CISR | OTHER PERSONAL LINES SOLUTIONS

STUDY GUIDE

EXAM PREP AND ANSWER KEY

- **Knowledge Checks**
- **Check-Ins**
- **Self-Quizzes**
- **Sample Exam Questions**
- **Glossary of Terms**



THE NATIONAL ALLIANCE
for Insurance Education & Research

© 2022 by The National Alliance for Insurance Education & Research

Published in the United States by

The National Alliance for Insurance Education & Research

P.O. Box 27027

Austin, Texas 78755-2027

Telephones: 512.345.7932

800.633.2165

www.TheNationalAlliance.com

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STUDY GUIDE

EXAM PREP AND ANSWER KEY

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-In questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but *do not* mistake it for a comprehensive "short-cut" to preparing for the final exam.

Be sure to take a look at the Appendix that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.



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Tools to Assess Your Knowledge

Check-Ins, Knowledge Checks,
and Self-Quizzes by Topic

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Section 1: Business Activities

Business Activities in the Homeowners Policy

Knowledge Check



Directions: Read each of the following scenarios and explain whether the described activity would be defined as "business" according to the ISO Homeowners Policy.

1. Wanda is a professional carpenter. She has converted her attached garage into a workshop where she builds custom furniture. During her previous policy year, she received $75,000 for her work.

_____

_____

2. Samantha enjoys making handcrafted items for family and friends and also sells them at an annual holiday bazaar. In the 12 months prior to her current Homeowners Policy period, Samantha sold items for a total of $2,100 at the bazaar. During her current policy period, she sold $5,500 at the bazaar.

_____

_____

3. Tommy is a stockbroker and has a horse barn with five stalls at his residence. Tommy has one only horse, but he and his family enjoy caring for horses, so he rents three other stalls for others to board their horses. He is not in it for a profit and breaks even on expenses at about $10,000 a year.

_____

_____

Homeowners Policy Coverages, Exclusions, and Limitations

Check-In



Directions: For each scenario, state whether the loss would be covered under Section 1 of the Homeowners Policy.

1. Swathi has a kiln in her detached garage that she uses in her pottery business. Only 25% of the square footage is used for the kiln. The garage is damaged in a tornado.

   Covered **Not Covered**

2. Greg operates a part-time home bakery, using the kitchen in his main dwelling. He forgets to turn the oven off and the house catches on fire.

   Covered **Not Covered**

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Knowledge Check



Directions: Answer the question and provide an example for the client in the scenario.

While talking with Jenny about her knitting business to ensure you are addressing her potential "business" exposure, you uncover that Jenny is a massage therapist and recently moved from an office location downtown to the detached pool house in her backyard. Additionally, she offers the space for rent to other massage therapists in her area. Which (if any) exclusions or limitations will apply from Jenny's Homeowners Policy? Provide at least one example that Jenny will be able to understand which illustrates how an exclusion or limitation can impact her coverage.

_____

_____

_____

_____

_____

_____

Homeowners Policy Endorsements

Knowledge Check



Directions: Name the endorsement that would be MOST appropriate for each of the scenarios described.

Lisa rents the apartment in her basement to local college students. Because the apartment is fully furnished, Lisa would like to increase coverage for her furnishings.	
Darnell is a salesman for TNT Medical and works remotely from his home office. He occasionally meets with clients in his home.	
Dannika is a remote employee who has furnished her home office with high-end furniture and her personal computer equipment. She wants to ensure that she has adequate coverage for her "business" property.	
Keanu has converted his detached garage into a fitness studio where he operates his personal training business. He wants to obtain coverage for his Other Structure and his "business" property (such as exercise equipment), and he wants extend his liability coverage.	
Kai and Bailey rent out their detached in-law cottage to local college students during the school year, and they are seeking property and liability coverage for the unit.	

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Business Activities in the Personal Auto Policy

Knowledge Check



Directions: For each of the scenarios described, state whether the individual or business entity is an "insured" as defined by the Personal Auto Policy. Explain your answers.

1. Stacey owns Sweet Tooth Bakery and has purchased a van in the name of her business to deliver baked goods to local customers. While making a delivery, Stacey is involved in an at-fault accident. The injured person is seeking damages against both Stacey and the bakery. Is Sweet Tooth Bakery an "insured" on Stacey's Personal Auto Policy?

_____

_____

2. Juan owns a business, Special-Tees, that makes custom t-shirts. His daughter, Monica, who resides in his home, is driving his personal vehicle to pick up an order of blank shirts for the business when she is involved in an at-fault accident. Is Special-Tees an "insured" on Juan's Personal Auto Policy?

_____

_____

Personal Auto Policy Coverages and Exclusions

Knowledge Check



Directions: Create a mnemonic device to help you remember the five "business" exclusions to the Personal Auto Policy.

A mnemonic device is any technique to aid in the retention or retrieval of information from memory.

Example: To remember the names of the eight planets, you might use the mnemonic device, "**M**y **v**ery **e**ducated **m**other **j**ust **s**erved **u**s **n**oodles" (**M**ercury, **V**enus, **E**arth, **M**ars, **J**upiter, **S**aturn, **U**ranus, **N**eptune), or to remember the order of operations in math, you might use the acronym, **PEMDAS** (**p**arentheses, **e**xponents, **m**ultiplication, **d**ivision, **a**ddition, **s**ubtraction).

_____

_____

_____

_____

_____

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Section 1 Self-Quiz

Directions: Select the best response(s) for the following questions. **Some questions may have more than one correct answer choice—select all that apply.**

1. Which of the following activities would be defined as a "business" activity according to the ISO Homeowners Policy?

   - ☐ Stacey has earned $10,000 per year for the past three years selling art from her home studio.
   - ☐ Jamal is paid $700 per week to watch his cousins during the summer months.
   - ☐ Martin sells homemade candy during the winter holidays. He's only earned $500 each of the last five years from this hobby.
   - ☐ Hector and Elizabeth operate a home daycare for children in their community, earning $60,000 per year.

2. In which of the following scenarios would property coverage be EXCLUDED under Section I of an unendorsed Homeowners Policy?

   - ☐ Lisa operates a small catering business using the kitchen in her main dwelling.
   - ☐ Greg converted his detached garage into a classroom where he is paid to teach a "homeschool pod."
   - ☐ Allison rents a detached cottage in her backyard to a graduate student.
   - ☐ Ashley stores inventory for her online craft business (for which she is the sole owner) in a detached shed on her property.

3. In which of the following scenarios would "bodily injury" and/or "property damage" coverage be EXCLUDED under Section II of the ISO Homeowners Policy?

   - ☐ Frankie and June rent their condo for one week each year when a major tennis tournament is held in their town.
   - ☐ Danica converted her detached garage into a gym where she operates her personal training business. The business is an LLC.
   - ☐ Jerrica lives on a large estate and has a household staff including a housekeeper, groundskeeper, and cook. She provides workers compensation for these "residence employees."
   - ☐ Dan uses his personal golf cart to deliver orders from his home bake shop.

4. Which ISO Homeowners Policy endorsement would BEST respond to the following exposure?
   Lana operates a business from her home in which she restores and resells antique furniture. She has converted her detached garage into a workshop where she stores all of her equipment, supplies, and inventory.

   ☐ Structures Rented to Others – Residence Premises

   ☐ Permitted Incidental Occupancies – Residence Premises

   ☐ Increased Limits on Business Property

   ☐ Designated Business Pursuits Liability Coverage

   ☐ There is no appropriate endorsement.

5. Which of the following exposures would MOST LIKELY be best addressed by a commercial lines policy?

   ☐ Professional liability

   ☐ All "work from home" situations

   ☐ Property of others in the care, custody, or control of the insured

   ☐ Employment liability related exposures

   ☐ Any home business, even if part-time

Directions: Indicate whether each of the following persons or organizations are considered to be an "insured" in the Personal Auto Policy.

6. Alex is using his personal vehicle to deliver an order on behalf of his company, Tee-Riffic Custom Tees, when he is involved in an at-fault accident. Is Tee-Riffic Custom Tees considered to be an "insured" on Alex's Personal Auto Policy?

   An "insured" **Not an "insured"**

7. Milena rents a van in the name of her catering business to help carry supplies for a particularly large party. She has an at-fault accident, and the injured party is seeking damages from both Milena and the catering company. Is the catering company an "insured" in this instance?

   An "insured" **Not an "insured"**

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Directions: Indicate whether each of the following business exposures are "covered" or "excluded" under the Personal Auto Policy.

8. Cole is using his personal van for a delivery and his employee, Roy, is riding in the passenger seat. When Cole's car skids on a patch of black ice and crashes into a pole, Roy sustains injuries. Is Roy's "bodily injury" covered under Cole's Personal Auto Policy?

Covered **Excluded**

9. Lisa regularly uses her passenger van for delivering larger items to clients. Is this "business" use covered or excluded under Part A of the Personal Auto Policy?

Covered **Excluded**

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Section 2: Recreational Lines

Recreational Vehicles

Check-In



Directions: Place a check in the box next to each scenario in which the exception to the Property Not Covered motor vehicle exclusion WOULD apply. **(Select all that apply.)**

- ☐ Molly borrowed her friend's riding lawnmower, and it was damaged by a hailstorm while parked on her property. Molly's friend has insured the lawnmower with a Specialty Equipment Policy she purchased with the lawnmower.
- ☐ Greg has an ATV with a small trailer that he uses to maintain the 10-acre property where he lives. He brings the ATV to his mother's house to clear her driveway after a storm blew a tree down.
- ☐ Gurpreet has a dirt track behind her house where she and her family use their go-cart for fun. The go-cart was stolen from a parking lot where Gurpreet's son parked it after participating in a community parade.

Knowledge Check



Directions: Read the scenario below and provide a short-answer explanation.

Derrick, your client, is an avid sportsman. He owns an XTV (extreme terrain vehicle) that can trek on land, through mud, and navigate through bodies of water. During excursions with friends, Derrick often swaps his XTV with one of theirs while having fun. Explain to Derrick how his Homeowners Policy will respond to damage to his own XTV and to a friend's XTV when he is driving either.

_____

_____

_____

_____

Check-In



Directions: Draw a doodle to illustrate each item from Part I of the "Motor Vehicle Liability" exclusion in the Homeowners Policy.

Exclusion	Doodle
Registered for use on public roads or property	
Not registered for use on public roads or property, but registration (or licensing) was required for the motor vehicle to have been used in the place of the "occurrence"	
Being operated in or practicing for a prearranged or organized race, speed contest, or other competition	
Being rented to others	
Being used to carry cargo or persons for a charge	
Being used for any "business" purpose except for a golf cart on a golfing facility	

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Check-In



Directions: Which of the following are examples of vehicles that are excluded from liability coverage by the "motor vehicle liability" exclusion in the ISO Homeowners Policy? **(Check all that apply.)**

- ☐ A motorized scooter that is required to be registered for use on public roads
- ☐ A golf cart Kip owns and is driving around his coworker's tennis community
- ☐ A battery-operated child's riding toy designed for use by children ages seven and under that does not exceed five miles per hour
- ☐ An "insured's" dune buggy that is included in the rental agreement to their beachside vacation home
- ☐ A golf cart being used to entertain an "insured's" clients on a golf course.

Knowledge Check



Directions: Identify at least three ways an owned recreational auto will receive liability coverage from the ISO Homeowners Policy when off an "insured location."

1. _____

_____

2. _____

_____

3. _____

_____

Knowledge Check



Directions: Consider the property and liability coverages provided for recreational vehicles by the Homeowners and Personal Auto Policies when answering the following questions.

1. Keisha owns a vacation home at a popular beachside destination. She rents the home through VRBO and for an additional fee allows rental guests to use her golf cart around the community for an additional fee while they are staying at the home. What coverage (if any) does Keisha have for her golf cart under her unendorsed ISO Homeowners and ISO Personal Auto Policies?

_____

_____

_____

2. Are there any endorsements that Keisha could add to either her Homeowners Policy or Personal Auto Policy to protect her golf cart?

_____

_____

_____

3. Do you feel a separate Recreational Vehicle Policy would be better suited to meet Keisha's needs? Why or why not?

_____

_____

_____

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Watercraft

Knowledge Check



Directions: Describe how the coverage provided for property damage to watercraft by the ISO Homeowners 3 – Special Form Policy differs from the coverage provided for property damage to recreational vehicles.

_____

_____

_____

_____

Knowledge Check



Directions: Review each scenario and decide if the unendorsed ISO Homeowners Policy will provide liability coverage. Explain your answer.

1. Jolene purchased a 28-ft sailboat. She hasn't gotten it to a marina yet and is storing it behind her home, for now. Her child and their friends were playing on the boat when one fell from the bow pulpit and broke their arm.

Covered **Not Covered**

_____

_____

2. Eddie is on vacation in Alabama and rents an 18-ft, 150-hp speed boat to cruise Mobile Bay and later watch the sunset. While cruising the bay, he is challenged to a spontaneous race. Just as he got started, he hit a wakeboarder, causing injury to them.

Covered **Not Covered**

_____

_____

3. Max purchased a 75-hp outboard engine pontoon boat two years ago. While on the lake, he ran into a dock pier, causing the dock to collapse. He contacted his insurance agent, who discovered Max never told her or his insurance carrier about the boat.

Covered **Not Covered**

_____

_____

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Knowledge Check



Directions: Provide an example to show how the ISO Personal Auto Policy might provide property damage coverage for a boat trailer. Provide a second example to show when property damage for a boat trailer would not be covered.

Section 2 Self-Quiz

Directions: Match each scenario in the right-hand column to the MOST appropriate recreational vehicle endorsement to the Homeowners or Personal Auto Policy shown in the left-hand column.

A. Incidental Low Power Recreational Motor Vehicle Liability Coverage Endorsement **B.** Owned Snowmobile Liability Coverage Endorsement **C.** Miscellaneous Type Vehicle Endorsement **D.** Owned Motorized Golf Cart Physical Loss Coverage Endorsement **E.** Snowmobile Endorsement	_____ Melissa recently purchased a golf cart and wants to cover direct physical losses, including collision.
	_____ Tom wants liability coverage for his snowmobile when he is away from the "insured locations." He also wants to extend liability coverage to anyone he permits to use the snowmobile.
	_____ Ginny's daughter has a battery-powered electric scooter that she rides around the neighborhood and a short distance to and from school along public roads. She wants to ensure she has liability coverage should her daughter be responsible for injury or damage to others.
	_____ Lucia and Julio would like to add Liability, Medical Payments, Uninsured/Underinsured Motorists, Other Than Collision, and Collision Coverages to their snowmobile.
	_____ Seiya wants Liability, Medical Payments, Uninsured/Underinsured Motorists, Other Than Collision, and Collision Coverages for his ATV.

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Directions: Indicate whether each statement is true or false.

1. All recreational vehicles are exempt from the Section I "motor vehicle" exclusion of the ISO Homeowners Policy as long as they are not required to be registered for use on public roads.

True **False**

2. Jim has a golf cart that he only uses to check his fences and clean up fallen branches on at his residence. The only exception is when he decorates it and rides it in his community's 4th of July parade. The property exclusion DOES NOT apply since Jim primarily uses his golf cart to service his residence.

True **False**

3. If damage to a non-owned recreational vehicle is excluded in Coverage E – Personal Liability, up to $5,000 coverage may be provided by the Section II – Additional Coverage, Damage to the Property of Others.

True **False**

4. Non-owned (rented or borrowed) recreational vehicles are excluded from liability coverage under Section II of the Homeowners Policy.

True **False**

5. Wanda owns a hair salon and decides to decorate her golf cart for her residential community's annual 4th of July parade. Wanda put salon advertising on the golf cart offering a 10% discount on appointments booked on July 4th. Wanda does NOT have liability coverage under Section II of the Homeowners Policy should a loss occur during the parade.

True **False**

6. The ISO Personal Auto Policy provides liability coverage for all recreational vehicles, regardless of whether they are used primarily on public roads.

True **False**

7. In the ISO Homeowners Policy, watercraft, including its trailer, furnishings, equipment, and outboard engine(s) or motor(s) is subject to a Special Limit of Liability of $5,000 per loss.

True **False**

8. Under Section II of the ISO Homeowners Policy, when damage to a rented or borrowed watercraft is caused by fire, smoke, or explosion AND the client is legally responsible, the loss is covered up to the Coverage E – Personal Liability limit of liability.

True **False**

9. An owned kayak is exempt from the "watercraft liability" exclusion in Section II of the Homeowners Policy.

True **False**

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Section 3: Personal Umbrella/Excess Liability

Characteristics of Typical Personal Umbrella/ Excess Liability Policies

Check-In



Directions: Which of the following statements is/are TRUE regarding the characteristics of Personal Umbrella/Excess Liability Policies? **(Check all that apply).**

- ☐ They are primary policies designed to cover specific catastrophic losses.
- ☐ They respond only to liability losses and do not cover damage to an insured's property.
- ☐ They require underlying insurance.
- ☐ They have a maximum $1,000,000 limit of liability.
- ☐ They are designed to cover large losses and are priced accordingly.

Knowledge Check



Directions: Read the following scenario and explain how you would respond to a client in this situation.

Your clients Alicia and Marco are a high-earning married couple. They own a luxury condo in the city and two high-end cars. You suggest to Alicia and Marco that a Personal Umbrella or Excess Liability Policy can help them to protect their current assets, as well as any future assets. "I don't know," Alicia says, "We already have a Homeowners Policy and Personal Auto Policy, plus that Yacht Policy that we took out last year. We are responsible people, and we never have accidents. How much more insurance do we really need?"

What might you say to Alicia and Marco to stress the importance of obtaining a Personal Umbrella/Excess Liability Policy?

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Types of Policies

Check-In



Directions: Match the description of policy features to the correct policy type.

A. Excess Liability **B.** Personal Umbrella Liability	_____ Excess coverage is provided for exposures covered by underlying policies, and coverage is broadened to include exposures not covered by underlying policies.
	_____ Excess coverage is provided ONLY for exposures covered by underlying policies.

Knowledge Check



Directions: Describe how the coverage provided by a Personal Umbrella Liability Policy might differ from an Excess Liability (Follow Form) Policy.

_____

_____

_____

_____

_____

_____.

ISO Personal Umbrella Liability Policy Definitions

Knowledge Check



Directions: Consider definitions unique or important to the Personal Umbrella Policy. Explain each term below and provide client-friendly examples:

"Underlying Insurance"

_____

_____

_____

_____

"Personal Injury"

_____

_____

_____

_____

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Underlying Insurance

Knowledge Check



Directions: Consider the previous example of Wesley and assume the same minimum underlying limits are in place.

Personal Auto Policy	$250,000/500,000/100,000
Homeowners Policy Section II Limits	$300,000
Watercraft Policy	$300,000

Fill in the chart to show how the claim will be paid.

Wesley renews his Personal Auto Policy; however, he reduced his Personal Auto Policy bodily injury limits to $100,000/$300,000. Wesley has an at-fault accident. The resulting bodily injury claim from the other driver is $550,000.

Paid by Personal Auto Policy	
Paid by Wesley	
Paid by Personal Umbrella Liability Policy	
Total Claim	**$550,000**

Deductible/Self-Insured Retention

Knowledge Check



Directions: Wesley has a $1,000,000 Personal Umbrella Liability Policy. The required underlying limits and SIR are described in the table that follows.

Personal Auto Policy	$250,000/500,000/100,000
Homeowners Policy Section II Limits	$300,000
Self-Insured Retention	$1,000

Wesley's Homeowners Policy liability limit is $100,000. While helping his friends paint their home, Wesley improperly disposed of a towel soaked in flammable paint thinner. As a result, the fire that started in the trash can spread to his friend's home. Wesley is legally responsible for $550,000 in property damage. Consider Wesley's policy limits and SIR. Complete the chart according to how much will be paid by each policy and by Wesley.

Paid by Homeowners Policy	
Paid by Wesley	
Paid by Personal Umbrella Liability Policy	
Total Claim	**$550,000**

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ISO Personal Umbrella Liability Policy Coverages

Check-In



Directions: Indicate whether each statement is true or false.

1. All Personal Umbrella Liability and Excess Liability Policies provide defense coverage in addition to the Limit of Liability.

   True **False**

2. Post-judgment interest is interest that can accrue during the appeals process and is included as an Additional Coverage in the ISO Personal Umbrella Liability Policy.

   True **False**

3. Under the ISO Personal Umbrella Liability Policy, Additional Coverage for reasonable expenses incurred by an "insured" will fully compensate an insured for all lost wages if he or she must miss work to assist with a claim.

   True **False**

4. Pre-judgment interest is included as an Additional Coverage in the ISO Personal Umbrella Liability Policy.

   True **False**

Check-In



Directions: In which of the following scenarios would coverage be EXCLUDED in the ISO Personal Umbrella Liability Policy? **(Select all that apply.)**

- ☐ Monique is involved in a jet-ski accident for which she is at fault. Her jet-ski is covered by an underlying Watercraft Policy.
- ☐ After a heavy snow, Ron drove an ATV he owns on snow covered roads and was in an at-fault accident. He does not have an underlying Recreational Vehicle Policy.
- ☐ Adam is taking a motorcycle skill training course on a track designed by the training organization when he loses control of the motorcycle and hits another student.
- ☐ Debi did not properly maintain her 500-gallon residential propane storage tank. Propane leaking from a gas line caused injury to her neighbor's children playing nearby.

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Section 3 Self-Quiz

Directions: Fill in the blanks using the terms provided in the word bank. Terms may be used only once and not all terms will be used.

$1,000,000	**coverage gap**	**Personal Umbrella Liability**	**underlying**	**liability**
"you" and "your"	**pre-judgment interest**		**excess loss**	**Excess Liability**
self-insured retention	**$1,000,000**	**Insuring Agreement**	**Duties After Loss**	**deductible**
"insured"	**limit of liability**	**"retained limit"**	**Incurred Expenses**	**defense coverage**

1. Personal Umbrella Liability and Excess Liability Policies are designed to be _____ policies for most situations.

2. Personal Umbrella Liability Policies are _____ policies and do not cover property losses.

3. Personal Umbrella Liability/Excess Liability policies require _____ insurance such as Homeowners and Personal Auto.

4. Personal Umbrella Liability/Excess Liability policies are written for a minimum _____ limit of liability.

5. A(n) _____ Policy offers excess coverage for exposures that are covered by the underlying policy but will not insure anything that is not covered by the underlying policy.

6. A(n) _____ Policy extends the liability coverage of existing policies and offers additional "drop-down" coverage for losses that are not covered by those policies.

$1,000,000	**coverage gap**	**Personal Umbrella Liability**	**underlying**	**liability**
“you” and “your”	**pre-judgment interest**		**excess loss**	**Excess Liability**
self-insured retention	**$1,000,000**	**Insuring Agreement**	**Duties After Loss**	**deductible**
“insured”	**limit of liability**	**“retained limit”**	**Incurred Expenses**	**defense coverage**

7. _____, also called a(n) _____, is defined as the amount of a covered loss that the client is responsible for paying when a Personal Umbrella drops down to provide primary coverage.

8. The _____ of the ISO Personal Umbrella Policy states that it will pay damages in excess of the “retained limit” for which an insured is legally responsible because of an “occurrence.”

9. Any person using your owned covered “auto,” “recreational vehicle,” or “watercraft” may be considered a(n) _____ for coverage provided by the ISO Personal Umbrella Liability Policy.

10. The ISO Personal Umbrella Liability Policy provides _____ in addition to the _____ if a suit is brought against an insured.

11. The _____ Additional Coverage pays for reasonable expenses taken on by the insured at the request of the insurance company.

12. The _____ is amount paid before the policy is obligated to pay for a loss and is either the “underlying insurance” or the “deductible.”

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Directions: Select the best response(s) for the following questions. Some questions may have more than one correct answer choice—**select all that apply.**

1. Mark has an ISO Personal Umbrella Liability Policy for which he is required to maintain underlying Homeowners and Personal Auto Policies. His Personal Auto Policy expired on July 31. On August 1, Mark is driving with a friend in the passenger seat when he crashes the car into a pole. The friend is injured. What is the likely outcome for Mark if his friend files a bodily injury claim?

   - ☐ Coverage for the claim will be excluded entirely.
   - ☐ The policy will be canceled for failure to maintain the required "underlying insurance."
   - ☐ Mark will be financially responsible for the gap in coverage between the required underlying limit for personal auto insurance and the amount of insurance carried (in this case, none).
   - ☐ The claim will be paid in full, but Mark will be charged a penalty fee.

2. In the ISO Personal Umbrella Liability Policy, "recreational motor vehicle" is defined as:

   - ☐ Any motor vehicle used primarily for recreational purposes, whether on or off of public roads
   - ☐ Any motor vehicle with a maximum speed of 25 miles per hour on level ground
   - ☐ A private passenger motor vehicle, motorcycle, moped, motor home, or a vehicle designed to be pulled by a private passenger motor vehicle or motor home, including a farm wagon or farm implement while towed
   - ☐ An all-terrain vehicle, dune buggy, golf cart, snowmobile, or any other motorized land vehicle designed for recreational use off public roads
   - ☐ "Recreational motor vehicle" falls under the broader definition of "motor vehicle"; no specific definition is given for "recreational motor vehicle."

3. Which following cases would NOT be covered by the ISO Personal Umbrella Liability Policy?

   - ☐ Marie is involved in a speedboat accident in which she is at fault, and another party is injured. She does not have an underlying Watercraft Policy.
   - ☐ The insurance company requires Frank to give a deposition regarding his liability claim. Frank elects not to attend the deposition.
   - ☐ Brenna's ex-spouse was arrested after she filed a police report accusing him of stealing her trailer. She later admitted she wasn't sure if he stole the trailer. He is now suing her for malicious prosecution.
   - ☐ The defense coverage for Sandra's liability claim exceeds the policy's limit of liability.
   - ☐ Lionel is involved in an at-fault auto accident during a planned racing event, and another driver is injured.

4. Jacob has a Personal Umbrella Liability Policy that requires underlying limits of $300,000 (Homeowners) and $300,000 CSL (Personal Auto). The Umbrella deductible, or SIR, will apply in which of the following scenarios?

   - ☐ Jacob's neighbor was awarded a $500,000 settlement after Jacob's dog attacked her. Jacob's Homeowners Policy's liability limit is $100,000.
   - ☐ A judgment of $100,000 was awarded against Jacob for false imprisonment after he blocked a fellow shopper from leaving the store because he thought they stole a watch.
   - ☐ Jacob is driving in Cape Town, South Africa, and is involved in a minor at-fault accident.
   - ☐ Jacob has a non-standard Homeowners Policy. The carrier declared bankruptcy, but Jacob has a covered $20,000 watercraft liability claim.

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Section 4: Personal Lines Catastrophe Coverage

Flood Risk

Knowledge Check



Directions: Imagine that you have a client who is confused about the NFIP definition of "flood." Provide your client with an example of a scenario that would meet the NFIP definition of flood, as well as an example of a scenario that would not meet the definition of flood.

Example Scenarios:

Properly Insuring Flood Risk

Check-In



Directions: Which of the following statements are TRUE regarding NFIP flood policies? **(Select all that apply.)**

- ☐ NFIP policies are subject to a 30-day waiting period, with few exceptions.
- ☐ The maximum limit for contents coverage on an NFIP policy is $250,000.
- ☐ NFIP policy deductibles apply separately to building and contents coverage.
- ☐ Annual premium increases for primary and non-primary residences are capped at 18%.
- ☐ Contents coverage is provided on an actual cash value basis.

Knowledge Check



Directions: Based on your understanding of how the NFIP insures residential properties, make a list of property (building and contents) that may NOT be covered under an NFIP Flood Insurance Policy.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____

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Flood Insurance Markets

Knowledge Check



Directions: Your client, Jackson, has an NFIP Flood Insurance Policy written with the maximum coverage limits. Recently, home values and building costs have skyrocketed in Jackson's area, and the replacement value of his home has increased to $350,000. Provide two reasons why it is important that you encourage Jackson to purchase an excess flood policy.

1. _____

_____

2. _____

_____

Wind Risk

Check-In



Directions: Indicate whether each statement is true or false.

1. Damage caused by windstorm is excluded from all Homeowners Policies.

True **False**

2. During a tropical storm, rain blew into Juan's house through gaps around his windows and doors. This damage is not covered by his Windstorm and Hail Policy.

True **False**

3. Hurricane deductibles are the broadest of all the deductible options and include damage from windstorm and hail.

True **False**

Knowledge Check



Directions: Explain how windstorm coverage for a client in Ohio might differ from that for a client living on the coast in Florida or Hawaii. What options would likely be available to clients in each of these states?

1. _____

_____

2. _____

_____

3. _____

_____

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Wildfire Risk

Knowledge Check



Directions: Read the scenario below and provide a short answer in the appropriate boxes.

Jane's Homeowners Policy includes coverage for loss by fire; however, the property she purchased is in a forested rural area. She is concerned about brush fires or the potential of something greater during dry hot months. What resources or advice can you offer your client to help her mitigate her risks as well as prepare for and respond to a potential wildfire event?

Mitigate	
Prepare	
Respond	

Earthquake Risk

Knowledge Check



Directions: Read the scenario below and provide a short-answer explanation.

You have two stand-alone earthquake coverage quote options to present to your client. One is a traditional (or standard) policy and the other is parametric insurance. Explain the difference to your client and provide one advantage and one disadvantage to each.

_____

_____

_____

_____

Traditional earthquake policy advantages:

_____

Traditional earthquake policy disadvantages:

_____

Parametric earthquake policy advantages:

_____

Parametric earthquake policy disadvantages:

_____

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Section 4 Self-Quiz

Directions: Select the best response(s) for the following questions. **Some questions may have more than one correct answer choice—select all that apply.**

1. Which of the following individuals are at risk for a flood?
   - ☐ Martina's home is located in an SFHA.
   - ☐ Bob lives in a desert area of New Mexico and his home is on high ground.
   - ☐ Lisa's home is a half-mile from a river that is prone to overflowing during rainy seasons, but she has never filed a flood claim.
   - ☐ Georgia and Vince live five miles outside a regulated flood plain.

2. Which of the following scenarios qualifies as a flood, based on the NFIP definition of flood?
   - ☐ A sudden, heavy downpour causes a mudflow that damages numerous homes within a half-mile radius.
   - ☐ A pipe bursts in Jackie's bathroom, and her floor is covered in two inches of water.
   - ☐ An intense storm causes a small koi pond in Michael's backyard to overflow, leaving his quarter-acre yard soaked.
   - ☐ A hurricane causes tidal waters to overflow, inundating every home along a three-mile stretch of beach with water.
   - ☐ Erosion along the shores of a large causes the land to collapse into the water, and multiple properties within a three-acre area are inundated with water.

3. Which of the following are features of an NFIP Flood Insurance Policy?
   - ☐ A 60-day waiting period for coverage to take effect
   - ☐ Maximum limits of $250,000 building and $100,000 contents coverage for single-family dwellings and condos; and a maximum of $100,000 in contents coverage for renters
   - ☐ A standard deductible of $2,500 for all policies
   - ☐ Premium increases are capped at 18% for primary residences and can reach as high as 25% per year for non-primary residences.

4. Which of the following are NOT covered by the NFIP Flood Insurance Policy?

- ☐ A detached garage
- ☐ Additional living expenses
- ☐ Loss of use
- ☐ Operational machinery and equipment kept in a basement
- ☐ Mold and mildew that could not be prevented by the owner and was caused by a flood event
- ☐ Damage to the walls of a home that occurs above the flood line

5. If an individual lives in a community that does not participate in the NFIP, which of the following options are available to them to secure flood coverage?

- ☐ Flood coverage is included in the Homeowners Policy for those outside NFIP communities.
- ☐ NFIP coverage is still available to those outside participating communities through NFIP "write-your-own" coverage programs with private carriers.
- ☐ Depending on the state, flood coverage may be available through admitted or non-admitted private insurers.
- ☐ No flood coverage is available to individuals who live in a community that does not participate in the NFIP.

6. Which of the following are reasons to recommend excess flood coverage to clients?

- ☐ The NFIP Flood Insurance Policy only provides up to $100,000 in building coverage.
- ☐ The NFIP Flood Insurance Policy only provides up to $250,000 in building coverage.
- ☐ The NFIP requires all homeowners whose homes exceed the value of the policy to secure excess flood coverage.
- ☐ Offering excess flood coverage can help to protect agents against E&O claims.

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7. Which of the following statements are TRUE regarding wind coverage?

- ☐ Hail and wind coverage are often linked together.
- ☐ Damage caused by windstorm is excluded in lower-risk states but can be added through endorsement.
- ☐ Homeowners in high-risk coastal areas will typically require a separate Windstorm and Hail Policy.
- ☐ Windstorm and Hail Policies cover exterior damage from wind and hail, but do not cover "wind-driven" rain that enters a home through existing openings.
- ☐ Residual markets for windstorm exist in all 50 states.

8. Which of the following options may be available to an individual looking to secure wildfire insurance? (Options will vary based on location and other factors.)

- ☐ The National Wildfire Insurance Program, managed by FEMA
- ☐ Private Homeowners markets
- ☐ Standalone wildfire policies
- ☐ FAIR Plans
- ☐ Specialized companies for high-value Homeowners Policies
- ☐ Specialized Personal Umbrella Wildfire Policies

9. Which of the following are NOT key components included in earthquake coverage?

- ☐ Dwelling coverage, including debris removal and cost to stabilize land before rebuilding
- ☐ Contents coverage, excluding certain breakables such as crystal or pottery
- ☐ Additional Living Expense coverage when it is unsafe for occupants to stay in an earthquake-damaged home
- ☐ Coverage for all "Other Structures" located on the property

10. Which of the following are options for obtaining earthquake coverage?

- ☐ Endorsement to an existing Homeowners Policy
- ☐ Standalone policy through a private insurer
- ☐ Federally-backed policy purchased through FEMA
- ☐ California Earthquake Authority Policy issued through a Homeowners Policy insurer (CA residents only)
- ☐ Residual markets (vary by state)
- ☐ A parametric policy that is automatically triggered by an earthquake of a certain magnitude, regardless of individual losses

Directions: Match the description of mitigation measure(s) to the risk they are intended to address.

A. Wildfire **B.** Wind **C.** Earthquake **D.** Flood	_____ Building or retrofitting the home to anchor it to the foundation and add bracing where needed to meet building codes or recommendations; securing large bookcases to the wall, securing and bracing water heaters, and installing automatic gas shut-off valves to minimize the risk of fire
	_____ Replacing a standard roof with a FORTIFIED roof
	_____ Elevating the structure and, for higher-risk areas, installing specialized vents
	_____ Installing safer building features including vents, materials at the base of the walls, roofing materials, and gutters; keeping roof free of debris; creating at least five feet of defensible space around the perimeter of the structure, and locating outbuildings at least 30' from the main dwelling

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Section 5: Personal Lines Emerging Risks

Emerging Risks in Personal Lines

Knowledge Check



Directions: Read the scenario below and provide a short-answer explanation.

The year is 2015. Your client calls to let you know they've just bought a brand-new car. YAY! You are working on obtaining all the right information and generating an ID card for them when they spill the beans that they've just contracted with Uber as a driver.

You've come to understand that your client will be transporting passengers for a fee, maybe even multiple passengers at once, and he plans on doing this on a full-time basis.

Your carrier's automobile policy form is based on the latest ISO 2005 Personal Auto Policy (remember it's only 2015; the 2018 form is not here yet). The current exclusions under Part A – Liability, Part B – Medical Payments, Part C – Uninsured/Underinsured Motorists Coverage, and Part D – Coverage For Damage To Your Auto are shown here:

You also understand that your carrier's underwriting guidelines state that vehicles used for public or livery conveyance are not eligible for coverage. After reading this policy language, what risks or implications are now possible for your client? List any gaps their coverage may present and how will you address them with your client.

EXCLUSIONS

A. We do not provide Liability Coverage for any "insured":

5. For that "insured's" liability arising out of the ownership or operation of a vehicle while it is being used as a public or livery conveyance. This Exclusion **(A.5.)** does not apply to a share-the-expense car pool.

Basic Risk Management Principles

Check-In



Directions: Match the description of the risk management technique to the appropriate step in the risk management process.

A. Risk analysis **B.** Risk administration **C.** Risk financing **D.** Risk control **E.** Risk identification	_____ Tom presents his clients with endorsement and separate policy options to address their risk exposures from renting their home through a home share app.
	_____ Sanjay develops a checklist and activity analysis to help determine when clients may have an emerging risk exposure.
	_____ Li researches an emerging risk to determine the potential severity of the risk exposure and asks her clients questions to understand how frequently they are exposed to this risk.
	_____ Aliyah recommends steps her clients can take to avoid, prevent, and reduce their exposure to cybercrime, such as avoiding unsecured websites, creating complex passwords, and using two-factor authentication whenever possible.
	_____ Pat monitors state and local home sharing regulations, stays up to date on coverage options, and routinely checks in with clients to monitor their risk exposures.

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Section 5 Self-Quiz

Directions: Match the description of the emerging risk to the emerging risk type.

A. Societal **B.** Environmental **C.** Uninsurable **D.** Cyber/Technological Advancement **E.** Economic	_____ Can include natural disasters, the effects of climate change (including increasingly volatile weather patterns), as well as the financial and regulatory impact of environmental changes and conditions
	_____ Can include the development of new types of currency, changes to currency values, inflation, supply chain and labor shortages and their impact on prices, and shifts in labor and workforce, including trends toward hybrid and remote work
	_____ Can include the threat of online attacks, privacy breaches, defamatory social media communications, technology dependence, investment, and intangible assets
	_____ Can include consumer response to pandemic illnesses, social inflation, and activism as well as the effect of the gig economy on personal and commercial insurance products, and regulatory changes
	_____ Can include a narrowing of personal lines markets (such as in catastrophe-prone areas), changes in demand, and threats to the insurance industry brought on by new technology

Directions: Select the best response(s) for the following questions. Some questions may have more than one correct answer choice. **(Select all that apply.)**

1. Which of the following is NOT a common element of emerging risks?
   - ☐ High uncertainty in predicting and quantifying risk exposures
   - ☐ A wealth of research and data regarding the risk
   - ☐ Challenges in communicating the existence of the risk
   - ☐ Clear and defined options for controlling and financing the risk
   - ☐ Regulatory involvement stemming from a lack of industry response
   - ☐ No common timeframe for risk emergence, and no common approach for benchmarking risks
2. Purchasing insurance falls under which step in the risk management process?
   - ☐ Risk identification
   - ☐ Risk analysis
   - ☐ Risk control
   - ☐ Risk financing
   - ☐ Risk administration
3. Why is it important to ask clients questions to help identify potential risk exposures?
   - ☐ Clients may not always volunteer information that would indicate an exposure.
   - ☐ Clients may think all of their activities are covered by the Homeowners and Personal Auto Policies when, in reality, they may have coverage gaps.
   - ☐ Clients are likely not taking any steps to manage their personal risks.
   - ☐ All clients are deceitful and will try to hide exposures to avoid paying higher premiums.
   - ☐ Identifying risk exposures can help to protect clients financially from insurable and uninsurable risks.
4. Risk analysis involves assessing the _____ and _____ of risk exposures.
   - ☐ mitigation
   - ☐ frequency
   - ☐ financing
   - ☐ severity
   - ☐ insurability

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5. Which of the following is NOT an example of a risk control measure?
   - ☐ Avoiding the risk entirely
   - ☐ Preventing the risk exposure as much as possible
   - ☐ Preparing to pay for potential losses through insurance or retention
   - ☐ Reducing the frequency and/or severity of the risk exposure
6. Which of the following are steps an insurance professional might take to engage in ongoing risk administration?
   - ☐ Identifying risk control and risk financing measures
   - ☐ Implementing risk control and risk financing measures
   - ☐ Analyzing the frequency and severity of a newly identified risk
   - ☐ Monitoring changing laws, regulations, and coverage options as they pertain to a risk
   - ☐ Meeting with clients prior to each policy renewal to identify whether their risk exposure has changed

Answer Key

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Section 1: Business Activities

Business Activities in the Homeowners Policy

Knowledge Check



Directions: Read each of the following scenarios and explain whether the described activity would be defined as "business" according to the ISO Homeowners Policy.

1. Wanda is a professional carpenter. She has converted her attached garage into a workshop where she builds custom furniture. During her previous policy year, she received $75,000 for her work.

   Wanda's activities are defined as "business" because she is engaged in her professional trade from her home.

2. Samantha enjoys making handcrafted items for family and friends and also sells them at an annual holiday bazaar. In the 12 months prior to her current Homeowners Policy period, Samantha sold items for a total of $2,100 at the bazaar. During her current policy period, she sold $5,500 at the bazaar.

   Samantha's activities are not defined as "business" during her current policy year, but will be a "business" during her next policy period (when her policy renews) since her activity exceeded the $5,000 threshold.

3. Tommy is a stockbroker and has a horse barn with five stalls at his residence. Tommy only has one horse but he and his family enjoy caring for horses so he rents three other stalls for others to board their horses. He is not in it for a profit and breaks even on expenses at about $10,000 a year.

   Tommy's activity is considered a "business" activity since he receives more than $5,000 per year, even though it's not his trade or occupation and he doesn't make a profit.

Homeowners Policy Coverages, Exclusions, and Limitations

Check-In



Directions: For each scenario, state whether the loss would be covered under Section 1 of the Homeowners Policy.

1. Swathi has a kiln in her detached garage that she uses in her pottery business. Only 25% of the square footage is used for the kiln. The garage is damaged in a tornado.

   Covered **Not Covered**

   Not Covered (Excluded under Coverage B – Other Structures) since a "business" is being conducted from the structure.

2. Greg operates a part-time home bakery, using the kitchen in his main dwelling. He forgets to turn the oven off and the house catches on fire.

   Covered **Not Covered**

   Covered (Covered by Coverage A – Dwelling)

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Knowledge Check



Directions: Answer the question and provide an example for the client in the scenario.

While talking with Jenny about her knitting business to ensure you are addressing her potential "business" exposure, you uncover that Jenny is a massage therapist and recently moved from an office location downtown to the detached pool house in her backyard. Additionally, she offers the space for rent to other massage therapists in her area. Which (if any) exclusions or limitations will apply from Jenny's Homeowners Policy? Provide at least one example that Jenny will be able to understand which illustrates how an exclusion or limitation can impact her coverage.

"Property damage" to Other Structures will not apply when a "business" is being conducted from the structure. Example: Jenny is setting up for a client and accidentally knocks over a lit candle, which resulted in fire damage to the pool house. Coverage for the damage would be excluded.

Personal Property coverage for property primarily used for "business" is limited to $3,000 on-premises. Personal property used for the massage business will be limited to $3,000 if damaged by the fire Jenny started when she knocked over the candle.

Liability Coverage is excluded for "bodily injury" related to the rendering or failure to render Professional Services. Example: Jenny was unable to keep an appointment with one of her clients. Without the massage, the client began to suffer greatly from the pain in her back and sued Jenny for her pain as a result of Jenny not being able to keep the appointment and provide the services she committed to. Jenny's Homeowners Policy will not provide Liability Coverage for her Professional Services.

Liability Coverage is excluded for "bodily injury" or "property damage" arising out of or in connection with a "business" conducted from an "insured location" or engaged in by an "insured." Example: A client was getting situated on the massage table and fell, breaking his ankle. He sued Jenny for his medical expenses. This will not be covered by Jenny's Homeowners Policy. There is an exception for the rental or holding for rental of an "insured location" as a private office. This one may be tricky, though, and left up to interpretation by the insurance carrier. Is the location, as used for massage therapy, considered an "office"?

Homeowners Policy Endorsements

Knowledge Check



Directions: Name the endorsement that would be MOST appropriate for each of the scenarios described.

Lisa rents the apartment in her basement to local college students. Because the apartment is fully furnished, Lisa would like to increase coverage for her furnishings.	Supplemental Landlord's Furnishings Coverage
Darnell is a salesman for TNT Medical and works remotely from his home office. He occasionally meets with clients in his home.	Designated Business Pursuits Liability Coverage
Dannika is a remote employee who has furnished her home office with high-end furniture and her personal computer equipment. She wants to ensure that she has adequate coverage for her "business" property.	Increased Limits on Business Property
Keanu has converted his detached garage into a fitness studio where he operates his personal training business. He wants to obtain coverage for his Other Structure and his "business" property (such as exercise equipment), and he wants extend his liability coverage.	Permitted Incidental Occupancies – Residence Premises
Kai and Bailey rent out their detached in-law cottage to local college students during the school year, and they are seeking property and liability coverage for the unit.	Structures Rented to Others – Residence Premises

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Business Activities in the Personal Auto Policy

Knowledge Check



Directions: For each of the scenarios described, state whether the individual or business entity is an "insured" as defined by the Personal Auto Policy. Explain your answers.

1. Stacey owns Sweet Tooth Bakery and has purchased a van in the name of her business to deliver baked goods to local customers. While making a delivery, Stacey is involved in an at-fault accident. The injured person is seeking damages against both Stacey and the bakery. Is Sweet Tooth Bakery an "insured" on Stacey's Personal Auto Policy?

   Sweet Tooth Bakery is not an "insured" on Stacey's Personal Auto Policy because the vehicle is owned by the business entity.

2. Juan owns a business, Special-Tees, that makes custom t-shirts. His daughter, Monica, who resides in his home, is driving his personal vehicle to pick up an order of blank shirts for the business when she is involved in an at-fault accident. Is Special-Tees an "insured" on Juan's Personal Auto Policy?

   Special-Tees is an "insured" because it is legally responsible for the acts of an insured, Monica, while she is driving a "your covered auto" on behalf of the company.

Personal Auto Policy Coverages and Exclusions

Knowledge Check



Directions: Create a mnemonic device to help you remember the five "business" exclusions to the Personal Auto Policy.

A mnemonic device is any technique to aid in the retention or retrieval of information from memory.

Example: To remember the names of the eight planets, you might use the mnemonic device, "**M**y **v**ery **e**ducated **m**other **j**ust **s**erved **u**s **n**oodles" (**M**ercury, **V**enus, **E**arth, **M**ars, **J**upiter, **S**aturn, **U**ranus, **N**eptune), or to remember the order of operations in math, you might use the acronym, **PEMDAS** (**p**arentheses, **e**xponents, **m**ultiplication, **d**ivision, **a**ddition, **s**ubtraction).

Sample Answer:

Acronym: **BPAVV** or sentence: **B**ob **P**layed **a** **M**andolin **V**igorously.

Bodily injury of employee

Public or livery conveyance

Auto business

Maintaining a vehicle for "business" use other than passenger autos, vans, pickups, or trailers

Vehicle sharing

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Section 1 Self-Quiz

Directions: Select the best response(s) for the following questions. **Some questions may have more than one correct answer choice—select all that apply.**

1. Which of the following activities would be defined as a "business" activity according to the ISO Homeowners Policy?

   - [x] Stacey has earned $10,000 per year for the past three years selling art from her home studio.
   - [ ] Jamal is paid $700 per week to watch his cousins during the summer months.
   - [ ] Martin sells homemade candy during the winter holidays. He's only earned $500 each of the last five years from this hobby.
   - [x] Hector and Elizabeth operate a home daycare for children in their community, earning $60,000 per year.

   Stacey's art sales are defined as a "business" activity because they exceeded the annual $5,000 threshold.

   Even though Jamal is paid, watching his cousins is not a "business" activity because they are his relatives.

   Martin does not earn enough money for his candy sales to be deemed a "business" activity, and candy-making is not his trade, profession, or occupation.

   Hector and Elizabeth exceeded the $5,000 annual threshold and are not watching relative children, so their daycare is considered a "business" activity.

2. In which of the following scenarios would property coverage be EXCLUDED under Section I of an unendorsed Homeowners Policy?

- ☐ Lisa operates a small catering business using the kitchen in her main dwelling.
- ☑ Greg converted his detached garage into a classroom where he is paid to teach a "homeschool pod."
- ☑ Allison rents a detached cottage in her backyard to a graduate student.
- ☐ Ashley stores inventory for her online craft business (for which she is the sole owner) in a detached shed on her property.

Lisa operates her "business" from her main dwelling; no "business" exclusions apply to Coverage A – Dwelling.

Greg is operating a "business" in an Other Structure; damage to the Other Structure will be excluded from property coverage.

Allison is renting an Other Structure to someone who is not a tenant of the main dwelling; property coverage is excluded for the Other Structure.

Ashley's "business" property will be limited to $3,000. Her Other Structure is not excluded from coverage because Ashley is the sole owner of the "business" property and because the inventory is not fuel.

3. In which of the following scenarios would "bodily injury" and/or "property damage" coverage be EXCLUDED under Section II of the ISO Homeowners Policy?

- ☐ Frankie and June rent their condo for one week each year when a major tennis tournament is held in their town.
- ☑ Danica converted her detached garage into a gym where she operates her personal training business. The business is an LLC.
- ☑ Jerrica lives on a large estate and has a household staff including a housekeeper, groundskeeper, and cook. She provides workers' compensation for these "residence employees."
- ☑ Dan uses his personal golf cart to deliver orders from his home bake shop.

Frankie and June are excepted from the Section II Business exclusion because they only rent their home as a residence on an occasional basis and not through a "home sharing" network.

Liability nor Medical Payments to Others coverage will apply to Danica for the LLC as liability is excluded for a "business" engaged in by an "insured," or for a "business" that employs an "insured.'

Jerrica's employees will not have liability coverage for "bodily injury" to her "residence employees" since they voluntarily covered by the Workers Compensation Policy.

The "business" use of Dan's go cart is excluded from the Homeowner's Policy

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4. Which ISO Homeowners Policy endorsement would BEST respond to the following exposure: Lana operates a business from her home in which she restores and resells antique furniture. She has converted her detached garage into a workshop where she stores all of her equipment, supplies, and inventory.

- ☐ Structures Rented to Others – Residence Premises
- ☑ Permitted Incidental Occupancies – Residence Premises
- ☐ Increased Limits on Business Property
- ☐ Designated Business Pursuits Liability Coverage
- ☐ There is no appropriate endorsement

The Permitted Incidental Occupancies – Residence Premises endorsement would provide coverage for the "business" use Lana's garage if it is described in the Schedule and would remove the Special Limit of Liability for her furnishings, supplies, and equipment. It would also give back coverage previously removed by the "business" exclusion for the use of the "residence premises" to conduct "business," though it would not provide liability coverage to an employee.

5. Which of the following exposures would MOST LIKELY be best addressed by a commercial lines policy?

- [x] Professional liability
- [ ] All "work from home" situations
- [x] Property of others in the care, custody, or control of the insured
- [x] Employment Liability related exposures
- [ ] Any home business, even if part-time

Many incidental "work from home" situations and home businesses can be covered under a Homeowners Policy or addressed through an endorsement (though in some cases a commercial policy may be appropriate). The other exposures listed will likely be better addressed through a commercial policy.

Directions: Indicate whether each of the following persons or organizations are considered to be an "insured" in the Personal Auto Policy.

6. Alex is using his personal vehicle to deliver an order on behalf of his company, Tee-Riffic Custom Tees, when he is involved in an at-fault accident. Is Tee-Riffic Custom Tees considered to be an "insured" on Alex's Personal Auto Policy?

An "insured" **Not an "insured"**

Since Alex is an "insured" under his Personal Auto Policy and is using his "your covered auto," Tee-Riffic Custom Tees will also be an "insured" since it is legally responsible for the acts of Alex.

7. Milena rents a van in the name of her catering business to help carry supplies for a particularly large party. She has an at-fault accident, and the injured party is seeking damages from both Milena and the catering company. Is the catering company an "insured" in this instance?

An "insured" **Not an "insured"**

Milena is an "insured" for any auto, and the catering company is responsible for her actions; however, the van was rented in the company's name so they cannot be an "insured" under Milena's Auto Policy.

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Directions: Indicate whether each of the following business exposures are "covered or "excluded" under the Personal Auto Policy.

8. Cole is using his personal van for a delivery and his employee, Roy, is riding in the passenger seat. When Cole's car skids on a patch of black ice and crashes into a pole, Roy sustains injuries. Is Roy's "bodily injury" covered under Cole's Personal Auto Policy?

Covered **Excluded**

Roy's "bodily injury" claim would be excluded from coverage because liability is excluded for "bodily injury" to an employee of that "insured" during the course of employment.

9. Lisa regularly uses her passenger van for delivering larger items to clients. Is this "business" use covered or excluded under Part A of the Personal Auto Policy?

Covered **Excluded**

Lisa has liability for the "business" use of the vehicle because it is a private passenger van, and even though the van is being used for delivery, delivery is incidental to Lisa's businessf.

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Section 2: Recreational Lines

Recreational Vehicles

Check-In



Directions: Place a check in the box next to each scenario in which the exception to the Property Not Covered motor vehicle exclusion WOULD apply. **(Select all that apply.)**

- ☐ Molly borrowed her friend's riding lawnmower, and it was damaged by a hailstorm while parked on her property. Molly's friend has insured the lawnmower with a Specialty Equipment Policy she purchased with the lawnmower.
- ☑ Greg has an ATV with a small trailer that he uses to maintain the 10-acre property where he lives. He brings the ATV to his mother's house to clear her driveway after a storm blew a tree down.
- ☐ Gurpreet has a dirt track behind her house where she and her family use their go-cart for fun. The go-cart was stolen from a parking lot where Gurpreet's son parked it after participating in a community parade.

The exception to the Property Not Covered motor vehicle exclusion does not apply to Molly because the lawnmower is insured by its owner.

The exception to the motor vehicle exclusion applies to Greg because his ATV is only used to service residences (his and his mother's).

The exception to the motor vehicle exclusion does not apply to Gurpreet's go-cart because it is being used for more than servicing a residence.

Knowledge Check



Directions: Read the scenario below and provide a short-answer explanation.

Derrick, your client, is an avid sportsman. He owns an XTV (extreme terrain vehicle) that can trek on land, through mud, and navigate through bodies of water. During excursions with friends, Derrick often swaps his XTV with one of theirs while having fun. Explain to Derrick how his Homeowners Policy will respond to damage to his own XTV and to a friend's XTV when he is driving either.

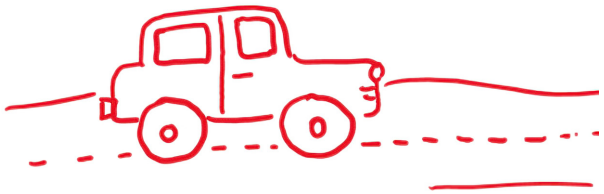
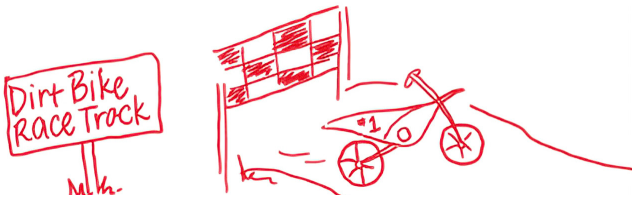
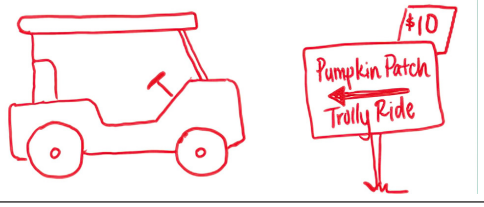
Damage to Derrick's owned XTV: Derrick will not have coverage for damage to the XTV he owns since the vehicle is not used to solely service a residence.

Damage to a friend's XTV that Derrick is driving: Section I – Property Coverages will not apply since the XTV is not solely used to service a residence. Derrick will have coverage from Section II – Liability Coverages up to the limit of liability for damage caused by fire, explosion, or smoke if he is legally liable for the damage. If Derrick causes any other type of damage, his policy will only pay up to $5,000 for damage to a friend's XTV, as provided in Section II – Additional Coverages, Damage To Property Of Others.

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Check-In

Directions: Draw a doodle to illustrate each item from Part I of the "Motor Vehicle Liability" exclusion in the Homeowners Policy.

Exclusion	Doodle Sample Answers
Registered for use on public roads or property	
Not registered for use on public roads or property, but registration (or licensing) was required for the motor vehicle to have been used in the place of the "occurrence"	
Being operated in or practicing for a prearranged or organized race, speed contest, or other competition;	
Being rented to others	
Being used to carry cargo or persons for a charge	
Being used for any "business" purpose except for a golf cart on a golfing facility.	

Check-In



Directions: Which of the following are examples of vehicles that are excluded from liability coverage by the "motor vehicle liability" exclusion in the ISO Homeowners Policy? **(Check all that apply.)**

- [x] A motorized scooter that is required to be registered for use on public roads.
- [x] A golf cart Kip owns and is driving around his co-worker's tennis community.
- [ ] A battery-operated child's riding toy designed for use by children ages seven and under that does not exceed five miles per hour.
- [x] An "insured's" dune buggy that is included in the rental agreement to their beachside vacation home.
- [ ] A golf cart being used to entertain an "insured's" clients on a golf course.

The motorized scooter is excluded from Homeowners liability coverage because it is required to be registered for use on public roads.

Kip's golf cart is excluded from Homeowners liability coverage because he is driving it outside of the residential community where his residence is located.

The child's riding toy is an exception to the exclusion because it meets the exception requirements listed in this subsection.

The dune buggy is excluded because it is being rented to others.

The golf cart is not excluded, even though it is used for "business" purposes, because it is being used at a golfing facility.

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Knowledge Check



Directions: Identify at least three ways an owned recreational auto will receive liability coverage from the ISO Homeowners Policy when off an "insured location."

1. Owned golf cart on a golf course
2. Owned golf cart while in a private residential community subject to the authority of the property owners' association AND where an "insured's" residence is located.
3. Battery operated child's motorized toy (made for children under seven years and does not exceed five mph)
4. With the Incidental Low Power Recreational Motor Vehicle Liability Coverage endorsement on a recreational auto (like e-bike/scooter, go cart, dirt bike) that does not exceed 28 mph
5. With the Owned Snowmobile Liability Coverage endorsement, a snowmobile off the insured location

Knowledge Check



Directions: Consider the property and liability coverages provided for recreational vehicles by the Homeowners and Personal Auto policies when answering the following questions.

1. Keisha owns a vacation home at a popular beachside destination. She rents the home through VRBO and allows rental guests to use her golf cart around the community for an additional fee while staying at the home. What coverage (if any) does Keisha have for her golf cart under her unendorsed ISO Homeowners and ISO Personal Auto Policies?

   The Homeowners Policy excludes damage to Keisha's golf cart as Property Not Covered since it is not being used to service a residence and it is also used for "home-sharing host activities." Homeowners Liability Coverages will not be provided since it is being rented to others. The Personal Auto Policy will not provide property damage since the golf cart is not a "your covered auto" on the Declarations and liability is excluded for a vehicle designed mainly for use off public roads.

2. Are there any endorsements that Keisha could add to either her Homeowners Policy or Personal Auto Policy to protect her golf cart?

   ISO Homeowners Policy: The Owned Motorized Golf Cart Physical Loss Coverage endorsement will not be beneficial as coverage provided by the endorsement remains excluded when the vehicle is rented to others. This endorsement is for physical loss only, not liability coverage.

   ISO Personal Auto Policy: If the golf cart is added to the Personal Auto Policy with the Miscellaneous Type Vehicle Endorsement, the golf cart becomes a "your covered auto," and anyone driving a "your covered auto" is an "insured" for Liability Coverage. However, the insurance company may consider the liability exclusions related to"business." Liability coverage for "business" use is only given back for a private passenger auto, pickup, van, or trailer used with them.

   There are no relevant exclusions for Coverage For Damage To Your Auto. She may have coverage for damage to the golf cart under a properly endorsed Personal Auto Policy.

3. Do you feel a separate Recreational Vehicle Policy would be better suited to meet Keisha's needs? Why or why not?

   A Recreational Vehicle Policy will provide a greater possibility of coverage for Kiesha given the right insurance carrier with the right coverage and option for "business use." Having a Recreational Vehicle Policy will also keep higher risks (and related claims) off the primary Home and Auto Policies.

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Watercraft

Knowledge Check



Directions: Describe how the coverage provided for property damage to watercraft by the ISO Homeowners 3 – Special Form Policy differs from the coverage provided for property damage to recreational vehicles.

Sample Answer:

Both recreational vehicles and watercraft are covered personal property for 16 named perils, however, recreational autos (as "motor vehicles") are excluded from property coverage unless they are solely used to service a residence. Watercraft (as well as their equipment and trailers) are covered up to $2,000 for the 16 named perils, however, exclusions do apply for watercraft under the perils of wind/hail and theft.

Knowledge Check



Directions: Review each scenario and decide if the unendorsed ISO Homeowners Policy will provide liability coverage. Explain your answer.

1. Jolene purchased a 28-ft sailboat. She hasn't gotten it to a marina yet and is storing it behind her home, for now. Her child and their friends were playing on the boat when one fell from the bow pulpit and broke their arm.

Covered **Not Covered**

While the boat is being stored, Jolene has liability coverage from her Homeowners Policy. Once the boat is no longer stored, Jolene will not have liability coverage since the sailboat is over 26 ft.

2. Eddie is on vacation in Alabama and rents an 18-ft, 150-hp speed boat to cruise Mobile Bay and later watch the sunset. While cruising the bay he is challenged to a spontaneous race. Just as he got started, he hit a wakeboarder causing injury to them.

Covered **Not Covered**

Eddie has liability coverage from his Homeowners Policy. The policy provides liability for non-owned watercraft, even when it is more than 25 hp. There is an exclusion for racing in the Homeowners Policy, but this is only for prearranged or organized racing; spontaneous racing will be covered.

3. Max purchased a 75-hp outboard engine pontoon boat two years ago. While on the lake he ran into a dock pier, causing the dock to collapse. He contacted his insurance agent who discovered Max never told her or his insurance carrier about the boat.

Covered **Not Covered**

The Homeowners Policy does not provide liability coverage for owned watercraft over 25 total horsepower. The policy does provide automatic coverage for watercraft with outboard engine(s) over 25 hp when acquired during the policy period, but Max purchased the boat two years ago, which is outside the policy period.

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Knowledge Check



Directions: Provide an example to show how the ISO Personal Auto Policy might provide property damage coverage for a boat trailer. Provide a second example to show when property damage for a boat trailer would not be covered.

Sample Answers:

Shandra's boat trailer is parked in her driveway when a large tree branch falls on it, causing damage. Shandra listed the trailer in the Declarations of her Personal Auto Policy with Other than Collision Coverage, so damage to the trailer would be covered by the policy.

Marcus was towing his boat to the marina when he swerved to avoid hitting a squirrel. His boat trailer swung out and hit the guardrail, causing damage. Marcus did not list the trailer on the Declarations of his Personal Auto Policy with Collision Coverage, so he would not receive coverage for damage to the trailer.

Section 2 Self-Quiz

Directions: Match each scenario to the MOST appropriate recreational vehicle endorsement to the Homeowners or Personal Auto Policy.

A. Incidental Low Power Recreational Motor Vehicle Liability Coverage Endorsement **B.** Owned Snowmobile Liability Coverage Endorsement **C.** Miscellaneous Type Vehicle Endorsement **D.** Owned Motorized Golf Cart Physical Loss Coverage Endorsement **E.** Snowmobile Endorsement	**D.** Melissa recently purchased a golf cart and wants to cover direct physical losses, including collision. **B.** Tom wants liability coverage for his snowmobile when he is away from the "insured locations." He also wants to extend liability coverage to anyone he permits to use the snowmobile. **A.** Ginny's daughter has a battery-powered electric scooter that she rides around the neighborhood and a short distance to and from school along public roads. She wants to ensure she has liability coverage should her daughter be responsible for injury or damage to others. **E.** Lucia and Julio would like to add liability, medical payments, uninsured/underinsured motorist, other than collision, and collision coverages to their snowmobile. **C.** Seiya wants liability, medical payments, uninsured/underinsured motorist, other than collision, and collision coverage for his ATV.

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Directions: Indicate whether each statement is true or false.

1. All recreational vehicles are exempt from the Section I "motor vehicle" exclusion of the ISO Homeowners Policy, as long as they are not required to be registered for use on public roads.

True **False**

Owned recreational vehicles are only exempt from the exclusion in Section I – Property Coverages if they are used solely to service a residence or designed to assist the handicapped.

2. Jim has a golf cart that he only uses to check his fences and clean up fallen branches at his residence. The only exception is when he decorates it and rides it in his community's 4th of July parade. The property exclusion DOES NOT apply since Jim primarily uses his golf cart to service his residence.

True **False**

Because Jim uses the golf cart in the 4th of July parade, it is not solely used to service a residence, and as such, the property exclusion DOES apply.

3. If damage to a non-owned recreational vehicle is excluded in Coverage E – Personal Liability, up to $5,000 coverage may be provided by the Section II – Additional Coverage, Damage to the Property of Others.

True **False**

This additional coverage includes damage to a rented or borrowed vehicle as long as it was designed for use off public roads, was not used for "business" purposes, and was not subject to vehicle registration at the time of the occurrence.

4. Non-owned (rented or borrowed) recreational vehicles are excluded from liability coverage under Section II of the Homeowners policy.

True **False**

Liability coverage is provided for an "insured's" use of a non-owned (rented or borrowed) recreational vehicle that is designed for use off public roads.

5. Wanda owns a hair salon and decides to decorate her golf cart for her residential community's annual 4th of July parade. Wanda put salon advertising on the golf cart offering a 10% discount on appointments booked on July 4th. Wanda does NOT have liability coverage under Section II of the Homeowners Policy should a loss occur during the parade.

True **False**

Wanda is using her golf cart for a "business" purpose outside of a golfing facility, so it is excluded from coverage under Section II of the Homeowners Policy.

6. The ISO Personal Auto Policy provides liability coverage for all recreational vehicles, regardless of whether they are used primarily on public roads.

True **False**

There is no liability coverage for a vehicle with fewer than four wheels or a vehicle designed mainly for use off public roads, except for vehicles being used in a medical emergency or non-owned golf carts for other than "business use."

7. In the ISO Homeowners Policy, watercraft, including its trailer, furnishings, equipment, and outboard engine(s) or motor(s) is subject to a Special Limit of Liability of $5,000 per loss.

True **False**

In the Homeowners Policy, watercraft, including its trailer, furnishings, equipment, and outboard engine(s) or motor(s) is subject to a Special Limit of Liability of $2,000 per loss.

8. Under Section II of the ISO Homeowners Policy, when damage to a rented or borrowed watercraft is caused by fire, smoke or explosion AND the client is legally responsible, the loss is covered up to the Coverage E – Personal Liability Limit of Liability.

True **False**

Section II covers damage to property of others when caused by fire, smoke, or explosion for which the insured is legally responsible. However, watercraft is excluded from this $5,000 Section II – Additional Coverage.

9. An owned kayak is exempt from the "watercraft liability" exclusion in Section II of the Homeowners Policy.

True **False**

These types of watercraft are not included in the definition of watercraft, therefore "watercraft liability" exclusions do not apply to them. They will receive liability coverage from the Homeowners Policy.

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Section 3: Personal Umbrella/Excess Liability

Characteristics of Typical Personal Umbrella/ Excess Liability Policies

Check-In



Directions: Which of the following statements is/are TRUE regarding the characteristics of Personal Umbrella/Excess Liability Policies? **(Check all that apply).**

- ☐ They are primary policies designed to cover specific catastrophic losses.
- ☑ They respond only to liability losses, and do not cover damage to an insured's property.
- ☑ They require underlying insurance.
- ☐ They have a maximum $1,000,000 limit of liability.
- ☑ They are designed to cover large losses and are priced accordingly.

Knowledge Check



Directions: Read the following scenario and explain how you would respond to a client in this situation.

Your clients Alicia and Marco are a high-earning married couple. They own a luxury condo in the city and two high-end cars. You suggest to Alicia and Marco that a Personal Umbrella or Excess Liability Policy can help them to protect their current assets, as well as any future assets. "I don't know," Alicia says, "We already have a Homeowners Policy and Personal Auto Policy, plus that Yacht Policy that we took out last year. We are responsible people, and we never have accidents. How much more insurance do we really need?"

What might you say to Alicia and Marco to stress the importance of obtaining a Personal Umbrella/Excess Liability Policy?

Sample Answer(s):

Having a Homeowners and Personal Auto Policy is just the first step in insurance and financial protection. The Homeowners and Personal Automobile Policies each have a maximum limit of liability, and if an incident occurs that exceeds the limit of liability, you will be financially responsible. Have you ever driven to work and not remembered to pay attention to your route? Have you ever driven home tired and needed to roll the windows down to keep yourself awake? In the blink of an eye, you could cross a center line, experience a catastrophic loss, and be responsible for decades of medical treatment for the person you injure. Or, you may be responsible for the death, funeral expense, loss of income, and pain and suffering of survivors for years after the accident.

Have you ever left an online review of a business or product? Or, made a rude comment on social media? You could be held responsible for "personal injury" such as libel or slander, which may not be covered by your Homeowners Policy. The costs of lawyers, research, court fees, and more can be hefty expenses themselves, even if you win your lawsuit and do not owe a penny in the judgment. Personal injury coverage and defense costs are both covered by the Umbrella Policy. Why risk a lot just to save a little?

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Types of Policies

Check-In



Directions: Match the description of policy features to the correct policy type.

A. Excess Liability **B.** Personal Umbrella Liability	**A.** Excess coverage is provided for exposures covered by underlying policies, and coverage is broadened to include exposures not covered by underlying policies.
	B. Excess coverage is provided ONLY for exposures covered by underlying policies.

Knowledge Check



Directions: Describe how the coverage provided by a Personal Umbrella Liability Policy might differ from an Excess Liability (Follow Form) Policy.

Personal Umbrella Liability Policies increase the limits of liability on underlying policies and also offer broader "drop-down" coverage for losses that are not covered by underlying policies. Excess Liability Policies differ from Personal Umbrella Policies because, while they still provide excess liability coverage for losses that are covered by a client's underlying policies, they are not designed to provide broadened coverage for losses that are not covered by these policies.

ISO Personal Umbrella Liability Policy Definitions

Knowledge Check



Directions: Consider definitions unique or important to the Personal Umbrella Policy. Explain each term below and provide client-friendly examples:

"Underlying Insurance"

"Underlying insurance" is the policy that provides primary liability (or first limit of liability). **Client Example:** Your neighbor sues you for a dog bite. This is generally covered by your Homeowners and/or Personal Umbrella Policy. Your Homeowners Policy responds first; it is an underlying policy to the Umbrella Policy.

"Personal Injury"

This is not like physical injury or "bodily injury" to a person; rather, this is often an accusation of wrongdoing. **Client example:** You made a mistake by processing an eviction and changing the locks on the wrong tenant's home. You are being sued for wrongful eviction. This is "personal injury." **Client Example:** Your teenage child left a terrible comment about a teacher on a school blog (or social media). You are being sued for libel. This is "personal injury."

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Underlying Insurance

Knowledge Check



Directions: Consider the previous example of Wesley and assume the same minimum underlying limits are in place.

Personal Auto Policy	$250,000/500,000/100,000
Homeowners Policy Section II Limits	$300,000
Watercraft Policy	$300,000

Fill in the chart to show how the claim will be paid.

Wesley renews his Personal Auto Policy; however, he reduced his Personal Auto Policy bodily injury limits to $100,000/$300,000. Wesley has an at-fault accident. The resulting bodily injury claim from the other driver is $550,000.

Paid by Personal Auto Policy	$100,000
Paid by Wesley	$150,000
Paid by Personal Umbrella Liability Policy	$300,000
Total Claim	**$550,000**

Wesley is responsible for the difference between the required underlying limit ($250,000 BI per person) and the limit he actually carried ($100,000 BI per person). The Umbrella Policy will pay the excess over the required underlying limit.

Deductible/Self-Insured Retention

Knowledge Check



Directions: Wesley has a $1,000,000 Personal Umbrella Liability Policy. The required underlying limits and SIR are described in the table that follows.

Personal Auto Policy	$250,000/500,000/100,000
Homeowners Policy Section II Limits	$300,000
Self-Insured Retention	$1,000

Wesley's Homeowners Policy liability limit is $100,000. While helping his friends paint their home, Wesley improperly disposed of a towel soaked in flammable paint thinner. As a result, the fire that started in the trash can spread to his friend's home. Wesley is legally responsible for $550,000 in property damage. Consider Wesley's policy limits and SIR. Complete the chart according to how much will be paid by each policy and by Wesley.

Paid by Homeowners Policy	$100,000
Paid by Wesley	$200,000
Paid by Personal Umbrella Liability Policy	$350,000
Total Claim	**$550,000**

The SIR does not apply to this loss because the underlying Homeowners Policy covers the loss. Wesley did not maintain adequate underlying limits so he is responsible for the gap between what his Homeowners Policy will pay and the required underlying limits. His Umbrella Policy will still only pay the claim in excess of what his underlying policy should have paid if adequate limits had been purchased.

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ISO Personal Umbrella Liability Policy Coverages

Check-In



Directions: Indicate whether each statement is true or false.

1. All Personal Umbrella Liability and Excess Liability Policies provide defense coverage in addition to the Limit of Liability.

True **False**

While the ISO Personal Umbrella Liability Policy provides defense coverage in addition to the Limit of Liability, other Personal Umbrella Liability and Excess Liability Policies may provide defense coverage inside the Limit.

2. Post-judgment interest is interest that can accrue during the appeals process and is included as an Additional Coverage in the ISO Personal Umbrella Policy.

True **False**

If the appeal is lost, the ISO Personal Umbrella Liability Policy will cover post-judgment interest as an Additional Coverage.

3. Under the ISO Personal Umbrella Liability Policy, Additional Coverage for reasonably expenses incurred by an "insured" will fully compensate an insured for all lost wages if he or she must miss work to assist with a claim.

True **False**

The Additional Coverage for resonably incurred expenses will reimburse the insured for up to $250 per day for lost wages.

4. Pre-judgment interest is included as an Additional Coverage in the ISO Personal Umbrella Liability Policy.

True **False**

Pre-judgment interest is included in the Limit of Liability as stated in the Insuring Agreement.

Check-In



Directions: In which of the following scenarios would coverage be EXCLUDED in the ISO Personal Umbrella Liability Policy? **(Select all that apply.)**

- ☐ Monique is involved in a jet-ski accident for which she is at fault. Her jet-ski is covered by an underlying Watercraft Policy.
- ☑ After a heavy snow, Ron drove an ATV he owns on snow covered roads and was in an at-fault accident. He does not have an underlying Recreational Vehicle Policy.
- ☐ Adam is taking a motorcycle skill training on a course designed by the training organization when he loses control of the motorcycle and hits another student.
- ☑ Debi did not properly maintain her 500-gallon residential propane storage tank. Propane leaking from a gas line caused injury to her neighbor's children playing nearby.

Watercraft and recreational vehicles are excluded under the ISO Personal Umbrella Liability Policy unless covered by an underlying policy, so coverage is excluded for Ron but not for Monique.

The exclusion for pre-arranged racing and skill competitions does not apply to Adam because he was participating in a motorcycle skill training at a course designed by the specified organization.

The Personal Umbrella Liability Policy excludes liability related to fuel leaking from a "fuel tank." (Recall the definition of "fuel tank".)

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Section 3 Self-Quiz

Directions: Fill in the blanks using the terms provided in the word bank. Terms may be used only once and not all terms will be used.

$1,000,000	**coverage gap**	**Personal Umbrella Liability**	**underlying**	**liability**
"you" and "your"	**pre-judgment interest**		**excess loss**	**Excess Liability**
self-insured retention	**$1,000,000**	**Insuring Agreement**	**Duties After Loss**	**deductible**
"insured"	**limit of liability**	**"retained limit"**	**Incurred Expenses**	**defense coverage**

1. Personal Umbrella Liability and Excess Liability policies are designed to be excess loss policies for most situations.

2. Personal Umbrella Liability Policies are liability policies and do not cover property losses.

3. Personal Umbrella Liability/Excess Liability policies require underlying insurance such as Homeowners and Personal Auto.

4. Personal Umbrella Liability/Excess Liability policies are written for a minimum $1,000,000 limit of liability.

5. A(n) Excess Liability Policy offers excess coverage for exposures that are covered by the underlying policy but will not insure anything that is not covered by the underlying policy.

6. A(n) Personal Umbrella Liability Policy extends the liability coverage of existing policies and offers additional "drop-down" coverage for losses that are not covered by those policies.

$1,000,000	coverage gap	Personal Umbrella Liability	underlying	liability
"you" and "your"	pre-judgment interest		excess loss	Excess Liability
self-insured retention	$1,000,000	Insuring Agreement	Duties After Loss	deductible
"insured"	limit of liability	"retained limit"	Incurred Expenses	defense coverage

7. Self-insured retention, also called a(n) deductible, is defined as the amount of a covered loss that the client is responsible for paying when a Personal Umbrella or Hybrid Policy drops down to provide primary coverage.

8. The Insuring Agreement of the ISO Personal Umbrella Policy states that will pay damages in excess of the "retained limit" for which an insured is legally responsible because of an "occurrence."

9. Any person using your owned, covered "auto," "recreational vehicle," or "watercraft;" may be considered a(n) "insured" for coverage provided by the ISO Personal Umbrella Liability Policy.

10. The ISO Personal Umbrella Liability Policy provides defense coverage in addition to the limit of liability if a suit is brought against an insured.

11. The Incurred Expenses Additional Coverage pays for reasonable expenses taken on by the insured at the request of the insurance company.

12. The "retained limit" is amount paid before the policy is obligated to pay for a loss and is either the "underlying insurance" or the "deductible."

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Directions: Select the best response(s) for the following questions. Some questions may have more than one correct answer choice—**select all that apply.**

1. Mark has an ISO Personal Umbrella Liability Policy for which he is required to maintain underlying Homeowners and Personal Auto policies. His Personal Auto Policy expired on July 31. On August 1, Mark is driving with a friend in the passenger seat when he crashes the car into a pole. The friend is injured. What is the likely outcome for Mark if he files a bodily injury claim?

   ☐ Coverage for the claim will be excluded entirely.

   ☐ The policy will be canceled for failure to maintain the required "underlying insurance."

   ☑ Mark will be financially responsible for the gap in coverage between the required underlying limit for Personal Auto insurance and the amount of insurance carried (in this case none).

   ☐ The claim will be paid in full, but Mark will be charged a penalty fee.

   Mark will be responsible for the gap in coverage (in this case, the entire underlying limit) because he failed to maintain the required amount of Personal Auto Insurance.

2. In the ISO Personal Umbrella Policy, "recreational motor vehicle" is defined as:

   ☐ Any motor vehicle used primarily for recreational purposes, whether on or off of public roads.

   ☐ Any motor vehicle with a maximum speed of 25 miles per hour on level ground.

   ☐ A private passenger motor vehicle, motorcycle, moped, motor home or a vehicle designed to be pulled by a private passenger motor vehicle or motor home including a farm wagon or farm implement while towed.

   ☑ An all-terrain vehicle, dune buggy, golf cart, snowmobile or any other motorized land vehicle designed for recreational use off public roads.

   ☐ "Recreational motor vehicle" falls under the broader definition of "motor vehicle"—no specific definition is given for "recreational motor vehicle."

   While there is no standard definition provided in the Homeowners Policy, the ISO Personal Umbrella Liability Policy defines "recreational motor vehicle" as an all-terrain vehicle, dune buggy, golf cart, snowmobile, or any other motorized land vehicle designed for recreational use off public roads.

3. Which following cases would NOT be covered by a Personal Umbrella Liability Policy?

- [x] Marie is involved in a speedboat accident in which she is at fault, and another party is injured. She does not have an underlying Watercraft Policy.
- [x] The insurance company requires Frank to give a deposition regarding his liability claim. Frank elects not to attend the deposition.
- [ ] Brenna's ex-spouse was arrested after she filed a police report accusing him of stealing her trailer. She later admitted she wasn't sure if he stole the trailer or not. He is now suing her for malicious prosecution.
- [ ] The defense coverage for Sandra's liability claim exceeds the policy's limit of liability.
- [x] Lionel is involved in an at-fault auto accident during a planned racing event, and another driver is injured.

Coverage is excluded for Marie's claim because watercraft liability is excluded as Marie does not have an underlying Watercraft Policy.

The insurance company has no duty to provide coverage for Frank's claim because he failed to comply with the "Duties After a Loss" provision.

Malicious prosecution is a covered "personal injury" claim; Brenna's policy will provide coverage.

Sandra's defense coverage is provided in addition to the limit of liability, so the claim would still be paid.

Lionel's claim would not be paid because pre-arranged racing and skill competitions are excluded from coverage.

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4. Jacob has a Personal Umbrella Liability Policy that requires underlying limits of $300,000 (Homeowners) and $300,000 CSL (Personal Auto). The Umbrella deductible, or SIR, will apply in which of the following scenarios?

- ☐ Jacob's neighbor was awarded a $500,000 settlement after Jacob's dog attacked her. Jacob's Homeowners liability limit is $100,000.
- ☑ A judgment of $100,000 was awarded against Jacob for false imprisonment after he blocked fellow shopper from leaving because he though they stole a watch.
- ☑ Jacob is driving in Cape Town, South Africa and is involved in a minor at-fault accident.
- ☐ Jacob has a non-standard Homeowners Policy. The carrier declared bankruptcy, but Jacob has a $20,000 covered watercraft liability claim.

Jacob was required to maintain $300,000 Homeowners liability but only has $100,000. The SIR/deductible does not apply, and he is financially responsible for the $200,000 limits gap.

A deductible/SIR will apply to false imprisonment as "personal injury" if not covered by his Homeowners Policy.

The Personal Auto Policy is limited to Canada, Puerto Rico, the US, and its territories, but the Personal Umbrella Liability Policy has worldwide coverage territory; an SIR/deductible will apply.

The deductible/SIR will not apply in instances where underlying coverage would have paid a covered claim had the carrier not declared bankruptcy. Jacob will be financially responsible for the $20,000 watercraft liability claim.

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Section 4: Personal Lines Catastrophe Coverage

Flood Risk

Knowledge Check



Directions: Imagine that you have a client who is confused about the NFIP definition of "flood." Provide your client with an example of a scenario that would meet the NFIP definition of flood, as well as an example of a scenario that would not meet the definition of flood.

Example Scenarios:

A severe thunderstorm causes a rapid accumulation of water in a storm drain behind several homes. Water topped the storm drain and covered multiple properties, the roads, and walking trails. Quick-moving groundwater washes into the client's home, causing significant property damage. This scenario meets the definition of flood.

A client left their livingroom window open and heavy rain entered through the windows causing damage to the wall, flooring, and property. This scenario does not meet the definition of flood, because only one property is impacted.

Properly Insuring Flood Risk

Check-In



Directions: Which of the following statements are TRUE regarding NFIP flood policies? **(Select all that apply.)**

- [x] NFIP policies are subject to a 30-day waiting period, with few exceptions.
- [ ] The maximum limit for contents coverage on an NFIP policy is $250,000.
- [x] NFIP deductibles apply separately to building and contents coverage.
- [ ] Annual premium increases for primary and non-primary residences are capped at 18%.
- [x] Contents coverage is provided on an actual cash value basis.

The maximum NFIP limit for building coverage is $250,000.

The limit for contents coverage is $100,000.

Premium increases are capped at 18% per year for primary residences and 25% per year for non-primary residences.

Knowledge Check



Directions: Based on your understanding of how the NFIP insures residential properties, make a list of property (building and contents) that may NOT be covered under an NFIP Flood Insurance Policy.

1. Other Structures (other than detached garages): Pool houses, sheds, in-law houses, etc. (solution – an additional flood policy must be purchased for other buildings)
2. open decks or walkways (like a wheelchair ramp)
3. trees/plants (consider landscaping)
4. swimming pools
5. fences
6. personal property in basements (other than machinery and equipment connected to power)
7. only property/damage below the flood line

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Flood Insurance Markets

Knowledge Check



Directions: Your client, Jackson, has an NFIP Flood Insurance Policy written with the maximum coverage limits. Recently, home values and building costs have skyrocketed in Jackson's area, and the replacement value of his home has increased to $350,000. Provide two reasons why it is important that you encourage Jackson to purchase an excess flood policy.

1. An Excess flood policy will ensure that Jackson's home is insured against flood losses above the $250,000 maximum limit provided by an NFIP Flood Insurance Policy. Without it, he could stand to lose $100,000 if his home was destroyed by a flood.
2. Recommending that Jackson purchase an Excess flood policy will protect you—the agent—against a potential E&O claim.

Wind Risk

Check-In



Directions: Indicate whether each statement is true or false.

1. Damage caused by windstorm is excluded from all Homeowners Policies.

   True **False**

   In high-risk coastal areas, wind coverage is often excluded from Homeowners Policies. In states with a lower catastrophe risk, windstorm and hail coverage may still be included on the Homeowners or Dwelling Policies.

2. During a tropical storm, rain blew into Juan's house through gaps around his windows and doors. This damage is not covered by his Wind and Hail policy.

   True **False**

   Water blowing into the house without exterior damage is classified as "wind-driven rain" and is not covered by a wind policy.

3. Hurricane deductibles are the broadest of all the deductible options and include damage from windstorm and hail.

   True **False**

   A hurricane deductible will only apply to damage from hurricanes and not from other windstorm events. A wind and hail deductible applies to all wind and hail damage, including hurricanes, tropical storms, tornadoes, and any other windstorm events.

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Knowledge Check



Directions: Explain how windstorm coverage for a client in Ohio might differ from that for a client living on the coast in Florida or Hawaii. What options would likely be available to clients in each of these states?

1. A client living in Ohio would very likely have wind coverage included in their Homeowners Policy.
2. In Florida, wind may be excluded from the Homeowners Policy, but clients can purchase such coverage from a state-run Citizens Insurance company.
3. In Hawaii, the client may need to purchase wind insurance in the form of a private hurricane policy (which would exclude flood coverage).

Wildfire Risk

Knowledge Check



Directions: Read the scenario below and provide a short answer in the appropriate boxes.

Jane's Homeowners Policy includes coverage for loss by fire; however, the property she purchased is in a forested rural area. She is concerned about brush fires or the potential of something greater during dry hot months. What resources or advice can you offer your client to help her mitigate her risks as well as prepare for and respond to a potential wildfire event?

Mitigate	- update building features with non-combustible materials at the base of the home and with fire-resistant vents - keep the roof clear of debris - update roof with Class A-rated materials - create a defensible space around the home of at least five feet - ensure other structures are at least 30 feet away from the home
Prepare	- document all contents in the home - store documented information online - prepare a "go box" or other emergency kit for evacuation - map out and practice evacuation routes
Respond	- evacuate when told to evacuate - if safe to do so, reduce loss to personal property by relocating property to a safer area

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Earthquake Risk

Knowledge Check



Directions: Read the scenario below and provide a short-answer explanation.

You have two stand-alone earthquake coverage quote options to present to your client. One is a traditional (or standard) policy and the other is parametric insurance. Explain the difference to your client and provide one advantage and one disadvantage to each.

Sample Answers:

Traditional earthquake policies functions a lot like Homeowners insurance and provides coverage for direct damage to property as a result of an earthquake. Parametric insurance is different in that it provides a predetermined lump sum payment (even if there is no damage), dependent on specified triggers, like the size of an earthquake.

Traditional earthquake policy advantages:

- Provides coverage that is excluded from the Homeowners Policy

- Provides coverage for additional living expenses

- Provides coverage for Loss Assessment if charged by POA/HOA for earthquake loss

- Provides coverage up to the limits for Dwelling, Others Structures, and Personal Property.

- Affordable

Traditional earthquake policy disadvantages:

- Large deductible

- Coverage for masonry veneer must be selected to be covered

- Still excludes sinkhole and flood

Parametric earthquake policy advantages:

- Provides coverage that is excluded from the Homeowners Policy

- No adjusters needed; payment is sent automatically based on predetermined triggers

- When combined with traditional Earthquake Insurance, payment can help pay for the high deductible of traditional earthquake insurance.

- Lump sum payment, regardless of damage

- Affordable

Parametric earthquake policy disadvantages:

- Lump sum payment may not be enough to coverage damages

- No additional payments for Additional Living Expenses or Loss Assessment

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Section 4 Self-Quiz

Directions: Select the best response(s) for the following questions. Some questions may have more than one correct answer choice—select all that apply.

1. Which of the following individuals are at risk for a flood?

   ☑ Martina's home is located in an SFHA.

   ☑ Bob lives in a desert area of New Mexico and his home is on high ground,

   ☑ Lisa's home is half a mile from a river that is prone to overflowing during rainy seasons, but she has never filed a flood claim.

   ☑ Georgia and Vince live five miles outside of a regulated flood plain.

   Even if a property is outside a regulated flood plain or SFHA, all properties have some risk for flood. There are many causes of floods, including unusually heavy rains or burst water lines, that could affect individuals regardless of their proximity to a body of water.

2. Which of the following scenarios qualifies as a flood, based on the NFIP definition of flood?

   ☑ A sudden, heavy downpour causes a mudflow that damages numerous homes within a half-mile radius.

   ☐ A pipe bursts in Jackie's bathroom, and her floor is covered in 2 inches of water.

   ☐ An intense storm causes a small koi pond in Michael's backyard to overflow, leaving his quarter-acre yard soaked.

   ☑ A hurricane causes tidal waters to overflow, inundating every home along a three-mile stretch of beach with water.

   ☑ Erosion along the shores of a large causes the land to collapse into the water, and multiple properties within a 3-acre area are inundated with water.

   The burst pipe in the bathroom and the overflow of the backyard pond do not qualify as floods because they each affect only one property and inundate less than two acres.

3. Which of the following are features of an NFIP Flood Insurance Policy?

- [ ] A 60-day waiting period for coverage to take effect.
- [x] Maximum limits of $250,000 building and $100,000 contents coverage for single-family dwellings and condos; and a maximum of $100,000 in contents coverage for renters.
- [ ] A standard deductible of $2500 for all policies.
- [x] Premium increases are capped at 18% for primary residences and can reach as high as 25% per year for non-primary residences.

The waiting period for an NFIP Flood Insurance Policy is 30 days. Deductible options range from $1,000 to $10,000.

4. Which of the following are NOT covered by the NFIP Flood Insurance Policy?

- [ ] A detached garage
- [x] Additional living expenses
- [x] Loss of use
- [ ] Operational machinery and equipment kept in a basement
- [ ] Mold and mildew that could not be prevented by the owner and was caused by a flood event
- [x] Damage to the walls of a home that occurs above the flood line

Additional living expenses, loss of use, and damage above the flood line are all excluded from coverage.

A detached garage is the only "other structure" covered by the NFIP Flood Insurance Policy, and it is only covered up to 10% of the policy limit.

Machinery and equipment in a basement is covered as long as it is connected to a power source and operational.

Mold and mildew are only covered if caused by a flood event AND the homeowner could not prevent them from forming.

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5. If an individual lives in a community that does not participate in the NFIP, which of the following options are available to them to secure flood coverage?

   - [ ] Flood coverage is included in the Homeowners Policy for those outside of NFIP communities.
   - [ ] NFIP coverage is still available to those outside of participating communities through NFIP write-your-own coverage programs with private carriers.
   - [x] Depending on the state, flood coverage may be available through admitted or non-admitted private insurers
   - [ ] No flood coverage is available to individuals who live in a community that does not participate in the NFIP.

   While not as common, there are private insurance companies that provide flood insurance coverage. Depending on your state, these may be admitted or non-admitted carriers.

6. Which of the following are reasons to recommend excess flood coverage to clients?

   - [ ] The NFIP Flood Insurance Policy only provides up to $100,000 in building coverage.
   - [x] The NFIP Flood Insurance Policy only provides up to $250,000 in building coverage.
   - [ ] The NFIP requires all homeowners whose homes exceed the value of the policy to secure excess flood coverage.
   - [x] Offering excess flood coverage can help to protect agents against E&O claims.

   While the NFIP does not require excess flood coverage, it should be recommended to all clients with homes valued over $250,000, as this is the maximum that the NFIP policy will cover. Additionally, recommending excess flood coverage can help to protect you against E&O claims.

7. Which of the following statements are TRUE regarding coverage for windstorm?

- [x] Hail and wind coverage are often linked together.
- [ ] Damage caused by windstorm is excluded in lower-risk states but can be added through endorsement.
- [ ] Homeowners in high-risk coastal areas will typically require a separate Wind and Hail Policy.
- [ ] Wind and Hail Policies cover exterior damage from wind and hail, but do not cover "wind-driven" rain that enters a home through existing openings.
- [ ] Residual markets for windstorm exist in all 50 states.

Hail often accompanies severe wind, so coverage for these perils is commonly linked.

Coverage for windstorm and hail is often available on Homeowners Policies in states with lower catastrophic risk, but separate policies are typically required in higher-risk coastal states.

Wind and hail policies do not cover "wind-driven rain" but do cover rain damage that occurs as a result of windstorm damage to a home's exterior.

The following states/territories have residual wind markets, though coverage varies by state: AL, CT, DC, DE, FL, GA, HI, LA, MA, MD, ME, MS, NC, NJ, PA, RI, SC, TX, VA.

8. Which of the following options may be available to an individual looking to secure Wildfire insurance? (Options will vary based on location and other factors).

- [ ] The National Wildfire Insurance Program, managed by FEMA
- [x] Private Homeowners' markets
- [x] Standalone wildfire policies
- [x] FAIR Plans
- [x] Specialized companies for high-value Homeowners Policies
- [ ] Specialized Personal Umbrella Wildfire Policies

There is no National Wildfire Insurance Program.

Personal Umbrella Policies are liability policies and are not designed to cover catastrophic property damage. See page 162 of the Learning Guide for more information on available wildfire markets.

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9. Which of the following are NOT key components included in earthquake coverage?

- [ ] Dwelling coverage, including debris removal and cost to stabilize land before rebuilding
- [ ] Contents coverage, excluding certain breakables such as crystal or pottery
- [ ] Additional Living Expense when it is unsafe for occupants to stay in an earthquake-damaged home
- [x] Coverage for all "Other Structures" located on the property

Coverage for "Other Structures" is limited or must be added to the Earthquake Policy with an additional premium.

10. Which of the following are options for obtaining earthquake coverage?

- [x] Endorsement to an existing Homeowners Policy
- [x] Standalone policy through a private insurer
- [ ] Federally-backed policy purchased through FEMA
- [x] California Earthquake Authority Policy issued through a Homeowners Policy insurer (CA residents only)
- [ ] Residual markets (vary by state)
- [x] A parametric policy that is automatically triggered by an earthquake of a certain magnitude, regardless of individual losses

Most homeowners are able to purchase earthquake insurance as an endorsement or as a stand-alone policy from a private insurance company.

In California, homeowners also have the option of purchasing a policy through their Homeowners insurer that is issued by the California Earthquake Authority (CEA).

Parametric coverage (policies that pay based on earthquake magnitude as opposed to property damage) is also now becoming more readily available in the consumer market.

Directions: Match the description of mitigation measure(s) to the risk they are intended to address.

A. Wildfire **B.** Wind **C.** Earthquake **D.** Flood	**C.** Building or retrofitting the home to anchor the home to the foundation and add bracing where needed to meet building codes or recommendations; securing large bookcases to the wall, securing and bracing water heaters, and installing automatic gas shut-off valves to minimize the risk of fire
	B. Replacing a standard roof with a FORTIFIED roof
	D. Elevating the structure and, for higher-risk areas, installing specialized vents
	A. Installing safer building features including vents, materials at the base of the walls, roofing materials, and gutters; keeping roof free of debris; creating at least five feet of defensible space around the perimeter of the structure, and locating outbuildings at least 30' from the main dwelling

Anchoring the home to the foundation and adding bracing where needed, as well as securing large furniture and appliances can help to prevent earthquake damage. Replacing standard roofs with FORTIFIED roofs has been shown to minimize wind damage. Elevating the structure is a recommended mitigation measure in all flood zones, and adding flood vents is recommended in Zone A. Using fire-and ember-resistant and noncombustible building materials, and securing defensible space around a home can help to mitigate wildfire damage.

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Section 5: Personal Lines Emerging Risks

Emerging Risks in Personal Lines

Knowledge Check



Directions: Read the scenario below and provide a short-answer explanation.

The year is 2015. Your client calls to let you know they've just bought a brand new car. YAY! You are working on obtaining all the right information and generating an ID card for them when they spill the beans that they've just contracted with Uber as a driver.

You've come to understand that your client will be transporting passengers for a fee, maybe even multiple passengers at once and he plans on doing this on a full-time basis.

Your carrier's automobile policy form is based off the latest ISO 2005 Personal Auto Policy (remember it's only 2015, the 2018 form is not here yet). Present exclusions under Part A – Liability, Part B – Medical Payments, Part C – Uninsured/Underinsured Motorists Coverage, and Part D – Coverage For Damage To Your Auto are as such:

You also understand that your carrier's underwriting guidelines state that vehicles used for public or livery conveyance are not eligible for coverage. After reading this policy language, what risks or implications are now possible for your client? List any gaps their coverage may present and how will you address them with your client?

EXCLUSIONS

A. We do not provide Liability Coverage for any "insured":

5. For that "insured's" liability arising out of the ownership or operation of a vehicle while it is being used as a public or livery conveyance. This Exclusion **(A.5.)** does not apply to a share-the-expense car pool.

First, being that the use of the "newly acquired auto" does not meet eligibility guidelines for a Personal Auto Policy, it may not qualify as a "newly acquired auto" and the automatic coverage afforded by the Personal Auto Policy for newly obtained vehicles.

Second, the Personal Auto Policy incorporates exclusions liability, medical payments, UM/UIM, as well as collision and other than collision while a vehicle is being USED as a public or livery conveyance. It is clear to you that while a passenger is in their vehicle, your client will have no coverage from their Personal Auto Policy for any accidents they cause or for any BI or PD caused to them or their passenger. What's not so clear, at this time (in 2015), is whether Uber will provide coverage for the gap period. It's also not clear, based on

when your client is "active" with the Uber application, when the vehicle is considered to be "used as a public or livery conveyance" for the coverage exclusion to apply.

Unfortunately, you know that as soon as you contact your carrier to find out what can be done with this risk you will almost certainly expect a direct notice of cancellation for "substantial change in risk" to be delivered within 10–30 business days.

The only way you see out of this is by referring your client to your commercial department for a commercial auto quote. Once they see the commercial auto quote ($$$$), they say they've changed their minds about being an Uber driver (but continue to do it behind your back).

You are glad your client made you aware of their use of the vehicle, but you begin to wonder how many other clients may be driving for Uber. Once word gets out about the difficulty of insuring these risks, your clients will undoubtedly misrepresent their transportation network company (TNC) risk to you. Could you potentially be facing an errors and ommissions (E&O) exposure now that you are aware of a risk in your book or market area and have not adequately addressed such risk with all of your clients?

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Basic Risk Management Principles

Check-In



Directions: Match the description of the risk management technique to the appropriate step in the risk management process.

A. Risk analysis **B.** Risk administration **C.** Risk financing **D.** Risk control **E.** Risk identification	**C.** Tom presents his clients with endorsement and separate policy options to address their risk exposures from renting their home through a home share app.
	E. Sanjay develops a checklist and activity analysis to help determine when clients may have an emerging risk exposure.
	A. Li researches an emerging risk to determine the potential severity of the risk exposure, and asks her clients questions to understand how frequently they are exposed to this risk.
	D. Aliyah recommends steps her clients can take to avoid, prevent, and reduce their exposure to cybercrime, such as avoiding unsecure websites, creating complex passwords, and using two-factor authentication whenever possible.
	B. Pat monitors state and local home sharing regulations, stays up to date on coverage options, and routinely checks in with clients to monitor their risk exposure.

Section 5 Self-Quiz

Directions: Match the description of the emerging risk to the emerging risk type.

A. Societal **B.** Environmental **C.** Uninsurable **D.** Cyber/Technological Advancement **E.** Economic	__B.__ Can include natural disasters, the effects of climate change (including increasingly volatile weather patterns), as well as the financial and regulatory impact of environmental changes and conditions.
	__E.__ Can include the development of new types of currency, changes to currency values, inflation, supply chain and labor shortages and their impact on prices, and shifts in labor and workforce, including trends toward hybrid and remote work.
	__D.__ Can include the threat of online attacks, privacy breaches, defamatory social media communications, technology dependence, investment, and intangible assets.
	__A.__ Can include consumer response to pandemic illnesses, social inflation, and activism as well as the effect of the gig economy on personal and commercial insurance products, and regulatory changes.
	__C.__ Can include a narrowing of personal lines markets (such as in catastrophe-prone areas), changes in demand, and threats to the insurance industry brought on by new technology.

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Directions: Select the best response(s) for the following questions. Some questions may have more than one correct answer choice. **(Select all that apply.)**

1. Which of the following is NOT a common element of emerging risks?

- [ ] High uncertainty in predicting and quantifying risk exposures
- [x] A wealth of research and data regarding the risk
- [ ] Challenges in communicating the existence of the risk
- [x] Clear and defined options for controlling and financing the risk
- [ ] Regulatory involvement stemming from a lack of industry response
- [ ] No common timeframe for risk emergence, and no common approach for benchmarking risks

Because emerging risks are, at their nature, new and uncertain, it can be difficult to communicate that the risk even exists. Emerging risks are untested, and as there is no clear or defined path for controlling or financing these risks.

2. Purchasing insurance falls under which step in the risk management process?

- [ ] Risk identification
- [ ] Risk analysis
- [ ] Risk control
- [x] Risk financing
- [ ] Risk administration

Insurance is one method of financing risk. The premium paid by the insured ensures that the insurance company will step in to finance some or all of the losses caused by a particular risk exposure.

3. Why is it important to ask clients questions to help identify potential risk exposures?

- [x] Clients may not always volunteer information that would indicate an exposure.
- [x] Clients may think all of their activities are covered by the Homeowners and Personal Auto Policies when, in reality, they may have coverage gaps.
- [ ] Clients are likely not taking any steps to manage their personal risks.
- [ ] All clients are deceitful and will try to hide exposures to avoid paying higher premiums.
- [x] Identifying risk exposures can help to protect clients financially from insurable and uninsurable risks.

While some clients may try to hide risk exposures to avoid higher premiums, many are simply unaware of exposures that need to be disclosed to their insurance agents. Asking the right questions can help to identify coverage gaps so that you can offer solutions to protect clients financially.

4. Risk Analysis involves assessing the _____ and _____ of risk exposures.

- [ ] mitigation
- [x] frequency
- [ ] financing
- [x] severity
- [ ] insurability

Risk analysis includes identifying the frequency and severity of risks—how often are they occurring and to what degree?

5. Which of the following is NOT an example of a risk control measure?

- [ ] Avoiding the risk entirely
- [ ] Preventing the risk exposure as much as possible
- [x] Preparing to pay for potential losses through insurance or retention
- [ ] Reducing the frequency and/or severity of the risk exposure

Risk control involves avoiding, preventing, or reducing the risk exposure, while risk financing involves preparing to pay for losses should they occur.

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6. Which of the following are steps an insurance professional might take to engage in ongoing risk administration?

- [ ] Identifying risk control and risk financing measures
- [x] Implementing risk control and risk financing measures
- [ ] Analyzing the frequency and severity of a newly identified risk.
- [x] Monitoring changing laws, regulations, and coverage options as they pertain to a risk.
- [x] Meeting with clients prior to each policy renewal to identify whether their risk exposure has changed.

During the risk administration step in the process, insurance professionals will implement the control and financing measures identified in previous steps. They will also engage in ongoing monitoring of the risk, especially with respect to regulatory and industry changes. Finally, they must regularly meet with clients to assess changes to their risk exposure.

Appendix

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Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is 2 ½ hours long. The test itself is composed of 50 questions that ask you to demonstrate what you know. Each question is worth two points. To pass, you are required to earn a minimum of 70 out of 100 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your learning guide.

1. Review the Section Goal.

2. Review each Learning Objective.

3. Change each header and subhead into a question. Then answer the question. For example,

   Header: Components of a Formal Training Plan

   Question: What are the components of a formal training plan?

4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.

5. Check your answers to each Check-In. Correct your original answers, if necessary.

6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.

7. Re-read the summary at the end of each section.

8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.

9. Review any comments, highlights, or notes you made in each section.

10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.

11. Make flash cards to help you review important vocabulary.

Sample Test Questions

1. All of the following activities are a "business" as defined by the Homeowners Policy except:

   - ☐ Working from home as a CSR for an insurance agency
   - ☐ A lawnmower repair shop operated from the insured's detached garage
   - ☐ Earning $5,000 a year selling crafts the insured makes as a hobby
   - ☐ Volunteering at the community senior center teaching arts and crafts

2. The neighbor's three children go to Mary's house after school and stay until their parents get home from work. Which statement is correct regarding the Homeowners Policy and Mary's activities?

   - ☐ As long as Mary does not charge for watching the children, this activity is not a "business" as defined in the policy.
   - ☐ This is a "business" as defined in the policy because it is clearly a daycare.
   - ☐ This is defined as "business" in the policy because there is not a mutual exchange of services.
   - ☐ Because there is more than one child, this activity would be considered "business" as defined in the policy.

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Glossary of Terms

accident an unexpected and unintentional event, definite as to time and place, that results in injury or damage to a person or property

actual cash value (ACV) property's replacement cost value, less an allowance for depreciation or obsolescence amortization; an accounting technique used to periodically lower the book value of a loan or an intangible asset over a set period of time

admitted insurance company an insurance carrier licensed to do business in a particular state and which meets insurance regulation set by that state's Department of Insurance. Admitted insurance companies are part of the state's guaranty association and pay into the state's guaranty fund; the guaranty fund pays outstanding claims (or a percentage of those claims) of an insolvent admitted carrier

Amendment of Policy Provisions state-specific modifications to the Personal Auto Policy

auto a private passenger motor vehicle, motorcycle, moped, motor home or a vehicle designed to be pulled by a private passenger motor vehicle or motor home including a farm wagon or farm implement while towed

blanket endorsement an endorsement that provides property or liability coverage without specifically naming individual property or individual locations to be covered.

business

> **(as defined in the ISO Homeowners Policy HO 00 03 03 22)** (a) A trade, profession or occupation engaged in on a full-time, part-time or occasional basis; (b) The leasing of the mineral rights of an "insured location"; (c) "Home-sharing host activities"; or (d) Any other activity engaged in for money or other compensation, except the following: (1) One or more activities, not described in (2) through (4) below, for which no "insured" receives more than $5,000 in total compensation for the 12 months before the beginning of the policy period; (2) Volunteer activities for which no money is received other than payment for expenses incurred to perform the activity; (3) Providing home day care services for which no compensation is received, other than the mutual exchange of such services; or (4) The rendering of home day care services to a relative of an "insured"
>
> **(as defined in the ISO Personal Auto Policy PP 00 01 09 18)** a trade, profession, or occupation (with no exceptions)
>
> **(as defined in the ISO Personal Umbrella Policy DL 98 01 02 15)** a trade, profession, or occupation engaged in on a full-time, part-time, or occasional basis; or any other activity engaged in for money or other compensation except for: (a) one or more activities not described in b. through d. below, for which no "insured" receives more than $2,000 in total compensation for the 12 months before the beginning of the policy period; (b) Volunteer activities for which no money is received other than payment for expenses incurred to perform the activity; (c) Providing home day care services for which no compensation is received, other than the mutual exchange of such services; or (d) The rendering of home day care services to a relative of an "insured"

catastrophe a severe natural, or human-made, disaster

catastrophic risks particularly hazardous events capable of severe destruction, loss to property, or great financial loss. Examples: flood, wind, wildfire, and earthquake losses

coverage gap a gap in coverage can occur when policies are written by different agencies and/or when policy language between Personal Umbrella Policy and underlying coverage is uncoordinated; the agency's automated system and unreviewed policies may miss changes made at renewal

coverage or policy territory the geographical area within which insurance coverage applies

claim an official demand for payment or a company's moral or ethical obligation to pay damages as a result of a loss or occurrence

contingent coverage insurance coverage that is contingent on the absence or presence of other insurance coverage

Declarations (Declarations page or Dec page) the part of the policy contract that identifies information such as the named insured, mailing and location or garaging address, the policy period, the insured location, policy limits, and any other key information particular to the insured; also called the information page

deductible the dollar amount of a claim for which the client is responsible; a retained limit

depreciation the reduction in the value of an asset over time

dwelling a residential house structure, along with things like garages, decks, or porches attached to that structure

earthquake magnitude scale a rating table that measures seismic and other values to determine the size and impact of an earthquake

emerging risks new exposure(s) to loss for which a risk treatment has not been implemented, or an existing exposure(s) to loss that is evolving, difficult to quantify, and may have a major financial impact on the organization; increased natural disasters, climate change, economic change, and cyber risk are examples of areas of emerging risk

employee (as defined in the ISO Homeowners Policy HO 00 03 03 22) an employee of an "insured" or an employee leased to an "insured" by a labor leasing firm under an agreement between an "insured" and the labor leasing firm, whose duties are other than those performed by a "residence employee"

endorsements amendments or additions to language in a policy contract that affect coverage; also called riders; they are used to broaden, restrict, clarify, or comply with state-specific requirements

exclusions provisions that eliminate coverage for some types of risk

exposure a situation, practice, or condition that may lead to an insured's susceptibility to adverse financial consequences or loss

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Federal Emergency Management Agency (FEMA) federal agency in charge of dealing with national disasters and providing tools such as risk rating analysis and programs to understand, mitigate, and cover such disaster risks, like flood

first-dollar coverage policy coverage that does not have a deductible; the policy will pay starting with the first covered dollar billed

flood (as defined by the NFIP) a general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is the policyholder's property) from overflow of inland or tidal waters, unusual and rapid accumulation or runoff, mudflow, collapse or subsidence of land along the shore of a lake or similar body of water that results in a flood (source: https://www.fema.gov/glossary/flood)

flood insurance rate maps (FIRMs) system developed by FEMA to determine areas of flood risk with the use of statistical rating maps; primary purpose is to identify 100-year floodplains

flood line the height a flood reaches; the NFIP only pays for damage up to the top of the flood line in the home or business

flood risk costliest and most lethal natural disaster risk in the country; most homeowners opt to not carry flood insurance unless in a floodplain

fuel system (as defined in the ISO Personal Umbrella Policy DL 98 01 02 15) one or more containers with a total combined storage capacity of 100 or more gallons of liquid fuel that are located on a premises covered by "underlying insurance" and are (or were) used to hold liquid fuel intended to be used solely to heat or cool a building, heat water, cook food, or power motor vehicles, other motorized land conveyances, or watercraft owned by an "insured"

functional replacement cost the cost to repair or replace damaged or destroyed property with materials that are functionally the equivalent of the damaged or destroyed property

hazard a factor that increases the likelihood that a loss will occur or the severity of a loss that occurs

human perils causes of loss that arise out of human behaviors, whether intentional or accidental, such as fires, trips and falls, criminal acts, or negligence

gap insurance a type of insurance that covers the difference between the actual cash value (ACV) of an automobile and the loan/lease balance

incidental occupancy a business operating within a building

insured (as defined in the ISO Homeowners Policy HO 00 03 03 022) you and residents of your household who are (1) your relatives; or (2) other persons under the age of 21 and in your care or the care of a resident of your household who is your relative;

a student enrolled in school full-time who was a resident of your household before moving out to attend school, provided the student is under the age of: (1) 24 and is your relative; or (2) 21 and in your care or the care of a resident of your household who is a relative

Under Section II (Liability Coverage)

(1) With respect to animals or watercraft to which this Policy applies, any person or organization legally responsible for these animals or watercraft which are owned by you or any person described above. "Insured" does not mean a person or organization using or having custody of these animals or watercraft in the course of any "business" or without consent of the owner; or

(2) With respect to a "motor vehicle" to which this Policy applies: (a) Persons while engaged in your employ or that of any person described in 9.a. or b.; or (b) Other persons using the vehicle on an "insured location" with your consent.

insured (as defined in the ISO Personal Auto Policy PP 00 01 09 18) For Part A – Liability Coverage, (1) you or any "family member" are "insureds" for the ownership, maintenance, or use of any auto or "trailer;" (2) any person using "your covered auto;" (3) for "your covered auto" any person or organization but only with respect to legal responsibility for acts or omissions of a person to whom coverage is afforded under this part; (4) for any auto or "trailer," other than "your covered auto," any other person or organization but only with respect to legal responsibility for acts or omissions of you or any "family member" (when) the person or organization does not own or hire the auto or "trailer"

For Part B – Medical Payments Coverage, (1) You or any "family member": (a) While "occupying"; or (b) As a pedestrian when struck by; a motor vehicle designed for use mainly on public roads or a trailer of any type. (2) Any other person while "occupying" "your covered auto."

immutable data encrypted information stored within a blockchain (or a decentralized ledger or record shared by multiple servers) that is difficult to delete

ISO (Insurance Services Office) an organization that provides standardized insurance policy forms

ISO vehicle rating symbols (VSRs) numbers assigned to vehicles that represent extensive actuarial facts of historical claims data and the suggested retail price for the same or comparable vehicles

leases and leasehold interests the legal right to use certain property for a limited period of time

liability coverage an insurance company's promise to pay compensatory damages on behalf of an "insured" when they or another "insured" are legally obligated to someone else for injury or damage that they are responsible for

libel wrongful written/published word; covered under "personal injury"

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loss assessment coverage provides protection to members of homeowners, condo, or property associations when the building or common areas are involved in a claim; is provided in the ISO Homeowners Policy

mitigation measures taken to reduce or protect against loss or

motor vehicle (as defined in the Homeowners Policy) a land or amphibious vehicle that is self-propelled or capable of such, or any trailer or semitrailer which is being carried, towed, or hitched for towing on or by another vehicle

motor vehicle liability (as defined in the Homeowners Policy) means liability for "bodily injury" or "property damage" arising from activities and legal concepts, including ownership of a "motor vehicle" by an "insured" and maintenance, occupancy, operation, use, loading or unloading of a "motor vehicle" by an "insured"

named perils form a policy form type that provides coverage only for specifically named causes of loss which are listed in the policy

National Flood Insurance Program (NFIP) a federal program established in 1968 to encourage local regulation of floodplains and flood-prone areas; primary provider of residential flood insurance in the country

natural perils causes of loss that arise out of nature, such as wind, lightning, flood, and earthquake

negligence the failure to exercise the degree of care which a reasonably prudent person would exercise under similar circumstances. To prove negligence, the plaintiff must show that a duty existed, that duty was breached, and damages or injury resulted from the breach

non-admitted insurance company an insurance company that has not met specific state requirements/regulations within a state where they conduct business through surplus lines brokers. Non-admitted insurance companies are not backed by state guaranty funds

occurrence (as defined in the ISO Personal Umbrella Liability Policy DL 98 01 02 15) an accident, including continuous or repeated exposure to substantially the same general harmful conditions, which results, during the policy period, in: (1) "bodily injury"; or (2) "property damage." Also, an occurrence may go beyond an immediate and observable accident; instead, it is an extended situation leading to damages or injury.

100-year floodplain an identified geographical area that has a 1% chance of flooding in any given year

open peril form a policy form type that provides coverage for any reason not specifically excluded within the policy

parameter an objective boundary or set measurable factors that determine a specific state or condition

parametric coverage policies insurance coverage triggered by a set of objective measurements of the magnitude and scale of catastrophic risks like wind and earthquake

peril an event that causes or has the potential to cause damage or loss, such as a fire or falling object

perils of terrorism and political risks these areas of emerging risk are global threats to safety and security that have a direct impact on domestic and international financial markets

personal injury (as defined in Personal Umbrella/Excess Policies) generally false arrest, detention, or imprisonment; malicious prosecution; wrongful eviction, entry, or invasion of a privately occupied space or dwelling; libel; slander

Personal Injury Protection (PIP) automobile no-fault coverage; available under the Personal Auto Policy, but not under Personal Umbrella

physical hazards dangers arising from physical conditions that exist naturally or those that are caused by human negligence.

physical risk a general class of risk; risks arising from property, people or information. These include natural disasters, such as earthquakes and hurricanes as well as man-made risks including nuclear accidents and climate change.

post-judgment interest a monetary sum that accrues after a judgment has been entered but before the judgment is paid; often accrues during the appeals process of a claim

pre-judgment interest a monetary sum that a judgment accrues if it had been paid on the date the claimant was entitled to receive the money; often accrues during the trial process of a claim

private market also known as standard market or voluntary market; private market insurance companies write standard business for low to moderate risks; may be admitted or non-admitted carriers

public or livery conveyance refers to the use of a vehicle for transporting people or goods for a fee (or hire); consider an Uber, Lyft, Taxi, or delivery service

recreational lines coverage for recreational vehicles, such as golf carts, all-terrain vehicles, snowmobiles, etc., and watercraft, like sailboats, motorboats, jet skis, and so on; the Homeowners and Personal Auto Policy offer only limited coverage for these

recreational motor vehicle (as defined in the Homeowners Policy and Personal Umbrella Policy) an all-terrain vehicle, dune buggy, golf cart, snowmobile or any other motorized land vehicle designed for recreational use off public roads

replacement cost (RC) cost to replace damaged property with like kind and quality at today's value with no regard for depreciation

residence employee (as defined in the Homeowners Policy) employee of an "insured" or an employee leased by a labor leasing firm to the "insured" whose duties are related to the maintenance or use of the "residence premises" including household or domestic services, or one who performs similar duties elsewhere not related to the "business" of an "insured"

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residence premises (as defined in the Homeowners Policy) the residence location shown in the Declarations

residual market/state FAIR Plan insurance offered through state-mandated Fair Access To Insurance Requirement (FAIR) Plans, Beach or Windstorm Plans, or state-run insurance companies

retained limit (as defined in Personal Umbrella/Excess Liability Policies) an amount paid before the policy is obligated to pay for a loss and is either the "underlying insurance" or the deductible

risk the possibility of a positive or negative outcome arising from a given set of circumstances

risk financing a step in the risk management process; the acquisition of internal and external funds to pay losses at the most favorable cost

Risk Rating 2.0 a methodology provided by FEMA that uses an advanced algorithm to determine premium and takes rating factors like type of flooding, distance from flood source, cost to rebuild, and other factors into consideration to determine coverage and cost

Saffir-Simpson Hurricane Wind Scale classifies the wind intensity of hurricanes and the resulting damage they cause

seasonal dwellings residential dwellings with continuous unoccupancy of three or more consecutive months during any one-year period

self-insured retention (SIR) is the amount of a covered loss that the client is responsible for paying when the Personal Umbrella Liability Policy drops down to provide primary coverage (may also be known as a Deductible)

slander wrongful spoken word; covered under "personal injury"

social inflation shifts in societal (rather than economic) preferences and other factors that increase insurance costs and the determination of who can best absorb risk

special flood hazard area (SFHA) also known as the regulated floodplain; geographic zones that identify flood risk

tort a private or civil wrong, other than a breach of contract, for which the courts will allow an action (lawsuit) for damages

Underinsured Motorists (UIM) coverage first-party insurance coverage provided when an at-fault party has liability limits that are simply too low to cover the cost of damages

Uninsured Motorists (UM) coverage first-party insurance coverage provided when an unidentified (or hit-and-run) vehicle or an at-fault party is liable for damages but where liability insurance is not in place at the time of the accident

underlying insurance a policy providing primary liability insurance covering one or more types of liability (such as Homeowners or Automobile) listed in the Declarations and at limits no less than the retained policy limits shown for those types of liability listed in the Declarations

vicarious liability obligation one party experiences through the actions of another party

watercraft (as defined in the ISO Homeowners Policy HO 00 03 03 22) a craft principally designed to be propelled on or in water by wind, engine, power, or electric motor, except model or hobby watercraft not designed to carry people or cargo

watercraft liability (as defined in the Homeowners Policy) generally liability for "bodily injury" or "property damage" arising out of the ownership by an "insured," maintenance, operation, occupancy, use, loading, or unloading of a watercraft by any person; entrustment of a watercraft to any person; failure to supervise or negligent supervision; vicarious liability for the actions of a child or minor involving watercraft

write-your-own (WYO) carriers NFIP policies are sold through about 50 private insurance companies that sell, service, and specialize in NFIP flood policies

"your covered auto" (as defined in the ISO Personal Auto Policy PP 00 01 09 18) (1) Any vehicle shown in the Declarations; (2) A "newly acquired auto"; (3) Any "trailer" you own; or (4) Any auto or "trailer" you do not own while used as a temporary substitute for any other vehicle described in this definition which is out of normal use because of its: (a) Breakdown; (b) Repair; (c) Servicing; (d) Loss; or (e) Destruction (4. a.–d. do not apply to Personal Auto Policy coverage part Coverage For Damage To Your Auto)

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