7 – Other Residential Insurance

**1 – Dwelling Policies**

Because dwelling policies are used widely, particularly to insure rental dwellings, an understanding of the coverages provides by the DP-3 policy and how they differ from the HO-3 policy is important.

**An applicant would purchase a dwelling policy rather than a homeowners policy if the residence is not eligible for homeowners coverage because it is not owner-occupied, the dwelling is below the minimum limit for a homeowners policy, or the residence does not otherwise meet an insurer’s underwriting guidelines**. Also, some insured do not want or need the full range of homeowners coverages, and a homeowners policy might cost more than the insured is willing to pay.

**The most important difference between an unendorsed DP-3 and a homeowners policy is that, unlike most homeowners policies, an unendorsed DP-3 does not provide any theft coverage for personal property or any liability coverages**. They can be added by an endorsement or a supplement.

**Structures Eligible for Dwelling Policies**

**The HO-3 policy covers owner-occupied one – to four-family dwellings, whether owner-occupied or tenant occupied**. However, dwelling policies may also be used for other kinds of property and activities.

* **A dwelling in the course of construction**
* **Mobile home at a permanent location**
* **Houseboats, in some states**
* **Certain incidental business occupancies, if the business are operated by the owner-insured or by a tenant of the insured location**.

**Coverages**

The DP-3 offers property coverages on a dwelling and its contents that are similar to the overage under Section I (property) of the HO-3 and other homeowners forms.

The dwelling form includes 5 coverages:

* Coverage A -Dwelling
* Coverage B – Other Structures
* Coverage C – Personal Property
* Coverage D – Fair Rental Value
* Coverage E – Additional Living Expense

**Unlike the HO-3 policy, the dwelling policy does not automatically include all the property coverages. A limit for each desired coverage (dwelling, other structures, and personal property) must be shown on the declaration page (with appropriate premium charges). Loss of use coverages (fair rental value and additional living expense), however, are automatically included in the DP-3**.

The DP-3 form is more commonly used to cover only the dwelling and other structures (for example, to insure a house rented unfurnished to tenants) or to cover the dwelling, other structures, and personal property.

**Coverage A – Dwelling**

**The DP-3 form provides coverage for the dwelling on the described location shown in the declarations and specifies that it must be principally for dwelling purposes. The HO-3 form refers to the dwelling on the residence premises, including attached structures. The DP-3 dwelling form also specifically states that, if not covered elsewhere in the policy, building equipment and outdoor equipment used for the service of the premises and located on the described location are covered. While the HO-3 covers this property, it is covered under Coverage C – Personal Property**.

**Coverage B – Other Structures**

**Although the dwelling and homeowners forms have some minor differences in their wording, their coverage for other structures is essentially the same**. Structures set apart from the dwelling by clear space or connected to the dwelling by only a fence, utility line, or similar connection are defined as included under Coverage B. **Gravemarkers and mausoleums are specifically excluded under Other Structures in the DP-3 form, whereas the HO-3 policy provides up to $5,000 for gravemarkers as an additional coverage.**

**Coverage C – Personal Property**

**If Coverage C is selected, coverage under the dwelling form applies to personal property usual to the occupancy of a dwelling that is owned or used by the insured or resident family members. Coverage applies when the property is on the described location.**

**Unlike the homeowners form, the dwelling form has not special limits that would apply to any specific type of personal property. Because the unendorsed dwelling form has no theft coverage, such theft limitations are not necessary. The dwelling form excludes money altogether, the dwelling form also excludes boats other than rowboats and canoes.**

To cover personal property, the insured chooses a Coverage C limit in the dwelling form. If an insured is a landlord and has not personal property n the insured dwelling (or chooses not to insure personal property), he or she can choose to purchase only Coverage A under the DP-3. The HO-3 does not have this option.

**Coverage D – Fair Rental Value and Coverage E – Additional Living Expense**

**Coverage D and E in the DP-3 form correspond roughly to Coverage D Loss of Use in the HO-3 form, which includes both fair rental value and additional living expense coverages**. Coverage D covers the fair rental value of a property rented to others when it becomes unfit for its normal use because of a loss by a covered peril. **Coverage E covers the increase in living expenses for the insured if the described property becomes unfit for its normal use because of a loss by a covered peril**. 20% of Coverage A

**Other Coverages**

Many of the other coverages provided in the dwelling policy correspond to the additional coverages in the homeowners policy, but there are some difference. Loss Assessment coverage which is automatically included in the HO-3 would have to be added by endorsement. Coverages for landlord’s furnishings and for credit cards, transfer cards, forgery, and counterfeit money are not available in the Dwelling policy.

* **Other Structures provides up to 10% of the Coverage A limit for Coverage B – Other Structures as outlined in the Other Coverages provision. This coverage is additional insurance and does not reduce the Coverage A limit for the same loss**.
* Debris Removal – Is included in the limit that applies to the damaged property. HO-3 provides an additional 5% if the amount to be paid for the damage to the property plus the debris removal expense exceeds the coverage limit for the damaged property. The is no debris removal coverage for trees, shrubs, and plants.
* **Improvements, Alterations, and Additions – The DP-3 3 provides up to 10% of the Coverage C limit as additional insurance to cover a tenant’s improvements, alterations, and additions for loss by a covered peril. The HO-3 has not comparable coverage**.
* **Worldwide Coverage – The DP-3 form provides up to 10% of the Coverage C limit for loss to the property covered under Coverage C, except rowboats and canoes, while that property is anywhere in the world. The HO-3 Coverage C limits the coverage for property that is usually located at a secondary residence of the insured to 10%.**
* **Fair Rental Value and Additional Living Expense – The DP-3 form provides up to 20% of the Coverage A limit for losses under both Coverage D – Fair Rental Value and Coverage E – Additional Living Expense as outlined in the provision. This coverage is additional insurance and does not reduce the coverage A limit for the same loss. Under the HO-3 form, the corresponding additional limit for loss of use is 30%.**
* Reasonable Repairs – The DP-3 like the HO-3 form provides coverage for the cost of reasonable repairs made after an occurrence of a covered loss solely to protect the property from further damage. This does not increase the limit that applies to the covered property.
* Property Removed – Under both the DP-3 and HO-3, covered property is protected if it is removed from the premises because it is endangered by an insured peril. As long as the property is removed due to an insured peril and coverage is for 30 days. The limits are the same in both the DP-3 and the HO-3.
* Trees, Shrubs, and Other Plants – in both the HO-3 and the DP-3 forms, the maximum limit that can be applied as an additional amount of insurance is 5% of the Coverage A limit. The limit for any one tree, plant or shrub is $500, and only specified perils are covered.
* Fire Department Service Charge – The DP-3 form will pay up to $500 for fire department service charge the same as the HO-3 form. Coverage is not provided if the property is located within the limits of the city, municipality or protection district furnishing the fire department response.
* Collapse – The DP-3 offers coverage for building collapse due to specified perils.
  + Covers C – Personal Property Perils
  + Decay that is hidden from view
  + Hidden insect or vermin damage, unless the insured is aware of the damage prior to collapse
  + Weight of contents, equipment, animals or people
  + Weight of rain collecting on a roof
  + Used of defective materials or methods
* Glass or Safety Glazing Material – The DP-3 provides coverage for breakage of glass or safety glazing material that is part of a building, storm door, or storm window, and for damage to property caused by breakage of such glass or safety glazing material. IT does not apply if the dwelling has been vacant for more than 60 days prior to the loss. Similar to the HO-3
* **Ordinance or Low – The DP-3 form provides coverage for increased cost the insured incurs because of the enforcement of any ordinance or law. If the Insured has purchased Coverage A, ordinance or law coverage is provided up to 10% of the Coverage A limit. If there is no Coverage A, up to 10% of the Coverage B limit. Coverage under the HO-3 form is similar and provides up to 10% of Coverage A. If the insured is a tenant at the described location, the limit applying to ordinance or law coverage is up to 10% of the limit that applies to improvements, alterations, and additions**.

**Perils Insured Against**

**Coverage A – Dwelling and Coverage B – Other Structures**

**The DP-3 and the HO-3 approach the perils insured against in the same manner (using a special form approach in which excluded perils are not covered); however, more perils are excluded under the DP-3, such as theft of property that is not part of a covered building or structure and wind, hail, ice, snow, or sleet that damage specific types of property.**

**Coverage C – Personal Property**

Although the Coverage C named perils under the DP-3 form are similar to the named perils coverage in the HO-3, there are some differences. **Theft of personal property is not covered under the DP-3, but coverage is provided for damage to covered property caused by burglars, unless the dwelling has been vacant for more than 60 days.** The windstorm or hail coverage in the DP-3 also differs slightly from the HO-3. The DP-3 specifically excludes wind or hail damage to canoes and rowboats; the HO-3 covers such damage to watercraft and their trailers, furnishings, equipment, and outboard motors, but only while the items are inside a fully enclosed building.

**Dwelling Policy General Exclusions**

**The general exclusions in the DP-3 closely resemble the HO-3 Section I exclusions including loss caused directly or indirectly by several specified perils or events. These perils and events are essentially the same in both policies.**

* Ordinance or law, except as provided in the Other Coverages section
* Earth movement, such as an earthquake
* Water damage, such as flood and backup of sewers and drains
* Power failure that occurs off the described location
* Neglect on the part of the insured
* Ware
* Nuclear hazard
* Intentional loss
* Weather conditions that contribute to any of the preceding excluded causes of loss
* Actos or decisions of other persons, groups, organizations, or governmental bodies
* Faulty construction, planning, materials, or maintenance

**Dwelling Policy Conditions**

The DP-3 form contains a single section of conditions. Similar to conditions are found in the HO-3 policy, but the HO-3 has Section I and Section II (liability) with conditions applying to both sections. Because the DP-3 does not include Section II (liability) there is no need to specify the section to which the conditions apply. These conditions include the insured’s duties after a loss, loss to a pair or a set, other insurance, mortgage clause, and other similar conditions regarding the coverage.

**Coverage for Liability and Theft Losses**

Although the ISO dwelling forms doe not provide coverage for liability or theft losses, such coverages are available by adding a personal liability supplement and a theft endorsement.

**Personal Liability Supplement**

**Insured who purchase dwelling policies can add a personal liability supplement, either written as an addendum to the dwelling policy or as a separate policy using the personal liability supplement. If an insured has both a homeowners policy on a residence and a dwelling policy on a rental dwelling, then that insured can purchase a homeowners additional residence rented to others endorsement to cover the liability for the rented dwelling.**

The personal liability supplement provides Coverage L – Personal Liability and Coverage M – Medical payments to others.

The Exclusions and additional coverages in the personal liability supplement attached to the DP-3 are virtually the same as those applicable to Section II of the Homeowners policy. The main difference is that the additional liability coverage for loss assessment provided (up to a limit of $1,000) in the HO-3 form is not provide on the personal liability supplement.

**Residential Theft Coverage**

The insured may choose between two endorsements to the dwelling form to provide theft coverage similar to that provided in the homeowners policy.

**The Broad Theft Coverage endorsement provides coverage against the perils of theft, including attempted theft, and vandalism or malicious mischief as a result of theft or attempted theft on-premises and off-premises. Off-premises is only available if the on-premises coverage is purchased. The endorsement specifies special limits similar to the sub limits in the HO-3 form.**

**The Limited Theft Coverage endorsement covers only on-premises theft, attempted theft and vandalism or malicious mischief as a result of attempted theft. This endorsement includes special limits only for watercraft and their trailers, trailers not used for watercraft and firearms and related equipment**.

**3 – Mobile Home Coverage**

Mobile homes are generally less expensive than homes built on permanent foundations, making them popular choice for seasonal vacations homes and also providing a less costly option for home buyers.

Mobile homes often lease the land on which they place their home. Many mobile home owners lease or own other structures as well. These factors and others create a special-needs to be addressed in mobile home coverages

Mobile home coverage is provided through an endorsement that modifies provisions of the HO-3 (or similar policies). Additional mobile home endorsements can be added to the policy to customize the coverage according to policyholders’ needs.

**Mobile Home Exposures**

The owners of mobile homes face the same exposures to loss that owners of conventional homes face, as well as vulnerability to additional exposures. A mobile home owner might experience loss from one or more of several typical exposures:

* Damage to or destruction of the mobile home
* Damage to or destruction of other structures on the residence premises
* Damage to or destruction of personal property in the mobile home or in other structures
* Loss of use of the mobile home
* Liability loss because of bodily injury to others or damage to the property of others

**Vulnerability to Additional Exposures**

By definition, a mobile home is not permanently affixed to the land on which it is located. Most states consider mobile homes to be moveable property and not real estate.

**Mobile homes are assembled in a factory and transported to their location in a complete or semi-complete condition. They are constructed of lighter materials than those used for homes built on permanent foundations, and special construction techniques are used**. Because of their construction materials and loos foundation, mobile homes are particularly vulnerable to damage from windstorm, tornado and earthquake.

**Mobile home’s wheels are generally removed when the structure is set on blocks, piers, or masonry footings**. When the mobile home is set in place, it should be tied down to anchors buried in the ground to prevent the unit from moving. Doing this helps protect it from being moved sideways or lifted off the ground in a windstorm.

**Skirting material is often attached to the bottom of a mobile home to conceal the wheels, blocks or piers, and tie downs and give the appearance of a permanent structure. The skirting also reduces the buildup of debris underneath the mobile home and helps prevent damage that might subsequently result from this inherent vulnerability (burning brush).**

**Because mobile homes are frequently used as vacation homes, they may be located in recreational areas subject to greater loss exposure, such as in the mountains, beside a lake or river, or in heavily wooded areas. The absence of services such as fire and telephone services, and the absence of nearby neighbors (who could report a fire) can increase the severity if a loss occurs.**

**Other Property Exposure Considerations**

**The contents of mobile homes and other structures on the premises are usually similar to those in conventional dwelling, and they are subject to the same exposures. However, mobile homes often have built-in cabinets, appliances and furniture, which are part of the mobile home rather than personal property**. Additionally, an owner of a mobile home is subject to the same liability exposures as an owner of a conventional home.

**Mobile Home Coverages**

Many specialty insurers have developed policies for mobile homes, and the policies may insure prefabricated, manufactured, or modular houses that are manufactured in one location and moved to their permanent location. ISO has developed special endorsements for insuring mobile homes. ISO has designed an endorsement specifically for mobile homes to be used with an HO-3 policy. Mobile home endorsements can also be used with HO-2 policy. Mobile Home tenants may use the HO-4 policy without adding the mobile home endorsement.

A mobile home is eligible for coverage if it is designed for portability and year-round living. Typically, a mobile home must be at least 10’ wide and have at least 400 square feet to qualify as a mobile home endorsement.

A mobile home policy is created by attaching the Mobile Home Endorsement (MH 04 01)to a homeowners form and a **declarations page. The mobile home endorsement states that the insurance is subject to all applicable provisions of the homeowners form except as revised by the endorsement. The mobile home policy modifies the HO-3 in several ways:**

* **Definitions – The definition of “residence premises” is changed in the mobile home endorsement to mean the mobile home and other structures located on land owned or leased by the insured where the insured resides on the inception date of the policy. The location must be shown on the declarations page**.
* **Section I – Property Coverages, Coverage A – Dwelling – This coverage applies to a mobile home used primarily as a private residence and to structures and utility tanks attached to the mobile home. It also applies to floor coverings, appliances, dressers, cabinets, and similar items that are permanently installed. In addition, coverage is provided for materials and supplies located next or the residence premises, for construction, alteration, or repair of the mobile home or other structures on that premises**.
* Section I - Property Coverages, Coverage B – Other Structures – the liability coverage limit for other structures on the premises is a maximum of 10% of the limit that applies to Coverage A, with a minimum limit of $2,000
* **Section I – Property Coverages, Additional Coverages – an extra additional coverage provided in the mobile home endorsement is unique to mobile homes. This “property removed” coverage applies if the mobile home is endangered by an insured peril, requiring removal to avoid damage, and provides up to $500 (with no deductible) for reasonable expenses incurred by the policyholder for removal and return of the entire mobile home. The mobile home endorsement removes the ordinance or law additional coverage that is provided by the HO-3, however it may be restored by another endorsement**.
* Section I – Conditions, Loss Settlement – According to the loss settlement condition carpeting and appliances are not included as property to be valued on the basis of actual cash value (ACV) therefore, such property is included in Coverage A – replacement cost applies.
* **Section I – Conditions, Loss to a Pair or Set – Additional coverage is added to repair or replace damaged parts of a series of panels to match the remainder of the panels as closely as possible or to provide an acceptable decorative effect. The insurer is not required to pay for repair or replacement of the entire series of pieces or panels.**
* Section I – Conditions, Mortgage Clause – This provision modifies the word mortgagee” in the policy to include a lienholder (a lending institution that holds the title to the mobile home).

The mobile home endorsement amends the homeowners policy in regard to Section I – Property Coverages. The endorsement does not amend Section II – Liability Coverages.

A mobile home policy can be endorsed with many of the typical homeowners endorsements. These endorsements are available only with the mobile home policy:

* **Actual Cash Value Mobile home – This endorsement changes the loss settlement terms on the mobile home and other structures to apply an ACV basis rather than replacement cost. An older mobile home may prefer not to provide replacement cost on carpeting and appliances.**
* **Transportation/Permission to Move endorsement – this provides coverage for perils of transportation (collision, upset, stranding, or sinking) and coverage for the mobile home and other structures at the new location anywhere in the United States or Canada for a period of thirty days. A special deductible applies.**
* **Mobile home Lienholder’s Single Interest Endorsement – this may be required by a lienholder. It provides coverage only to the lienholder for collision and upset transportation exposures, subject to numerous recovery conditions. It also provides coverage to the lienholder for any loss resulting from the owner’s conversion, embezzlement, or secretion (concealment) of the mobile home.**
* Property Removed Increased Limit endorsement – this increases the $500 limit provided as an additional coverage enabling the policyholder to recover a greater share of the removal cost and encourages the policyholder to remove the property when necessary.
* Ordinance or Law Coverage – enables mobile home policyholder to add ordinance or law coverage for an amount equal to a specified percentage of coverage A.
* Actual Cash Value Loss Settlement for Windstorm or Hail losses to Mobile home Roof Surfacing – this defines roof surfacing as shingles or tiles, cladding, materials covering the roof, roof flashing, and other material used for moisture protection. When roof surfacing is damaged by windstorm or hail, the property settlement for the roof surfacing is made on an ACV basis. However, other buildings, such as those insured under Coverage A or B may be settled at replacement cost (as stipulated by the policy conditions) except for the roof surfacing itself.
* **Broadened Residence Premises Definition – This endorsement indicates a starting date and an ending date within the policy period during which the residency requirement will be temporarily removed. It is used when the insured will not be residing on the premises on the inception date of the policy period.**

**4 – National Flood Insurance Program**

Both homeowners and dwelling policies exclude flood losses. To make flood insurance available to property owners, the federal government provides it through the National Flood Insurance Program (NFIP) at subsidized rates for both dwellings and commercial buildings, as well as for the contents of both.

**Community Eligibility**

**Flood insurance may be written only in communities that FEMA has designated as participating communities in the NFIP. A community’s residents become eligible for flood insurance in one of two ways:**

* **The community applies to the Federal Administration to be included in the NFIP**
* **FEMA determines that an area is flood-prone and notifies the community that it has one year to decide whether to join the NFIP**. The FIA notifies those communities and offers to help deal with their flood problems should they elect to join the NFIP. **A community that chooses not to join the NFIP is not eligible for the federal flood assistance.** A community must participate in the flood program within one year of the notification or risk denial of federal or federal-related construction, acquisition, and other assistance.

If a community identified as flood-prone does not wish to participate in the NFIP, it has two options: Contest the designation or simply choose not to participate. A community that successfully contests the flood-prone designation is still eligible for federal aid if a flood occurs. If a community chooses not to participate in the NFIP, its access to federal funds is limited.

**Incentives and Programs**

A community has many incentives for participating in the NFIP. **A community that includes a special flood hazard area (SFHA) must participate in the NFIP program for NFIP flood insurance to be available within that community**. Furthermore, the law restricts development by prohibiting any form of federal financial assistance for acquisition or construction purposes in an SFHA. Only NFIP participating communities are eligible for loans guaranteed by the Department of Veterans Affairs, insured by Federal Housing Administration, or secured by the Rural Housing Service.

**If a disaster occurs as a result of flooding in a non-participating community, no federal assistance can be provided for the permanent repair or reconstruction of insurable buildings in SFHA’s. Eligible applicants for disaster assistance may, however, receive forms of disaster assistance that are not related to permanent repair and reconstruction of buildings. If a community is accepted into the NFIP within 6 months of a disaster, these limitations on federal disaster will be lifted.**

**Emergency Program**

Once a community has submitted an application for flood insurance and all other necessary information to the FIA, the FIA prepares a flood hazard boundary map if one does not exist. A flood hazard boundary map is based on approximate date and identifies, in general, the SFHAs within a community. These maps not only identify flood hazard areas, but also define areas where people in SFHAs can buy coverages. They also are used in the NFIP’s emergency program for floodplain management and insurance purposes. The FIA sends the community’s map to the state coordinating agency, the state insurance commissioner, the regional FEMA flood specialist, and other federal agencies.

**When a community first joins the NFIP, property owners in special flood hazard areas can purchase limited amounts of insurance at subsidized rate under the emergency program. Although the community is eligible under the emergency program, the FIA arranges for a detailed study of the community and its susceptibility to flood. The study results in the publication of a Flood Insurance Rate Map (FIRM) that divides the community into specific zones to identify the probability of flooding in each zone.**

The amount of coverage is based on the type of building or contents, and only four emergency premium rates apply:

* For residential buildings
* For residential contents
* For nonresidential buildings
* For nonresidential contents

These rates within apply per $100 of insurance, are uniform in all eligible communities. The max limit is $35,000 for a single – or two-to four family dwelling and $10,000 for contents.

Once the first layer of insurance coverage has been made available to individuals in flood-prone area through the emergency program, they cannot obtain federal or federally insured loans for new construction unless they purchase flood insurance. New construction includes not only new buildings but also building repair, reconstruction, or improvement costs that amount to 50% or more of the buildings market value before the project’s start or, if the project is necessary to restore a damaged building, the building’s market value.

**Regular Program**

Under the emergency program, federally subsidized rates in limited amounts are available before completion of a community’s Flood Study (FIS). After FEMA completes its assessment of a community’s flood-prone area, establishes an accurate FIRM, and calculates actuarial rates, the community is promoted from the emergency program to the second and final phase, the regular program.

Full limits of coverage are available to communities in the regular program. The maximum limits are $250,000 for a single – or two-to four-family dwelling and $100,000 for its contents, with variations for nonresidential buildings.

**NFIP Flood Insurance Coverage Limits**

|  |  |  |
| --- | --- | --- |
| **Coverage Type** | **Emergency Program Limit** | **Regular Program Limit** |
| **One- to four-family structure** | **$35,000** | **$250,000** |
| **One- to four – family home contents** | **$10,000** | **$100,000** |
| Other residential structures | $100,000 | $250,000 |
| Other residential contents | $10,000 | $100,000 |
| Business Structure | $100,000 | $500,000 |
| Business Contents | $100,000 | $500,000 |
| Renter Contents | $10,000 | $100,000 |

Flood Insurance Coverage

Three flood insurance policies are available:

* Dwelling form is used for any dwelling having an occupancy of no more than 4 families, such as single-family homes, townhouses, row houses and individual condominium units and mobile homes
* The general property form is used for all other occupancies – that is, multi-residential and nonresidential, except for residential condominium building associations.
* Residential condominium building associations are eligible for coverage under the residential condominium association form

All three policies protect insureds against direct losses to real property and personal property from the flood peril. These policies do not cover indirect losses, such as additional living expense, rent, rental value, and enforcement of any ordinance or law regulating the construction, repair, or demolition of buildings.

**Waiting Period**

**To avoid adverse selection, the NFIP generally requires a 30 day waiting period for new flood insurance policies and for endorsements that increase coverage on existing policies.**

**An exception to the waiting period is made for flood insurance that is purchased initially in connection with a new or increased mortgage on a property. In such cases, the policy becomes effective at the time the mortgage becomes effective, provided that the policy is applied for at or before the transfer of ownership or date of mortgage.**

**Write-Your-Own (WYO) Program**

The NFIP provides government underwritten flood insurance through two mechanisms:

* A producer may write the business directly thorough the servicing representative designated by the FIA. FIA has elected to have state-licensed insurer’s agents and brokers sell flood insurance to consumers. State regulators hold the insurer’s agents and brokers accountable for providing NFIP customers with the same standards and level of service required of them in selling other lines of insurance. FIA underwrites the applications submitted by the servicing representatives and directly processes claims for losses under the policies. The servicing representatives receive a commission for the policies they write
* A producer may place the business with an insurer participating in FIA’s Write-Your-Own (WYO) program

The WYO program is a cooperative undertaking of the insurance industry and the FIA. Insurers participating in the WYO program issue the majority of NFIP policies in force. WYO allows private insurers participating in the program to sell and service flood insurance under their own names.

**A WYO insurer issues a policy, the coverage provided is identical, and WYO insurers use exactly the same language used in policies that NFIP issues directly. In the WYO program, the FIA determines rates, coverage limitations, and eligibility. The NFIP totally reinsures the coverages**. Insurers receive an expense allowance for policies written and claims processed, while the federal government retains responsibility for losses. Insurers collect premiums, retain commissions, and use the remainder of the premiums to pay claims.

If flood lasses exceed the amounts an insurer holds to pay flood claims, the federal government makes up the difference. However, if flood premiums exceed losses, the insurer pays the excess to the federal government. Participating insurers issue and service flood insurance policies through their own operations and can retain approximately 30% of the premium to cover expenses.

The Goals of the WYO program are to increase the number of flood policies written, to improve services, and to involve private insurers in the sale of flood insurance. More than 90% of all NFIP policies are written through private insurers under the WYO program.

**Flood Insurance Reform**

The Flood Insurance Reform At of 004 (Pub.L. 108-264) reformed the NFIP and the terms of the National Flood Insurance Act. It created a five year pilot program to reduce losses to properties experiencing repetitive flood insurance claims. “Repetitively flooded” homes are those that have received four or more flood insurance claim payments of more than $5,000 each, with the cumulative amount exceeding $20,000, or two or more claim payments that cumulatively exceed the value of the property.

The reform act’s preamble included congressional findings that quantify the motivation behind the act:

* NFIP insured more than 4 million policyholders
* About 48,000 properties in the program experienced 2 or more flood losses within a 10 year period with each loss was more than $1,000
* About 10,000 repetitive loss properties experience 2-3 losses exceeding the building value
* Repetitive loss properties cost taxpayers about $200 million
* About 1% of insured property accounted for 25-20% of claims
* The majority of repetitive losses were built before 1974 and were eligible for subsidized flood insurance.

This act provided a disincentive to property owners to live in repetitively flooded areas. Rather than encouraging rebuilding, the program provides repeatedly flooded homeowners with assistance in either elevating or moving their homes away from flood waters. Most mitigation offers involve elevation assistance. Those who refuse mitigation assistance pay for choosing to live in risky areas because refusal of a mitigation offer triggers the rate increase.

The act helps people move away from flood-prone areas by providing a $450 million increase over five years in an existing FEMA grant assistance program. The increase is to be used by local communities to relocate or elevate properties sustaining the most flood damage, saving an estimated $65-$70 million annually by preventing or mitigating losses and paying for itself 5-6 years after program completion.

Finally, the act reduces intensive development in repeatedly flooded area to help restore the natural functions of floodplains, such as wildlife biodiversity and wetlands that absorb flood waters.

**5 – Fair and Beachfront and Windstorm Plans**

Urban riots in the 1960s and windstorms affecting increasingly popular coastal communities have resulting in excessive property damage and, consequently restricted insurance availability. State governments have therefore been prompted to develop programs that enable homeowners to purchase insurance for urban and coastal properties that are not insurable in the voluntary insurance market. (the nonstandard market is composed of organizations that insure properties with above-average exposure to losses).

**FAIR Plans**

FAIR plans make standard lines of property insurance available for exposures located in areas underserved by the voluntary market. Participating private insurers and state insurance authorities coordinate efforts to provide such coverage. Each state with a FAIR plan has enacted its own legislation in response to local market needs, so the coverage provided and the methods of operation vary considerably.

**Purpose and Operation**

**A FAIR plan (or beachfront and windstorm plan) makes property insurance coverage available when insurers in the voluntary market cannot profitable provide coverage at a rate that is reasonable for policyholders and provide the needed support for credit**.

Urban areas that are susceptible to damage caused by riots and civil commotion pose greater than average risk of loss for insurers in the voluntary market and are candidates for state-run FAIR plans. Some FAIR plans provide certain coverages for owners of coastal properties that pose greater-than-average exposure to windstorm damage. The potential hazard of brush fires in some wooded, suburban areas may also pose greater-than-average risk for insurers; some FAIR plans provide coverage for homes located in hazardous brush areas.

**A property owner who is unable to obtain basic property insurance in the voluntary market can apply for insurance to the state’s FAIR plan through an authorized insurance agent or broker. The FAIR plan might operate as a policy-issuing syndicate, in which the plan issues the policies and the plan’s staff handles underwriting, processing, and possible claim handling. In most FAIR plans, all licensed property insurers are required to share payment for plan losses in proportion to their share o property insurance premiums collected within the state**.

**Eligible Property**

To be eligible for FAIR plan coverage, a property must be ineligible for coverage in the voluntary market, and the policyholder must have the property inspected by the FAIR plan administrator. **Only property that meets the FAIR plan criteria can be insured through the program. If the property fails to meet the basic safety levels (such as older houses in poor repair), owners can be required to make improvements as a condition for obtaining insurance. If the problems are not corrected, the state can deny insurance, provided the exposures are not related to the neighborhood location or to hazardous environmental conditions that are beyond the owner’s control (such as a location next to a fireworks factory**).

Under most FAIR plans, five types of exposures are considered uninsurable;

* Property that is vacant or open to trespass
* Property that is poorly maintained or that has unrepaired fire damage
* Property that is subject to unacceptable physical hazards, such as poor housekeeping or storage of flammable materials
* Property that violates a law or public policy, such as a condemned building
* In some states property that was not build in accordance with building and safety codes

**Coverages**

**FAIR plans usually cover fire, vandalism, riot and windstorm**

When a policyholder wants greater coverage than that afforded by the FAIR plan (such as when an expensive suburban home is written in the FAIR plan because it is located in a wooded area), a specialty insurer can write a difference in conditions (DIC) policy. This additional policy can cover risks of direct loss while excluding fire and other perils covered under the FAIR plan policy. Because fire is the primary loss exposure for these suburban property and FAIR plans provide coverage for that exposure, private insurers are willing to provide coverage for other perils.

**Beachfront and Windstorm Plans**

Properties located along the Atlantic and Gulf Coasts are especially vulnerable to windstorm loss. Serious winter storms can strike from the mid-Atlantic states northward, and the southern Atlantic and the Gulf coast states are subject to damage from hurricanes.

Because these properties were uninsurable, numerous coastal states responded by developing beachfront and windstorm plans. Use of these plans and FAIR plans providing windstorm coverages has increased with the popularity and value of coastal properties.

**Purpose and Operation**

Beachfront and windstorm plans are similar to FAIR plans in that they make insurance coverage available for properties with greater-than-average exposure to loss and provide the needed support for credit. Most beachfront and windstorm plans provide insurance coverage for windstorm and hail losses that cannot be obtained in the voluntary market. Under these plans, losses from tidal water are generally excluded an should be covered under a flood insurance policy.

**The operation of beachfront and windstorm plans is similar to that of FAIR plans. Some states that offer beachfront and windstorm plans operate using a single servicing organization that provides the underwriting, policyholder services, and claim handling services. Other operate as a policy-issuing syndicates in which the plan issues the policies and the plan’s staff provides services. In all plans, insurers that write property coverages in that state are required to share in plan losses in proportion to their share of state property insurance premiums.**

**Eligible Property**

**Properties eligible for coverage under beachfront and windstorm plans must be ineligible for coverage in the voluntary market and must be located in designated coastal areas. Furthermore, in some states, they must be located within a certain distance of the shoreline. Each plan requires that buildings constructed or rebuilt after a specified date to conform to an applicable building code**.

As with FAIR plans, beachfront and windstorm plans will not insure certain types of property:

* Property that is poorly maintained or that has unrepaired damage
* Property that is subject to poor housekeeping
* Property that violates a law or public policy

**Coverages**

**The two primary perils insured against under beachfront and windstorm plans are wind and hail.**

**Under beachfront and windstorm plans, when a hurricane has formed within a certain distance of the beach area where the property is located, special provisions might restrict applications for new coverage and/or increase in limits.**

In recent years, some states have merged their FAIR and beachfront and windstorm plans as the popularity of coastal properties and these plans has grown. Florida and Louisiana have merged their FAIR and windstorm plans to create a state-run property insurance companies: Florida Citizens Property Insurance Company (CPIC) and Louisiana Citizens Property Insurance Corporations (Louisiana Citizens), respectively. These state plans provide coverage for a range of exposures throughout the state; however, the primary loss exposure is beachfront windstorms.