



CH. 10 | PROTECTING YOUR PROPERTY

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BASIC PRINCIPLES OF PROPERTY INSURANCE

- Property insurance: Insurance coverage that protects real and personal property from catastrophic losses caused by a variety of perils, such as fire, theft, vandalism, and windstorms
- Liability insurance offers protection against the financial consequences that may arise from the insured's responsibility for property loss or personal injuries to others.

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TYPES OF EXPOSURE

- Property loss: Economic loss due to property that is damaged, destroyed or stolen.
- Two obligations on property owners:
 - ✓ Develop a complete inventory of property
 - ✓ Identify the perils (cause of loss) against which insurance is desired. Some perils are uninsurable, e.g. flood, earthquake, backing up of sewers and drains, mudslides, mysterious disappearance, war, nuclear radiation, and ordinary wear and tear.

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LIABILITY EXPOSURES

- Loss exposures result from negligence, which is failing to act in a reasonable manner or take necessary steps to protect others from harm.
- Liability insurance coverage will protect you against losses resulting from these risks, including the high legal fees.
- Liability may be covered through your homeowner's, automobile, or separate umbrella policy.

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PRINCIPLE OF INDEMNITY

- An insurance principle stating that an insured may not be compensated by the insurance company in an amount exceeding the insured's economic loss. (i.e., You cannot profit from an insured loss.)
- Related concepts are:
 - ✓ Actual cash value
 - ✓ Subrogation
 - ✓ Other insurance

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ACTUAL CASH VALUE VS. REPLACEMENT COST

- Actual Cash Value: Replacement cost minus the value of physical depreciation which is estimated as percent of useful life.
- Some policies pay full replacement cost, with no reduction for use by owner.

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SUBROGATION

- "Subrogation," or "subro" for short, refers to the right your insurance company holds under your policy - after they've paid a covered claim - to request reimbursement from the at-fault party. This reimbursement often comes from the at-fault party's insurance company.
- You, the person incurring the loss, may collect from the insurance or the at-fault party/their insurance, but not both. If you collected from both, you would violate the principle of indemnity.

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OTHER INSURANCE

- An "other insurance clause" is a provision in an insurance policy that addresses how coverage will apply if the insured party has multiple insurance policies covering the same type of loss.
- The purpose of an "other insurance clause" is to prevent the policyholder from collecting more than the actual cost of the loss. The clause lets insurers share the cost of the loss proportionally based on their respective policy limits.
- This clause is intended to promote fairness and prevent over-insurance, which can create a moral hazard and increase the risk of fraud.

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WHAT IS HOMEOWNERS INSURANCE?

- Homeowners insurance is a policy that combines property and liability insurance to protect your home and your assets against covered losses.
- In general, homeowners insurance covers damage to the home and other structures on the property, damage or theft of its contents and loss of use (additional living expenses). It also includes personal liability insurance for accidents that may happen at home or for which you're responsible.

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HOMEOWNERS INSURANCE

- You are not legally required to purchase homeowners insurance. But if you have a mortgage, the lender will likely require you to carry a home insurance policy. Even if you don't have a mortgage, having home insurance is always a good idea.
- A homeowners insurance policy provides financial protection in sudden, unexpected, and accidental events.
- A standard HO-3 home insurance policy covers your home for all perils, which means that it's covered unless it's specifically excluded. While there are some differences between policies from state to state and company to company, the basics of coverage are generally standard.

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HOMEOWNERS INSURANCE COVERAGE

Type of coverage	What it covers	Common coverage limits
Dwelling	Damage to your home and attached structures like a deck	Calculated replacement cost of the home
Personal property	Damage to or theft of personal property	50% to 70% of the dwelling coverage
Other structures	Structures on the property not attached to the house, like a shed	10% of the dwelling amount
Additional living expenses/Loss of use	Additional living expenses you incur if you can't live at home due to a covered loss, like a hotel	20% to 30% of the dwelling coverage
Personal liability	Injuries or damage to others or their property for which you're responsible	\$100,000 standard, up to \$500,000
Medical payments	Medical bills for someone injured on your property, regardless of fault	\$1,000 to \$5,000

Source: Insure.com

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DIFFERENT TYPES OF HOMEOWNERS INSURANCE

- **HO-1 Basic form homeowners insurance** offers the most minimal coverage using only actual cash value (ACV), which pays only the depreciated value, for your home and belongings.
- It covers just ten named perils: Aircraft, explosions, falling objects, fire and lightning, windstorm and hail, riots and civil commotion, smoke, theft/burglary, vandalism & vehicles.
- This type of policy is almost never used, and many insurance companies today don't write it at all.

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DIFFERENT TYPES OF HOMEOWNERS INSURANCE

- **HO-2 Broad form homeowners insurance** upgrades coverage to include replacement cost coverage (RCV). which covers the cost of replacing or rebuilding your dwelling at today's prices. However, actual cash value (ACV) still applies to your personal belongings.
- In addition to ten perils from the HO-1 policy, there is also protection against six additional named perils: Accidental discharge and water or steam overflow, freezing, sudden or accidental damages from an artificially generated electrical current, sudden or accidental damages to built-in appliances, volcanic eruption & weight of ice, sleet, and snow.

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DIFFERENT TYPES OF HOMEOWNERS INSURANCE

- **HO-3 Special form homeowners insurance** is the most common type of homeowners insurance coverage. The dwelling is covered at RCV and personal property at ACV.
- An HO-3 policy is all perils or open perils policy. That means all perils are covered unless they are specifically excluded. Commonly excluded perils are: Birds, vermin, rodents, and insects / discharge, dispersal, seepage of pollutants / earth movement / government action / intentional loss / mechanical breakdown / mold, fungus, and wet rot / neglect / nuclear hazard / ordinance or law coverage / pets / power failure / smog, rust, or other corrosion / smoke from agricultural smudging and industrial operations / theft from a dwelling under construction / vandalism or malicious mischief (when vacant for over 60 days) / war / wear and tear / flooding, sewer backup, and water seepage from the ground.

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DIFFERENT TYPES OF HOMEOWNERS INSURANCE

- **HO-4 Renters insurance** is designed for renters and doesn't cover the structure, which is covered by the landlord's policy. The standard HO-4 policy includes coverage for:
 - ✓ Personal property inside the home and anywhere else
 - ✓ Liability
 - ✓ Additional living expenses in case you have to relocate due to damages to your home temporarily
- Your policy includes coverage for the same 16 named perils included in an HO-2 policy. Personal property is covered at ACV unless you choose to upgrade to RCV.

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DIFFERENT TYPES OF HOMEOWNERS INSURANCE

- **HO-5 Comprehensive form homeowners insurance** is generally offered on high-value homes or brand-new high-end construction homes. Coverage is similar to an HO-3 policy, but there are some noticeable differences. HO-5 insurance includes:
 - ✓ All-perils coverage for dwelling and personal property
 - ✓ Replacement cost coverage for the dwelling and personal property
 - ✓ Higher coverage limits for expensive valuables, such as jewelry, antiques, and some electronics
- Another major difference is that, if you file a claim, the insurance company must prove the claim isn't covered, rather than the onus being on the homeowner to prove that it is.

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DIFFERENT TYPES OF HOMEOWNERS INSURANCE

- **HO-6 Condo insurance** provides coverage for people who own a condominium or co-op. While the building itself is covered by your condo association's HOA insurance policy, it doesn't protect your personal property. Your HO-6 condo insurance policy may include:
 - ✓ Personal property
 - ✓ Loss of use
 - ✓ Personal liability
 - ✓ Medical payments
 - ✓ Loss assessment coverage

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DIFFERENT TYPES OF HOMEOWNERS INSURANCE

- **HO-7 Mobile or manufactured home insurance** protects several types of properties, including double-wide manufactured and mobile homes, manufactured homes, mobile homes, modular homes, park model homes, sectional homes, single-wide manufactured and mobile homes.
- These properties are designed much differently than the average single-family home and require unique coverage that may not be covered by other policies.

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DIFFERENT TYPES OF HOMEOWNERS INSURANCE

- **HO-8 Modified form homeowners insurance** is a type of homeowners insurance designed to protect older homes or historic homes that would not otherwise qualify for coverage. Due to the construction materials and features of these homes, they often won't qualify for standard home insurance.
- An HO-8 policy is a named perils policy that uses actual cash value for your home instead of replacement cost.

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ADDITIONAL TYPES OF HOME INSURANCE

- **Flood insurance:** If your home is located in a flood zone, you should consider purchasing flood insurance from your insurance provider or directly from the National Flood Insurance Program.
- **Earthquake insurance:** Home insurance doesn't cover earthquakes, but coverage can be added as an endorsement or a separate policy.
- **Guaranteed or extended replacement cost protection** ensures that you get the full value of your home based on today's prices for repair or rebuilding.
- **Landlord insurance** is specific to the needs of landlords.

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AUTOMOBILE INSURANCE

- Automobile insurance provides financial protection in the case of an auto accident or if your car is damaged by other means, such as severe weather or theft. It can also cover the cost if you injure someone or damage their property.
- If you're involved in an accident, you file a claim on your insurance policy. Your insurer will then evaluate the situation and determine how much money you should be paid to cover expenses. If applicable, a deductible (a certain amount you agree to pay out-of-pocket) is subtracted from the payout.
- Often, filing a claim increases your premium temporarily, especially if you were at fault.

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AUTOMOBILE INSURANCE COVERAGE

- **Comprehensive coverage** pays for damage to your car that isn't due to car accidents. That includes theft, fire, vandalism, natural disasters (for instance, hail damage or flood damage) and collisions with animals (such as hitting a deer).
- Damage to your windshield may be covered under your comprehensive coverage as well. In some states, comprehensive coverage includes glass repair and replacement with no deductible, but it varies from state to state.

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AUTOMOBILE INSURANCE COVERAGE

- **Collision coverage** protects you if your vehicle is damaged in a collision with another car or object.
- Most auto loan lenders require collision and comprehensive insurance.
- Unlike property damage liability, collision coverage pays to repair your own vehicle in the event of an accident. When you have comprehensive and collision coverage, it's often called full coverage.

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AUTOMOBILE INSURANCE COVERAGE

- **Liability coverage** pays for the damage you do to others. It also takes care of your legal fees if you cause an accident. Most state laws require drivers to buy two types of liability coverage: bodily injury liability and property damage liability.
 - ✓ **Bodily injury liability** coverage will pay for others' medical bills and lost wages when an accident is your fault, except in "no-fault" states, where your own Personal Injury Protection (PIP) coverage would pay for your injuries.
 - ✓ **Property damage liability** protects the policyholder from financial losses if they damage someone else's property. This includes other cars or property, such as fences.

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AUTOMOBILE INSURANCE COVERAGE

- **Uninsured motorist (UM) coverage** pays for your medical bills if an uninsured driver strikes your car or if you're injured in a hit-and-run. According to the Insurance Information Institute, an insurance industry trade group, UM coverage is required by law in 20 states and the District of Columbia.
- **Underinsured motorist (UIM) coverage** kicks in when someone causes an accident but doesn't have enough insurance to cover all medical bills. In that case, the at-fault person's insurance pays out to its maximum and then your UIM coverage pays for the remaining bills, up to your own limit.

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AUTOMOBILE INSURANCE COVERAGE

- A basic car insurance policy doesn't cover:
 - ✓ Maintenance or mechanical failures
 - ✓ Wear and tear
 - ✓ People who regularly drive your auto but aren't listed on your car insurance policy
 - ✓ Driving on a ridesharing platform
- Additionally, a standard policy won't cover you if you're using your car for business purposes. If you use your vehicle for work, you need a separate business auto policy or other form of supplemental insurance.

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AUTOMOBILE INSURANCE

- How much car insurance do you need? - In general, the following coverage limits are recommended:
 - ✓ Up to \$100,000, per person, for the medical bills of those you injure
 - ✓ With a \$300,000 cap per accident
 - ✓ And up to \$100,000 to repair other drivers' cars and property that you damage

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AUTOMOBILE INSURANCE

- Factors that determine car insurance rates:
 - ✓ Where you live
 - ✓ Your driving record
 - ✓ Your credit (except where state law bans the use of credit information in insurance pricing)
 - ✓ Your past claims
 - ✓ Your vehicle
 - ✓ Your daily commute and annual mileage
 - ✓ Your age

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PROPERTY INSURANCE CLAIM STEPS

- Notice to insurance company
- Investigation
- Proof of loss
- Claims adjuster will:
 - ✓ Evaluate claim
 - ✓ Recommend
 - Settlement of amount requested
 - Settlement of a lesser amount
 - Denial of claim