of insurance for the premises named in the endorsement. The insured can also list additional locations and schedule an amount of insurance for them.

**Broadened Residence Premises Definition Endorsement**

Indicates a starting date and ending date within the policy period when the residency requirement will be removed from the definition of residence premises in a homeowners policy. The definition requires that the insured reside in the premises on the inception date of the policy period.

**Home-Sharing Host Activities Amendatory Endorsement**

The intent of the Home-Sharing Host Activities Amendatory Endorsement is to clarify that the HO-3 does not provide any property or liability coverage for home-sharing exposures. This endorsement adds new definitions for home-sharing activities and revises the existing definition of “business” to specifically address home-sharing host activities.

**Broadened Home-Sharing Host Activities Coverage Endorsement**

The Broadened Home-Sharing Host Activities Coverage Endorsement can be used to provide property and liability coverage for home-sharing host activities. This endorsement provides coverage for loss or damage to the premises and liability to others, subject to policy provisions, for insured who engage in home-sharing host activities.

**Additional Residence Rented to Others – 1, 2, 3, or 4 Families**

Is designed for insureds who own rental property not at the insured location. It extends Coverage E – Personal Liability and Coverage F – Medical Payments to Others to one – to four-family residences that are owned by the insured and rented to others.

**Personal Injury Coverage**

The personal injury coverage endorsement expands the liability coverage of a homeowners policy by adding the definition of personal injury and then adding coverage for personal injury. Personal injury is defined in the endorsement and includes these offenses:

* False arrest, detention, or imprisonment
* Malicious prosecution
* Invasion of privacy, wrongful eviction, or wrongful entry
* Publication, in any manner, of material that slanders or libels another party or disparages the other party’s goods, products or services
* Publication in any manner, of material that violates a person’s right to privacy

This endorsement includes exclusion related to intentional acts, criminal acts, contractual liability employment, business activities, bodily injury to an insured.

**Aircraft Liability Definition Revised to Remove Exception for Model and Hobby Aircraft**

Amends the existing aircraft exclusion under Section II of the Homeowners policy forms to remove the exception for model or hobby aircraft not used or designed to carry people or cargo and exclude liability arising from the operation of unmanned aircraft, such as a drone.

**Personal Injury for Aircraft Liability Excluded**

Adds exclusion to personal injury coverage for “aircraft liability” meaning liability for personal injury arising out of the ownership, maintenance, occupancy, or operation of any contrivance used for flight including unmanned aircraft, whether or not model or hobby.