CHAPTER 3: STANDARD FIRE POLICY, HOMEOWNER AND DWELLING POLICIES

Let's Begin…

Standard Fire Policy

The Standard Fire Policy (SFP) was first used in the New York in the beginning of the 20th century. It's design was structured so well, it soon became the model for Personal and Commercial Property Insurance for all other states. In California, the policy is referred to as the California Standard Form Fire Policy.

According to the California Insurance Code, "all **fire policies** on subject matter in California **shall be on the standard form**, and except as provided by this article shat not contain additions thereto. No part of the standard form shall be omitted therefrom except that any policy providing coverage against the peril of fire only, or in combination with coverage against other perils, need not comply with the provisions of the standard form of fire insurance policy or Section 2080, provided, that coverage with respect of the peril of fire, when viewed in its entirety, is substantially equivalent to or more favorable to the insured than that contained n such standard form fire insurance policy." (CIC 2070)

The Standard Fire Policy is the only insurance policy to have its wording standardized by law. With the introduction of modern property insurance, the Standard Fire Policy has become obsolete; however, it still provides a foundation for Dwelling Insurance, Homeowners Insurance, and many other types of insurance used today.

SFP Covered Perils

The SFP only covered direct loss from the perils of fire, lightning, and removal from premises. The following is a brief description of each of the perils covered under the Standard Fire Policy.

Fire: defined as combustion sufficient to produce a spark, flame, glow or incandescence. There are two different types of fire, described by the courts:

1. Hostile Fire: a fire becomes hostile when it was not started intentionally, or has escaped from the confines in which it was intended.
   Example: An ember from a fireplace starts a living room on fire
2. Friendly Fire: a fire that is intentionally started and burns within the confines for which it is intended.
   Example: A fire burning in the fireplace

NOTE: ONLY HOSTILE FIRE IS INSURABLE

Lightning: defined as the natural discharge of electricity from the atmosphere and does not include artificially generated electricity such as from an electrical power surge.

Removal: this provides insurance to property while it is removed from the residence premises to protect it from a covered peril. For instance, if furniture wasn't damaged in a home fire and was stored at a neighbor's garage, then stolen from the garage, the insurance will apply to the insured's property due to theft.

Homeowners Policy

One of the most common types of insurance sold in the U.S. is the Homeowners Policy. Homeowners Insurance is sold to residential property owners to provide both property coverage and liability coverage related to the home and its use. ISO has recently revised the standard program, now called HO 2000.

Homeowners Insurance

Insurance companies use **six different types of policy forms** to provide homeowners insurance. SEE CHART ON NEXT PAGE

Form	HO-1 Basic	HO-2 Broad	HO-3 Special	HO-4 Tenant Broad	HO-3 & HO-15 Comprehensive	HO-6 Condo Broad
Sec. I Property						
A. Dwelling	$15,000 min	$15,000 min	$20,000 min		$30, 000 min	$1,000 flat
B. Other Structures	10% of A	10% of A	10% of A		10% of A	
C. Personal Property	50% of A	50% of A	50% of A	$6,000 min	50% of A	$6,000 min
D. Loss of Use	10% of A	20% of A	30% of A	20% of C	30% of A	40% of C
Additional Coverage	Removal for 30 days; Cost for reas. repairs; Fire dept. service fees; Lawns, plants, shrubs & trees; Debris removal fees; Credit card fund transfer card, forgery, & counterfeit money cov.; Breakage of glass; Landlord furnishing	Same as HO-1 plus Collapse of building	Same as HO-1 plus Collapse of building	Same as HO-1 plus Collapse of building Building additions & alterations	Same as HO-1 plus Collapse of building	Same as HO-1 plus Collapse of building
Including Removal for..	30 days	30 days	30 days	30 days	30 days	30 days
Perils:	Fire, Lightening, EC, VMM, Theft, Volcano	Same as HO-1 plus Falling objects; Weight of ice, snow or sleet; Accidental discharge of water; Sudden tearing apart of heat, A/C, hot water system; Freezing; Artificially generated electrical current	All Risk for Dwelling and Structures Broad Form Perils for Personal Property	Broad Form Perils for Personal Property	All Risk for Dwelling and Structures All Risks for Personal Property	Broad Form perils for Dwelling (condo fixtures) Broad Form for Personal Property
Recovery						
Replacement cost A & B	√	√	√		√	(ACV Cov. A)
All other prop. ACV	√	√	√	√	√	√

Eligibility

Homeowners policies are issued to cover a **premises** that is used principally for private residential purposes. Some incidental business "occupancies," such as a studio or office, are permitted. However, if the insured operates a business from the insured's home, the insured probably will need **a separate business policy**—or at least an endorsement, which is an add-on that provides expanded coverage to the insured's basic homeowners insurance.

A homeowners policy cannot be issued to cover any property situated on premises used for **farming purposes**.

An insurance company can issue homeowners form HO-2 or HO-3 to the insured if the insured qualifies as any of the following:

- an **owner-occupant** of a dwelling;
- the intended owner-occupant of a dwelling **in the course of construction**;
- one **co-owner of a duplex**, when each distinct portion of a two-family dwelling is occupied by separate co-owners;
- a **purchaser-occupant** when the seller retains title under an installment contract until payments are completed; and
- an occupant of a dwelling under **a life estate arrangement**, when dwelling coverage is at least 80 percent of the current replacement cost.

If the insured is a co-owner, a purchaser-occupant or an occupant under a life estate, the **owner or remaining co-owner** also will have what the insurance companies call an insurable interest in the dwelling, other structures, premises liability and medical payments coverage. This interest can be insured by attaching an Additional Insured Endorsement to the insured's policy. However, that co-owner's personal property will have to be insured separately, on another policy.
Mobile homes also qualify for coverage under an HO-2 or HO-3 form, but only when a mobile home endorsement is attached to the policy, which alters certain provisions. To be eligible, a mobile home must be designed for year-round living, and it must be at least 10 feet wide and at least 40 feet long. Mobile homes also may be covered with separate, stand-alone insurance policies.

Typically, homeowners form HO-4 is used for renters, form HO-5 provides open perils coverage on both building and contents, and form HO-6 is used to insure a co-op or condominium. Form HO-8 is a variation on HO-1 that is available in some states. In the rest of this chapter, we will focus on the **typical homeowners policies**: HO-2 and HO-3.

Insured Location and Residence Premises

- Residence premises
- Newly acquired residence
- Secondary residence described in the Declarations
- Nonowned temporary residence (vacation home)
- Vacant land (other than farm land) the insured owns or rents
- Land in the course of construction of a residence intended for the insured
- Insured's cemetery plot
- Premises occasionally rented by insured for a non-business purpose (social event at a local hotel, for example)

Property Coverages

A homeowners policy includes a number of different coverages, which provide a sort of loose checklist of the kinds of exposures the insured may face:

- **Coverage A**—Dwelling coverage is the most significant. This coverage applies to **the house itself**, attached structures (such as an attached garage), and materials and supplies on or adjacent to the premises. This includes materials used for repair or construction.

A homeowners policy will show a **specific amount of insurance** for the dwelling. This will be an amount separate from liability or property coverage.

Dwelling coverage also is sold separately. Because these stand-alone policies don't cover liability or other risks, they are best used in addition to a standard homeowners policy—for second homes, vacation condos, etc. Note: Some state-run home insurance plans are dwelling-only coverage.

- **Coverage B**—**Other structures coverage** is also included. It applies to buildings on the premises that are separated from the house by a clear space, or connected only by a fence, utility line or similar connection (such as a detached garage or work shed, or even a guest house). The **standard amount** of insurance for other structures is **10 percent of the amount written for the dwelling coverage**, and it is provided as an additional amount of insurance. (In other words, if the insured have a $200,000 policy for the dwelling, the insured automatically get an additional $20,000 of coverage for other structures.)

If 10 percent isn't enough, the insured can buy more other structures coverage.

- **Coverage C**—**Personal property coverage** is another key component of a homeowners policy. Personal property means just about any household possession that's financially valuable—from an earring to a refrigerator.

This coverage applies to personal property **owned or used by the insured** or anyone else covered under the insured's policy while it is anywhere in the world. It also includes **coverage for theft**. At the insured's request, other people's personal property also may be covered while it is on the insured's premises. This coverage usually is **an additional amount of insurance**—above the policy's face—50 percent of the amount written for the dwelling. If that's not enough, the insured can increase the limit—and the insured also can choose to decrease.

Personal Property coverage applies in many situations—including when things are stolen from the insured's car while the insured is traveling. This is the type of protection that people sometimes overlook or forget about. Make sure the insured don't: Personal property coverage is one of the primary reasons to buy a comprehensive homeowners policy.

- **Coverage D**—**Loss of use of living space** coverage will kick in if a covered loss makes the insured's home uninhabitable. Most homeowners policies cover either additional living expenses related to maintaining the insured's normal standard of living or the fair rental value of the part of the residence where the insured lives (it's the insured's choice).

- **Coverage E—Liability coverage** under a homeowners policy is designed to protect the insured's assets if the insured is sued. It covers injuries or damage caused by the insured, a member of the insured's family or a pet. It applies to injuries that occur on the insured's property or anywhere in the world. We'll consider this coverage later in this chapter. This coverage has a limit separate from the dwelling limit.

- **Coverage F—Medical payments** coverage also is included in a homeowners policy. It covers necessary medical expenses incurred by others (not members of the insured's household) within three years of an accident that causes bodily injury. (An accident is covered only if it occurs during the policy period.) Medical expenses include reasonable charges for medical, surgical and dental care, X-rays, ambulance service, hospital bills, professional nursing, prosthetic devices and funeral services.

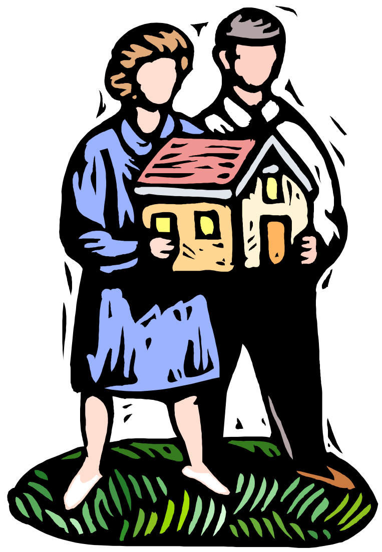
This coverage does not apply to medical expenses related to the insured's own injuries—or those of anyone who lives with the insured, except the insured's employees. This coverage often has a $1,000 limit.

- The **additional coverages** portion of a standard policy includes coverage for claim expenses, first aid and damage to the property of others.

As the above list implies, if the insured has a $200,000 homeowners policy, that's not all the insured will get if the insured's home is destroyed. The $200,000 limit usually applies only to the cost of replacing the physical structure. Typically, a policy will pay half of the face amount—in this case, up to $100,000—to replace the insured's home's contents, including valuables.

A typical policy also will cover legal costs related to a liability lawsuit. In other words, if the insured has a $200,000 face-value policy, the insured could get $200,000 to rebuild the house, $100,000 for personal items, $10,000 to re-landscape, $10,000 to rebuild a freestanding garage and $25,000 to cover temporary living expenses. That's a total coverage of nearly $350,000 on a $200,000 face-value policy. And the cost of the insured's defense in a liability lawsuit could add another $50,000 or $100,000.

Section II- Liability	(All forms are identical)	
Primary Coverages	Cov. E- Personal Liability Cov. F- Medical Payments to others	$100,000 per occurance $1,000 each person
Additional Coverages	Insurance Claim Expenses First Aid to Others Damage t Property of others- $500/occ. Loss Assessment Coverage- $1,000/occ.	
NOTE: Replacement cost is provided if the damaged building is insured for at least 80% of the full replacement cost **at the time of the loss.**		



Who is an Insured

It's important to know who will and will not be covered under the insured's policy. The definitions page of a homeowners policy will provide this information. Typically, the insured—**the named insured**—the insured's spouse and any family members who live with the insured is covered.

The **definitions page** may express this in the following way:

- Insurance on the dwelling and any other structures is provided for the named insured and the insured's spouse, if the spouse lives in the same household.
- Personal **property coverage** and personal **liability insurance** are provided for the named insured and all residents of the same household who are relatives of the insured, or who are under age 21 and are in the care of the insured's family, or who are under age 24, a relative, and enrolled in school full time.
- If the named insured or the spouse dies, coverage continues for **legal representatives**. Until a legal representative is appointed, a temporary custodian of the named insured's property also would be covered. All household members who are insured at the time of the named insured's death will continue to be covered while they live at the residence premises.
- Upon the request of the named insured, **the personal property of others** may be covered while on the residence premises, and the personal property of guests or a residence employee may be covered.
- A **residence employee** usually means a housekeeper, gardener or any other employee who performs duties related to the maintenance and use of the insured's residence premises, or who performs household, domestic or similar duties elsewhere that are not connected to a home-based business.

Knowing who is and isn't covered is vital. Not only does it tell the insured whose personal property is insured, but some coverages apply only if one of the insured parties does not cause the damage.

Covered Property

When an insurance company talks about property coverages, it means insurance that is used to cover **real property and personal property**.

Real Property

Real property includes buildings and structures, but not the land on which they are located. While land usually is part of the purchase price of real property, it is not subject to loss or destruction in the same way buildings are, so it is not covered by insurance in the same way.
One way to calculate the value of the structures on the insured's property is to use local **tax assessment values**. But the most common way people estimate how much insurance they need is by covering at least the amount of any mortgage or other loans on the property.

One caveat here: The amount outstanding on the insured's home loan—or even the original full amount of that loan—may not be enough to rebuild the insured's house if it's destroyed.

Personal Property

Personal property includes **all forms of property other than real property**. On a homeowners policy, personal property coverage protects household goods, indoor and outdoor furniture, most appliances (but not built-ins), linens, drapes, clothing and other personal belongings, which may range from toys to home computers and small boats.

Insurance companies don't consider all types of personal property equal. Some items—particularly those with a high value—will have separate limits under a homeowners policy.

The following is a list of the kinds of items that are treated differently, and their typical limits:

- $2,500 on silverware, silver-plate, goldware, tea sets, gold/silver-plated trophies, etc. (some policies have substantially higher limits);
- $2,500 on firearms;
- $2,500 for business property kept at home.
- $1,500 on jewelry, watches and furs;
- $1,500 on securities, deeds, manuscripts, passports, stamps and other valuable papers;
- $1,500 on watercraft;
- $500 or $1,000 on trailers not used for watercraft;
- $200 on coin collections, gold, silver, medals and currency;
- $1,500 on electronics which can be powered in a motor vehicle, while in a motor vehicle; and
- $1,500 on electronics primarily used for business away from the residence, but not in a motor vehicle.

Some policies also place a limit on things like garden tractors, riding lawnmowers, etc.

These limits apply to each category of item, not each item. If the insured has a substantial amount of jewelry or computer equipment—or anything limited under the policies the insured is considering—the insured will want to buy additional insurance.

The insured can raise the limits on any of these categories—or on specific valuables. But the insured will have to pay an additional premium, of course.

The insured can add some items to the policy by **scheduling** them for special coverage. Scheduling is usually the cheapest way to obtain additional coverage—but this option doesn't always cover valuable property sufficiently. Or the insured can purchase a **floater**, which is separate insurance bonded with a homeowners policy. The cost of floaters is usually minimal and it's certainly better to secure adequate insurance than to risk leaving family heirlooms, expensive equipment and prized possessions uninsured and unprotected.

Personal Articles Floater

The Personal Articles Floater is the basic floater form and provides the common conditions and rules for all of the various classes of property. The form(s) applicable to the specific type(s) of property are attached to this basic form to complete the policy.

- Cameras
- Fine Art
- Furs
- Golfer's Equipment
- Jewelry
- Musical Instruments
- Silverware
- Stamp and Coin Collections

Additional classes may be added to the policy subject to their applicable rates and forms. Rules and conditions shall be those applicable to the respective classes of property found elsewhere in this section. **This coverage is effectively the same as the coverage offered by the Personal Property Endorsement that can be added to an HO-3 policy.**

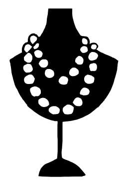
A personal property endorsement is available with all homeowners forms. The coverage is usually an additional amount of insurance equal to **50 percent of the amount written for the dwelling**. This coverage applies to personal property owned or used by any insured person

while it is **anywhere in the world**. At the request of the named insured, personal property owned by others may be covered while it is on the residence premises.
This limit may be increased or decreased—but not below 40 percent—by endorsement.

The **personal articles floater** (PAF) is used to insure certain classes of personal property on an itemized and scheduled basis. It is almost identical to the scheduled personal property endorsement which may be attached to a homeowners policy.

The PAF usually contains a schedule which lists the following types of insurable property:

- jewelry;
- furs;
- cameras;
- musical instruments;
- silverware;
- golf equipment;
- fine art;
- stamps; and
- coins (coins include paper money and bank notes owned by or in the custody or control of the insured).

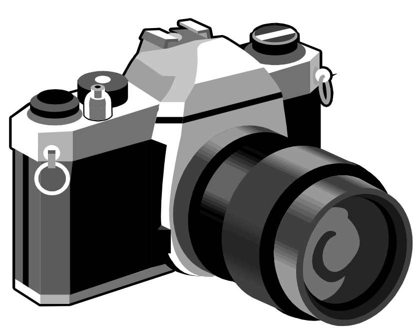


For each class of property covered, an amount of insurance must be shown and the article(s) must be described.

Other classes of property may be included in the PAF, but they are generally subject to the appropriate rates and forms. Depending upon your insurer, the pre-printed schedule may include lines referring to boats and other items.

You may want to purchase a scheduled personal property floater to provide coverage that is similar to the personal articles floater for valuable items that don't fall within the above categories.

Scheduled personal property floaters can be purchased to cover almost any type of property, including dentures, typewriters, camping equipment, wheelchairs, stereo equipment, grandfather clocks, etc. To obtain this type of coverage, speak to your agent about the unfiled forms which can be adapted to meet your needs.



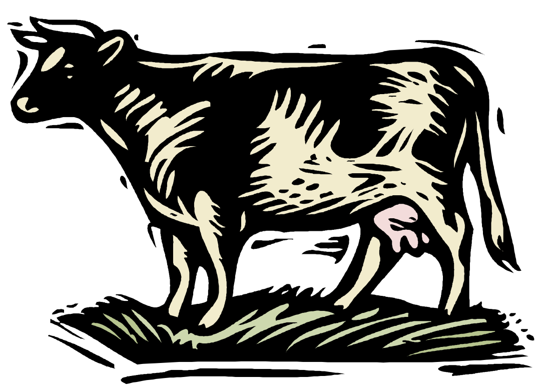
Property Not Covered

Homeowners insurance covers a lot—but it can't cover everything the insured owns or everything the insured does. Most homeowners policies list specific property and specific kinds of losses that are not covered. Insurance is designed to cover sudden and accidental losses.

Therefore, gradual, preventable or expected losses must be excluded.

The following types of property and losses are **not covered** by any homeowners policy, and they serve as a kind of reverse checklist:

- **land**, including that under an insured residence;
- structures used **solely for business purposes**;
- structures or property (other than a private garage) that are **rented or held for rental** to someone who is not a tenant of the insured dwelling;
- articles that are specifically covered by **other insurance** (since, the insured can only collect once for a loss);
- **animals** (pets, livestock and any other critters);
- motor vehicles;
- **aircraft** and parts, other than model or hobby aircraft;
- hovercraft;
- property of roomers, **boarders and other tenants** who are not related to any insured (they'll need to get their own renters insurance);
- accounts, drawings, **paper records**, electronic data processing tapes, wires, records, disks or other **software** media containing business data (blank records or media are covered, and so are music CDs); and
- water or steam



Perils Covered Under HO-2

Form HO-2 is known as the **broad form**.

The broad form insures the dwelling, other structures and personal property against loss by these **16 perils**:

- fire or lightning;
- wind;
- explosion;
- riot or civil commotion;
- aircraft (e.g., if a plane crash lands on the insured's house);
- vehicles (but not vehicle damage caused by any vehicle owned or operated by any resident of the insured premises);
- smoke damage
- vandalism or malicious mischief (known as VMM), but not if the dwelling has been vacant for 60 consecutive days or more;
- theft
- volcanic eruption—excluding losses caused by earthquake, land shock waves or tremors.
- damage caused by **falling objects** (but damage to a building's interior or its contents is covered only if the falling object first damages the roof or an exterior wall);
- damage to a building or its contents caused by **weight of ice**, snow or sleet
- accidental **discharge or overflow of water** or steam from a plumbing, heating or air conditioning system, or an automatic fire protection sprinkler system, or from a household appliance
- sudden and accidental **tearing apart, cracking, burning or bulging** of a steam or hot water heating system, an air conditioning system, an automatic fire protection sprinkler system or an appliance for heating water;
- **freezing** of a plumbing, heating or air conditioning system, or an automatic fire protection sprinkler system, or of a household appliance (this coverage also is suspended whenever the home is vacant, unoccupied or being constructed, unless reasonable care was taken to maintain heat in the building, or to shut off the water supply and drain systems and appliances); and
- sudden and accidental **damage from artificially generated electrical current**

Under an HO-2 policy, **loss of use** coverage is 20 percent of the amount of dwelling coverage purchased. However, indirect losses—as in the case of lightning shorting out the insured's VCR or computer are not covered.

Perils Covered Under HO-3

HO-3 is called the **special form** and it is the most often purchased policy form. It typically costs 10 percent to 15 percent more than the HO-2 policy.

Instead of naming the perils that are covered, the HO-3 form names the **perils that aren't covered**. Of course, this is still a long list, because insurance companies like to be very specific about what they will and will not pay for. This protects them in the event the insured sue for coverage.

While **structures** are insured for open perils under an all-risk policy, **personal property** is insured on a named-perils basis. This policy insures personal property against loss by all of the perils included on the broad form, HO-2—and expands the coverage a bit—the insured can also endorse it to special form. HO-3 also covers vehicle damage to a fence, driveway or walk—even when it is caused by a resident. And HO-3 also does not suspend coverage for personal property from certain perils, as HO-2 does, whenever the insured's home has been vacant for 60 or more consecutive days—which is important if the insured travel for extended periods of time. (However, coverage for the dwelling and other structures is still excluded after 60 days of vacancy.)

California Residential Property Insurance Disclosure Statement

No policy of residential property insurance may be first issued or, with respect to policies already in effect on January 1, 1994, initially renewed in this state by any insurer unless the named insured is provided a copy of the California Residential Property Insurance disclosure statement as contained in Section 10102.

The Disclosure describes the principal forms of insurance coverage in California for residential dwellings and the form of dwelling coverage purchased. The form contains only a general description of coverage and is not a part of the residential policy. The disclosure must address the following:

-**Guaranteed Replacement Cost Coverage and the Full Building Code Upgrade** – pays replacement costs without regard to policy limits, and includes costs resulting from code changes

-**Guaranteed Replacement Cost Coverage with Limited or No Building Upgrade** – pays replacement costs without regard to policy limit, but limits or excludes costs resulting from code changes.

-**Extended Replacement Cost Coverage**- pays replacement costs up to a specified amount above the policy limit

- **Replacement Cost** Coverage – pays replacement costs up to policy limit.

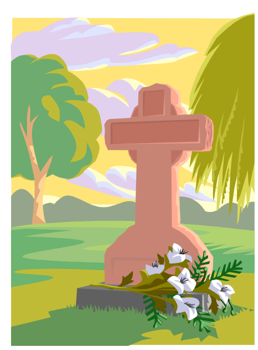
-**Actual Cash Value** – pays the fair market value of the dwelling at the time of loss, up to the policy limit

-**Building Code Upgrade Coverage** – ordinance and law coverage pays up to limit specified in your policy, additional costs required to bring the dwelling "up to code."

Additional Coverages

HO-3 provides the most complete coverage for the insured's home and other structures. In addition to what is covered under an HO-2 policy, an HO-3 policy covers:

- **removal of debris** from covered property if the debris was caused by a covered peril (for instance, if the insured's house burns down and the debris needs to be removed before the insured can rebuild);
- reasonable repairs to protect the insured's home from **further damage** (this would include covering a hole in the roof, so rain or snow can't come in and cause further damage);
- **trees, shrubs and other plants** for up to 5 percent of the amount of dwelling coverage—though no more than $500 can be spent on any single tree, shrub or bush;
- up to $500 for any charges the **fire department** bills the insured for being called to the insured's home;
- damage that occurs while the insured try to **remove the insured's personal items** when the insured's home has been damaged by an insured peril;
- up to $500 if the insured's **credit card**, fund transfer card, etc., is stolen and used and the card's issuer wants the insured to pay the outstanding debt;
- up to $1,000 for the insured's share of **loss assessments** charged to the insured by a homeowners' association or corporation; and
- property lost due to the **collapse** of either all or part of the building, as long as the collapse is caused by perils insured against under HO-2 or due to hidden decay; hidden insect or vermin damage; weight of contents, equipment, animals or people; weight of rain that collects on the roof; or use of defective material or methods in construction, remodeling or renovation (as long as the collapse occurs during the construction, remodeling or renovation).
- **Glass or Safety Glazing Material** subject to the policy limit (not an additional amount of insurance)
- **Landlord's Furnishings** if the owner of the house is also an occupant, but rents a portion of the house to others up to $2500 per loss in each unit (not an additional amount of insurance)
- up to 10% of Coverage A as an additional amount of insurance which allows for the increased cost to repair or rebuild to comply with building **Ordinances or Laws** that are new since the original structure was build
- up to $5,000 (not an additional amount of insurance) for **grave markers**



Perils Not Covered

As comprehensive as it is, HO-3 **does not cover** everything. The exclusions include:

- property, losses and perils not covered due to limitations of the insuring agreement and the general exclusions;
- loss involving collapse, other than those described above;
- freezing of a plumbing, heating or air conditioning system, or an automatic fire protective sprinkler system, or a household appliance—or discharge, leakage or overflow due to freezing while the dwelling is vacant, unoccupied or being constructed, unless reasonable care was taken to maintain heat in the building, or to shut off the water supply and drain the systems and appliances (such damage by freezing of an occupied premises is covered);
- damage caused by freezing, thawing, pressure or weight of water or ice to a fence, pavement, patio, swimming pool, foundation, retaining wall, bulkhead, pier, wharf or dock;
- theft in or to a dwelling or structure under construction, or theft of any property that is not actually part of a covered building or structure (theft of part of a finished building is covered);
- vandalism and malicious mischief if the home has been vacant for more than 30 consecutive days at the time of loss;
- wear and tear, deterioration, latent defect, rust, mold, wet or dry rot, contamination, smog, smoke from agricultural smudging or industrial operations, birds, vermin, insects, domestic animals or the settling, cracking, shrinking, bulging or expansion of pavements, foundations, walls, floors, roofs or ceilings;
- losses caused by weather conditions to the extent that weather contributes to causes found in the general exclusions (i.e., power failure, flood, earth movement, etc.);
- losses caused by faulty, inadequate or defective planning, zoning, surveying, siting, design, specifications, workmanship, repair, construction, renovation, remodeling, grading, repair or construction materials, or maintenance; and
- losses caused by acts, decisions or the failure to act or decide by any person, group, organization or government body

For the home and other structures, if any excluded loss is followed by a loss that is not excluded, the additional loss is covered by HO-3.

Valuing Covered Property

Many insurance policies have a **valuation clause**, which describes how the value of different types of property will be determined in the event of a claim. The valuation clause may use such terms as **actual cash value** and **replacement cost**.

Actual cash value (ACV) is the basis for recovery under many property and liability contracts, regardless of the policy amount. ACV generally means "the replacement cost of damaged or destroyed property at the time of loss, less depreciation."

For example, if the insured's bedroom set was completely destroyed by a covered peril, the insurance company will look first at the current replacement cost, then account for the length of time the insured've had it. So, if a new set is $10,000, but the insurance company figures that the one which was destroyed had depreciated 30 percent due to age and use, a policy providing ACV recovery would pay $7,000.

It is better to purchase a policy that will give the insured the full replacement cost for the insured's personal property, without deducting for depreciation. This can be done, for an additional premium, by adding an endorsement to guarantee payment of the replacement cost.

Homeowners policies also will pay the insured the full replacement cost for the insured's house and other insured buildings only if the insured maintains a minimum amount of insurance—usually 80 percent. In other words, if it will cost $200,000 to rebuild the insured's home and the insured only has $100,000 worth of insurance, no insurance company is going to pay the insured the full replacement cost.

For this reason, most insurers require that the insured's insurance be equal to at least 80 percent of the replacement cost at the time of loss.

An important note: Insurance companies don't want to encourage policyholders to file claims and pocket the money. So, for both building and contents losses, most policies state that full replacement costs will be paid only if the property is actually repaired or replaced. If it is not, claims will be paid on an ACV basis.

An important issue in many property insurance policies is the **pair and set clause**. This is written in because a set can be worth more than the sum of its pieces. For instance, an antique pair of candelabras might be worth $1,000. But if one is lost or destroyed, the remaining candelabra might be worth only $200. In this situation, the value of the loss of one part of a pair is not equal to 50 percent of the value of the complete pair.

For this reason, many property insurance policies give the insurer the option of repairing or replacing any part of a pair or set to restore its value, or of paying the difference between the ACV of the property before and after the loss. In the above example, the insurance company might be able to replace the lost item—or obtain a complete pair of equal value to exchange for the remaining item—at a lesser cost than making a cash settlement. Or the insurer might pay the difference in ACV before and after the loss ($800), if replacement was not possible at a lesser cost.

An important part of any policy—and something you should always check—is how **disputes** are handled. If the insured and the insurance company cannot agree on the value of something—like the insured's house—the insured may be able to take advantage of an **appraisal condition** in the insured's policy, if there is one. Either the insured or the insurance company may make a written demand for an appraisal. No matter who makes the request, each side is allowed to bring in an impartial appraiser (at its own expense), and the two appraisers select an umpire. The appraisers separately state the value of the property or amount of loss. If they don't agree, the differences are submitted to the **umpire**. The insured and the insurer then must abide by the valuation set either by the two appraisers—if they agree—or by the umpire.

Personal Liability Coverage

The Homeowners Policy Program provides liability coverage automatically, in addition to property coverage. By combining property and liability coverages, the insurance company is able to reduce processing costs, determine losses more accurately and pass these savings on to insureds in the form of lower premiums.

The liability portion of the homeowners policy is designed to protect a homeowner's assets if that person is sued by someone who is injured—physically—while on the insured property.

Most homeowners policies offer liability protection for bodily injury and property damage. It covers not only the cost of the claim, but also the cost of **defense** if the insured is sued, and a limited amount of coverage for bail bonds and other bonds related to a claim.

The standard policy's liability protection covers injuries or damage caused by the insured, a member of the insured's family or a pet. It applies to injuries that occur on the insured's property—or anywhere in the world from **civil—not criminal**—law. If the insured or a family member are indicted in a criminal lawsuit, homeowners insurance won't cover any resulting financial losses.

Who Is An Insured

Once again, **who** is insured under the insured's homeowners policy becomes an important issue. When the policy says an **insured**, it means the named insured (the insured), a spouse and any relatives resident in the household, as defined on the definitions page of the insured's policy.

But when it comes to liability, the coverage is broader than for property. In this case, an insured also includes any person or organization legally responsible for animals or watercraft owned by a household member. For example: The insured boards his dog at a kennel while he is away; when one of the employees takes Fido for a walk, he or she is insured if Fido bites another dog.

If the insured or the insured's spouse dies, all household members who are insured at the time of the insured's death will continue to be covered while they continue to live at the insured's home. But only property coverage continues for **legal representatives**—liability coverage is not extended to lawyers or a temporary custodians.

What Is Covered

What is covered is just as important as who is covered.

When it comes to liability, **bodily injury** means harm, sickness or disease, and includes the cost of required care, loss of services or death resulting from the injury. This is one of the main kinds of loss that constitutes a civil liability.

Property damage means injury to or destruction of tangible property—and includes loss of use of the property. Loss of use is another of the key kinds of loss that constitutes a civil liability.

Occurrence means an accident, including continuous or repeated exposure to conditions, that results in bodily injury or property damage, neither expected nor intended by an insured person. A situation must be deemed an occurrence before insurance will apply.

Coverages

There are two kinds of coverage provided under the liability section of a homeowners policy.

The first liability coverage is **personal liability**. This pays an injured person—usually a third party—for losses that are due to the negligence of an insured and for which an insured is liable.

> Example: Mack takes his dog out for a walk without a leash. For no apparent reason, Mack's dog attacks Ethelbert, who is jogging nearby. Ethelbert's injuries cost him $10,000 in lost income during recovery. Mack is personally liable to Ethelbert for this $10,000.

The second liability coverage is **medical payments** to others. This covers necessary medical expenses incurred within three years of an accident that causes bodily injury. (An accident is covered only if it occurs during the policy period.) Medical expenses include **reasonable charges** for medical, surgical and dental care, X-rays, ambulance service, hospital bills, professional nursing, prosthetic devices and funeral services.

In the example above, after Mack's dog bites Ethelbert, Mack also will be liable for the stitches, shots and other medical treatment Ethelbert might need.

Medical payments coverage applies only to people who are on the premises with the permission of an insured person. Someone who comes onto the insured's property to rob the insured's house and is attacked by the insured's dog cannot collect damages under the insured's homeowners policy. This coverage does not apply to medical expenses related to the insured's injuries or those of anyone who lives with the insured, except residence employees.

Away from the insured's home, coverage applies only to people who suffer bodily injury caused by:

- the insured;
- an animal owned by the insured or an animal in the insured's care (if the insured happen to be pet-sitting);
- a residence employee in the course of employment by the insured; or
- a condition in the insured location or the ways immediately adjoining.

The insurance company has plenty of incentive to avoid lawsuits. Under the standard homeowners policy, it is obligated to provide a legal defense against claims—even if the claims are groundless, false or fraudulent. The company also may make any investigation or settlement deemed appropriate.

All obligations of the insurance company end when it pays damages equal to the **policy limit** for any one occurrence. Both personal liability and medical payments coverage have limits—medical payments is usually much lower than personal liability. Unless the insured requests something else, the insured will get the **basic limits** of these coverages, which are the minimum amounts written. But higher limits of liability can usually be purchased for a higher premium.

Personal liability insurance applies separately to each insured person, but total liability coverage resulting from any one occurrence may not exceed the limit stated in the policy.

Limits of Liability

Personal liability coverage provides three kinds of insurance, in addition to the **stated limits** of liability:

- **claim expenses;**
- **first aid to others; and**
- **damage to the property of others.**

Claim expense coverage includes the costs of defending a claim, court costs charged against an insured person and premiums on bonds that are required in a lawsuit defended by the insurance company.

Expenses incurred by the company—such as investigation fees, attorneys' fees, witness fees and any trial costs assessed against the insured—also will be covered by the policy.

If bonds are required in the course of the lawsuit, such as **release of attachment or appeal bonds**, the company will pay the premium—but it is under no obligation to furnish the bonds. That is the insured's responsibility.

Claim expense insurance also covers post-judgment interest: If a court judgment is rendered against the insured, there usually is a time lapse between the rendering of the judgment and the payment of the damages awarded. The company will pay any interest charges accruing on the damage award during this time period.

Expenses for **first aid to others** are covered when the charges are incurred by the insured and when the charges result from bodily injury that is covered by the policy. Expenses for first aid to an insured person are not covered.

If damage to the property of others is caused by an insured person, the policy will provide replacement cost coverage on a **per occurrence** limit. This means each liability situation will be treated separately—and the maximum policy coverage will apply separately each time.

This additional coverage won’t pay for:

- damage caused intentionally by an insured person who is at least 13 years of age;
- property owned by the insured (because this coverage is designed to cover property owned by others); and
- property owned and rented to a tenant or a person who is resident in the insured’s household.

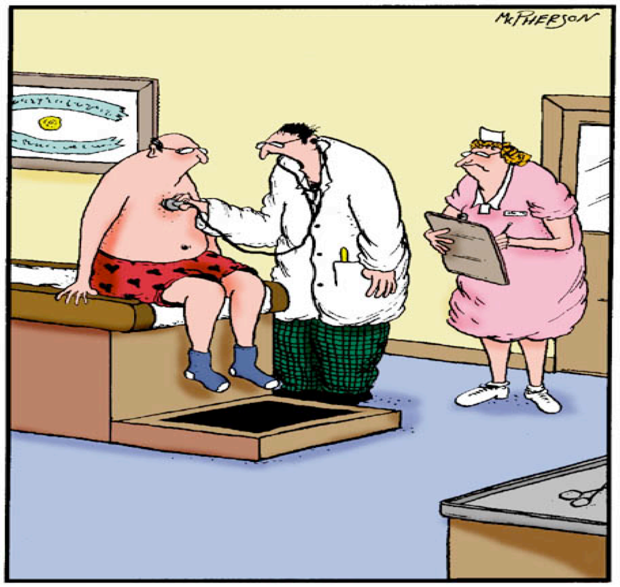
So, if the insured borrows a camera from the insured’s neighbor and accidentally drop it in the insured’s swimming pool while taking pictures, this coverage will provide up to $500 to replace the camera. But it wouldn’t provide coverage if the insured were to drop the insured’s own camera in the insured’s pool. (**Personal property** might.)

Policy Conditions

The liability coverage in a homeowners policy includes a number of other **conditions**, which can limit its applicability. These conditions include the following parameters:

- The insured’s **duties in the event of an occurrence** include providing written notice to the insurance company that identifies the insured person involved, the insurance policy number, the names and addresses of claimants and witnesses, and information about the time, place and circumstances of the occurrence.
- The insured is required to promptly **forward every notice**, demand or summons related to the claim and, when requested, to assist in the process of collecting evidence, obtaining the attendance of witnesses and reaching settlement.
- The insured is not covered if the insured **assumes any obligations** or makes any payments—other than first aid to others following a bodily injury—except at the insured’s own expense.

- Payment of **medical costs** to others is not an admission of liability by the insured. So, if the insured's auto insurance pays for medical care for someone injured while riding in the insured's car when the insured's son is driving, the insured's homeowners insurance might not pay a liability claim. The injured party may have to submit to a physical examination, if requested by the insurance company, and authorize the company to obtain medical reports and records.



"Joyce, write this down in Mr. Cutler's file: 'thump ... thump-thump ... thumpety-thump ... boink.'"

The policy also will pay up to $1,000 for the insured's share of a neighborhood homeowners association or condominium loss assessment made because of bodily injury or property damage suffered by a person on jointly owned property. (Higher limits are available.) However, if a local government makes a charge against the insured's association, the insured's share of the loss is not covered.

Coverage Does Not Apply

There are three major circumstances under which homeowners liability coverage does not apply. If any of these circumstances applies to the insured, the insured will probably need separate liability or other types of insurance.

The first circumstance is **business activity**. Personal liability coverage is not a business policy—it will only cover personal activities and exposures. The standard policy form itself states:

> Any liability arising purely out of the insured's occupation or business and/or the continual or permanent rental of any premises to tenants by the insured is excluded.

The second major circumstance under which liability coverage does not apply is injury to **members of the insured household**. Before this exclusion was added to the standard policy, some courts permitted family members to sue other family members and collect damages. As a result, people would use homeowners liability coverage as a replacement for other kinds of insurance—often instead of health coverage.

The homeowners policy is not meant to be a substitute for accident and health insurance—and this exclusion makes it clear that there is no coverage for an injury suffered by the named insured or other family members who reside in the same household.

The third circumstance under which liability coverage does not apply is the **intentional act** of an insured person, or acts that can be expected to produce bodily injury or property damage. In other words, if the insured meant to hurt someone (except in defense of person or property), the insured's homeowners insurance won't cover damages.

Liabilities Not Covered

In addition to these three exclusions, there are a number of other circumstances in which homeowners insurance **does not cover liabilities**. These include the following:

- war or warlike action (most policies have a war risk exclusion—losses due to war are catastrophic and simply too much for insurance companies to protect against);
- rendering or failure to render professional services (again, business activities are not covered);
- transmission of a communicable disease by an insured;
- sexual molestation, corporal punishment or physical abuse;
- the use, sale, manufacture, delivery, transfer or possession of controlled substances (illegal drugs), other than the legitimate use of prescription drugs ordered by a physician;
- entrustment by an insured person of an *excluded vehicle*, watercraft or aircraft to any person, or vicarious parental liability (whether or not statutorily imposed) for the actions of a minor using any of these items.
- Ownership, maintenance, use, loading or unloading of an *excluded vehicle*, watercraft, aircraft

Excluded vehicles include: most motorized vehicles and trailers towed by or carried on motorized vehicles which are owned or operated by, or rented or loaned to, an insured. The Homeowners 2000 policy has expanded excluded vehicles to include aircraft and hovercraft.

Endorsements for the Homeowners Policy

To get coverage tailored to the needs of the insured, one or more endorsements can be added to a basic policy. Endorsements—like floaters—are additional levels and types of insurance added to a standard policy. Some of the more common endorsements to a homeowners policy include:

Personal Property Replacement Cost Loss Settlement. This allows for personal property losses to be settled at replacement cost value, as is the building. There is no deduction for depreciation when this endorsement is attached to the homeowners policy. Only certain types of property are eligible for this coverage , such as carpeting and household appliances, and including scheduled property. Certain types of property are specifically not eligible for this coverage, including fine arts, antiques, and memorabilia.

Inflation Guard. Inflation protection increases the insured's dwelling coverage automatically each year. The increase is amount agreed to by the insurer and insured, and applies over the 12 month policy period on a pro rata basis, increasing the limits day by day.

Scheduled Personal Property. This endorsement is important when the limits of coverage for specific personal items aren't adequate to provide complete protection. Items for which the insured wants more coverage are scheduled or listed. Items which are typically scheduled include jewelry, furs, cameras, musical instruments, silverware, golfing equipment, fine arts, and stamps and coins. Scheduling personal items provides coverage at their actual appraised value. (The insured will have to provide the appraisal, and keep updating it as the items appreciate or depreciate, and as new items are purchased.) A scheduled item also is protected for things that typically are not covered under a homeowners policy, such as lost or misplaced items and gemstones lost from a piece of jewelry because of a loose or damaged setting. Also, depreciation is not subtracted from a claim if the item is scheduled.

Earthquake. This endorsement will cover any loss to the insured's home and its contents caused by an earthquake, tremors or aftershocks. Earthquake coverage carries its own deductible, which is usually a percentage of the Coverage A limit, such as 5%. An earthquake endorsement does not cover damages directly or indirectly caused by a flood due to an earthquake.

Additional Insured Residence Premises. This endorsement provides coverage when there is more than one homeowner when either both owners live in the home or only one owner lives in the home. This endorsement would be important to provide coverage for an unmarried couple who live together in a home they jointly own. It would also serve to provide coverage for siblings who inherit their parents' home, but where only one sibling actually occupies the home. The endorsement is intended to cover individuals who are not insureds under the homeowners policy but who have a financial or legal interest in the home.

Other Members of Your Household. This endorsement provides coverage for nonrelatives living in the same home, such as an unmarried couple living together. Coverage is provided as if each had his or her own policy.

Assisted Living Care Coverage. This endorsement provides coverage for an insured's relative who lives in an assisted living facility. It primarily provides special limits of liability for the insured's personal property such as hearing aids, eyeglasses, wheelchairs, etc. In addition, it provides an additional living expense in the event that the residence facility is uninhabitable (coverage is provided for a maximum period of 12 months).

Workers Compensation – Residence Employees. This endorsement is mandatory in California. If a residence employee is injured, the insured is considered their employer if the worker is self-employed and they have worked a minimum number of hours or were paid a minimum amount of compensation

Personal Injury Endorsement. This coverage is added by endorsement and amends the definition of bodily injury to include loss due to personal injury. Personal injury includes the following: false arrest, libel,slander, defamation of character, and invasion of privacy.

Other Structures – Increased Limits Endorsement. This attachment increases coverage for other structures above the standard amount (10% of the dwelling limit.)

Additional Residence Rented to Others. This endorsement extends liability coverage to a rental dwelling owned by the insured. Unpaid rents are not covered.

Insuring a Home-Based Business

More than 50 million Americans operate full- or part-time businesses at home—and this number increases each year.

Home Business Insurance Coverage. This endorsement provides the most comprehensive coverage available for a home business under a homeowners policy. It is intended for small businesses (less than $250,000 in gross receipts) such as sales, service and craft making types of businesses and extends these types of coverages:

Property (increases limit for business property limit to the full policy limit, and away from the residence premises to $10,000, and increases the limits for money and smart cards, etc.);

Business liability, such product liability, advertising injury, and personal injury;

Business income, accounts receivable, and valuable papers and records;

Home Day Care Coverage. This endorsement provides certain coverages if the insured cares for children in the insured's home. It primarily provides additional coverage for the liability exposure for injuries to the children. Specifically excluded from coverage is negligent supervision with regard to motor vehicles and animals such as horses.

Dwelling Policies

In some cases, the insured's insurance needs may not be as broad as the coverages that the standard homeowners insurance package offers. The insured may not need liability or personal property insurance—especially if the insured is insuring a second home or certain kinds of investment real estate. In these situations, the insured may prefer to buy the more limited—and less expensive—dwelling insurance.

The insured also may need dwelling insurance simply because the insured can't get a homeowners policy for the insured's home. As we have seen before, some dwellings are ineligible for homeowners coverage because of the structure's age, location or value, but they may still qualify for dwelling insurance. Also, a homeowners policy may be written only for single- and two-family residential property, while a dwelling form may cover a structure containing up to four living units. (Dwelling policies are issued primarily to cover non-owner-occupied buildings.)

Homeowners coverage is broader than stand-alone dwelling coverage in a number of ways. The most important distinction is that a dwelling policy does not include liability coverage.

A dwelling policy also will not cover outdoor property, such as awnings and antennas. And, coverage for vehicle damage to the premises is broader under a homeowners policy. Dwelling insurance does not cover vehicle damage to fences, driveways, walks and outside lawns, shrubs, trees and plants.

Like homeowners insurance, dwelling insurance comes in three forms—basic, named perils (also called broad) and all risk (also called special). Again, all risk is the most generous coverage. It also shifts the burden of proof of the cause of a loss from the insured to the insurance company.

A dwelling policy that includes theft and personal liability coverage is very similar to a standard homeowners policy. In fact, many of the coverages and the basic limits of insurance are identical. However, the appeal of the dwelling package is that it provides flexibility: The insured can include only real property coverage or get the full package or get something in between.

Dwelling Policy Eligibility

To qualify as a dwelling, a building must be a principally residential structure that contains no more than four apartments or is occupied by no more than five roomers or boarders. Single-family homes, duplexes and triplexes are eligible for coverage on dwelling forms. Townhouses or row houses also are eligible, if each building does not contain more than four units.

Dwellings in the course of construction also are eligible for dwelling coverage. Permanently located mobile homes are eligible, but they can only be insured under the basic coverage form. Farm dwellings are not eligible. (Coverage for farm houses must be written on separate farm forms.)

Just as in a homeowners policy, an important part of the dwelling policy is distinguishing who is—and is not—covered under the policy.

Generally, because the dwelling package doesn't include liability insurance, its coverage extends to fewer people.

Insurance on the dwelling and any other structures is provided for the named insured (the insured) and for the named insured's spouse, if that spouse is a resident of the same household.

If personal property is insured, the named insured and all members of his or her family residing at the described location are covered for property that they own or use. The personal property of guests and domestic employees may be covered by an endorsement.

If the insured dies, coverage continues for the insured's legal representatives. Until a legal representative is appointed, a temporary custodian of the estate also would be covered.

COMPARISON OF DWELLING FORMS

BASIC FORM	Basic DP-1	Broad DP-2	Special DP-3
Coverages Included			
(direct) loss			
A- Dwelling			
B- Other Structure	X	X	X
C- Personal Property (indirect loss)	X	X	X
D- Rental Value (extra expenses)	X	X	X
E- Additional Living Expenses	X	X	X
		X	X
Other Coverages			
Number of extensions			
Including Removal for…	8	11	11
	5 days	30 days	30 days
Perils:	Fire Lightening Internal Explosion	Fire Lightening EC VMM Burglars Falling Objects Weight of ice, snow, & sleet Discharge/ overflow of water/steam Tearing apart, cracking, burning bulging of, steam/water system Freezing of plumbing, heating, air conditioning/ sprinkler systems Artificially generated electric current	All Risk for Dwelling & Structures Broad Form perils for Personal Property
Recovery	ACV	Building Only--- Replacement cost if at least 80% insurance-to-value All Other- ACV	Building Only- Replacement cost if at least 80% insurance -to-value All Other- ACV

- Coverage E (Additional Living Expense) may be added to Basic Form by Endorsement EC and VMM
- Perils are optional on the Basic Form, and apply only if a premium for them is shown on the policy.