



# **STUDENT LEARNING GUIDE**

**Insuring Personal Residential Property**

**TEACHER'S EDITION**

## UNIT 1 INTRODUCTION TO PERSONAL RESIDENTIAL POLICIES

### ACTIVITY: UNIT PREVIEW

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.
4. Think of three possible misconceptions or assumptions you have about the learning objective.

There are basic differences between the Dwelling Policies and the Homeowner Policies. The Dwelling Policies cover the structure and do not provide for liability or medical coverages. A Dwelling Policy is mainly used for vacation homes and/or rental properties. This is sometimes called a “rental policy” or “investment policy.” A client can add named perils to the Dwelling Policy. This policy is sometimes easier to obtain for someone with bad credit, poor condition of the property or many past claims.

The Homeowner policies provide more coverage. This policy is typically used to cover the Homeowner’s primary home. Besides the building coverage, this type of policy also covers personal property and personal liability as well. This is the residence in which the homeowner lives for most of the year.

5. Based on the explanation above examine the Homeowner 3 – Special Form and the Dwelling Property I Basic Form and answer the following questions:
  - a. Which policy(s) cover the structure?
  - b. Which policy(s) cover the personal property inside the dwelling/home?
  - c. Which policy(s) cover liability and medical?

## UNIT 1 INTRODUCTION TO PERSONAL RESIDENTIAL POLICIES

### UNCOVERING THE LEARNING OBJECTIVE

#### Learning Objective

There are two approaches, or ways, to insuring personal residential property: with the Dwelling Policy and the Homeowners' Policy.

#### Insurance and Business Terms

- **basic named peril coverage:** insures a very limited number of perils
- **broad named peril coverage:** insures an extensive list of perils
- **carrier:** the issuer of the policy and the one who charges the premium and pays for losses and claims covered under the policy.
- **dwelling:** a house's structure including garages, decks, or porches attached to that structure
- **exposures:** conditions that leave a homeowner open to risk.
- **insurable risk:** a risk the insurance company is willing to provide coverage for
- **ISO (Insurance Service Office):** an independent organization that provides standardized insurance policies and forms. It also supplies rules and information on how to use these legal forms.
- **named perils:** causes of loss that are specifically listed, or named, in the policy
- **occupancy:** the type and number of people who live in a residence
- **open peril:** any peril is insured unless specifically excluded
- **perils:** events that may damage your home or belongings; often used interchangeably with the phrases "causes of loss," and "direct physical loss"
- **underwriting:** a review process before being approved for an offer of coverage

#### Guiding Questions

1. What is the difference between the Dwelling Policy and the Homeowners' Policy?  
*Even though they are similar, the Dwelling Policy does not provide liability or personal property coverage and only covers the dwelling.*
2. How is the Dwelling Policy more advantageous to some homeowners?  
*The Dwelling Policy is easier to obtain and covers natural perils.*
3. When is insurance coverage a requirement for a homeowner?  
*When you have a mortgage or a lender, you must provide proof of coverage.*

## LESSON 1.1 THE DWELLING POLICY – ELIGIBILITY

### NOTES GUIDE

There are two approaches to insuring personal residential exposures. (3:00)

*A. Dwelling Policy*

*B. Homeowners' Policy*

In this lesson, we're focusing on the Dwelling Policy. (3:17)

A dwelling policy only insures for damage and loss to the dwelling and does **not** provide liability or personal property coverage.

The ISO Dwelling Policy will cover some risks that do not qualify for coverage under an ISO Homeowners' Policy, such as exposures related to: (5:20)

*A. older homes,*

*B. homes in poor condition,*

*C. homes in undesirable locations, and*

*D. non-owner-occupied dwellings, meaning tenant-occupied homes.*

Why are dwelling policies so significant for many customers? (5:37)

*Homeowners must have coverage for their homes. Sometimes it is required by lenders, and homeowners also want protection against causes of loss to their homes.*

Coverage can be more limited on a dwelling policy, but eligibility guidelines are broader. (6:01)

**LESSON 1.1 THE DWELLING POLICY – ELIGIBILITY (6:10)**

When eligibility standards are met for a dwelling policy, the homeowner may be considered an insurable risk upon review of their application, and be approved for residential coverage.

What is an insurable risk? (6:44)

An insurable risk is a risk the insurance company is willing to provide coverage for.

Why is it important to a homeowner to be considered eligible and accepted as an insurable risk? (6:52)

Homeowners want and need to be protected against perils, or causes of loss, so they seek coverage and look for personal residential policies for which they are eligible.

What perils, or causes of loss, do you think are covered in a dwelling policy? (7:35)

wind, hail, sleet, lightning, fire, smoke, falling objects, explosion, and vandalism.

The ISO Dwelling Policy states that for a dwelling to be eligible for coverage as a “dwelling” it must be: (8:35)

- Used solely for residential purposes with no more than five roomers or boarders.
- A structure that has up to four units.
- A dwelling with no more than four apartments and which may be in a townhouse or a rowhouse structure, or
- A dwelling under construction.
- A mobile home or trailer house is eligible; however, restrictions apply. These types of dwellings are written only on a Dwelling Property 1 Basic Form (DP 00 01 or DP-1) with a one-year policy period. This type of dwelling cannot have more than one apartment and must be situated in a permanent location that is described in the policy Declarations Page.

## LESSON 1.1 THE DWELLING POLICY – ELIGIBILITY

Another important term critical to understanding eligibility for an ISO Dwelling Policy is the term is *occupancy*. (9:32)

Define **Occupancy**: *Occupancy is the type and number of people who live in a residence.*

**habitation**: the state of living in a particular place.

There are three common forms of occupancy. They include: (9:52)

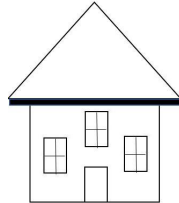
- A. habitation by owners,
- B. habitation by seasonal occupants, and
- C. habitation by tenants.

### Let's Review

- A dwelling policy is used when a property is in poor condition, in a difficult-to-insure location, or is rented to another person and does not qualify for eligibility for an ISO Homeowners' Policy.
- The guidelines for obtaining a Dwelling Policy are not as strict as those for a Homeowners' Policy.
- Many of the covered perils, or causes of loss, in a dwelling policy are the same as those covered by a Homeowners' Policy.
- Liability (coverage for bodily injury and property damage) is generally not provided in a Dwelling Policy.
- A dwelling is a house's structure and things attached to that structure, such as garages, decks, or porches.
- A dwelling can have up to four units or apartments.
- A dwelling can be a mobile home or trailer house, as long as it is situated in a permanent location that is described in the policy Declarations Page and has only one apartment. These types of homes are eligible for an ISO Dwelling Policy, but only on one policy form—a Dwelling Property 1 Basic Form (DP 00 01 or DP-1)—with a one-year policy period.
- A dwelling may be occupied by the owner, a seasonal occupant, a tenant, or a boarder or roomer.

**LESSON 1.1 THE DWELLING POLICY – ELIGIBILITY****ACTIVITY: WHAT IS ELIGIBLE AND NOT ELIGIBLE?**

Using what you have learned in this lesson, complete this matching activity. Place a checkmark in the second column if covered, and an “X” if not covered and explain why it is not covered.



Risk	✓ = Eligible X = Not Eligible	Why?
Residential Mobile Home	✓	Mobile homes are eligible for a Dwelling Fire 1 policy.
Dwelling used solely as an insurance office	X	The dwelling must be used solely for residential purposes.
A duplex rented to two families	✓	It is a 1, 2, 3, or 4 unit dwelling used for residential purposes
A dwelling rented to six college friends	X	Dwelling cannot have more than five roomers or boarders.

## LESSON 1.2 DWELLING POLICIES COVERAGES AND LIMITATIONS

### NOTES GUIDE

A Dwelling Policy includes several parts that make the coverage specific to your client:

- A. The Declarations Page
- B. The Dwelling Policy Form
- C. Endorsements

A. The Declarations Page: *identifies the insurance company, the named insured and mailing address, the policy period, the insured location, policy limits, and any other key information specific to the insured and the location. (1:20)*

B. The Dwelling Policy Form

Form	Coverage	Used for
Basic Form (DP1) (2:28)	<i>Covers damage from fire or lightning and internal explosion. May include additional perils with an additional premium.</i>	<i>Basic protection used for older properties, properties with maintenance issues or challenges, out-of-code or older utility systems, and for mobile or trailer homes. (7:38)</i>
Broad Form (DP2) (3:39)	<i>Covers the perils insured against in the DP1 Basic Form, plus additional broad-named perils, including damage by burglars; falling objects; weight of snow, ice, or sleet; and water damage caused by accidental discharge or overflow of water or steam.</i>	<i>Average protection commonly used for rental properties; not the most basic, but not the best</i>  <i>NOTE: The information in this box is not specifically noted in the lecture.</i>
Special Form (DP-3) (5:41)	<i>Covers open perils; any peril is covered unless specifically excluded.</i>	<i>Excellent coverage used for dwellings that represent better quality risks. For example, a home with updated electrical and plumbing work and generally good maintenance</i>

## LESSON 1.2 DWELLING POLICIES COVERAGES AND LIMITATIONS

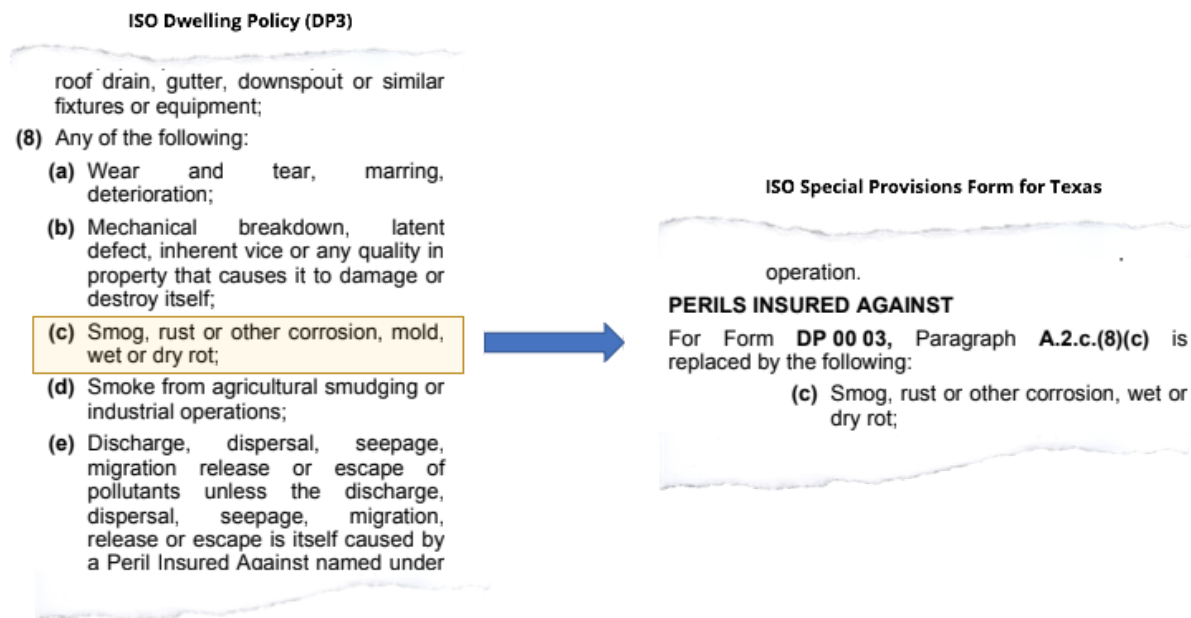
### Underwriting

All three Dwelling forms are subject to “underwriting.” All customers and the residences they want covered must go through a review process before being approved for an offer of coverage. Through this review by special insurance experts called underwriters, the insurance company will choose who and what they will insure based on determined risk factors.

Underwriters may also choose to apply endorsements. For example, an underwriter may wish to change roof coverage or the payment made to a client for a roof damage loss because the dwelling’s roof needs repair as a result of prior unrepaired hail damage.

- C. Endorsements: *written changes to a policy contract that affect coverage. Endorsements allow for changes to be made, such as by adding coverage, deleting coverage, or by modifying exclusions. (8:05)*

This is an example of how an endorsement can change the original policy.



Notice how the word “mold” is removed from the Dwelling Policy (DP-3) by the Special Provisions Form for Texas. Endorsements help make a policy fit the needs of a customer or an insurance company and adjust an insurance contract to fit a specific circumstance.

## LESSON 1.2 DWELLING POLICY COVERAGES AND LIMITATIONS

Dwelling Policy Coverage Chart

Coverage Parts	Dwelling Property-1 Basic Form	Dwelling Property-2 Broad Form	Dwelling Property-3 Special Form
<b>Coverage A Dwelling</b>	Limit on Declarations	Limit on Declarations	Limit on Declarations
<b>Coverage B Other Structures</b>	10% of Coverage A	10% of Coverage A	10% of Coverage A
<b>Coverage C Personal Property</b>	There is no automatic coverage provided. A limit <u>must</u> be selected, shown in the Declarations and a separate premium charged.		
<b>Coverage D Fair Rental Value</b>	20% of Coverage A 1/12 Monthly Limit	20% of Coverage A for Coverage D and/or Coverage E	20% of Coverage A for Coverage D and/or Coverage E
<b>Coverage E Additional Living Expenses</b>	Must be Added by Endorsement		
<b>Coverage Limits</b>	Using Coverage B and/or D reduces the Coverage A Limit	Coverages B, D, & E Additional Insurance	Coverage B, C, D, & E Additional Insurance
<b>Perils</b>	Limited Named Perils	Named Perils	Open Perils (Named Perils Coverage C – Personal Property)

What is the difference between “named perils” and “open perils”?

*Named perils are causes of loss that are specifically named in an insurance policy. Open perils is a way to indicate that all perils are covered unless they are specifically excluded. (12:53)*

Dwelling Policy forms do not provide automatic coverage for personal property unless a premium is shown in the Declarations Page. (14:16)

## LESSON 1.2 DWELLING POLICIES COVERAGES AND LIMITATIONS

### ACTIVITY: CLIENT'S FIRST RENTAL

You are advising a new client who is renting their first place. They have a great loft downtown and plan to furnish it with valuable antiques from the 1800s. How can you help guide them in understanding insurance for those who rent? While talking with the client, you will need to explain the advantages of using policies DP-1, DP-2, and DP-3.

Use the “WingMan” strategy to defend an interpretation of the insurance policy.

The wingmen will have access to the policy forms and be available to look up any information the agent may need during the discussion.

#### WINGMAN STRATEGY

In a classroom setting, select two students who will act as 1) the client and 2) the agent. Arrange for other students to act as their “Wingmen.” Ideally, there should be one “Wingman” for each speaker. One from DP-1, DP-2 and DP-3.

The “Wingman” is tasked to make observations and monitor his/her small group's discussion and assist/prompt the speakers when needed.

The “Wingman” observes the group's dynamics, records the number of times his/her group members cite relevant textual evidence, and makes a judgment about the value of statements presented. Lastly, the “Wingman” reflects on the group discussion and presents his/her own response to the topic or question.

In a virtual setting, breakout rooms may be utilized.

## LESSON 1.3 HOMEOWNERS POLICY – ELIGIBILITY

### NOTES GUIDE

Insurance professionals must be thoroughly familiar with \_\_\_\_\_ policy language \_\_\_\_\_, understand the \_\_\_\_\_ breadth of coverage \_\_\_\_\_ in policies, and know how to protect clients against \_\_\_\_\_ coverage gaps \_\_\_\_\_.

Why is the Homeowners' Policy called a "package"? (2:00)

*It is called a "package" because it bundles together property and liability coverages for a customer's property (dwelling and/or contents) and coverage for personal liability into one policy.*

\_\_\_\_\_ Eligibility \_\_\_\_\_ rules, \_\_\_\_\_ underwriting \_\_\_\_\_ guidelines, and other characteristics may also differ among insurance companies, so insurance professionals must check each carrier's guidelines and requirements before quoting and issuing policies.

\_\_\_\_\_ Underwriting guidelines \_\_\_\_\_ for a Homeowners' Policy are \_\_\_\_\_ narrower \_\_\_\_\_ than those used for a Dwelling Policy and consider specific details like:

- *the age of a dwelling's roof,*
- *the last time the dwelling's plumbing and electrical systems were updated,*
- *the history of prior losses for the client and the dwelling, and*
- *the dwelling's year of construction.*

Eligibility guidelines may \_\_\_\_\_ increase \_\_\_\_\_ premium, \_\_\_\_\_ decrease \_\_\_\_\_ premium, or \_\_\_\_\_ exclude \_\_\_\_\_ the client from eligibility under a Homeowners' Policy.

### LESSON 1.3 HOMEOWNERS' POLICY – ELIGIBILITY

There are several types of Homeowners' Policy Forms that can be used to provide insurance coverage.

Long Name	Form ID	Used for
<i>Owner-Occupied Homeowners' Policy (5:16)</i>	HO-2, HO-3, HO-5, and HO-8.	<i>a client who owns a one to four family dwelling that is used exclusively for residential purposes if the client is an occupant of that dwelling</i>
<i>Tenant or Renter Policy</i>	HO-4	<i>a client who does not own the home but needs coverage for personal belongings and liability</i>
<i>Condo or Unit Owner Policy</i>	HO-6	<i>a client who owns and occupies one unit in a multi-unit building, like a condo</i>

Are seasonal dwellings eligible for a Homeowners' Policy? Under what conditions?

*Seasonal dwellings are also eligible for a Homeowners' Policy when owned and occupied by the client. (7:38)*

There are several different types of eligibility for residential insurance options in the Homeowners' Policy Program. It is not just a straightforward owner-occupied dwelling that qualifies for an ISO Homeowners' Policy. It's essential that an insurance professional ask questions to clearly understand how to determine which Homeowners' Policy program suits a customer.

What scenarios are discussed in the lecture where an individual may not be the actual **owner** or an **occupant**, but the dwelling is still eligible for a policy under the ISO Homeowners' Policy Program?

- a multi-unit dwelling with one to four units*
- a dwelling placed in a trust*
- a dwelling placed in a life estate*
- a dwelling whose occupants have entered into a long-term installment agreement to purchase the dwelling (8:10)*

## LESSON 1.3 HOMEOWNERS POLICY – ELIGIBILITY

### ACTIVITY: HOMEOWNER POLICIES—SCENARIOS

Read the following scenarios and provide a recommendation of coverage from the Homeowners' Policies HO-2, HO-3, HO-5, HO-8, HO-4, and HO-6. For each scenario, consider these two items:

- a. What type of Homeowners' Policy should be used?
- b. What are considerations of the scenario? (Support your answer)

1. Tracy is a single woman who obtained a duplex after a divorce. She decided to live on one side of the duplex and rent the other half. What are the considerations?

*a. Homeowners 3 – Special form is the most commonly used. The HO-5 or HO-8 may also be used.*

*b. This would be considered a multi-family dwelling with at least one unit that is owner-occupied. For the additional unit, two families or one family and two boarders are permitted. The occupant of the additional unit will need a HO-4 Tenant policy for their personal property and liability.*

2. Stan lives in his home he purchased 50 years ago. He wants to leave the home to his grandchild, Susan, but would also like to remain in the home as long as possible. Stan sets up a Life Estate. What are the considerations?

*a. Life Estate ownerships are eligible under all homeowner forms except the HO-4 Tenant Form.*

*b. This scenario allows the owner to transfer ownership to the beneficiary but does not allow the beneficiary to sell the home while the original owner is a tenant. The occupant, or tenant, will be named insured on the homeowner policy. The Additional Insured endorsement should be used for the owner of the dwelling.*

3. Kevin and his wife, Susan, are buying their first brand new home. They are consulting with an insurance agent to determine the coverage needed. What are the considerations?

*a. Homeowners 3 – Special Form is the most commonly used. The HO-5 or HO-8 may also be used.*

*b. As owners of the home, Kevin & Susan will want coverage for their structure, personal property, and personal liability.*

4. Jack inherits his family home which has six bedrooms. Being a single person, Jack decides to take in boarders for extra income. What are the considerations?

*a. Homeowners 3 – Special form is the most commonly used. The HO-5 or HO-8 may also be used.*

*b. A single-family home is permitted to have one additional family or two roomers/boarders. If Jack takes more roomers/or boarders than is allowed, he is not eligible for a homeowner policy.*

## LESSON 1.4 HOMEOWNERS' POLICIES

### NOTES GUIDE

The different HO Policy forms published by ISO respond to a variety of homeowners' needs. Each policy is designed to address a specific residential exposure.

Use the chart below to briefly describe each HO policy form.

HO Policy Form	Description
HO-2, Broad Form	<ul style="list-style-type: none"> <li>provides coverage for the owner-occupied residence and personal property on a broad named peril basis</li> <li>pays actual cash value (ACV)</li> <li>seldom used (4:04)</li> </ul>
HO-3, Special Form	<ul style="list-style-type: none"> <li>provides coverage for the owner-occupied residence and Other Structures on an open peril basis</li> <li>provides coverage for personal property on a named peril basis</li> <li>pays replacement cost</li> <li>most common HO Policy (7:18)</li> </ul>
HO-4, Contents Broad Form also known as a Tenant or Renter's Policy	<ul style="list-style-type: none"> <li>provides named peril coverage for the contents (personal property) of people who live in rented apartments, houses, or condos</li> <li>pays actual cash value, but can be upgraded to replacement cost (9:02)</li> </ul>
HO-5, Comprehensive Form	<ul style="list-style-type: none"> <li>provides coverage for the owner-occupied residence, Other Structures AND personal property on an open peril basis</li> <li>used for higher value homes (11:02)</li> </ul>
HO-6, Unit-Owners Form also known as the Condo Policy	<ul style="list-style-type: none"> <li>provides coverage for the portions of the condo that the client is responsible for, and for contents or personal property on a named peril basis (12:04)</li> </ul>
HO-8, Modified Coverage Form	<ul style="list-style-type: none"> <li>provides coverage on owner-occupied residence and personal property on a <u>limited</u> named-peril basis</li> <li>pays actual cash value</li> <li>most limited form</li> <li>seldom used (13:56)</li> </ul>

## LESSON 1.4 HOMEOWNERS POLICIES

### ACTIVITY: HOMEOWNER FORM/CLIENT SORT

Read each scenario. Then write the most appropriate homeowners' policy form next to each one.

HO-2, the Homeowners' 2–Broad Form

HO-3, Homeowners' 3–Special Form

HO-4, the Homeowners' 4–Contents Broad Form

HO-5, Homeowners' 5–Comprehensive Form

HO-6, Homeowners' 6–Unit Owners' Form

Scenario	Which Homeowners' Policy form is most appropriate for this client?
1. A client owns her home and is only worried about specific named perils for her home and personal property.	<i>HO-2, Homeowners' 2–Broad Form</i>
2. A client has just rented an apartment and filled it with new, expensive furniture and technology.	<i>HO-4, Homeowners' 4–Contents Broad Form</i>
3. A client really wants her residence covered on an open perils basis but is okay with broad named perils coverage on her personal property.	<i>HO-3, Homeowners' 3–Special Form</i>
4. A client has just purchased a condo as his new residence.	<i>HO-6, Homeowners' 6–Unit Owners Form</i>
5. A client has a new and very expensive home but has furnished it with old, poor-quality furniture until he has the opportunity to upgrade the contents. For now, he wants a best value policy.	<i>HO-3, Homeowner's 3–Special Form</i>
6. A client owns her new, very expensive home and wants to be sure her home, other structures, and personal property are covered on an open peril basis.	<i>HO-5, Homeowners' 5 – Comprehensive Form</i>

## LESSON 1.5 COMMON POLICY STRUCTURES

### NOTES GUIDE

Today, our objective is to identify the common features of residential policies and to understand the purpose of the parts of the Homeowners' Policy.

Let's look at the general structure of most residential policies. Think of this general structure as a "map" for navigating policy language.

**The Declarations Page:** The Dec page personalizes the policy and identifies specific information like:

- *Insurance company, address, and contact information*
- *Type of policy, such as Homeowners' 03 or HO-3 (pronounced "H-O")*
- *The named insured*
- *Mailing address*
- *The policy effective and expiration date, also known as the policy period*
- *The insured location*
- *Policy coverage limits and deductibles*
- *Most importantly, applicable forms and endorsements (2:45)*

### The Agreement

*The Agreement provides the promise an insurance company makes to an insured. (3:41)*

### Definitions

*The Definitions section defines terms in the insurance policy that have special meanings and are important to understanding coverage. They are included in the policy to clarify the meanings of certain words and combinations of words within a policy. (4:04)*

## LESSON 1.5 COMMON POLICY STRUCTURES

### Coverages

Dwelling Policies	Homeowners' Policies
There are the five coverage parts provided under the Dwelling Policies—Coverages A through E. They are: (4:56)	There are six coverage parts provided under the Homeowners' Policies—Coverages A through F. They are: (5:19)
<ul style="list-style-type: none"> <li>▪ <i>Coverage A—Dwelling</i></li> <li>▪ <i>Coverage B—Other Structures</i></li> <li>▪ <i>Coverage C—Personal Property</i></li> <li>▪ <i>Coverage D—Fair Rental Value</i></li> <li>▪ <i>Coverage E—Additional Living Expense (not included in DP-1, but may be endorsed)</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Coverage A—Dwelling</i></li> <li>• <i>Coverage B—Other Structures</i></li> <li>• <i>Coverage C—Personal Property</i></li> <li>• <i>Coverage D—Loss of Use</i></li> <li>• <i>Coverage E—Personal Liability</i></li> <li>• <i>Coverage F—Medical Payments to Others</i></li> </ul>
	NOTE: Some homeowners' forms, such as the Tenants' or Renters' Form HO-4, only include four coverage parts because there is no need to insure a dwelling or other structures.

### Perils Insured Against

*The Perils Insured Against section names the causes of loss that will trigger coverage on the insured property. (5:50)*

### Additional/Supplementary Coverages

*This section is used to list additional specific coverage obligations of the insurance company to the customer under given circumstances. (6:22)*

## LESSON 1.5 COMMON POLICY STRUCTURES

### Exclusions

*Exclusions are the policy provisions that limit or restrict coverage and are used within the policy to eliminate coverage. (6:59)*

### Conditions

*Conditions are obligations required of the insured and insurance company to carry out other policy provisions. (7:55)*








### Endorsements

*Endorsements, or riders, are amendments or additions to language in a policy contract that allow changes to the policy language or coverage by additions, deletions, exclusions, or provisions that change coverage for some types of risk. (8:36)*

## LESSON 1.5 COMMON POLICY STRUCTURES

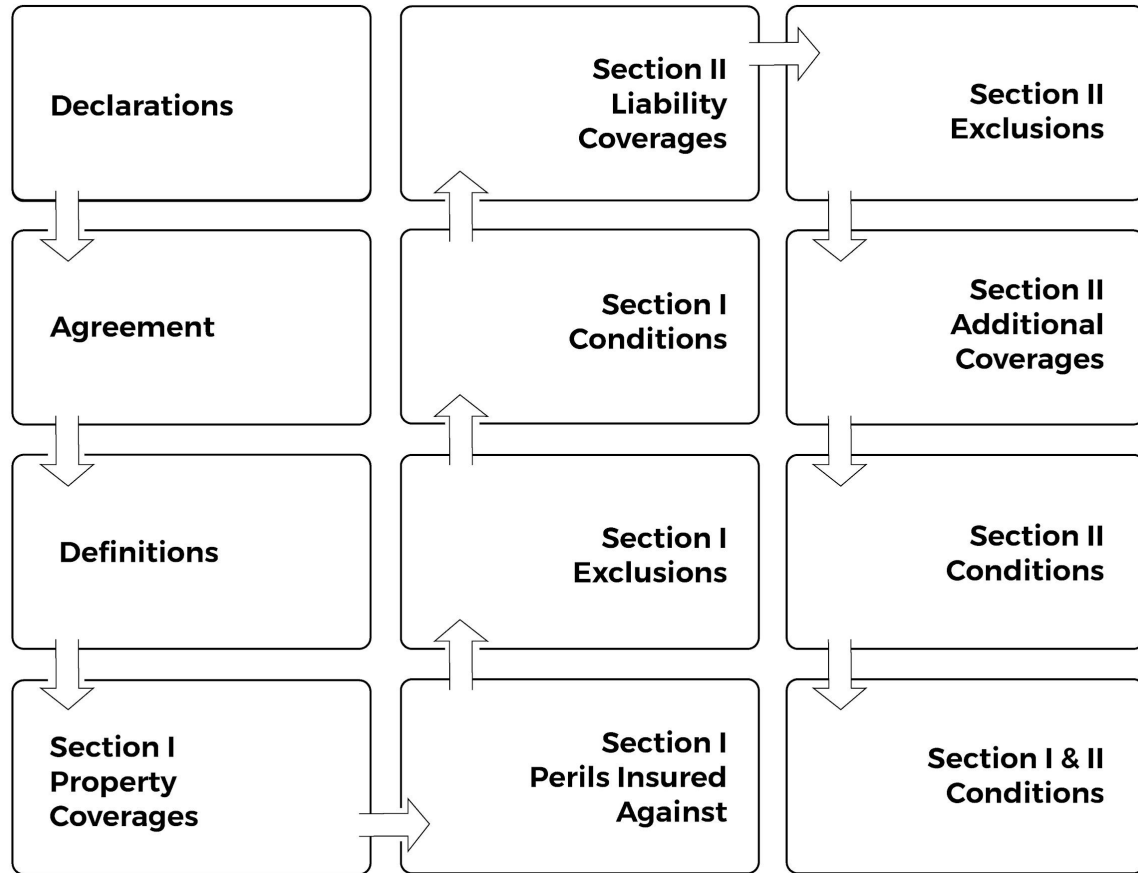
### ACTIVITY: ROAD MAP TO THE HOMEOWNERS' POLICY

Complete the following road map activity by explaining how the icon matches the term. Most insurance companies use similar sections to make policy use and understanding easier.

Homeowners' Policy Section	Road Map Icon	Information
1. Definitions		Common terms are used in insurance policies to help clients understand their meaning.
2. Agreement		A client pays an insurance company a certain amount for a promise that the insurance company will pay for a claim should the need arise.
3. Coverages		The amount of risk or liability that is covered.
4. Exclusions		Exclusions eliminate coverage for certain risks that an insurance company is unwilling to cover.
5. Conditions		Identifies general requirements of the insured and insurer.
6. Damage or Loss		A sum of money that compensates an injured party (an individual or organization).
7. First Page of Policy		This is the Declarations Page or the information page.

## LESSON 1.5 COMMON POLICY STRUCTURES

## POLICY STRUCTURE MAP



Why do you think it is a good idea for residential policies to share the same general structure and parts?

*The common structure, parts, and features make policy use and understanding easier.*

## LESSON 1.6 UNDERSTANDING THE DECLARATIONS PAGE AND AGREEMENT

### NOTES GUIDE

The Declarations Page lists the essential details of coverage.

Why is accuracy of the information shown on the Declarations Page so important?

*The Declarations Page is the information page for the Homeowners' Policy, and the policy is a legal contract. Not having correct information can affect a client's coverage when they need it most—when they submit a claim for a loss.*

(1:08)

<b>Insuring company</b>	<b>ACME INSURANCE COMPANY</b> COMPANY INSURANCE STOCK A  Home Offices 123 BT Drive Suite, 321 Austin, TX 76502  Administrative Offices 34 Northern Drive Chicago, IL 60608 Telephone No. (1) 800-111-1111 US Toll Free (1) 888-333-3333														
<b>To whom coverage is provided</b>	<b>HOMEOWNER INSURANCE DECLARATION PAGE</b> (TO REPORT A CLAIM PLEASE CALL 1-800-333-3333)  <b>INSURED</b> Joe Brown & Janet Brown 3356 Superman Drive Austin, TX 76502  <b>ADDITIONAL INSURED</b> n/a  <b>POLICY INFORMATION</b> <b>Policy Number:</b> HTX00463 15 29 95A <b>Policy Effective Date*:</b> 03/27/2020 12:01 am <b>Policy Expiration Date*:</b> 03/27/2021 12:01 am <i>*Standard time zone at property location</i>														
<b>Policy beginning and ending dates</b>	<b>TYPE:</b> New Policy  <b>MORTGAGEE:</b> ACME Bank and Mortgage ISAOA/ATIMA 501 Loan Way Houston, TX 77016														
<b>Address of insured property</b>	<b>PROPERTY LOCATION (Residence Premises)</b> Address: 3356 Superman Drive, Austin TX 76502 Policy Type: Homeowner HO 00 03 Year Built: 1980 Square Footage: 2000 Constructions: Brick Veneer														
<b>Policy coverage limits</b>	<table border="1"> <thead> <tr> <th>Policy Coverage</th> <th>Limits</th> </tr> </thead> <tbody> <tr> <td>Coverage A – Dwelling</td> <td>\$250,000</td> </tr> <tr> <td>Coverage B – Other Structures</td> <td>\$25,000</td> </tr> <tr> <td>Coverage C – Personal Property</td> <td>\$125,000</td> </tr> <tr> <td>Coverage D – Loss of Use</td> <td>\$75,000</td> </tr> <tr> <td>Coverage E – Personal Liability</td> <td>\$500,000</td> </tr> <tr> <td>Coverage F – Medical Payments to Others</td> <td>\$5,000</td> </tr> </tbody> </table>	Policy Coverage	Limits	Coverage A – Dwelling	\$250,000	Coverage B – Other Structures	\$25,000	Coverage C – Personal Property	\$125,000	Coverage D – Loss of Use	\$75,000	Coverage E – Personal Liability	\$500,000	Coverage F – Medical Payments to Others	\$5,000
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## LESSON 1.6 UNDERSTANDING THE DECLARATIONS PAGE AND AGREEMENT

The Agreement, also called the Insuring Agreement, establishes in clear terms the contract between the insured and the insurance company.

HOMEOWNERS COVERAGE BASIC LIMITS OVERVIEW						
		Coverage	HO 2 - Broad Form HO 3 - Special Form HO 5 - Comprehensive Form	HO 4 - Contents Broad Form	HO 6 - Unit-Owners Form	
Section I Property Coverages	{	Coverage A - Dwelling	Replacement Cost of Dwelling	No Coverage A, but 10% of Coverage C applies as additional insurance for building additions and alterations	\$5,000 Basic Limit  May be increased	
		Coverage B - Other Structures	10% of Coverage A	No Coverage B	No Coverage B; Included in Coverage A limit	
		Coverage C - Personal Property	50% of Coverage A	Selected by insured	Selected by insured	
Section II Liability Coverages	{	Coverage D - Loss of Use	30% of Coverage A	30% of Coverage C	50% of Coverage C	
		Coverage E - Personal Liability	\$100,000 Each Occurrence			
		Coverage F - Medical Payments To Others	\$1,000 Each Person			
<div>Note: Coverage B - Can be increased by endorsement Coverage D - Can be increased</div> <div>Coverage C - Can be increased or decreased Coverage E - Can be increased up to \$500,000</div> <div>Coverage F - Can be increased up to \$5,000</div>						

**Agreement: “We will provide the insurance described in this Policy in return for the premium and compliance with all applicable provisions of this Policy.”**

How might skipping a premium payment or failing to notify the insurance carrier of a new room addition to the home affect the Agreement? (9:00)

*The Agreement states that insurance is provided in return for premium. The client breaches the contract if they fail to pay the premium. Failing to notify the carrier of additions to the home may also breach the contract provisions and compromise coverage.*

How might you help your clients understand the importance of reading their insurance policies and make them aware of any areas around which misconceptions may arise?

*Student responses will vary.*

## LESSON 1.6 UNDERSTANDING THE DECLARATIONS PAGE AND AGREEMENT

### ACTIVITY: WHO, WHAT, WHEN, WHERE, AND HOW?

The Declarations Page is part of the Homeowners' Policy for your client, Mr. Brown. Mr. Brown called to report that a fire in his kitchen has caused \$30,000 in damage to the kitchen, and \$3,000 in damage to his personal property in the kitchen, which included his collection of very expensive spices, pots and pans, special baking utensils, and all his appliances. He will not be able to cook any meals in his home for the next six weeks and estimates that the inability to cook will increase his food costs by \$100 per week. What do you need from Mr. Brown and the Declarations Page to provide the necessary coverage?

Who? *Mr. Brown*

What? *\$30,000 in damage to Mr. Brown's kitchen and to his personal property in the kitchen.*

When? *You will need the date the damage occurred to make sure the loss happened during the policy period.*

Where? *You will need the address of the home where the loss occurred to make sure the location is an "insured location."*

How? *Identification of policy form (HO3 or HO5) and limit of liability on the homeowner declaration will help you in determining HOW much dollar coverage may apply to the loss..*

## LESSON 1.7 THE HOMEOWNERS' POLICY DEFINITIONS (PART I)

### NOTES GUIDE

The definition of special terms being set down in writing in a policy is important for a client's understanding and so misinterpretation of coverage does not occur. The insurance policy is a legal contract, so clarity of terminology is extremely important.

What do the following words refer to?

- "you" and "your": *the "named insured" on the Declarations Page and to the spouse if the spouse is a resident of the same household*
- "We," "us," and "our": *the company providing the insurance*

Read section B. 1. Explain Liability for Aircraft, Hovercraft, Motor Vehicle, and Watercraft. What would cause a person to be liable for bodily injury or property damage?

*A policy cannot cover everything, so the policy defines certain risks so that coverage for these exposures can be modified or excluded. Read section B.1. then explain the defined properties of Aircraft, Hovercraft, Motor Vehicle, and Watercraft liability that an insured might become liable for.*

*Student answers may vary but should include any of the following:*

- (1) Ownership of such vehicle or craft by an "insured";*
- (2) Maintenance, occupancy, operation, use, loading or unloading of such vehicle or craft by any person;*
- (3) Entrustment of such vehicle or craft by an "insured" to any person;*
- (4) Failure to supervise or negligent supervision of any person involving such vehicle or craft by an "insured"; or*
- (5) Vicarious liability, whether or not imposed by law, for the actions of a child or minor involving such vehicle or craft.*

Define "Bodily injury": *bodily harm, sickness, or disease, including required care, loss of services, and death that results.*

## LESSON 1.7 THE HOMEOWNERS' POLICY DEFINITIONS (PART I)

Define "Business": *a trade, profession, or occupation engaged in on a full-time, part-time, or occasional basis. (5:56)*

The "business" definition has two parts. Based on your reading of section B.3., what is **not** a business?

*If the activity is not a trade, profession, or occupation, any other activity may also be a "business" unless:*

- *Activities for which no "insured" receives more than \$2,000 in total compensation for the 12 months before the beginning of the policy period*
- *Volunteer activities for which no money is received other than payment for expenses incurred to perform the activity*
- *Providing home day care services for which no compensation is received, other than the mutual exchange of such services*
- *The rendering of home day care services to a relative of an "insured".(6:48)*

It is important to keep in mind that the purpose of the Homeowners' Policy is to afford coverage for liability arising from \_\_\_\_\_ normal living activities \_\_\_\_\_.

The policy is not designed to provide protection for most \_\_\_\_\_ business \_\_\_\_\_ activities, although additional business-related coverage is available through \_\_\_\_\_ endorsements \_\_\_\_\_ to the Homeowners' Policy. It is important for insurance professionals to be aware of all endorsements and commercial policies and to discuss any possible home-based businesses their clients may be involved in to know what coverage is needed. (8:48)

What does the word "employee" refer to in the policy?

*an employee of an "insured," or leased to an "insured," whose duties are other than housekeeping or domestic services. (9:42)*

## LESSON 1.7 THE HOMEOWNERS' POLICY DEFINITIONS (PART I)

### ACTIVITY: "Business" or Not

Many people engage in for-profit activities from their home. A typical Homeowners' Policy is not intended to cover businesses that may be better suited for a commercial policy. Look at the following scenarios and determine whether the activity is considered a "business" as defined by the Homeowners' Policy. Provide a reason for your determination. If you determine the activity is NOT a "business," give the appropriate exception number (Use HO-3).

Activity	"Business" or Not?	Exception #
Anita decides to start selling leather earrings she makes as a hobby. She advertises on social media and begins selling many sets. She makes \$300 per month from her home venture.	<i>"Business" – According to Exception #1, an activity that makes more than \$2,000 prior to the start of the policy is a "business." Anita makes \$300 times 12 which equals \$3,600 per year for each of the past two years.</i>	
Jill keeps her nephew while her brother, David, is at work. She is provided food and is paid \$100 per day.	<i>NOT a "business"—Because daycare services provided to a relative are not considered a business, even if there is compensation.</i>	<i>Exception #4</i>
Curtis likes to cook brisket in his smoker on the weekends. He provides meals for the elderly people in his neighborhood.	<i>NOT a "business"—This is a voluntary activity, and he receives no monetary compensation</i>	<i>Exception #2</i>
Linda keeps three teacher's children who are ages 1–3 in her home each day. Each teacher pays her \$250 per week.	<i>"Business"— If this is Linda's trade, profession, or occupation, the first part of the "business" definition determines her activity is a "business". Exceptions #3 and #4 help the determination. Linda is both being compensated for childcare (#3) and the children are not her relatives.</i>	
Gabby keeps two of her friend's children each day while they work. She keeps them Monday through Friday because she enjoys spending time with children.	<i>NOT a "business"—No compensation is received for Gabby's daycare services.</i>	<i>Exception #3</i>

## LESSON 1.8 THE HOMEOWNERS' POLICY DEFINITIONS (PART II)

### NOTES GUIDE

Turn to your copy of the HO-3 Policy, find the Definitions section, Part B.5., and answer the following questions:

Who is an "insured" in the ISO Homeowners' Policy?

*An "insured" includes the owner of the policy and spouse, any relatives living at home, anyone living in the residence under the age of 21, and any relative who is a full-time student under the age of 24. (1:39)*

Who can you think of that might be an insured?

*a foreign exchange student living with the host family, foster child, grandma living with you, 22 year-old child living away at college.*

What does the "insured location" refer to?

*the location(s) that is/are covered by the policy (6:00)*

How does the ISO Homeowners' Policy identify the location or locations for which the policy extends coverage? There are eight parts to this definition. (6:39)

- a. The "residence premises" where the "insured" resides*
- b. The part of other premises, other structures, and grounds used by you as a residence; and which is shown in the Declarations Page or which is acquired by you during the policy period for your use as a residence;*
- c. Any premises used by you as a residence in connection with the "residence premises" or in connection with locations described in the Declarations Page or which you acquired as your residence during the policy period.*
- d. Any part of a premises not owned by an "insured" where an "insured" is temporarily residing;*
- e. Vacant land, other than farm land, owned by or rented to an "insured";*
- f. Land owned by or rented to an "insured" on which a one-, two-, three-, or four-family dwelling is being built as a residence for an "insured";*
- g. Individual or family cemetery plots or burial vaults of an "insured"; or*
- h. Any part of a premises occasionally rented to an "insured" for other than "business" use.*

## LESSON 1.8 THE HOMEOWNERS' POLICY DEFINITIONS (PART II)

Define "Motor Vehicle": *a self-propelled land or amphibious vehicle or any trailer or semi-trailer which is being carried on, towed by, or hitched for towing. Includes cars, trucks, recreational vehicles, motorized children's riding toys, riding lawn mowers, trailers, etc. (10:17)*

Define "Occurrence": *an accident that happens during the policy period and results in "Bodily injury" or "Property damage." (10:57)*

Define "Property damage": *physical injury to, destruction of, or loss of use of tangible or actual property. (11:31)*

Define "Residence employee": *a person who performs similar duties elsewhere **not** related to the "business" of an "insured." Example, an occasional maid or gardener. A "residence employee" is **not** a temporary employee furnished to an "insured" to substitute for a permanent "residence employee" on leave. (11:49)*

Define "Residence premises":

*The "residence premises" is named on the Declarations Page **and is:***

- 1. The one family dwelling where "you" reside;*
- 2. The two-, three-, or four-family dwelling, as long as "you" reside in at least one unit; or*
- 3. The part of any other building where you reside. (12:47)*

## LESSON 1.8 THE HOMEOWNERS' POLICY DEFINITIONS (PART II)

### ACTIVITY: "INSURED" AND "INSURED LOCATION"

You wrote a homeowner policy for your client, Zoe, who owns and lives at 123 Right Road. We already know that Zoe is the named insured and 123 Right Road is her insured "residence premises." Read through the following situations and identify other (1) "insured locations" and (2) "insureds" according to homeowner policy definitions. Explain your answers.

Situation	"Insured Location"	"Insured"
Zoe's nephew, Frank, is 20 years old and lives with her when his college is not in session.	<i>The dorm could be an "insured location" as Frank is an "insured" and is temporarily residing in a dorm he does not own.</i>	<i>Frank is an "insured" – he is Zoe's relative, under 24 and lived with before moving to college.</i>
Zoe's neighbor, Ella, dog-sits her Labrador for free while Zoe is at work. Ella helps Zoe and takes the Labrador to the Veterinarian. While at the Vet, Ella accidentally drops the leash and Zoe's dog bites another dog.	<i>No other "insured location" is identified</i>	<i>Ella is an "insured" for liability while dog-sitting Zoe's dog.  (The vet will not be an "insured" on Zoe's home policy as it is the Vet's "business.")</i>
Zoe inherited a lake house, 321 Lake Road, 5 years ago but did not tell you. The lake house suffers a lightning strike and catches fire.	<i>No other "insured location" is identified  (The lake house is NOT an "insured location." It is not a "residence premises" because it is not on the declaration. The location was not acquired during the policy period.)</i>	<i>No other "insureds" identified.</i>
Zoe decides to take a trip to Florida and rents a condo. While Zoe is gone, her sister watches Zoe's two children at her own home.	<i>The rented condo is an "insured location" as the location is not owned by Zoe and she is temporarily residing at the condo.</i>	<i>Zoe's children are "insureds" as they are her resident relatives.  (Zoe's sister is not an "insured" under Zoe's policy.)</i>

## UNIT 1 ASSESSMENT REVIEW

1. Review Unit 1 Pre-Assessment and lesson activities 1.1 through 1.8 to determine your two lowest-scoring areas.

Write these two areas below:

- a.
  - b.
2. Rewatch the video/lectures for your two lowest-scoring areas.
  3. Review your **Student Learning Guide** notes.
  4. Select at least two terms from your lowest-scoring areas and create a mnemonic device to help you remember them. For example: If you can't remember the three Dwelling Policy Forms, DP-1, DP-2, DP-3, you could make a rhyme or a graphic to help your recall.

DP-1 Basic	Covers only fire, lightning, and internal explosion
DP-2 Broad	Coverage on a broad named perils basis
DP-3 Special	Open perils form

Here's an example of a mnemonic device:

"Basic coverage is lit up.  
Broad coverage is named up.  
Special coverage is opened up."

**UNIT 2 HOMEOWNERS' POLICY SECTION I****ACTIVITY: UNIT PREVIEW**

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.
4. Think of three possible misconceptions or assumptions you have about the learning objective.

## UNIT 2 HOMEOWNERS' POLICY SECTION I: COVERAGES A, B, C, & D

### UNCOVERING THE LEARNING OBJECTIVE

#### Learning Objective

Students will identify the Homeowners' Policy, Section I, and Coverages A, B, C, & D.

#### Insurance and Business Terms

- **debris:** the scattered pieces of waste or remains after a storm or other peril
- **collapse:** the abrupt falling down or caving in of a building or part of a building as a result of one or more named perils
- **pollution:** discharge, dispersal, seepage, release, or escape of any solid, liquid, gaseous, or thermal irritant or contaminant
- **inherent vice:** a legal term for instability in the physical makeup of a substance that will weaken it over time
- **agricultural smudging:** a process that farmers use to keep frost off fragile crops by using warm oil smoke piped throughout the crop
- **exposure:** the state of being subject to loss because of some hazard or contingency
- **physical premises:** on the premises where you live or business is conducted

#### Guiding Questions

1. What is the difference between the Dwelling Policy and the Homeowners' Policy?  
*Even though they are similar, the Dwelling Policy does not provide liability or personal property coverage and only covers the dwelling.*
2. How is the Homeowners' Policy more advantageous to some homeowners?  
*The Homeowners' Policy has more areas of coverage.*
3. When is insurance coverage a requirement for a homeowner?  
*When you have a mortgage or a lender, you must provide proof of coverage.*

## LESSON 2.1 HOMEOWNERS' POLICY SECTION I: PROPERTY COVERAGES A AND B

### NOTES GUIDE

In this lesson, we'll focus on Section I, Property Coverages A and B; that is, coverage for Dwelling and Other Structures, and discuss how each coverage applies in specific situations. Refer to your copy of the HO-3 Policy and find Section I, Part A., Coverage A Dwelling.

Take a look at the Declarations Page and find the section that describes the "residence premises."

The Homeowners' Policy, Coverage A Dwelling, states that coverage will be provided for a dwelling listed on the "residence premises" identified in the Declarations Page.

**HOMEOWNER INSURANCE DECLARATION PAGE**  
(TO REPORT A CLAIM PLEASE CALL 1-800-333-3333)

<b>INSURED</b> Joe Brown & Janet Brown 3356 Superman Drive Austin, TX 76502		<b>TYPE:</b> New Policy
<b>ADDITIONAL INSURED</b> n/a Mortgage	<b>MORTGAGEE:</b> ACME Bank and  ISAOA/ATIMA 501 Loan Way Houston, TX 77016	
<b>POLICY INFORMATION</b> Policy Number: HTX00463 15 29 95A Policy Effective Date*: 03/27/2020 12:01 am Policy Expiration Date*: 03/27/2021 12:01 am *Standard time zone at property location		
<b>PROPERTY LOCATION (Residence Premises)</b> Address: 3356 Superman Drive, Austin TX 76502 Policy Type: Homeowner HO 00 03 Year Built: 1980 Square Footage: 2000 Constructions: Brick Veneer		

Coverage A Dwelling also applies to:

- A. *structures that are attached to the building, such as porches, wood decks, and garages.*
- B. *materials and supplies for the purpose of construction, remodeling, or repair of the dwelling or other structures **only if** the materials are located **ON** or **NEXT** to the "residence premises." (3:14)*

Notice that the Homeowners' Policy does not cover land. (3:36)

When considering limits for a Homeowners' Policy, what kinds of things might you consider to ensure adequate coverage?

*The limit should cover the cost to completely rebuild the home from the foundation up with like-kind and quality construction materials, fixtures, and finishes. (5:36)*

## LESSON 2.1 HOMEOWNERS' POLICY SECTION I: PROPERTY COVERAGES A AND B

Find Coverage B Other Structures in your copy of the HO-3 policy.

Coverage B provides coverage for \_\_\_\_\_ direct physical loss \_\_\_\_\_ to other structures on the "residence premises" that are \_\_\_\_\_ not attached \_\_\_\_\_ to the main dwelling. (6:06)

The Homeowners' Policy can protect all the structures on the residence premises, but the coverage comes with some exclusions and conditions:

- *Land is still not covered.*
- *Other structures are not covered if they are rented to someone other than a tenant of the home.*
- *Other structures are not covered if any "business" is conducted from the structure or if any "business property" is being stored within it. (6:43)*

When considering a client's insurance needs, is it important to discuss what, if any, business will be conducted on the residence premises? Why or why not?

*Yes. Business conducted on the residence premises may exclude coverage for a part of the residence premises or may make the location ineligible for a Homeowners' Policy. (7:29)*

What limit does the HO-3 policy have for Coverage B Other Structures?

*The policy states that the limit of liability is 10% of Coverage A Dwelling. (9:19)*

If the main dwelling is insured with a limit of liability of \$100,000, then Coverage B Other Structures will automatically have a coverage limit of \_\_\_\_\_ \$10,000 \_\_\_\_\_.

If the client should need more coverage under Coverage B Other Structures (more than the 10% provided), how can this amount be increased?

*For an additional premium, the endorsement **Other Structures On the Residence Premises, Increase Limits** may be added.(9:40)*

## LESSON 2.2 HOMEOWNERS' POLICY SECTION I: PROPERTY COVERAGE C

The Insurance Services Office (ISO) Homeowners' 3 Special Form, or HO-3, sets the limit of liability for Personal Property at 50% of the Coverage A limit.

If the home policy has a Dwelling (Coverage A) limit of \$100,000 dollars, how much is the Personal Property (Coverage C) limit? \$50,000 (1:38)

Coverage C provides protection for personal property. How would you define Personal Property? *Student responses may vary, but should include answers such as:*

*Personal property is made up of our belongings, our "stuff." These are the things that are unique to each of us and may be moveable, like something you would take on a trip, such as a special piece of jewelry. Or it could be a larger item, like a couch in your home. (2:47)*

1. The first section in Coverage C Personal Property is Covered Property.  
This part of the policy states that personal property is covered while owned or used by an "insured" anywhere in the world. (3:01)
2. The second section in Coverage C is Limit For Property At Other Locations.  
The Homeowners' Policy limits coverage for property that is usually located at another location such as the "insured's" secondary residence, a seasonal home, or at a self-storage facility. In these cases, only 10% of the Coverage C amount (or \$1,000 whichever is greater) is available to cover a loss at these properties. (3:33)

Under Section "Perils Insured Against," for Coverage C Personal Property, an "insured" who is a student living away from home in a dorm or apartment, say at college, has personal property coverage at the student's school residence, if the student has been there at any time during the 90 days immediately before the loss. Coverage is still limited to 10% of Coverage C from the insured primary residence.

3.

## LESSON 2.2 HOMEOWNERS' POLICY SECTION I: PROPERTY COVERAGE C

### 3. The third section of Coverage C is Special Limits Of Liability.

This part of Coverage C Personal Property addresses special limits for a variety of property categories. Each special limit is the total limit listed in the policy for each loss for all property within that category, and does not increase the Coverage C limit of liability. For example, look at Section C. 3. in the policy and determine the maximum coverage for the following:

- The limit for money, banknotes, gold, and silver is \$200.
- The limit for watercraft and their trailers is \$1,500.
- The limit for property used for business and stored on premises is \$2,500.
- The limit for stolen jewelry, watches, and furs is \$1,500.

If additional coverage is needed for items listed in Section 3, limits can be increased by endorsement for an additional premium.

The endorsement is called the Schedule Personal Property Endorsement (6:44)

Recall that property described in Coverage C Personal Property on the unendorsed Homeowners' Policy is insured for direct physical loss caused by sixteen **named perils**. The Scheduled Personal Property Endorsement provides broader (or greater) coverage by paying for direct physical loss to scheduled property, except for losses that are excluded by the endorsement. Remember this is called **open peril**. Look at the HO 04 61 form, under Perils Insured Against.

### 4. The fourth section of Coverage C is Property Not Covered.

The Homeowners' Policy will not cover every type of personal property. Some property is simply too specialized, and it can often be insured on other types of insurance policies, while still other types of property aren't practical to insure.

What are some of the types of property **not** covered on the Homeowners' Policy?

- *Animals, birds, or fish*
- *Motor vehicles, except those designed to assist the handicapped or solely to service the residence*
- *Aircraft*
- *Hovercraft*
- *Property belonging to roomers*
- *Property in a rented space rented to others (like furniture provided to a boarder)*
- *Business data*
- *Credit cards*
- *Water or steam*
- *And anything else specifically described and insured elsewhere (in another policy) (8:27)*

**LESSON 2.2 HOMEOWNERS' POLICY SECTION I: PROPERTY COVERAGE C****ACTIVITY: HOMEOWNERS' INSURANCE CASE STUDY ACTIVITY**

**Instructions:** Read the following case study. Then use information from the Homeowners' Policy, Section I, Coverages A, B, and C, and use the Declarations Page provided in the Appendix.

**The Brown Family**

The Brown family live in a two-story home in Austin, Texas. They have an unendorsed HO-3 Policy. Coverage A - Dwelling Limit of Liability is \$200,000.

Tragedy struck the Brown family last year when a covered fire loss partially destroyed their home to the tune of \$100,000. The Brown family rents their detached garage to a friend to store his motorcycle. This garage suffered \$15,000 in damage. The Browns had spent years building a backyard paradise that included a pool house for guests that suffered \$10,000 in damage from the fire. Along with \$50,000 in damages of personal belongings, Mrs. Brown also had \$5,000 of family heirloom jewelry and \$2,000 cash in a wooden box in the attic that were damaged. The Browns had a boat and trailer, totaling \$18,000, parked in the garage which was destroyed in the flames. The Brown's son's exotic fish tank was destroyed which held \$500 worth of exotic fish in a \$1,000 tank.

Fill out the table on the next page. Which items are covered and for how much from the Declarations Page and the Homeowners' Policy-3?

**LESSON 2.2 HOMEOWNERS' POLICY SECTION I: PROPERTY COVERAGE C****ACTIVITY: HOMEOWNERS' INSURANCE CASE STUDY ACTIVITY**

Fill out the table below. Which items are covered and for how much from the Declarations Page and the Homeowners' Policy-3?

Items	Amount paid by claim?	Covered/Not Covered?	Coverage Part?
Home	<i>\$100,000</i>	<i>Covered</i>	<i>Coverage A- Dwelling</i>
Detached Garage (Rented)	<i>\$15,000</i>	<i>Covered: Renting other structures as a private garage is allowed.</i>	<i>Coverage B - Other Structures</i>
Pool House for Guests	<i>\$5,000</i>	<i>Partially Covered. Limit of liability for Coverage B is 10% of Coverage A (or \$20,000). The detached garage &amp; pool house share this limit.</i>	<i>Coverage B- Other Structures</i>
Heirloom Jewelry	<i>\$5,000</i>	<i>Covered \$5,000</i>  <i>(Jewelry is only subject to Coverage C - Special limit of \$1,500 for loss by theft.)</i>	<i>Coverage C- Personal Property</i>
Cash	<i>\$200</i>	<i>Partial coverage per Coverage C - Special limits</i>	<i>Coverage C- Personal Property</i>
Personal Belongings	<i>\$50,000</i>	<i>Covered</i>	<i>Coverage C- Personal Property</i>
Boat and Trailer	<i>\$1,500</i>	<i>Partial coverage per Coverage C - Special limits</i> <i>(Boat &amp; its trailer share the limit)</i>	<i>Coverage C- Personal Property</i>
Exotic Fish Tank and decorative accessories.	<i>\$1,000</i>	<i>Covered</i>  <i>(important note that water is not covered per Coverage C - Personal Property - Property Not Covered)</i>	<i>Coverage C- Personal Property</i>
Exotic Fish	<i>\$0</i>	<i>Not Covered</i>	<i>Coverage C - Personal Property - Property Not Covered</i>

**LESSON 2.3 HOMEOWNERS' POLICY SECTION I: COVERAGE D****NOTES GUIDE**

Look at your copy of the HO-3 policy and find Coverage D (Loss of Use).

**1. Additional Living Expenses**

In short, this coverage will pay for an insured's additional cost of living should the home become unlivable because of a covered cause of loss. (2:39)

Loss of Use coverage will pay the costs associated with the insured keeping up the client's current standard of living while repairs are being made or reconstruction occurs. Coverage D Loss of Use pays for the hotel a family stays in, higher costs associated with laundry, eating, commuting, and so on.

According to the policy, is there a time limit on how long the insurance company will pay these additional expenses? Explain.

*Yes, there is a time limit, but it is not strictly defined. The policy states, "Payment will be for the shortest time required to repair or replace the damage or, if you permanently relocate, the shortest time required for your household to settle elsewhere." (3:45)*

**2. Fair Rental Value**

It says, "If a loss covered under Section I makes that of the 'residence premises' rented to others or held for rental by you not fit to live in, we cover the fair rental value of such premises less any expenses that do not continue while it is not fit to live in." As with the Additional Living Expense, Fair Rental Value is paid for the shortest time required to repair or replace the damaged property. Loss or expense due to the cancellation of a lease is *not* covered.

Explain this in your own words. *Student responses may vary, but should include answers such as: "If the client's residence is damaged and results in a loss of rental income, the insurance company will pay fair rental value while it is not fit to live in." (6:12)*

**3. Civil Authority Prohibits Use.** What does the policy say about "residence premises" that are not damaged, but to which access is denied as a result of direct damage to a neighboring premises by a *covered peril*? What kind of event might this refer to?

*a tornado, flood, earthquake, or other event that would make a neighborhood unsafe. (7:06)*

What is the maximum amount of time this coverage will pay?

*The maximum time period for this coverage is two weeks for any one event. (7:27)*

## LESSON 2.3 HOMEOWNERS' POLICY SECTION I: COVERAGE D

## ACTIVITY: BASIC LIMITS OVERVIEW TABLE

Fill in the table with the items from the boxes below.

HOMEOWNERS' COVERAGE BASIC LIMITS OVERVIEW			
Coverage	HO-2 Broad Form HO-3 Special Form HO-5 Comprehensive Form	HO-4 Contents Broad Form	HO-6 Unit Owners Form
<b>Coverage A – Dwelling</b>	Replacement Cost of Dwelling	No Coverage A but 10% of Coverage C Applies as Additional Insurance for Building Additions and Alterations	\$5,000 of Basic Limit—May Be Increased
<b>Coverage B – Other Structures</b>	10% of Coverage A	No Coverage B	No Coverage B Included in Coverage A Limit
<b>Coverage C – Personal Property</b>	50% of Coverage A	Selected by Insured	Selected by Insured
<b>Coverage D -- Loss of Use</b>	30% of Coverage A	30% of Coverage C	50% of Coverage C
<b>Coverage E – Personal Liability</b>	\$100,000 Each Occurrence		
<b>Coverage F – Medical Payments to Others</b>	\$1,000 Each Person		

50% of Coverage C	50% of Coverage A	30% of Coverage C
Selected by Insured	No Coverage A but 10% of Coverage C Applies as Additional Insurance for Building Additions and Alterations	50% of Coverage A
\$5,000 of Basic Limit —May Be Increased	Replacement Cost of Dwelling	No Coverage B
No Coverage B Included in Coverage A Limit	10% of Coverage A	Selected by Insured

## LESSON 2.4 HOMEOWNERS' POLICY SECTION I: ADDITIONAL COVERAGES

### NOTES GUIDE

The Additional Coverages section is used to specifically list additional coverage obligations of an insurance company to a customer under certain circumstances. This section describes twelve additional insurance coverages. Take notes on each one as you read the policy and listen to the lecture.

Coverage	Description
Debris Removal	<i>Pays reasonable expenses associated with the removal of debris of covered property damaged by a covered cause of loss or for ash, dust, or particles from a volcanic eruption that has caused direct loss to a building or property contained in a building. (1:40)</i>
Reasonable Repairs	<i>A policyholder who takes steps to protect damaged covered property from further damage, is reimbursed for expenses for reasonable repairs. (3:32)</i>
Tree, Shrubs, and Other Plants	<i>Coverage is provided for a loss caused by fire or lightning, explosion, riot or civil commotion, aircraft, vehicles not owned by a resident of the household, vandalism, or theft. Losses caused by wind or ice are not covered under this section. (4:08)</i>
Fire Department Service Charge	<i>The insurance company will pay the service charge when a fire department from another area is called to save or protect covered property from covered perils. (4:42)</i>

## LESSON 2.4 HOMEOWNERS' POLICY SECTION I: ADDITIONAL COVERAGES

Coverage	Description
Property Removed	<i>Provides personal property coverage for <b>any type of loss</b> when a client may need to remove covered property from a "residence premises" to protect it from damage by a covered peril. (5:10)</i>
Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery, And Counterfeit Money	<i>Insures against losses due to theft or unauthorized use of their credit cards, ATM card, forgery or alteration of any checks, or loss through good faith acceptance of counterfeit U.S. or Canadian paper currency. (6:29)</i>
Loss Assessment	<i>Provides coverage against charges by a Homeowners' Association for losses occurring in common areas of the neighborhood for which the insured is liable under their HOA agreement. (7:35)</i>
Collapse	<i>Provides coverage for losses due to collapse under very specific circumstances listed in the policy. (8:26)</i>

**LESSON 2.4 HOMEOWNERS' POLICY SECTION I: ADDITIONAL COVERAGES**

Coverage	Description
Glass or Safety Glazing Material	<i>Pays for the breakage of glass or safety glazing material that is a part of a covered building, storm door, or storm window. The coverage also pays for damage to covered property caused solely by broken pieces of glass. (9:25)</i>
Landlord's Furnishings	<i>Pays for appliances, carpeting, and other household furnishings in each apartment on a "residence premises" regularly rented or held for rental. Such loss must result from a covered peril other than theft. (9:54)</i>
Ordinance or Law	<i>Pays for increased costs associated with repairing a building damaged by a covered peril to meet up-to-date building codes or ordinances set by local governments. (10:16)</i>
Grave Markers	<i>Pays for damage to grave markers and mausoleums located on or away from the "residence premises," if the damage is caused by a covered peril under Coverage C (Personal Property). (11:32)</i>

## LESSON 2.4 HOMEOWNERS' POLICY SECTION I: ADDITIONAL COVERAGES

### ACTIVITY: ADDITIONAL COVERAGE ACTIVITY

Using Section I – E. Additional Coverages portion of the Homeowner 3 policy, answer the following true/false questions.

	True or False	Explain
Debris removal expense is unlimited	<i>False</i>	<i>Debris removal is included in the limit of liability for the damaged property. An additional 5% is available if the limit of liability is exceeded.</i>
Personal Property removed from the residence to spare it from a wildfire is covered when it is damaged two days later by a flood?	<i>True</i>	<i>The property was removed to spare it from a COVERED peril. It will be covered for direct loss from ANY cause.</i>
Trees that died after a drought are covered.	<i>False</i>	<i>Coverage for trees is limited to specific causes of loss listed in Additional Coverages- Trees, Shrubs, and Other Plants. Drought is not a named peril of loss.</i>
Ordinance or Law coverage is included within Coverage A – Dwelling Limit of Liability.	<i>False</i>	<i>Ordinance or Law coverage is additional insurance limited to 10% of Coverage A limit of liability</i>

## LESSON 2.5 HOMEOWNERS' POLICY SECTION I: PERILS INSURED AGAINST

### NOTES GUIDE

This section gives us more information about which causes of loss, or perils, are covered. Look at this section of the HO-3 Policy and take notes as we move through the perils that are insured against, and identify the perils that are not covered, as well.

In the named peril approach, a policy lists every covered peril individually. The client must essentially prove their claim results from one of the named causes of loss in the policy.

In the open peril approach, a policy states that every risk that can be a cause of direct physical loss or damage *is covered*, unless *specifically* excluded. This approach is used in Coverages A and B of the HO-3 policy. The burden of proof is with the insurance company to establish that a cause of loss is excluded. This approach is preferred even though it is more expensive, because more perils are covered. (1:34)

Refer to your copy of the HO-3 Special Form. As just mentioned, the HO-3 insures against direct physical loss to property described in Coverage A (Dwelling) and Coverage B (Other Structures) on an Open Peril basis. However, it does not insure for all losses. Section I: Perils Insured Against, Part A2. takes coverage away by stating some of the causes of loss that are not covered.

On the next two pages, complete the Perils Not Covered Table.

## LESSON 2.5 HOMEOWNERS' POLICY SECTION I: PERILS INSURED AGAINST

## PERILS NOT COVERED TABLE

Collapse caused by:	Notes
<b>Freezing of plumbing, heating, A/C, or appliances</b>	<i>Losses related to freezing of plumbing, heating, A/C or appliances are not covered unless heat is maintained and water is shut off and drained. (3:30)</i>
<b>Freezing, thawing, weight of water</b>	<i>Losses are not covered on fences, patios, swimming pools, foundations, retaining walls, piers, or docks due to freezing, thawing, or weight of water. (4:03)</i>
<b>Theft in or to a residence under construction</b>	<i>Losses from theft are not covered for a residence under construction including construction-related materials and supplies. Once the home is finished and occupied, this coverage is returned. (4:14)</i>
<b>Losses occurring from vandalism or malicious mischief</b>	<i>Losses from vandalism or malicious mischief are not covered if the home has been vacant more than 60 consecutive days. (4:40)</i>
<b>Mold, fungus, or wet rot</b>	<i>Losses from mold, fungus, or wet rot are not covered unless it is hidden from view and caused by the accidental discharge of water or steam. (4:59)</i>

## LESSON 2.5 HOMEOWNERS' POLICY SECTION I: PERILS INSURED AGAINST

## PERILS NOT COVERED TABLE (page 2)

Collapse caused by:	Notes
<b>Wear and tear, inherent vice, mechanical breakdown, rust, rot, or smoke from industrial operations or agricultural smudging</b>	<i>Losses due to these issues are not covered. (5:27)</i>
<b>Pollution</b>	<i>Losses from pollution are not covered. Pollution includes contaminants found in insulation, asbestos, pesticides, lead, cleaning products, smoke from fireplaces and wood stoves, and household furnishings that may include or be treated with contaminants during the manufacturing process. (5:52)</i>
<b>Shifting, settling, sagging foundations</b>	<i>The results of settling are classified as <b>Losses Not Covered</b> because settling is a peril that is not insured against. (6:28)</i>
<b>Damage caused by birds, rodents, and insects</b>	<p><i>A mouse's chewing damages wiring, forcing the owner to replace the wiring for electrical items to work properly, is a <b>Loss Not Covered</b>.</i></p> <p><i>Stains caused by birds are <b>not covered</b>.</i></p> <p><i>Insect damage, including termite-related damage, is <b>not covered</b>.</i></p> <p><i>Only when animal activity causes a Covered Cause of Loss, such as a fire or collapse, will a Homeowners' Policy respond to help cover damages. (6:59)</i></p>

## LESSON 2.5 HOMEOWNERS' POLICY SECTION I: PERILS INSURED AGAINST

Most individuals have exposures to loss of personal property. Coverage C (Personal Property) pays for direct physical loss resulting from a covered peril to personal property owned or used by an "insured." (8:41)

When it comes to coverage for the personal property of the insured provided in a Homeowners' Policy, it is typically on a named peril basis. On the HO-3 form, there are sixteen perils that apply to personal property. These causes of loss apply to the interior and to the contents of a damaged structure. (9:09)

SIXTEEN COVERED PERILS (UNLESS EXCLUDED IN SECTION I - EXCLUSIONS)			
Fire Or Lightning	Windstorm Or Hail	Explosion	Riot or Civil Commotion
Aircraft	Vehicles	Smoke	Vandalism Or Malicious Mischief
Sudden and Accidental Tearing Apart, Cracking, Burning Or Bulging of a hot water system, Air Conditioning, or automatic fire protection system or appliance for heating water	Falling Objects (damage to property within a building if the roof or outside wall is first damaged by a falling object)	Weight Of Ice, Snow Or Sleet (that damages property contained in a building)	Accidental Discharge Or Overflow Of Water Or Steam (a loss caused by an accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning, or automatic fire protective sprinkler system or from within a household appliance)
Theft	Freezing of plumbing (applies only if heating has been maintained in a building or the water supply has been shut off and systems and appliances have been drained of water)	Sudden and Accidental Damage From Artificially Generated Electrical Current	Volcanic Eruption

Some of these 16 listed causes of loss are easily understood, but it is important to pay close attention to the specific wording. Let's dig a little deeper into some of the wording for a few of these covered perils.

## LESSON 2.5 HOMEOWNERS' POLICY SECTION I: PERILS INSURED AGAINST

Look at your copy of the HO-3 policy, under Section I: Perils Insured Against, Coverage C (Personal Property) and review peril 2. Windstorm or Hail. The policy states that watercraft and their trailers and equipment have coverage for wind or hail, but ***only while*** located **inside** a fully enclosed building. Watercraft standing exposed in the client's yard would not be covered for wind or hail damage.

Next, look at named peril 9. Theft. What are some exclusions for theft coverage to pay attention to?

Coverage for loss by theft for personal property is excluded when:

- *committed by an "insured"*
- *located in a dwelling under construction*
- *the property is located in a part of a "residence premises" rented by an "insured" to someone other than another "insured." (10:25)*

Take a look at the following perils. Make note of any special exclusions or considerations.

Peril	Special Considerations
12. Accidental Discharge Or Overflow of Water Or Steam	<i>Coverage is not provided for:</i> <ul style="list-style-type: none"> <li>• <i>the system/appliance the water came from</i></li> <li>• <i>damage caused by freezing</i></li> <li>• <i>discharge from "off the premises"</i></li> <li>• <i>visible mold, fungus, or wet rot (12:09)</i></li> </ul>
14. Freezing	<i>Coverage is <b>ONLY</b> provided <b>IF</b> the "insured" has maintained heat to the building or shut off the water.</i>
15. Sudden And Accidental Damage From Artificially Generated Electrical Current (also known as a Power Surge)	<i>Coverage does not include loss to tubes, transistors, electronic components or circuitry that is a part of appliances, fixtures, computers, home entertainment units or other types of electronic apparatus.</i>

Do you see how understanding the wording of the policy is important? ***It is your responsibility, as an insurance professional, to read and understand the policy in effect and to make sure your clients understand what is and is not covered.***

## LESSON 2.5 HOMEOWNERS' POLICY SECTION I: PERILS INSURED AGAINST

### ACTIVITY: WHAT IS THE MYSTERY PERIL?

Using the information from the Perils Table and Section I - Perils Insured Against - Coverage C Personal Property of the HO-3 Policy in your Appendix to try and guess the "Mystery Peril."

Description	Which Peril?
This peril does not include loss to property contained in the building unless the roof or the outside wall of the building is first damaged.	<i>Falling Objects</i>
This peril does not include damage caused to the system or appliance which water escaped from.	<i>Accidental Discharge or Overflow Of Water or Steam</i>
The peril does not include loss to electronic components or circuitry of computers or home entertainment systems.	<i>Artificially Generated Electrical Current, also known as Power Surge</i>
including the emission or puffback of soot, fumes or vapors from a boiler, furnace, or related equipment.	<i>Smoke</i>
Does not include damage to property if the dwelling has been vacant for more than 60 consecutive days immediately before the damage occurs.	<i>Damage by Burglars</i>
A conveyance.	<i>Vehicles</i>
in or to a dwelling or structure under construction;	<i>Theft of Personal Property</i>
meaning any contrivance used or designed for flight.	<i>Aircraft</i>

## LESSON 2.6 HOMEOWNERS' POLICY SECTION I: EXCLUSIONS

### NOTES GUIDE

By the end of this lesson, you should be able to name, explain, and apply the key exclusions in Section I of the Homeowners' Policy.

Exclusions are used within the policy to eliminate coverage for high risk exposures. (2:54)

What is an exposure?

*The property and types of loss likely to occur and to the "insured."* (3:00)

Why might an exposure be excluded? What is an example of each?

An exposure may be excluded because:

Reason	Example
1. <i>it is so morally outrageous or severe that an affordable premium cannot be set</i>	<i>setting fires or injuring others (3:16)</i>
2. <i>it is something best covered by other insurance policies or endorsements</i>	<i>ownership of an aircraft (3:33)</i>
3. <i>it is too destructive and massive for an insurance company to cover</i>	<i>large-scale flood (4:06)</i>

An insurance professional must have a thorough understanding of exclusions to know what coverage a Homeowners' Policy provides. Exclusions always apply, regardless of any other cause or event that contributes to the circumstances before, during, or after a loss.

Find your copy of the HO-3 Policy and the nine exclusions listed at the end of Section I. On the next few pages, describe each exclusion.

**LESSON 2.6 HOMEOWNERS' POLICY SECTION I: EXCLUSIONS**

Exclusion	Description
1. Ordinance Or Law	<i>This exclusion generally removes coverage for expenses related solely to compliance to laws or ordinances and applies whether or not a property has been physically damaged. It also excludes any ordinance or law that results in a loss of property value or that requires an "insured" to test for or clean up pollutants. (5:42)</i>
2. Earth Movement	<i>This exclusion removes coverage for expenses related to earthquake activity, tremors during a volcanic eruption, landslides, mudslides, mudflows, sinkholes, or other earth movements, including sinking, rising, and shifting. (6:55)</i>
3. Water	<i>This exclusion removes coverage for expenses related to water damage caused by sewer backup, flood, tidal wave, or any other water-related cause. (7:27)</i>
4. Power Failure	<i>This exclusion removes coverage for expenses related to the failure of power or other utility service if the failure takes place off the "residence premises." (7:54)</i>

## LESSON 2.6 HOMEOWNERS' POLICY SECTION I: EXCLUSIONS

Exclusion	Description
5. Neglect	<i>This exclusion removes coverage for expenses related to the failure of an "insured" to use all reasonable means to save or preserve property at, and after the time of, a loss. (8:14)</i>
6. War	<i>This exclusion removes coverage for expenses related to a variety of kinds of conflict and their consequences, including undeclared war, civil war, insurrection, rebellion, or revolution. Also included are warlike actions by a military force or by military personnel; destruction, seizure, or use for military purposes; and discharge of a nuclear weapon, even if it is accidental. (8:35)</i>
7. Nuclear Hazard	<i>This exclusion removes coverage for expenses related to nuclear activities. Losses caused by such hazards will not be considered as loss caused by fire, explosion, or smoke, whether these perils are specifically named in or included within the Perils Insured Against. (9:03)</i>

**LESSON 2.6 HOMEOWNERS' POLICY SECTION I: EXCLUSIONS**

Exclusion	Description
8. Intentional Loss	<i>This exclusion removes coverage for expenses arising from any act an "insured" commits or conspires to commit with the intent to cause a loss. (9:32)</i>
9. Governmental Action	<i>This exclusion removes coverage for expenses related to the destruction, confiscation, or seizure of property by any order of any governmental or public authority. (10:10)</i>

Further explanation of uninsured losses for property coverages in Coverages A and B are detailed in the Part B of Section I Exclusions.

**LESSON 2.6 HOMEOWNERS' POLICY SECTION I: EXCLUSIONS****ACTIVITY: EXCLUSIONS**


Fill in the table with five exclusions. Under each exclusion, write a comment that explains what would cause a high risk situation determining the exclusion. For example, flooding is not covered if someone lives in a flood zone. Any exclusions could be used, but an example is provided below. *Student responses may vary.*




Exclusion	Explanation
Example Pools, trampolines, or aggressive dog breeds,	The risk of coverage is too high when it comes to accidents or lawsuits.
1.	
2.	
3.	
4.	
5.	

## LESSON 2.7 HOMEOWNERS' POLICY SECTION I: CONDITIONS


### NOTES GUIDE

Conditions are obligations required of **both** the insured and the insurance company to carry out the policy's provisions.

In this lesson, we will identify key conditions in Section I of a Homeowners' Policy. There are 19 conditions that both the insured and the insurance company must abide by. As we examine these conditions, take special note of key conditions (indicated by the  symbol). These are **essential** conditions that you will want your clients to be aware of.

Condition	Explanation (Include how losses are paid if applicable)
<b>Condition A</b>  Insurable Interest and Limit of Liability	<i>Limits the amount the insurance company is obligated to pay to the maximum limits provided in the policy</i>
<b>Condition B</b>  Deductible	<i>Enforces the application of the selected policy deductible(s)</i>
<b>Condition C</b>  Duties After a Loss	<p><i>Identifies eight duties an "insured" must perform after a loss. Otherwise, the insurance carrier has no duty to provide coverage.</i></p> <ol style="list-style-type: none"> <li><i>1. prompt notice</i></li> <li><i>2. notify police of theft</i></li> <li><i>3. notify credit card company</i></li> <li><i>4. reasonably protect property from further damage</i></li> <li><i>5. cooperate with insurance investigation</i></li> <li><i>6. provide a list of damaged property</i></li> <li><i>7. submit evidence of the loss to the insurance carrier</i></li> <li><i>8. submit a sworn proof of loss statement</i></li> </ol>

## LESSON 2.7 HOMEOWNERS' POLICY SECTION I: CONDITIONS

Condition	Explanation (Include how losses are paid if applicable)
<b>Condition D</b>  Loss Settlement	<i>Explains how personal property and buildings will be valued to determine the amount a claim will pay. (5:30)</i>

Let's look at Condition D a little more closely.

Insurance companies determine whether they will pay actual cash value (ACV) or replacement cost (RC). Condition D describes how the personal property and buildings will be valued.

According to Part 1 of Loss Settlement, what kinds of property are covered at actual cash value?

- *Personal property (furniture, electronics, and clothing, etc.)*
- *Awnings, carpeting, appliances, outdoor antennas, and outdoor equipment*
- *Structures that are not buildings (6:04)*

Endorsements (6:23) are available to change actual cash value to replacement cost.

According to Part 2 of Loss settlement, what kinds of property are covered at replacement cost?

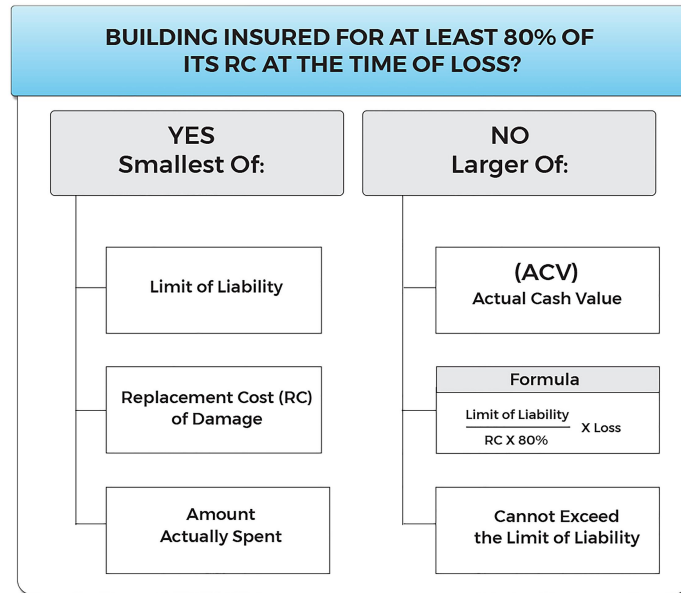
- *Buildings under Coverage A (Dwelling) and B (Other Structures) (6:45)*

Under what circumstances?

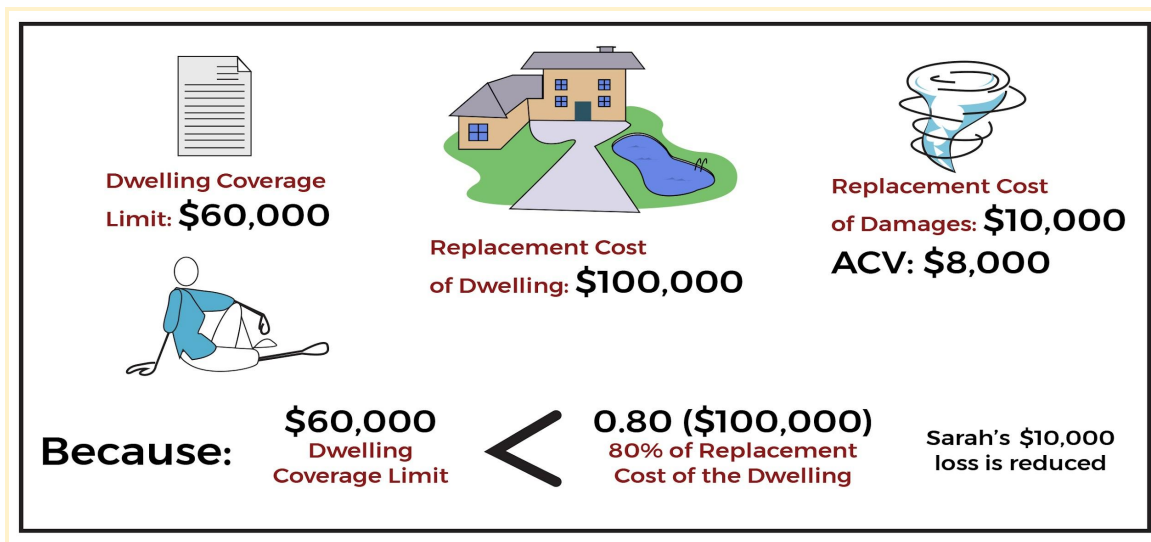
*The amount of insurance carried on the damaged building must be 80% or more of the full replacement cost just prior to the loss. (6:56)*

Endorsements (7:30) are available to provide additional coverage above the policy limit as long as the insured maintains 100% replacement cost insurance on the dwelling.

## LESSON 2.7 HOMEOWNERS' POLICY SECTION I: CONDITIONS



Sarah purchased a home and with her agent selected a dwelling coverage limit of \$60,000 dollars. A windstorm blew down a tree which landed on the home causing serious damage to it. It has been determined that the replacement cost of the dwelling is \$100,000 dollars. The total cost of damages to repair the dwelling with identical materials is \$10,000 dollars. The actual cash value of the damaged property is \$8,000 dollars.

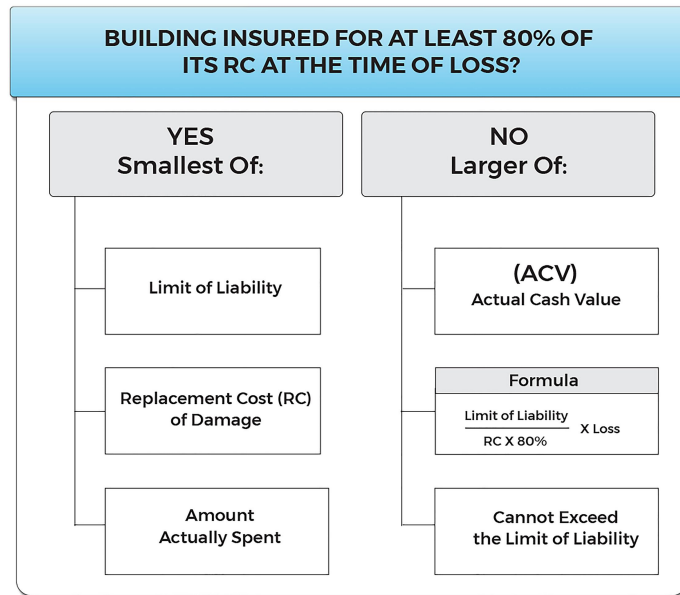


Because Sarah carried a Coverage A limit of liability less than 80% of the replacement cost, the \$10,000 loss will be reduced; however, because the ACV cost of the damaged property is greater than the formula reduction, the claim will pay the greater ACV of \$8,000 dollars.

## LESSON 2.7 HOMEOWNERS' POLICY SECTION I: CONDITIONS

### ACTIVITY: CALCULATE THE COST

In this activity you will practice calculating the cost in specific situations and using the formula when necessary. Ignore application of deductible.



- Frank has \$200,000 of insurance coverage on his home. He has a grease fire in his kitchen causing \$20,000 worth of damage. Frank's home replacement cost is \$190,000. Is his kitchen damage covered? Explain.

*Step 1. What is 80% of the replacement cost?  $\$190,000 \times 80\% = \$152,000$*

*Step 2. Is the building coverage limit carried greater than 80% of the replacement cost? **Yes***

*Step 3. Do you need to calculate a penalty for not carrying enough insurance? **No***

*How much will Frank be paid for damage to his kitchen? **\$20,000**. Remediation: Frank's kitchen damage is covered at replacement cost without depreciation in value because his dwelling coverage limit is higher than the determined replacement cost (\$200,000 coverage limit is higher than \$190,000 replacement cost). Frank carried adequate limits of coverage.*

## LESSON 2.7 HOMEOWNERS' POLICY SECTION I: CONDITIONS

**ACTIVITY: CALCULATE THE COST** (continued)

2. Joan's home replacement cost value is \$180,000. She carries \$150,000 worth of insurance coverage on the dwelling. Disaster strikes and her home is damaged by wind. The cost to repair the damage is \$12,000. The actual cash value of replacement is \$10,000. Is the damage covered? Why or why not?

*Step 1. What is 80% of the replacement cost?  $\$180,000 \times 80\% = \$144,000$*

*Step 2. Is the building coverage limit carried greater than 80% of the replacement cost? Yes*

*Step 3. Do you need to calculate a penalty for not carrying enough insurance? No*

*Remediation: Joan's dwelling coverage is higher than 80% of the determined replacement cost ( $\$150,000 > \$144,000$ )*

*How much will Joan be paid for damage to her home? \$12,000. Remediation: Joan's damage will be covered for full replacement cost without deduction for depreciation because her dwelling coverage limit is higher than 80% of the dwelling's replacement cost ( $\$150,000$  coverage limit is higher than 80% of the replacement cost  $\$144,000$ )*

3. Emilio's house was damaged in April by a falling tree. He carried \$150,000 of insurance coverage on his home valued at \$250,000. The damage was \$20,000 and actual cash value of the damage is \$18,000. Emilio had moved from the home and it remained unoccupied since January of the same year. Is the damage covered? Why or why not?

*Step 1: What is 80% of the replacement cost?  $\$250,000 \times 80\% = \$200,000$*

*Step 2: Is the building coverage limit less than 80% of the replacement cost? Yes.  $\$150,000 < \$200,000$ .*

*Step 3. Do you need to calculate a penalty for not carrying enough insurance? Yes*

*Step 4. Use the equation to calculate the penalty.*

*1. Divide the amount Emilio should have carried ( $\$250k \times 80\% = \$200k$ ) by the amount of coverage on the declaration ( $\$150k$ ). This looks like  $150,000/200,000 = .75$  (75%)*

*2. Multiply cost of damage (replacement cost) by the penalty percent (75%).  $\$20,000 \times .75 = \$15,000$*

*Step 5: is the ACV of the damage property more than the penalty amount? Yes  $\$18,000 > \$15,000$ .*

*How much will Emilio be paid for damage to his home? \$18,000. Remediation: The claim payment will be the greater ACV cost of the damaged property.*

*(Note: If the student mentions the dwelling being vacant, exclusions that pertain to vacancy are specific to (1) glass or safety glazing material and (2) vandalism and malicious mischief. Freeze damage may also be excluded if the owner did not maintain heat or shut off the water supply.)*

## UNIT 2 ASSESSMENT REVIEW

1. Review Unit 2 Pre-Assessment and lesson activities 2.1 through 2.7 to determine your two lowest-scoring areas.

Write these two areas below:

- a.
  - b.
2. Rewatch the video/lectures for your two lowest-scoring areas.
  3. Review your **Student Learning Guide** notes.
  4. Select at least two terms from your lowest-scoring areas and create a mnemonic device to help you remember them.

## UNIT 3 HOMEOWNERS' POLICY SECTION II

### ACTIVITY: UNIT PREVIEW

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.
4. Think of three possible misconceptions or assumptions you have about the learning objective.

## UNITS 3 PERILS, CONDITIONS, LIABILITY COVERAGES

### UNCOVERING THE LEARNING OBJECTIVE

#### Learning Objective

Students will identify perils, conditions, liability coverages, and medical payments.

#### Insurance and Business Terms

- **policy conditions:** rights and/or obligations given to or required of both the “insured” and the insurance company.
- **subrogation:** as it is used in a policy, refers to the insurance carrier’s assumption of another’s legal right to collect a debt or damages.
- **liability:** the state of being liable or obligated.
- **personal injury coverage:** personal injury claims not included in the Homeowners’ Policy.

#### Guiding Questions

1. How can you change your coverage limits for Medical Payments and Personal Liability to different limits?  
*This can simply be changed by selecting higher limits on the policy.*
2. Can you remember what the word “limits” means from the personal auto policy coverage?  
*Limits are the most a policy will pay for a loss.*
3. What is a liability claim?  
*One that is made to an insurance company by a third party who is seeking compensation for harm or damage done through the actions or neglect of an insured.*

### 3.1 HOMEOWNERS' POLICY SECTION II: LIABILITY COVERAGES AND MEDICAL PAYMENTS

## NOTES GUIDE

Section II Liability Coverages are listed in the Declarations Page. Look at the sample Dec Page for the HO-3 policy, below. It includes the following automatic limits:

- \$100,000 dollars for Coverage E (Personal Liability)
- \$1,000 dollars for Coverage F (Medical Payments to Others)

What does **limit** mean?

*the most a policy will pay for a loss (1:50)*

How are Coverages E and F different from the other coverages on a Homeowners' Policy?

*These coverages are third-party coverages, meaning a claim paid under Liability and Med Pay will be paid to others, not to the "insured." (1:54)*

What is liability coverage, in practical terms?

*Liability coverage is when an insurance company promises to defend and to pay on your behalf when "you" or another "insured" are legally obligated to pay someone else for bodily injury or property damage that "you" are responsible for. (3:45)*

ACME INSURANCE COMPANY COMPANY INSURANCE STOCK A				
Home Offices 123 BT Drive Suite, 321 Austin, TX 76502		Administrative Offices 34 Northern Drive Chicago, IL 60608 Telephone No. (1) 800-111-1111 US Toll Free (1) 888-333-3333		
HOMEOWNER INSURANCE DECLARATION PAGE (TO REPORT A CLAIM PLEASE CALL 1-800-333-3333)				
<b>INSURED</b> Joe Brown & Janet Brown 3356 Superman Drive Austin, TX 76502		<b>TYPE:</b> New Policy		
<b>ADDITIONAL INSURED</b> n/a		<b>MORTGAGEE:</b> ACME Bank and Mortgage ISAOA/ATIMA 501 Loan Way Houston, TX 77016		
<b>POLICY INFORMATION</b>				
Policy Number: HTX00463 15 29 95A				
Policy Effective Date*: 03/27/2020 12:01 am				
Policy Expiration Date*: 03/27/2021 12:01 am *Standard time zone at property location				
<b>PROPERTY LOCATION (Residence Premises)</b>				
Address: 3356 Superman Drive, Austin TX 76502				
Policy Type: Homeowner HO 00 03				
Year Built: 1980				
Square Footage: 2000				
Constructions: Brick Veneer				
<b>Policy Coverage</b>		<b>Limits</b>		
Coverage A – Dwelling		\$250,000		
Coverage B – Other Structures		\$25,000		
Coverage C – Personal Property		\$125,000		
Coverage D – Loss of Use		\$75,000		
Coverage E – Personal Liability		\$500,000		
Coverage F – Medical Payments to Others		\$5,000		
<b>Deductible:</b>		<b>Loss</b> \$2500	<b>Wind/Hail</b> 1%	<b>Theft</b> Hurricane
<b>Endorsements:</b>				
HO 04 20	HO 04 54	HO 04 90	HO 04 98	HO 24 82

*This client increased the automatic Limit by paying additional premium*

### 3.1 HOMEOWNERS' POLICY SECTION II: LIABILITY COVERAGES AND MEDICAL PAYMENTS

Under the terms of a Homeowners' Policy, if a claim is made or suit is brought against an "insured" for "bodily injury" or "property damage" caused by an "occurrence," an insurance carrier will:

- *Pay up to the carrier's limit of liability for the damages for which an "insured" is legally liable, and*
- *Provide a defense at the carrier's expense with counsel of the carrier's choosing. (7:39)*

Liability Coverage related to Personal Injury (claims such as libel, slander, or false arrest) are not included in the Homeowners' Policy but can be added to coverage with an *endorsement (9:12)*.

#### Coverage F (Medical Payments To Others)

Under the terms of Coverage F (Med Pay), an insurance carrier promises to:

*"pay the necessary expenses that are incurred or medically ascertained within three years from the date of an accident causing 'bodily injury.'" (9:52)*






What are some examples of medical expenses?

*charges associated with medical, surgical, X-rays, dental care, ambulance services, hospital expenses, professional nursing services, prosthetic devices, and funeral services. (10:06)*

Coverage F does *not* apply to *the "insured"* or *regular residents* of the "insured's" household, other than *"residence employees."* (10:23)

Review the table on the next page. It identifies what is covered under Coverage F.

## 3.1 HOMEOWNERS' POLICY SECTION II: LIABILITY COVERAGES &amp; MEDICAL PAYMENTS

<b>COVERAGE F – MEDICAL PAYMENTS COVERAGE FOR THOSE NOT SPECIFICALLY EXCLUDED WHO AND WHEN</b>	
Coverage extends to a person ON the “insured location” with permission of the “insured”;	
Coverage extends to a person OFF the “insured location,” if the “bodily injury”: a. Arises out of a condition on the “insured location” or the ways immediately adjoining,	
b. Is caused by the activities of an “insured,”	
c. Is caused by a “residence employee” in the course of the “residence employee’s” employment by an “insured,”	
d. Is caused by an animal owned by or in the care of an “insured.”	

## 3.2 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART I)

### NOTES GUIDE

Twelve exclusions apply to both Coverage E (Personal Liability) and Coverage F (Medical Payments to Others). Find the Exclusions in Section II of the HO-3 Policy.

Remember that the coverage provided in the Agreement is so broad that it must be narrowed. This is done through exclusions. Sometimes, parts of the coverage are given back through exceptions, and added endorsements. Here is an example:

#### Motor Vehicles Exclusion

A.1. states that Liability Coverages E and F do not apply to any “motor vehicle liability” if the vehicle involved:

- is registered or required by law to be registered for use on public roads,
- is operated in or practicing for any organized race or competition,
- is rented to others,
- is used to carry persons or cargo for a charge,
- or is used for “business” purposes, except for golf carts on a golfing facility.

This excludes liability for every standard idea of what a motor vehicle is.

A.2., the second part of the motor vehicle exclusion, gives back some coverage for “motor vehicles.” Here, the policy basically states that if exclusion (A1) does not apply, there is still NO coverage **unless** the vehicle is:

- in dead storage at the “insured location,”
- used only to provide service to the residence,
- designed to assist the handicapped and is being used to assist a handicapped person or is parked at an “insured location” at the time of loss.

Liability Coverage is also given back for vehicles designed for recreational use OFF public roads when the vehicle is not owned. If the vehicle is OWNED, it will qualify for liability coverage **only if** the “occurrence” takes place:

- On an “insured location,” or
- Off an “insured location” **only if** the recreational vehicle is designed as a toy vehicle for children under seven years old, powered by a battery, and not modified to exceed a speed of five miles per hour on level ground. (6:04)

The take-away on Liability Coverage for motor vehicles is: if a motor vehicle is designed for public road use, don’t expect the Homeowners’ Policy to respond with coverage.

### 3.2 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART I)

#### Watercraft Exclusion

The Homeowners' Policy treats liability arising out of watercraft usage like motor vehicle liability.

The first part of the watercraft exclusion, B1, states that Personal Liability and Medical Payments Coverages do not apply to a watercraft while it is:

- operated in or practicing for any organized race, speed contest, or other competition,
- rented to others,
- used to carry persons or cargo for a charge,
- OR used for any "business" purposes. (8:15)

Watercraft of larger sizes are excluded in B2, Part II, of the exclusion. However, like Part II of the motorized vehicles exclusion, some coverage is given back.

Personal Liability and Med Pay to Others Coverage is also given back for some powered "watercrafts," and the return of coverage is identified in two parts. The first part is for vessels powered by inboard, inboard-outdrive, or water jet drive, and the second part applies to vessels with outboard engines. However, there are specific criteria that must be met for coverage to apply.

TYPE OF WATERCRAFT	OWNED	RENTED	BORROWED
INBOARD INBOARD/OUTDRIVE WATER JET PUMP	NO	YES If 50 HP or Less	YES Not Excluded
OUTBOARD	YES, If 25 HP or Less or If Newly Acquired, No HP Restriction	YES No HP Restriction	YES No HP Restriction
SAILBOAT	YES If less than 26'	YES If less than 26'	YES No Length Restriction



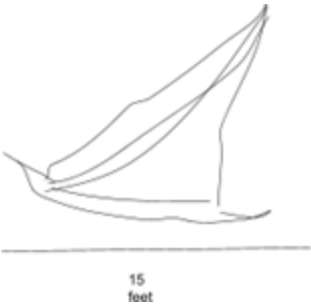
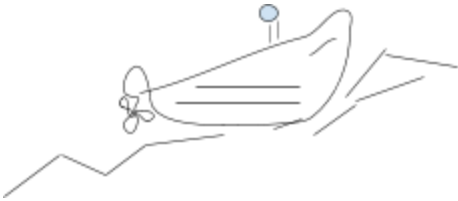
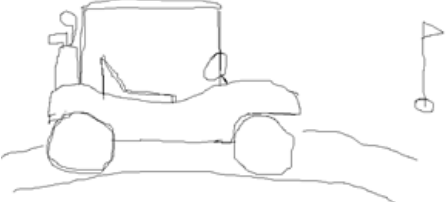

Most boat owners should not look to the Homeowners' Policy for liability protection for watercraft. Instead, the client should consider a separate watercraft policy, or when all else fails, borrow a boat. Notice that when a boat is borrowed—not owned or rented—the "insured" has coverage for Liability and Medical Payments.

The next exclusions referenced in the policy are for C. "Aircraft" and D. "Hovercraft" liability. In brief, the Homeowners' Policy very plainly states that there is no coverage for "aircraft liability" or "hovercraft liability."

### 3.2 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART I)

#### ACTIVITY: EXCLUSIONS Pictionary

Using drawing tools and the table provided below, depict three scenarios from the video/lecture that depict three exclusions not covered and three exclusion exceptions that give coverage back. *Teacher Note: examine the drawing and check it against the exclusions and exceptions mentioned in lesson 3.2.*

Covered	Not Covered
<p>1.</p> 	<p>1.</p> 
<p>2.</p> 	<p>2.</p>  <p>Owned &amp; 75ft length</p>
<p>3.</p> 	<p>3.</p>  <p>No Exceptions for Aircraft or Hovercraft.</p>

### 3.3 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART II)

## NOTES GUIDE

Find Section II, Exclusions Part E, in your copy of the HO-3 Policy (page 19 in your sample policy). In this lesson, you will learn about the remaining exclusions in Section II and key exclusions will be highlighted. Briefly describe each exclusion.

### SECTION II – EXCLUSIONS

#### E. Coverage E – Personal Liability And Coverage F – Medical Payment to Others

##### 1. Expected or Intended Injury

The Homeowners' Policy \_\_\_\_\_ *does not provide coverage* \_\_\_\_\_ for intentional injury or property damage. (1:19)

##### 2. Business

The Homeowners' Policy \_\_\_\_\_ *excludes* \_\_\_\_\_ “bodily injury” or “property damage” arising from a \_\_\_\_\_ *“business”* \_\_\_\_\_. (2:15)

There are exceptions to this exclusion in the Homeowners' Policy. What are they?

- Coverage is provided for rental of an “insured location” if it is:
  1. rented on an \_\_\_\_\_ *occasional basis* \_\_\_\_\_ for use as a residence;
  2. rented \_\_\_\_\_ *in part* \_\_\_\_\_ for use as a residence, with conditions; or
  3. rented \_\_\_\_\_ *in part* \_\_\_\_\_ as an office, school, studio, or private garage. (2:31)
- Coverage is provided for an “insured” under the \_\_\_\_\_ *age of 21* \_\_\_\_\_ who has a \_\_\_\_\_ *part-time* \_\_\_\_\_, \_\_\_\_\_ *self-employed* \_\_\_\_\_ “business” with \_\_\_\_\_ *no employees* \_\_\_\_\_. (2:57)

##### 3. Professional Services

“Bodily injury” or “property damage” that results from the rendering or failure to render professional services is \_\_\_\_\_ *not covered* \_\_\_\_\_ under the Homeowners' Policy. (5:45)

### 3.3 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART II)

#### 4. "Insured's" Premises Not An "Insured Location"

"Bodily injury" or "property damage" that occurs on a premises that is owned by an "insured," rented to to an "insured," or rented to others by an "insured", and that is not an "insured location" is NOT covered. (6:01)

#### 5. War



"Bodily injury" or "property damage" caused either directly or indirectly by war and its consequences is excluded from coverage. (6:51)

#### 6. Communicable Diseases


"Bodily injury" or "property damage" arising from the transmission of a communicable disease by an "insured" is not covered. (7:06)

### 3.3 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART II)

The table below represents Section II - Exclusions, Part E. Coverage E - Personal Liability and Coverage F - Medical Payments to Others ( 8 exclusions)

<b>E. COVERAGE E - PERSONAL LIABILITY AND COVERAGE F - MEDICAL PAYMENTS TO OTHERS:</b>  <b>E. Coverage E - Personal Liability And Coverage F - Medical Payments To Others:</b>	
<p> <b>Key Exclusion:</b></p> <p><b>1. Expected Or Intended injury</b>            "Bodily injury" or "property damage" which is expected or intended by and "insured", even if the resulting "bodily injury" or "property damage".</p> <p>a. Is of a different kind, quality or degree than initially expected or intended; or</p> <p>b. Is sustained by a different person, entity or property than initially expected or intended.</p> <p>However, this Exclusion <b>E. 1.</b> does not apply to "bodily injury" or "property damage" resulting from the use of reasonable force by an "insured" to protect persons or property;</p>	<p>Expected or intended "bodily injury" or "property damage" is excluded, however this Exclusion does not apply to "bodily injury" or "property damage" that results from an "insured" using reasonable force to protect persons or property.</p>
<p> <b>Key Exclusion:</b></p> <p><b>2. "Business"</b></p> <p>a. "Bodily injury" or "property damage" arising out of or in connection with a "business" with a "business" conducted from and "insured location" or engaged in by an "insured", whether or not the "business" is owned or operated by and "insured" or employs and "insured".</p> <p>This Exclusion <b>E2.</b> applies but is not limited to an act or omission, regardless of its nature or circumstance, involving a service or duty rendered, promised, owed, or implied to be provided because of the nature of the "business".</p> <p>b. This Exclusion <b>E.2</b> does not apply to:</p> <p>(1) The rental or holding for rental of an "insured location".</p> <p>(a) On an occasional basis if used only as a residence;</p> <p>(b) in part for use only as a residence, unless a single-family unit is intended for use by the occupying family to lodge more than two roomers or boarders; or</p> <p>(c) in part, as an office, school, studio or private garage; and</p> <p>(2) An "insured" under the age of 21 years involved in a part-time or occasional self-employed "business" with no employees</p>	<p>"Bodily injury" or "property damage" that arises from or in connection with a "business" conducted from an "insured location" or engaged in by an "insured," regardless of whether the "insured" owns or operates the "business" or the "business" employs an "insured."</p> <p>Exclusion E.2. applies but is not limited to an act or omission involving a rendered, promised, owed, or implied service or duty because due to a "business's" nature.</p> <p>Now note E2.b. This Exclusion does not apply to the rental of an "insured location":</p> <ul style="list-style-type: none"> <li>• On an occasional basis if used only as a residence</li> <li>• In part for use only as a residence, with conditions</li> <li>• In part as an office, school, studio, or private garage</li> </ul> <p>This exclusion does not apply to an "insured" younger than 21 involved in a part-time or occasional self-employed "business" with no employees.</p>

### 3.3 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART II)

<b>E. COVERAGE E - PERSONAL LIABILITY AND COVERAGE F - MEDICAL PAYMENTS TO OTHERS:</b>  <b>E. Coverage E - Personal Liability And Coverage F - Medical Payments To Others:</b>	
 <b>Key Exclusion:</b> <b>3. Professional Services</b> "Bodily injury" or "property damage" arising out of the rendering of or failure to render professional services;	"Property damage" to property rented to, occupied, or used by or in the care of an "insured." However, this Exclusion does not apply to "property damage" caused by fire, smoke, or explosion.
<b>4. "Insured's" Premises Not An "Insured Location"</b> "Bodily injury" or "property damage" arising out of a premises: a. Owned by an "insured"; b. Rented to others by an "insured"; c. Rented to others by an "insured"; that is not an "insured location";	"Bodily injury" or "property damage" that occurs on a Premises: • Owned by an "insured" • Rented to an "insured"; or • Rented to others by an "insured" that is not an "insured location"
<b>5. War</b> "Bodily injury" or "property damage" caused directly or indirectly by war, including the following and any consequence of any of the following: a. Undeclared war, civil war, insurrection, rebellion or revolution; b. Warlike act by a military force or military personnel; or c. Destruction, seizure or use for a military purpose.  Discharge of a nuclear weapon will be deemed a warlike act even if accidental;	"Bodily injury" or "property damage" caused either directly or indirectly by war and its consequences, including: • Undeclared war, civil war, insurrection, rebellion, revolution • A warlike act by a military force or by military personnel • Destruction, seizure, or use for military purposes Also excluded under War, deliberate or accidental discharge of a nuclear weapon
<b>6. Communicable Disease</b> "Bodily injury" or "property damage" which arises out of the transmission of a communicable disease by an "insured";	"Bodily injury" or "property damage" arising from the transmission of a communicable disease by an "insured." Think of viruses or bacterial diseases easily transmitted to others.
<b>7. Personal Abuse, Corporal Punishment Or Or Physical Or Mental Abuse</b> "Bodily injury" or "property damage" arising out of sexual molestation, corporal punishment or physical or mental abuse; or	"Bodily injury" or "property damage" arising from personal abuse, corporal punishment, or physical or mental abuse.
<b>8. Controlled Substance</b> "Bodily injury" or "property damage" arising out of the use, sale, manufacture, delivery, transfer or possession by any person of a Controlled Substance as defined by the Federal Food and Drug Law at 21 U.S.C.A. Sections 811 and 812. Controlled Substances include but are not limited to cocaine, LSD, Marijuana and all narcotic drugs. However, this exclusion does not apply to the legitimate use of prescription drugs by a person following the lawful orders of a licensed health care professional.	"Bodily injury" or "property damage" related to the use, sale, manufacture, delivery, transfer or possession of a Controlled Substance as defined by Federal Food and Drug Laws. The exclusion does not apply to use of legitimate use of prescription medications.

### 3.3 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART II)

The table below represents Section II - Exclusions, Part F. Coverage E - Personal Liability (6 exclusions)

F. COVERAGE E – PERSONAL LIABILITY COVERAGE E DOES NOT APPLY TO:	
<p><b>F. Coverage E- Personal Liability</b></p> <p>Coverage E does not apply to:</p> <p>1. Liability:</p> <p style="padding-left: 20px;">a. For any loss assessment charged against you as a member of an association, corporation or community of property owners, except as provided in D. Loss Assessment under Section II – Additional Coverages;</p> <p style="padding-left: 20px;">b. Under any contract or agreement entered into by an “insured”. However, this exclusion does not apply to written contracts:</p> <p style="padding-left: 40px;">(1) That directly relate to the ownership, location”; or</p> <p style="padding-left: 40px;">(2) Where the liability of others is assumed by you prior to an “occurrence”;</p> <p style="padding-left: 20px;">unless excluded in a. above or elsewhere in this policy;</p>	<p>Liability for loss assessments charged against you as a member of an association, corporation, or community of property owners (except as provided in D. Loss Assessment under Section II – Additional Coverages)</p>
<p>2. “Property damage” to property owned by an “insured”. This includes costs or expenses incurred by an “insured” or others to repair, replace, enhance, restore or maintain such property to prevent injury to a person or damage to property of others, whether on or away from an “insured location”;</p>	<p>“Property damage” to property owned by an “insured.”</p>
<p>3. “Property damage” to property rented to, occupied or used by or in the care of an “insured”. This exclusion does not apply to “property damage” caused by fire, smoke or explosion;</p>	<p>“Property damage” to property rented to, occupied, or used by or in the care of an “insured.” However, this Exclusion does not apply to “property damage” caused by fire, smoke, or explosion.</p>
<p>4. “Bodily injury” to any person eligible to receive any benefits voluntarily provided or required to be provided by and “insured” under any:</p> <p style="padding-left: 20px;">a. Workers’ compensation law;</p> <p style="padding-left: 20px;">b. Non-occupational disease law; or</p> <p style="padding-left: 20px;">c. Occupational disease law;</p>	<p>“Bodily injury” to any person eligible to receive any benefits voluntarily provided or required to be provided by an “insured” under specific laws.</p>

### 3.3 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART II)

F. COVERAGE E – PERSONAL LIABILITY COVERAGE E DOES NOT APPLY TO:	
<p>5. "Bodily injury" to "property damage" for which an "insured" under this policy:</p> <p>a. is also an insured under a nuclear energy liability policy issued by the:</p> <ul style="list-style-type: none"> <li>(1) Nuclear Energy Liability Insurance Association;</li> <li>(2) Mutual Atomic Energy Liability Underwriters;</li> <li>(3) Nuclear Insurance Association of Canada;</li> </ul> <p>or any of their successors; or</p> <p>b. Would be an insured under such a policy but for the exhaustion of its limit of liability; or</p>	<p>"Bodily injury" or "property damage" for which an "insured" is also insured under a nuclear energy liability policy issued by specified organizations or their successors, or for which a person would be "insured" under such a nuclear liability policy were it not for the exhaustion of the policy's limit of liability</p>
<p>6. "Bodily injury" to you or an "insured" as defined under Definition 5.a. or b.</p> <p>This exclusion also applies to any claim made or suit brought against you or an "insured" to:</p> <p>a. Repay; or</p> <p>b. Share damages with;</p> <p>another person who may be obligated to pay damages because of "bodily injury" to an "insured".</p>	<p>"Bodily injury" to you or an "insured" as defined under <b>Definition 5.a. or b.</b></p> <p>Refer back to the definition of an insured to ensure you understand this exclusion.</p>

### 3.3 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART II)

The table below represents Section II - Exclusions, Part G. Coverage F - Medical Payments to Others (4 Exclusions)

<b>COVERAGE F - MEDICAL PAYMENTS TO OTHERS</b> <b>WHAT COVERAGE F DOES NOT APPLY TO:</b>	
<b>1.</b> To a "residence employee" if the "bodily injury": <b>a.</b> Occurs off the "insured location"; and <b>b.</b> Does not arise out of or in the course of the "residence employee's employment by an "insured";	A "residence employee" if the "bodily injury" occurs off the "insured location" and does not arise from or in the course of a "residence employee's" employment by an "insured"
<b>2.</b> To any person eligible to receive benefits voluntarily provided or required to be provided under any: <b>a.</b> Workers' compensation law; <b>b.</b> Non-occupational disability law; or	A person eligible to receive benefits provided voluntarily or by specific laws
<b>3.</b> From any: <b>a.</b> Nuclear reaction; <b>b.</b> Nuclear radiation; or <b>c.</b> Radioactive contamination; all whether controlled or uncontrolled or however caused; or <b>d.</b> Any consequence of any of these; or	A person who experiences "bodily injury" caused by a nuclear reaction, nuclear radiation, or radioactive contamination.
<b>4.</b> To any person, other than a "residence employee" of an "insured", regularly residing on any part of the "insured location".	A person other than an "insured's" "residence employee" who regularly resides on any part of the "insured location"

### 3.3 HOMEOWNERS' POLICY SECTION II: EXCLUSIONS (PART II)

#### ACTIVITY: TO EXCLUDE OR NOT TO EXCLUDE ACTIVITY

Decide whether liability coverage for the activities is **excluded** or **not excluded** in coverage under Section II.

Activity	Exclude/Not Exclude
1. Renting out your home occasionally as an AirBNB and a guest is injured	<i>Not Excluded (Exclusion E.2, exception b.)</i>
2. Your daughter, who is 18, embroidered ball caps for local baseball teams and is injured by the embroidery machine.	<i>Excluded (Exclusion F.6. Also stated in Lesson 3.1)</i>
3. Viruses such as Coronavirus transmitted by others	<i>Excluded (Exclusion E.6.)</i>
4. A home invader is injured when you hit them with a bat to keep them from entering the home.	<i>Not Excluded (Exception to Exclusion E.1)</i>
5. The parent of a child who stayed with you is suing for physical abuse after discovering their child was placed in time out under your care.	<i>Excluded (Exclusion E.7)</i>
6. A guest at your home is given a controlled substance by your teenage son and is injured by taking too much of the substance.	<i>Excluded (Exclusion E.8)</i>
7. Your home maintenance worker was walking across the street to get a better view of possible damage to the roof when he tripped and broke his wrist.	<i>Not Excluded (Exception to Exclusion G.)<sup>1</sup></i>

### 3.4 HOMEOWNERS' POLICY SECTION II: ADDITIONAL COVERAGES

## NOTES GUIDE

Find **Additional Coverages** in your copy of the HO-3 Policy. This part of the policy explains to “insureds” what their insurance carriers will cover in addition to the limits of liability. The Homeowners' Policy provides four types of Additional Liability Coverages. These are: (1:22)

- *Claims Expenses*
- *First Aid Expenses*
- *Damage to Property of Others*
- *Loss Assessment*

### Claims Expenses

There are four claims expenses the insurance company will cover. The following coverages will be paid in addition to the limit of liability: (2:01)

**One:** *The insurance company will pay eThe insurance company will pay expenses the company incurs and costs such as court fees, filing costs, etc.*

**Two:** *The insurance company will not apply for or furnish the bond; they will essentially only pay for the bond under a covered claim.*

**Three:** *The insurance company will also pay reasonable expenses, including not only travel expenses to attend a trial and living expenses while out of town at a trial, but also a loss of earnings of up to \$250 per day.*

**Four:** *The insurance company will pay iThe insurance company will pay interest on an entire legal judgment which occurs in the time between judgment and payment of the claim.*

### First Aid Expenses

*An insurance company promises to pay First Aid Expenses for first aid given to others for “bodily injury” covered under the Homeowners' Policy. (4:33)*

### 3.4 HOMEOWNERS' POLICY SECTION II: ADDITIONAL COVERAGES

#### Damage to Property of Others

An insurance carrier will pay up to \$1,000 per "occurrence" for "property damage" when an "insured" causes damage to the property of others. (5:15)

What exclusions apply to this section?

The company will not pay under Section II if:

- the damage is recoverable under Section I.
- the damage was caused intentionally by an "insured" who is 13 years old or older.
- the damaged property is owned by an "insured," owned by or rented to a tenant of an "insured" or a household resident.
- the damage arises from a "business" the "insured" is involved in;
- the damage arises from any act or omission connected to a premises owned, rented, or controlled by an "insured" other than the "insured location;"
- the damage arises from the ownership, maintenance, occupancy, operation, use, loading, or unloading of aircraft, hovercraft, watercraft, or "motor vehicles," with some exceptions to "motor vehicles." (5:32)

#### Loss Assessment

In neighborhoods with a neighborhood Homeowners' Association, or HOA, owners or tenants generally have the privilege of using the association's recreational facilities and common areas, but they also have obligations related to the maintenance and operation of those facilities and areas. Owners and tenants are subject to assessments for losses to property owned by the HOA and for liability claims against the association or its directors, officers, or trustees.

Loss Assessment Additional Coverage pays up to \$1,000 for "your" share of an assessment for a liability loss that caused "bodily injury" or "property damage" that is not excluded under Section II. (8:08)

### 3.4 HOMEOWNERS' POLICY SECTION II: ADDITIONAL COVERAGES

#### ACTIVITY: TRENDY LIABILITY

Rick and Marcie are trying to impress their neighbors by having lots of parties and events in which their children participate. Read the following scenarios and determine which of the four coverages from Section II - Additional coverages will apply. State how much of the claim will be paid.

1. Party 1: Rick and Marcie have a firepit to cook hotdogs and smores for the children of their friends. One of the children falls near the firepit and suffers significant burns. Rick used a significant portion of a \$250 first aid kit he purchased for family camping trips, to treat the child until medical help arrived. ?

*Additional Coverage- First Aid Expenses will reimburse Rick for the cost of replacing the first aid kit. .*

2. Party 2: Rick and Marcie's teenage daughter has a party for her graduating class at a local venue. During the party, a fight breaks out between two boys over a girl. Damage is caused to a camera Marcie borrowed to take photographs when it is knocked out of her hands. . What is covered under Additional Coverages?

*Additional Coverage - Property damage - this no fault coverage will pay upto \$1000 for the damage to the camera.*

3. Party 3: Rick and Marcie are sued as a result of the fight at the graduation party. Rather than take the suit to court, parties agreed mediation. Rick missed two days of work to attend mediation hearings. What is covered under Rick and Marcie's Additional Coverage?

*Additional Coverage - Claim Expenses, Rick may receive up to \$250 per day for loss of earnings for the days he attended mediation hearings.*

### 3.5 CONDITIONS TO SECTIONS I AND II

#### NOTES GUIDE

Policy conditions (1:28) are rights and/or obligations given to or required of both the “insured” and the insurance company.

There are ten conditions that apply to Section II: Personal Liability and Medical Payments to Others. Find these ten conditions in your copy of the HO-3 Policy. Record important information that will help you remember each section.

<b>A. Limit of Liability</b>	<i>Total liability for all damages related to any one “occurrence” will not exceed the Limit of Liability stated in the Declarations Page (2:11)</i>
<b>B. Severability of Insurance</b>	<i>The insurance provided by a Homeowners' Policy applies separately to each “insured.” However, that does not increase the company's limit of liability for a single “occurrence.” (4:10)</i>
<b>C. Duties After “Occurrence”</b>	<ol style="list-style-type: none"> <li><i>1. Give written notice of a claim.</i></li> <li><i>2. Cooperate in the investigation, settlement, or defense of a claim or suit.</i></li> <li><i>3. Forward every notice, demand, summons, or other process related to the “occurrence.”</i></li> <li><i>4. Help the insurance carrier with these four tasks in settling a claim:</i> <ol style="list-style-type: none"> <li><i>a. arrive at resolution</i></li> <li><i>b. bring forward or identify any person or organization which may be liable to an “insured” in a claim,</i></li> <li><i>c. attend hearings and trials,</i></li> <li><i>d. provide evidence and help obtain witnesses.</i></li> </ol> </li> <li><i>5. Submit a sworn statement of loss within 60 days after the loss, and show any damaged property—if in the “insured's” control.</i></li> <li><i>6. Do not voluntarily make payment, assume obligation, or incur expenses other than those related to providing first aid to others at the time of a “bodily injury.” (5:08)</i></li> </ol>

## 3.5 CONDITIONS TO SECTIONS I AND II

<b>D. Duties of an Injured Person, Coverage F (Medical Payments to Others)</b>	<i>Provide written proof of the claim as soon as practically possible and authorize the insurance company to access medical records. (7:12)</i>
<b>E. Payment of Claim, Coverage F (Medical Payments to Others)</b>	<i>Payment under Medical Payments to Others is not an admission of liability. (7:50)</i>
<b>F. Suit Against Us</b>	<i>No action can be brought against the company unless an “insured” has complied with all the terms under Section II. (8:19)</i>
<b>G. Bankruptcy Of An “Insured”</b>	<i>The insurance carrier is not relieved of its obligations under the terms of the Homeowners' Policy in cases of an “insured's” bankruptcy. (9:02)</i>
<b>H. Other Insurance</b>	<i>If the client has more than one policy that covers a claim, this policy will cover the excess after the other insurance policy pays first. (9:16)</i>
<b>I. Policy Period</b>	<i>The policy applies only to “bodily injury” or “property damage” which occurs during the policy period. (9:37)</i>
<b>J. Concealment Or Fraud</b>	<i>No coverage will be provided to an “insured” who has intentionally concealed or misrepresented facts, made false statements, or engaged in fraudulent conduct relating to the insurance. (9:54)</i>

### 3.5 CONDITIONS TO SECTIONS I AND II

The following conditions apply to BOTH Sections I AND II.

<b>A. Liberalization Clause</b>	<i>If the insurance carrier broadens coverage of the policy without any additional premium charge, the change will automatically apply to the “insured’s” insurance, with conditions which may vary, depending on the carrier. (10:39)</i>
<b>B. Waiver Or Change Of Policy Provisions</b>	<i>The insurance carrier must issue a waiver or change of a provision of the policy in writing. (10:59)</i>
<b>C. Cancellation</b>	<i>An “insured” may cancel the policy at any time by returning the policy and alerting the company in writing as to when the cancellation date takes effect. The insurance carrier is also permitted to cancel the policy for specified reasons. (11:09)</i>
<b>D. Nonrenewal</b>	<i>NonrenewalNonrenewal is another key condition. The insurance carrier retains the right not to renew a policy. Notification of nonrenewal may be delivered or mailed to the “insured” and must provide at least 30 days notice to the insured. (12:35)</i>
<b>E. Assignment</b>	<i>Policy coverage cannot be assigned to another party unless the company has given written consent. (12:53)</i>
<b>F. Subrogation</b>	<i>An “insured” may waive all rights of recovery against any person in writing before a loss. If those rights are not waived, the insurance carrier may require an assignment of rights of recovery to offset the payment already made by the company for the loss. (13:04)</i>
<b>G. Death</b>	<i>1. The insurance carrier insures the legal representative of the deceased insured, but only with respect to the covered premises and property at the time of the insured’s death. 2. DDefines an “insured” as a resident member of “your” household at the time of your death and includes persons who now have proper temporary custody of “your property” until such time a qualified legal representative is appointed. (13:59)</i>

### 3.5 CONDITIONS TO SECTIONS I AND II

#### ACTIVITY: CONDITIONS OF LIMITS OF LIABILITY MATCHING

Match the correct explanation to each term.

Limit of Liability	Matching Explanation
1. Payment of claim, Coverage F (Medical Payments to Others)	<i>B</i>
2. Suit against us	<i>E</i>
3. Bankruptcy of an “insured”	<i>D</i>
4. Concealment or fraud	<i>C</i>
5. Limit of liability	<i>A</i>

- A. This limit is the same, regardless of the number of “insureds,” claims made, or persons injured. All “bodily injury” and “property damage” resulting from any one accident, or from continuous or repeated exposure to substantially the same general harmful condition, shall be considered to be the result of one “occurrence.”
- B. Under this condition, payment under Medical Payments to Others is not an admission of liability. Medical Payments to Others is a goodwill payment.
- C. It is clear that no coverage will be provided to an “insured” who, before or after a loss, has intentionally concealed or misrepresented facts.
- D. Explains that the insurance carrier is not relieved of its obligations under the terms of the Homeowners’ Policy in cases of an “insured’s” bankruptcy.
- E. No action can be brought against the company unless an “insured” has complied with all the terms under Section II.

### 3.6 THE DEFINITION OF BUSINESS

#### NOTES GUIDE

In this lesson, our objective is to discuss “business” exposures under a Homeowners’ Policy. Many business activities create exposures to risk that impact coverage in the Homeowners’ Policy. Consequently, the policy defines and excludes most business activities.

Homeowners engaged in business activities may work for others or themselves, or they may simply make money from personal hobbies. What kinds of activities can you think of that might be considered a business?

*Responses will vary, but could include answers such as: babysitting, lawn care, dog walking, merchandise reseller/dropshipper, tutor, virtual assistant, cake baking, car washing, graphic design. (0:49)*

Why do you think the number of home-based businesses is growing?

*Responses will vary. (1:36)*

How do you think this will affect Homeowners’ insurance?

*Responses will vary. (1:98)*

You know that one of your primary roles as an insurance professional will be to help clients understand their exposures. Consequently, it’s necessary to analyze specific sections of the Homeowners’ 3-Special Form. Those parts are:

- the policy’s definition of “business;”
- Coverage A (Dwelling) limitations and exclusions for a “business” activity;
- Coverage B (Other Structures) limitations and exclusions for a “business” activity;
- Coverage C (Personal Property) limitations and exclusions for “business” property; and
- Section II: Liability limitations and exclusions for a “business” activity.

Then, you must determine if an endorsement to the client’s personal lines policies can provide the appropriate coverage or if commercial insurance, such as a Business Owners’ Policy, such as a Business Owners’ Policy, should be recommended.

### 3.6 THE DEFINITION OF BUSINESS

How does the Homeowners' PHomeowners' Policy define "business"? (See Definitions B.3. in the Sample HO-3 Policy form.)

*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 the specific activities described in the policy definition. (6:31)*

To be fully aware of the terms and definitions provided by the policy, pay close attention to all words, *including the ones that don't seem important.*

The word "OR" is important here. Part A of the "business" definition gives a limited scope of what a "business" is. It seems to catch everything—but it doesn't. Part B continues from, OR; meaning that if by chance there is any "business" that Part A didn't catch, Part B is going to expand the definition even more.

The words "AND" and "OR" can be game changers.

Remember: You need to be fully aware of the terms and definitions provided by the policy in effect.

**READ THE POLICY!**

Define the following terms from the definition of business:

**Trades:** *occupations that require skilled manual or mechanical work; electricians, plumbers, and mechanics are examples of tradespeople who practice "trades." (7:01)*

**Professions:** *forms of employment that require specialized knowledge and often intense or prolonged periods of education.; dentists, accountants, insurance agents, and veterinarians are examples of professionals. (7:12)*

**Occupations:** *activities or pursuits, especially if they are a person's usual or primary work or business. (7:26)*

### 3.6 BUSINESS: THE DEFINITION OF BUSINESS

Let's look at the second part of the definition of business that describes activities that DO NOT constitute a business. "Business" is defined as a trade, profession, or occupation (full time, part-time, occasional), BUT if the activity doesn't meet that criteria, then everything else is also going to be considered a "business" except these four activities. This is generally going to provide coverage for hobbies—something you do incidentally (like a couple of times).

Exception to Definition of "Business" 3.b. Any other activity engaged in for money or other compensation, Except:	Example
(1) One or more activities, not described in (2) through (4) below, for which no "insured" receives more than \$2,000 in total compensation for the 12 months before the beginning of the policy period;	<i>Responses will vary, but could include answers such as:</i>  <i>John mows lawns for his elderly neighbors during the summer months; they pay him to thank him. In the previous 12 months, he earned \$1,500. (8:36)</i>
(2) Volunteer activities for which no money is received other than payment for expenses incurred to perform the activity;	<i>Emily volunteers from her home from her home by making comfort kits for the elderly. She does not get paid for her efforts, but is reimbursed for her expenses from the local senior citizens' center. (9:50)</i>
(3) Providing home day care services for which no compensation is received other than the mutual exchange of such services; or	<i>Abigail watches the neighbor's children during the day on Mondays, Tuesdays, and Wednesdays. In exchange, her neighbor watches her children on Thursdays, Fridays, and Saturdays. (10:20)</i>
(4) The rendering of home day care services to a relative of an "insured."	<i>Jacob's mom keeps his children while he is at work. He pays his mom \$25 per day. (10:45)</i>

### 3.6 BUSINESS: THE DEFINITION OF BUSINESS

#### ACTIVITY: DUE DILIGENCE IN BUSINESS COVERAGE

Insurance professionals are required to pursue due diligence in advising their clients and helping them understand their exposures. Business Owners' insurance or Time Element insurance is not covered in the Homeowners' Policy. Read through the scenarios below and determine whether or not an insured's activity would be considered a "business" under the Homeowners policy.

1. For the past 2 years Michael repairs and services motorcycles and lawn mowers in a detached shop at his "residence premises." . He does this as a part-time business venture and earns about \$100 per week.

Is Michael's activity a "business"? Explain.

*Yes, Michael's activity is a "business." He is repairing motorcycles and lawn mowers part time, he is also earning more than \$2000 a year on a regular basis.*

2. Crystal is an accountant and prepares taxes during the spring in her home for customers. She makes around \$3,000 during tax season.

Is Crystal's activity a "business"? Explain.

*Yes, Crystal's activities are a "business." An accountant is a specialized profession that requires licensure and specific education. The amount she makes for her activity is irrelevant because the nature of her activity falls under the first part of the "business" definition.*

3. Jennifer is a nurse but runs a hobby photography venture from her home. She meets clients at event centers or in natural settings such as a park and accepts 2-3 events per year but rarely makes over \$1,500 per year. .

Is Jennifer's activity a "business"? Explain.

*No, Jennifer's activities are not considered a "business." Her profession is as a nurse. Photography is a joyful hobby for her. The activity does not meet the first part of the "business" definition. She earns less than \$2,000 per year, her activity is not a daycare. "Business" definition exception #1 applies to Jennifer.*

### 3.7 BUSINESS EXCLUSIONS AND COVERAGE ENDORSEMENTS

#### NOTES GUIDE

Our goal in this lesson is to answer business-related coverage questions by examining the Homeowners' 3 Special Form policy exclusions. Then, we will discuss endorsements that can be added to the Homeowners' Policy to expand coverage for incidental business exposures.

#### Business Exclusions in Section I

<b>Section I Coverage A (Dwelling)</b>	<i>There is no exclusion for business use. (1:36)</i>
<b>Section I Coverage B (Other Structures)</b>	<p><i>three "business" exclusions that will void coverage if the other structure is:</i></p> <ul style="list-style-type: none"> <li><i>• rented to any person who is not a tenant, except for use as a garage, or</i></li> <li><i>• used for a "business" conducted from within the structure, or</i></li> <li><i>• used to store "business" property, unless owned solely by an "insured" or tenant, and as long as the property is not a gaseous or liquid fuel stored outside of a vehicle or other craft's fuel tank. (1:55)</i></li> </ul> <p>These exclusions apply even when the cause of loss is unrelated to the "business" exposure.</p>
<b>Section I Coverage C (Personal Property)</b>	<p><i>establishes a limit of \$2,500 dollars for personal property used primarily for "business" while ON the "residence premises" and \$1,500 for personal property used primarily for "business" while AWAY from the "residence premises." (5:07)</i></p> <ol style="list-style-type: none"> <li><i>1. Property in a regularly rented apartment owned by the insured (except as provided in Additional Coverages E10 Landlord's Furnishings under Section I) is excluded.</i></li> <li><i>2. Property rented to others that is off the "residence premises."</i></li> <li><i>3. "Business" data, including data stored in accounting books or other paper records.</i></li> <li><i>4. Electronic-funds property like credit cards, fund transfer cards, transfer devices, etc. (6:09)</i></li> </ol>

### 3.7 BUSINESS EXCLUSIONS AND COVERAGE ENDORSEMENTS

#### Business Exclusions in Section II

<b>Section II Motor Vehicle Liability</b>	<i>excludes the “business” use of any “motor vehicle” except for a motorized golf cart while on a golfing facility. (7:16)</i>
<b>Section II Watercraft Liability</b>	<i>excludes the use of watercraft for any “business” purpose. (7:42)</i>
<b>Section II Personal Liability And Medical Payments to Others</b>	<p><i>totally excludes coverage for liability and Med Pay for any category of “business.” (7:50)</i></p> <p>There are several exceptions to this “business” exclusion that can be found in the policy.</p>
<b>Section II Professional Services</b>	<i>“Bodily injury” or “property damage” caused by providing or failing to provide professional services is not covered. (11:25)</i>
<b>Section II Additional Coverages  Damages to Property of Others</b>	<i>damage of property to others arising out of a “business” an “insured” is engaged in is NOT covered. (12:28)</i>

### 3.7 BUSINESS EXCLUSIONS AND COVERAGE ENDORSEMENTS

#### Endorsements

It's important that your client is covered and understands their "business" activity coverage gaps. So, it is critical to determine if an endorsement to the client's personal lines policies can provide the appropriate coverage or if commercial insurance should be recommended. Briefly explain each of the following endorsements.

#### **The Structures Rented To Others (Residence Premises) endorsement**

*provides property coverage and liability coverage for An Other Structure described in the schedule, or Declarations Page, that is rented to others for use as a private residence. (13:19)*

#### **The Permitted Incidental Occupancies (Residence Premises) endorsement**

*provides coverage for An Other Structure with an eligible incidental, or minor, "business" exposure. (13:33)*

#### **The Landlord's Furnishings endorsement**

*increases coverage for a landlord's furnishings from \$2500 to up to \$10,000. (13:44)*

#### **Increased Limits On Business Property endorsement**

*can increase the Special Limit of Liability for "business" property ON the "residence premises" from \$2,500 to a maximum of \$10,000. (13:53)*

#### **The Business Pursuits endorsement**

*provides Section II Liability coverage for the "business" pursuits of the "insured" and provides coverage both ON and AWAY from the "residence premises." (14:06)*

### 3.7 BUSINESS: EXCLUSIONS AND COVERAGE ENDORSEMENTS

#### ACTIVITY: HOME BASED BUSINESS ACTIVITY

Students will decide which business endorsement will be the best for the scenarios provided. Some may need more than one endorsement.

Business Endorsements:

- Structures Rented To Others (Residence Premises) endorsement
- Permitted Incidental Occupancies (Residence Premises) endorsement
- Landlord's Furnishings endorsement
- Increased Limits On Business Property endorsement
- Business Pursuits endorsement

- a. Kristen rents her detached guest house to a regular tenant.

*Structures Rented To Others (Residence Premises) endorsement*

- b. Wanda provides music lessons in her home, but she is also available to provide lessons in the client's home.

*Business Pursuits endorsement*

- c. Kerry has a shop building on his property where he repairs electronics and computers.

*Permitted Incidental Occupancies (Residence Premises) endorsement*

- d. Darla provides washer and dryer units for her duplexes.

*Landlord's Furnishings endorsement*

- e. Linda sells cookware from her home and travels to shows. She keeps around \$3,000 in cookware inventory in her home.

*Increased Limits On Business Property endorsement*

## UNIT 4

### ACTIVITY: UNIT PREVIEW

1. Read through UNCOVERING THE LEARNING OBJECTIVE.
2. Read the Insurance and Business Terms for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the Guiding Questions.
4. Think of three possible misconceptions or assumptions you have about the learning objective.

## UNIT 4 EXCLUSIONS, ADDITIONAL COVERAGES, AND ENDORSEMENTS

### UNCOVERING THE LEARNING OBJECTIVE

#### Learning Objective

Students will identify exclusions, additional coverages, and endorsements.

#### Important Terms

- **Traditional or Umbrella Policy:** provides coverage for the same losses covered by the underlying policy, as well as coverage for some losses not covered by the underlying policy.
- **Excess Personal Liability Policy:** provides coverage only for the same losses covered by the underlying policy.
- **Hybrid, or Combination, Policy:** may provide the broader coverage of a personal umbrella policy for some exposures not covered on underlying policies, but unlike an excess liability policy, could also contain narrower provisions.

#### Guiding Questions

1. What is the main reason umbrella policies and hybrid policies exist?  
*Because of society's tendency to sue other people, to provide adequate coverage for large liability losses, and to protect current and future assets (any of these will be acceptable).*
2. Why is it in the best interest of the insurance agency to offer Umbrella Policies?  
*Client retention, increased revenue, and to reduce errors & omissions exposures.*
3. What is the main difference between an Umbrella Policy and a Hybrid Policy?  
*A Hybrid Policy covers items that are not covered on the basic policy and has its own insuring agreement.*

## 4.1 INTRODUCTION TO PERSONAL UMBRELLA, EXCESS LIABILITY, AND HYBRID POLICIES

### NOTES GUIDE

Substantial claims sometimes require an additional layer of protection. This additional protection is found in a Personal Umbrella or Excess Liability Policy. There are three types. Name them below. Write a brief description of each at the conclusion of the video.

Policy Type	Description
<ul style="list-style-type: none"> <li><i>traditional or true Umbrella,</i></li> </ul>	<i>provides coverage for the same losses covered by the underlying policy, as well as coverage for some losses not covered by the underlying policy.</i>
<ul style="list-style-type: none"> <li><i>Excess Personal Liability Policy</i></li> </ul>	<i>provides coverage only for the same losses covered by the underlying policy</i>
<ul style="list-style-type: none"> <li><i>Hybrid, or Combination, Policy</i></li> </ul>	<i>A Hybrid Policy may provide the broader coverage of a Personal Umbrella Policy for some exposures not covered on underlying policies, but unlike an Excess Liability follow-form policy, could also contain narrower provisions than the underlying policies for other covered exposures.</i>

These policies are designed to provide additional coverage over primary coverage, also known as underlying coverages that have specific minimum limits of liability. (2:35)

Why should you consider offering Personal Umbrella and Excess Liability policies to your clients?

- to ensure adequate coverage*
- to improve client/account retention,*
- to increase revenue for the agency, and*
- to reduce errors and omissions exposures.*
- to protect current and future assets (3:56 - 6:06)*
-

## 4.1 INTRODUCTION TO PERSONAL UMBRELLA, EXCESS LIABILITY, AND HYBRID POLICIES

### ACTIVITY: UMBRELLA POLICY LAWSUIT

Read through the case study and then answer the following questions.

<https://www.nossaman.com/newsroom-insights-umbrella-coverage-must-step-defend-immediately>

1. In this case (Legacy Vulcan Corp. v. Superior Court, 2021 DJDAR 6409 (April 30, 2010)) it was found that the umbrella policy provided coverage for Personal Injury, Property Damage or Advertising claim in two different ways. What are those two ways? Explain the difference between each coverage type.

*1. Traditional umbrella coverage – the umbrella coverage may be primary when the underlying policy does not have coverage.*

*2. And Excess coverage – the umbrella coverage pays once the underlying policy limits are exhausted.*

2. Through the case, the court found that the term “underlying insurance” was a generic term. The court called the term “ambiguous” (or unclear) When something in a policy is ambiguous, what stance does the court take in resolving the case?

*When something in an insurance policy is ambiguous, or unclear, the court will resolve the dispute or case reasonably with the expectations of the policy holder.*

*(teacher – make sure the student understands that this means that if language is not defined or perfectly clear in a policy, the court will resolve the dispute in favor of what the insured reasonably understands their coverage to be. This is the purpose for definitions in the policy.)*

3. One advantage to an umbrella policy is that defense coverage is provided. In this case, the umbrella policy had a sizable self-insured retention (SIR). What did the court say about this policy’s SIR as it relates to when defense coverage would begin?

*For this policy the court found that the SIR is not the same as a deductible. Because this policy provides both primary and excess coverage, the court ruled that the insured would reasonably expect that defense duty by the Carrier would begin immediately for claims not covered by the underlying primary policy but potentially covered by the umbrella policy. This policy was not clear enough, therefore defense duty does not wait for exhaustion of the SIR.*

## 4.2 UNDERLYING INSURANCE AND SELF-INSURED RETENTION

### NOTES GUIDE

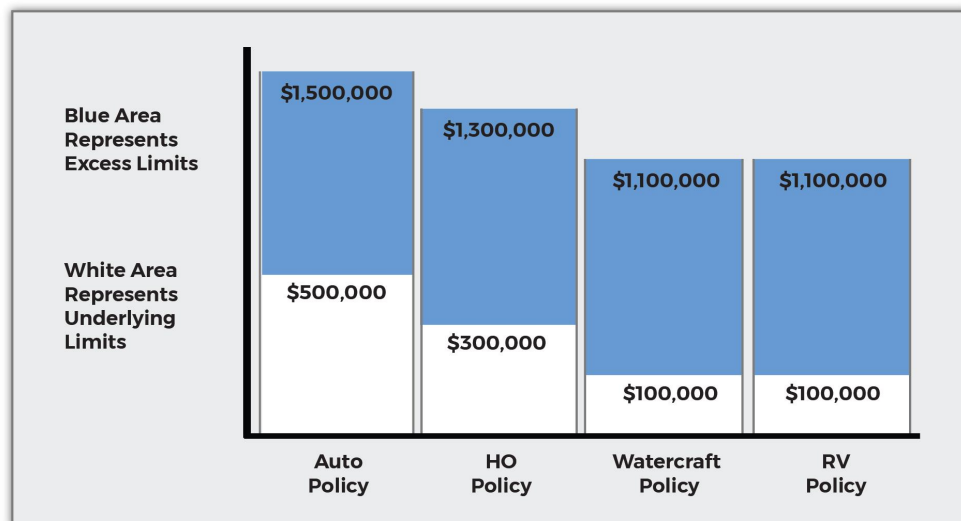
We have looked at how Umbrella and Excess Liability policies can either broaden coverage or increase limits of underlying policies.

Define **underlying policy**.

*As defined by the Insurance Services Office (ISO), "underlying insurance" is any policy providing the "insured" with primary liability insurance covering one or more of the types of liability listed in the Declarations Page and with at least the minimum required limits for those types of liability. (1:02)*

How must the underlying coverage be structured and what requirements must be in place to add additional policies?

- Underlying policies must be in place before an Umbrella, Excess, or Hybrid Policy can be issued. (1:22)
- The limits of liability in the underlying policy must meet the requirements of the Umbrella Policy insurance company. Underlying requirements differ with each insurance company, so it is important for you, as the insurance professional, to know what those requirements are. (1:57)
- The client must maintain their underlying insurance at the full limits stated in the Declarations Page. (2:29)



The additional coverage provided by Umbrella, Excess, and Hybrid Policies only goes into effect AFTER the amount shown in the Declarations Page, as the minimum liability amount, is paid by the underlying insurance. (5:05)

## 4.2 UNDERLYING INSURANCE AND SELF-INSURED RETENTION

What is a **coverage gap**?

*A coverage gap is the difference between what an underlying policy will pay, according to the limits of liability, and what the excess policy will cover.*

The ISO Personal Umbrella Liability Policy replaces the term “deductible” with the term “self-insured retention limit”.

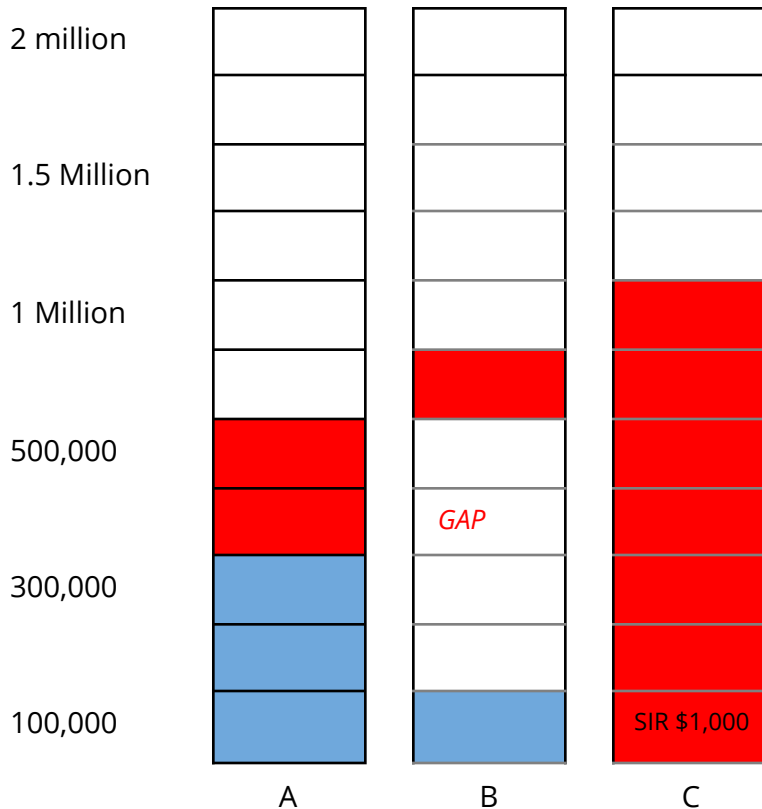
Umbrella, Excess, and Hybrid Policies are not designed to pay the first dollars in a claim. These policies kick in and pay AFTER the first-dollar amounts have been paid by underlying insurance.

The self-insured retention limit applies ONLY when a loss occurs that is NOT covered by underlying insurance, but IS covered by the Personal Umbrella Liability Policy.

## 4.2 UNDERLYING INSURANCE AND SELF-INSURED RETENTION

### ACTIVITY: COORDINATING UNDERLYING INSURANCE

Using available drawing tools. Read the scenarios below, for each claim shade blue for the amount (\$) the underlying policy will pay, red for the amount (\$) the umbrella will pay, and if there is a gap in coverage leave that amount (\$) white/blank. If an SIR amount applies write/type the amount in the umbrella shaded area.



- A. Sarah has an Umbrella policy with a 1,000,000 Liability Limit with a \$500 SIR. She is required to and currently carries an underlying Homeowner policy with \$300,000 Personal Liability. She was visiting a friend at their luxury beachfront home and left a candle burning which caused \$500,000 in fire damage to the home.

What is Sarah's total limit of liability? **\$1,300,000**

*(Notes about shading: Sarah is carrying the correct amount of underlying limits. Her homeowner liability coverage will pay the policy limit of \$300,000 for fire damage she accidentally caused. The umbrella will pay the remaining \$200,000. SIR does not apply because the underlying policy responded.)*

## 4.2 UNDERLYING INSURANCE AND SELF-INSURED RETENTION

### ACTIVITY (continued)

- B. Tim has a 1,000,000 Umbrella Policy. He is required to carry underlying Automobile Liability limits of \$500,000. After he lost his job, he reduced his Automobile liability coverage to \$100,000 to save money. He is the at-fault party of a five (5) vehicle accident causing \$750,000 in total damages and bodily injury.

What is Tim's total limit of liability? *\$1,500,000 if he carried the correct limits; 1,100,000 because he is not carrying proper underlying limits.*

*(notes about shading: Tim's Automobile policy will pay a maximum of \$100,000. The Umbrella required \$500,000 Auto liability, and will only pay what is in excess of \$500,000. The Umbrella will only pay \$250,000. There will be a \$400,000 Gap in coverage Tim is responsible for.)*

- C. Wesley has a 2,000,000 Umbrella Policy with a \$1,000 SIR. He is required to and currently carries an underlying Homeowner Personal Liability limit of \$500,000. He is being sued for \$1,000,000 for libel after posting an online business review.

What is Tim's total possible limit of liability? *\$2,500,000.*

*(Notes about shading: For this claim Libel (Personal Injury) is not covered under the homeowner policy but is covered on the Umbrella. Wesley's home policy will not respond. The Umbrella policy will respond up to \$2million with application of the \$1,000 SIR.)*

### 4.3 UMBRELLA POLICY STRUCTURE

#### NOTES GUIDE

The Personal Umbrella Policy is structured in a similar way to other types of policies. It has the main policy parts you have become familiar with: the Declarations Page, Agreement, Definitions, and Additional Coverages.

The Personal Umbrella Policy is structured in a similar way to other types of policies. What are some of the main policy parts which are similar to underlying policies?

*Declarations Page, agreement, definitions, exclusions, and additional coverages*

The Personal Umbrella Policy is the policy which offers broad additional coverage above and beyond what the underlying primary policies cover. Name some of the primary, or underlying coverages, added to by the Personal Umbrella Policy? *(1:32)*

*The Homeowners' Policy, the Personal Auto Policy, the Dwelling Fire Policy, the Watercraft Policy, and the Recreational Vehicle Policy.*

Take out your copy of the Personal Umbrella Liability Policy and review the following parts. How are they similar to the parts of an underlying Home and Auto policy? *Student responses may vary.*

Part	Similarities	Differences
The Dec Page	<i>shows information about the "insured," the covered property, and the coverage limits.</i>	<i>Umbrella does not have a deductible, but does have an SIR amount.  Shows the underlying policy requirements the insured must keep.</i>
The Agreement	<i>Both agreements make a promise of coverage  Beginning of agreement is the same as Personal Auto Policy.</i>	
Definitions	<i>"You" and "your"  Aircraft, hovercraft, recreational vehicle, and watercraft liability  "bodily injury"  "family member"</i>	<i>No "insured" status for a nonresident spouse who is not named in the policy  Umbrella and Underlying policies use differing terms related to an auto or motor vehicle.  Adds definition for "Personal Injury"  Adds definition for "Retained Limit"</i>

### 4.3 UMBRELLA POLICY STRUCTURE *Student responses may vary*

Part	Similarities	Differences
Coverages	<i>Umbrella &amp; Auto both have an Liability Insuring Agreement</i>  <i>Umbrella, Home, Auto all have liability coverage sections.</i>  <i>Liability coverage for Bodily injury and Property damage</i>  <i>Defense coverage</i>	<i>Adds Personal Injury Coverage.</i>  <i>Only provides liability type coverage, no option for coverage to damage to "insured's" property like extra coverage for the client's home or auto.</i>
Exclusions	<i>Each policy has exclusions to limit or change coverage and many of the exclusions are similar.</i>  <i>Exclusion for expected or intended injury or property damage</i>	<i>Exclusions for Watercraft Liability and Recreational Vehicle Liability unless underlying coverage is in force.</i>  <i>Exclusion pertaining to Personal Injury.</i>

The Umbrella Policy shares similar definitions with underlying policies. Name a few of these:

- "you" and "your"
- "bodily injury"
- "property damage"
- "family member"

The Umbrella Policy may add new definitions, name a few:

- new definition "personal injury"
- new definition "retained limit"
- definition of "auto" adds Motorcycle or moped to the definition

What can happen when there are differences in definitions between underlying policies and the Umbrella Policy?

*It can result in some things being covered on the Umbrella Policy that are not covered on the underlying policy.*

If there is not a coverage requirement for underlying insurance, and there is coverage under the Umbrella Policy, what is the insured responsible for paying?

*the self-insured retention deductible.*

### 4.3 UMBRELLA POLICY STRUCTURE

#### ACTIVITY: COMPARE AND CONTRAST

As you can see, the Personal Umbrella Policy is structured very similarly to other types of policies. Using your copy of the Personal Umbrella Policy from the appendix, work with your partner to list similarities AND differences in the Umbrella Policy structure as compared to underlying policies you are already familiar with. You have five minutes to complete the activity.

Explanation: *Student responses will vary. Below is a sample answer.*

##### *Similarities:*

*It still has the main parts: the Declarations Page, Agreement, Definitions, Exclusions. Additional Coverages, Duties after a loss, etc...*

*Many Exclusions are similar:*

- *Property Damage to an “insured’s” property;*
- *Or, when the “insured” expects or intends to cause bodily injury or property damage, except when protecting persons or property.*
- *And, Bodily Injury or Property Damage arising out of:*
  - *Ownership or operation of a vehicle used to transport goods or people for a fee;*
  - *Ownership or use of any “auto” when enrolled in a vehicle-sharing program while being used by someone other than you or a “family member”;*
  - *War, insurrection, civil war,*

##### *Differences:*

*Definition for “Personal Injury”*

*Coverage section for Defense Coverage*

*Exclusion for “recreational vehicle liability”*

*Exclusion which grants coverage for “personal liability”*

*Provision for Maintenance of Underlying Insurance*

*Definition of “auto” now includes motorcycle and moped.*

## 4.4 PERSONAL UMBRELLA EXCLUSIONS, PROVISIONS, AND CONDITIONS

### NOTES GUIDE

There are 25 exclusions listed in the ISO Personal Umbrella Policy and most of these exclusions are similar to those provided in the ISO Homeowners' and Personal Automobile forms.

Name exclusions which are specifically defined by the ISO Personal Umbrella Policy.

- *"Watercraft liability"*
- *"recreational motor vehicle liability"*
- *prearranged or organized racing or speed contests, driver-skill event or training, or other competitions with respect to an ANY "auto" or watercraft.*
- *Property in the care, custody, or control of an "insured"*
- *Bodily Injury, Personal Injury or Property Damage for pollution claims arising from a "fuel system,"*
- *Bodily Injury or Personal Injury caused by absorption, ingestion, or inhalation of lead,*
- *Personal Injury or Property Damage caused by lead contamination,*
- *Loss assessment,*
- *Automobile no-fault or personal-injury protection,*
- *And UM/UIM (Uninsured Motorist and Underinsured Motorist liability). (3:56)*

Notice that there are exceptions to many of these exclusions.

It can be confusing, but remember, as an insurance professional, it is your responsibility to understand the policy and communicate its provisions to your client. Also, remember that policies vary depending on your state and your insurance company. READ THE POLICY IN FORCE!

#### 4.4 PERSONAL UMBRELLA EXCLUSIONS, PROVISIONS, AND CONDITIONS

Now that we have made our way through most of the exclusions, let's look at some general provisions that apply to the Personal Umbrella Policy. These are also conditions by which the "insured" and or the insurance company must abide to honor the policy contract.

Write a brief description of the sections listed below.

##### V. Duties After a Loss

The "insured" must notify the insurer promptly of any loss and cooperate in any investigation and settlement of any claim. (8:07)

##### VI. General Provisions

###### A. Appeals

*This section allows the umbrella carrier to appeal court judgments that exceed limits of liability or applicable self-insured retention. (8:21)*

###### C. Bankruptcy of an Underlying Insurer

*If an underlying policy-carrier becomes bankrupt, the umbrella policy will NOT replace the underlying policy, but will pay as if the underlying policy was valid and collectible. (8:51)*

###### H. Policy Period and Territory


*The ISO Personal Umbrella Policy covers a claim "occurrence" that happens anywhere in the world during the policy period as stated in the Declarations Page. (9:29)*

A Personal Umbrella Policy provides an additional layer of protection over personal lines policies, like the Personal Auto, Homeowners,' Watercraft, and/or Recreational Vehicle Policies. It is difficult to predict what type of loss could occur. Though restrictions exist, a Personal Umbrella Policy provides valuable liability coverage in cases where there are substantial claims.

#### 4.4 PERSONAL UMBRELLA EXCLUSIONS, PROVISIONS, AND CONDITIONS

##### ACTIVITY: UNDER THE UMBRELLA

Explain whether the following will be covered or excluded under the Umbrella Policy.

	
Case	Excluded/Covered
Persons where Workers' Compensation is required.	<i>Excluded</i>
Intentional injury caused by "insured"	<i>Excluded</i>
Excess uninsured/underinsured motorist coverage.	<i>Excluded</i>
watercraft insured by an underlying policy.	<i>Covered</i>
Policyholder who is accused of wrongful eviction	<i>Covered</i>

## UNIT 5 REVIEW

### PRACTICE EXAM AND CERTIFICATION EXAM

In this unit, you will take the Practice Exam for the Personal Residential Insurance portion of the CISR designation program. That test will cover all of Module 3. Take some time to review all of your Module 3 notes before taking the Practice Exam.

### ACTION PLAN FOR REVIEW

Step 1: Using the provided Action Plan template, students will identify their three areas of lowest performance from the CISR Practice Exam. They will write these scores on the template and then look up their previous scores on the Unit Pre-Assessments and Unit Assessments for those three areas.

Step 2: Using the data from Step 1, students will set a goal to determine how much improvement they expect to see after reviewing their three areas of lowest performance.

Step 3: Students will go back and watch the videos and/or study the scripts from their three areas. They will also review the notes they took for those units to help prepare for the Certification Exam.

#### ***Students Create Their Own Action Plan***

*Step 1: Using the provided Action Plan Template (below), students will identify their three areas of lowest performance from the CISR Pre-Assessment. They will write their scores from these three areas on the template and then look up their scores for those same three areas from the Unit Pret-tests and Unit Assessments.*

*Step 2: Students will use this data to set goals to determine how much growth they may expect to see after reviewing their three weakest areas.*

*Step 3: Students will then go back and watch the videos and/or study the scripts from their weakest areas. They will also review the notes they took from those units to help prepare for the Certification Exam.*

**ANALYSIS AND ACTION PLAN**

Analyze your results from the Practice Exam and create an action plan to review materials from the units in which you were least successful.

<b>CISR Students Action Plan for Review</b>			
<b>3 Units</b>	<b>Test Scores on 3 Units</b>	<b>Video and Study Guide Review</b>	<b>Goal Setting</b>
1.	Pre-Assessment Score: Unit Score:		
2.	Pre-Assessment Score: Unit Score:		
3.	Pre-Assessment Score: Unit Score:		
4.	Additional area, if needed. Pre-Assessment Score: Unit Score:		

<b>CISR Students Action Plan for Retake</b>			
<b>3 Units</b>	<b>Test Scores on 3 Units</b>	<b>Video and Study Guide Review</b>	<b>Goal Setting</b>
1.	Pre-Assessment Score: Unit Score:		
2.	Pre-Assessment Score: Unit Score:		
3.	Pre-Assessment Score: Unit Score:		
4.	Additional area, if needed. Pre-Assessment Score: Unit Score:		

**UNIT 6 RECREATIONAL VEHICLES, WATERCRAFT AND CATASTROPHIC EVENTS****ACTIVITY: UNIT PREVIEW**

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.
4. Think of three possible misconceptions or assumptions you have about the learning objective.

## UNIT 6 RECREATIONAL VEHICLES, WATERCRAFT, AND CATASTROPHIC EVENTS

### UNCOVERING THE LEARNING OBJECTIVE

**Learning Objective:** Students will describe whether Homeowners' Policies cover recreational vehicles, watercraft, or specific catastrophic events.

#### Insurance and Business Terms:

- **Recreational Vehicles:** All terrain vehicles, dune buggies, golf carts, mini-bikes, motor homes, motorcycles, recreational vehicle trailers, snowmobiles, trail-bikes, off-road vehicles, antique and classic autos, and various watercraft including jet skis.
- **Watercraft:** Boats and personal watercraft.
- **Flooding:** Losses sustained by water damage specifically due to flooding.
- **Earthquake:** Earthquake damage to your home, belongings, and buildings on your property.
- **Tornado:** Tornado damage to your home, belongings, and buildings on your property.
- **Wildfire:** Wildfire damage to your home, belongings, and buildings on your property.

#### Guiding Questions:

1. What is the only recreational vehicle that may be eligible for property coverage by an endorsement?  
*A golf cart*
2. What resources are available for homeowners to determine their risk for a catastrophic event such as an earthquake?  
*Companies like Applied Insurance Research Worldwide (A I R Worldwide) work with insurance and reinsurance professionals to analyze the potential for catastrophic events, as well as to provide solutions to lessen their physical or financial impact.*
3. When is insurance coverage a requirement for a homeowner?  
*When you have a mortgage or a lender, you must provide proof of coverage.*

## LESSON 6.1 RECREATIONAL VEHICLES (PARTS I AND II)

### NOTES GUIDE

In this lesson, we focus on Recreational Vehicles and the endorsements that can be added to the Homeowners' Policy 3 – Special Form to fill coverage gaps caused by exclusions in the policy.

What are some examples of recreational vehicles based on the "Motor Vehicle" definition?

- *Snowmobiles*
- *All-terrain vehicles or ATVs*
- *Go-karts*
- *Motorized scooters*
- *Motorized riding toys for children*
- *Riding lawn mowers*
- *Golf Carts, and*
- *Motor homes (0.56)*

#### Motor Vehicle Personal Property Exclusions

Coverage for damage to recreational vehicles falls under Coverage C of the ISO HO-3 Policy. Recall that under the HO-3 form, Coverage C (Personal Property) states that personal property owned or used by an "insured" is covered anywhere in the world.

And remember, for a loss to personal property to be covered, the loss must be caused by one of the sixteen *named perils* and not be limited or excluded elsewhere in the policy. Look at the sample policy to review the perils insured against under Coverage C (Personal Property). (1:32)

Because recreational vehicles are classified as "motor vehicles" by definition, they are subject to all the limitations and exclusions in the Homeowners' Policy for a "motor vehicle."

When a recreational vehicle is insured on *its own specialty policy*, coverage will NOT be applicable under the Homeowners' Policy. (2:02)

There is an exception to the exclusion of motor vehicles. Coverage will be provided for a *recreational vehicle* that is not required to be *registered* for use on public roads, or which is used *solely* to service a residence. (2:48)

## LESSON 6.1 RECREATIONAL VEHICLES (PARTS I AND II)

A golf cart is the only recreational vehicle that may be eligible for property coverage by an endorsement. (3:55)

For recreational vehicles other than motorized golf carts, there is no endorsement to the Homeowners' Policy to provide property coverage. As a result, a separate specialty policy is necessary for coverage. (4:36)

Limited coverage for damage to borrowed or rented recreational vehicles is found under Section II Liability Coverages. (4:50)

When determining if liability coverage is provided (under Section II Liability Coverages) for a loss involving a recreational vehicle, the following questions must be asked:

- Did the loss occur on one of the specified "insured locations" as defined in the Homeowners' Policy?
- Does the vehicle fit the definition of "motor vehicle liability"?
- What type of recreational vehicle is it? And,
- Does the "motor vehicle liability" exclusion, including its exceptions, apply to the loss? (5:55)

### Motor Vehicle Liability Exclusions

Section II Motor Vehicle Liability Exclusions are similar to those in Section I Property Coverages. Section II Liability carries the same exclusions for "motor vehicles" registered or subject, by law, to registration for use on public roads.

Why do you think these registered vehicles are excluded from coverage on the HO Policy?

*If a vehicle is required to be registered, separate motor vehicle coverage is also required. If coverage is provided, say under a Personal Auto Policy, the Homeowners' Policy would not duplicate that coverage. (6:49)*

## LESSON 6.1 RECREATIONAL VEHICLES (PARTS I AND II)

Let's review how coverage may apply to liability of recreational vehicles:

HOMEOWNERS MOTOR VEHICLE LIABILITY COVERAGE	
Types of Vehicles	Coverage – HO Section II
All Motor Homes	No coverage unless in dead storage on "insured location".
All Camper Vans and Pickup Campers	No coverage unless in dead storage on "insured location".
All Camper Trailers, Travel Trailers, and towing units	No coverage while being towed. If owned, covered while detached from a towing unit.
Motorcycles and Motorized Bikes	No coverage, except for recreational vehicles not subject to registration.
	If owned and not subject to registration, vehicle is covered while on an "insured location."
	If non-owned and not subject to registration, vehicle is covered.
Snowmobiles	If owned and not subject to registration, vehicle is covered while on an "insured location." If non-owned and not subject to registration, vehicle is covered.
Golf carts	Non-owned golf carts, not subject to registration, are covered under Homeowners Policies. They are also covered under Personal Auto Policies.
	Owned golf carts, not subject to registration, are covered on an "insured location."
	Owned golf carts, not subject to registration, are covered off an "insured location" when used to play golf on a golf course or for other activity allowed by the golfing facility. These are also covered traveling to or from a storage area and while crossing roads at designated points to access other parts of the golf course.
	Owned golf carts, not subject to registration, are covered if being used in a private residential community that allows use on its public roads and contains an "insured's" residence.
ATVs All-Terrain Bikes, Dune Buggies, and Other Recreational Vehicles	If owned and not subject to motor vehicle registration, covered while on an "insured location."
	If non-owned and not subject to motor vehicle registration, vehicle is covered.
Motorized Conveniences (lawn tractors, motorized wheelchairs)	No coverage unless used solely to service a residence or if designed to assist the handicapped under certain conditions.

## LESSON 6.1 RECREATIONAL VEHICLES (PARTS I AND II)

### Endorsements

Let's look at a few of the endorsements that can be used to provide coverage.

Name	Description
Owned Motorized Golf Cart Physical Loss Coverage endorsement	<i>can be used to provide coverage for a motorized golf cart. (10:08)</i>
Snowmobile endorsement	<i>provides liability coverage for an owned snowmobile while it is away from one of the specified "insured locations." (10:23)</i>
Incidental Low Power Recreational Motor Vehicle Liability Coverage endorsement	<i>extends Coverage E (Personal Liability) and Coverage F (Medical Payments To Others) coverage to "motor vehicles" AWAY from one of the specified "insured locations" for specific vehicles as described in the endorsement. (10:50)</i>

**LESSON 6.1 RECREATIONAL VEHICLES (PARTS I AND II)****ACTIVITY: COVERED OR NOT COVERED WITH YOUR GOLF CART?**

Many people have golf carts that they use on their own property. Sometimes your homeowners' insurance covers these golf carts and sometimes you need to purchase a separate policy. Consider the scenarios below and decide, based on the video/lecture, whether you have liability coverage for your golf cart under Homeowners' Policy or not.

Scenario	Covered/Not Covered?
You damage another person's mailbox when driving your golf cart within your private residential golf community	<i>Covered (A.2.e.)</i>
The unregistered golf cart is used on your property exclusively for upkeep	<i>Covered (A.2.b.)</i>
Your golf cart is damaged in a collision	<i>Not Covered (Covg C.4.c. Property Not Covered)</i>
Used while attending a golf tournament for a company-sponsored event	<i>Covered (A.1.c.4.)</i>
Used as a registered vehicle to drive to the local store on public roads	<i>Not Covered (A.1.a.)</i>

## LESSON 6.2 WATERCRAFT (PARTS I AND II)

### NOTES GUIDE

Define **watercraft**. Pull out your copy of the HO-3 Policy. How is watercraft defined in the Definitions section?

*A watercraft is any water vessel, ranging from a canoe, to a ski boat, to a freighter traveling the ocean. (0:24)*

*HO-3 Policy: Watercraft means a craft principally designed to be propelled on or in water by wind, engine power, or electric motor.*

The Homeowners' Policy greatly narrows the types of personal watercraft that are covered. Many types of watercraft are better suited to be covered on a separate, specific, Watercraft Policy.

What are some reasons why watercraft would be better covered by a separate Watercraft Policy?

*Watercraft pose a high and costly risk, due to their exposure to weather elements and hidden objects under the water. (1:27)*

*The rates charged for a Homeowners' Policy cannot cover such a high and costly risk. (1:34 and 2:00)*

### Section I – Property Coverages

Let's look at what coverages exist in the HO-3 Policy for watercraft. Turn to your sample policy and find Section I (Property Coverages) and pay special attention to Coverage C (Personal Property).

Insurance companies would rather not use the Homeowners' Policy to provide for risky watercraft exposures, so they limit the amount they will pay for property damage related to watercraft of all types.

According to your sample policy, what is the special limit for liability on watercraft?

*\$1,500 (1:08)*

What other related equipment is considered "watercraft" in this section?

*watercraft trailers, furnishings, equipment, and outboard engines or motors. (1:24)*

Where is coverage for damage to watercraft found in the Homeowners' Policy?

*Section I Property Coverage, Coverage C – Personal Property (1:49)*

## LESSON 6.2 WATERCRAFT (PARTS I AND II)

### Section II – Liability Coverages

The same conditions that applied to non-owned recreational vehicles apply to watercraft as well.

Take a look at F. Coverage E – Personal Liability of the sample HO-3 policy.

Number 2 explains an exclusion for “property damage” to property in the care, custody, or control of an “insured.” This includes a borrowed or rented recreational vehicle.

For coverage to apply, two conditions must be met. What are they?

1. *the insured must be legally responsible for the loss*
2. *the damage must be caused by fire, smoke, or explosion. (2:38)*

How does Section II Liability Coverage respond to Personal Liability and Medical Payments to Others with respect to watercraft?

Coverage E – Personal Liability and Coverage F – Medical Payments to Others does **NOT** apply, at the time of an occurrence, if the watercraft:

- a. *Is operated in or practicing any organized race, speed contest, or other competition,*
- b. *Rented to others,*
- c. *Used to carry persons or cargo for a charge,*
- d. *OR is used for any “business” purposes. (3:23)*

**LESSON 6.2 WATERCRAFT (PARTS I AND II)**

There are also exclusions for coverage that pertain to the type and size of watercraft. Look at the information in this table as we discuss the types and sizes of watercraft excluded under Personal Liability and Medical Payments to Others.

<b>WATERCRAFT EXCLUSIONS</b>			
<b>COVERED OR NOT COVERED</b>			
<b>Type of Vessel</b>	<b>Owned</b>	<b>Borrowed</b>	<b>Rented</b>
Sailing Vessels	Covered if less than 26 feet	Covered	Covered if less than 26 feet
Inboards or Inboard/Outdrive or Jet drives	Not Covered	Covered	Covered if 50 Horsepower or less.
Outboards	Covered if 25 total Horsepower or less; or newly acquired	Covered	Covered

## LESSON 6.2 WATERCRAFT (PARTS I AND II)

## ACTIVITY: WATERCRAFT AND THE HO POLICY

Scenarios	Explain Coverage?
Your friend, Mike, retired from the oil business and lives in a home on a beautiful lake. He gives tours in his pontoon boat around the lake for a fee of \$25 per person. Is he covered under his HO policy?	<i>Your friend will not have liability coverage under his homeowner policy because this is considered a business.</i>  <i>(Section II Exclusions. B. "Watercraft Liability," 1.d.)</i>
Sam and his family have a lakehouse and they visit every summer. They own a small 12-ft. fishing boat with a 3.5hp trolling motor. Sam's son, Josh, used the boat and ran into the neighbors dock, causing a small amount of damage. Is damage to the dock covered under Sam's HO policy?	<i>Liability coverage under the homeowner policy will respond for damage to the neighbor's dock.</i>  <i>There is limited physical damage coverage of \$1,500 under Coverage C for the watercraft, however wrecking the boat is not a named peril for Coverage C. A watercraft policy is advised to cover physical damage to Sam's Boat.</i>  <i>(Section II Exclusions. B. "Watercraft Liability," 2.c.(1)(b))</i>
Debbie occasionally rents out her seasonal lake house to guests. The guests have use of all of the facilities, including canoes and kayaks, which is included in their rental fee. Are the guests covered under the HO policy?	<i>"Insured" definition for Section II includes persons legally responsible for your watercraft, however excludes persons using watercraft in the course of ANY "business." Coverage E &amp; F also do not apply if the watercraft is being rented to others. Debbie's guests will not have liability coverage under her homeowner policy.</i>  <i>Debbie will not have liability coverage under her homeowner policy either because the watercraft is being rented to others.</i>  <i>(Section II Exclusions. B. "Watercraft Liability," 1.b. &amp; 1.d.)</i>
John borrowed his friend's jet ski. John took fireworks onto the lake with the jet ski. The fireworks accidentally ignited and caused a fire which damaged the jet ski. Is damage to his friend's jet ski covered under John's HO policy?	<i>Yes. Coverage E - Personal Liability coverage provides an exception for property rented to, occupied or used by, or in the care of an "insured" if damage, the "insured" is legally responsible for, is caused by fire, smoke or explosion. (care, custody, or control) which the insured is legally responsible for</i>  <i>(Section II Exclusions. F. Coverage E - Personal Liability. 3.)</i>

## LESSON 6.3 THE EARTHQUAKE ENDORSEMENT

### NOTES GUIDE

Now we're going to take time to look at CAT Insurance. The letters C.A.T. refer to catastrophic exposures. What perils do you think catastrophic exposures might include?

*Earthquakes, floods, hurricanes, tornadoes, and other large-scale natural disasters refer to catastrophic exposures. Also, a set wildfire, earth movement or earthquake from fracking or drilling might be included as a catastrophic exposure.*

How does the property insurance industry define the term **catastrophe**?

*The property insurance industry defines "catastrophe" as a severe, natural or human-made disaster.*

What criteria does the property insurance industry use to categorize a disaster as a catastrophe?

*To be deemed a catastrophe, an event must impact a certain number of policyholders and companies and reach a certain dollar amount for loss claims.*

Be aware that endorsements to an existing policy may protect against some risks, but some catastrophic risks can only be dealt with through additional insurance policies that cover catastrophic exposures.

What resources are available to insurance professionals trying to understand the potential of a catastrophic event like an earthquake?

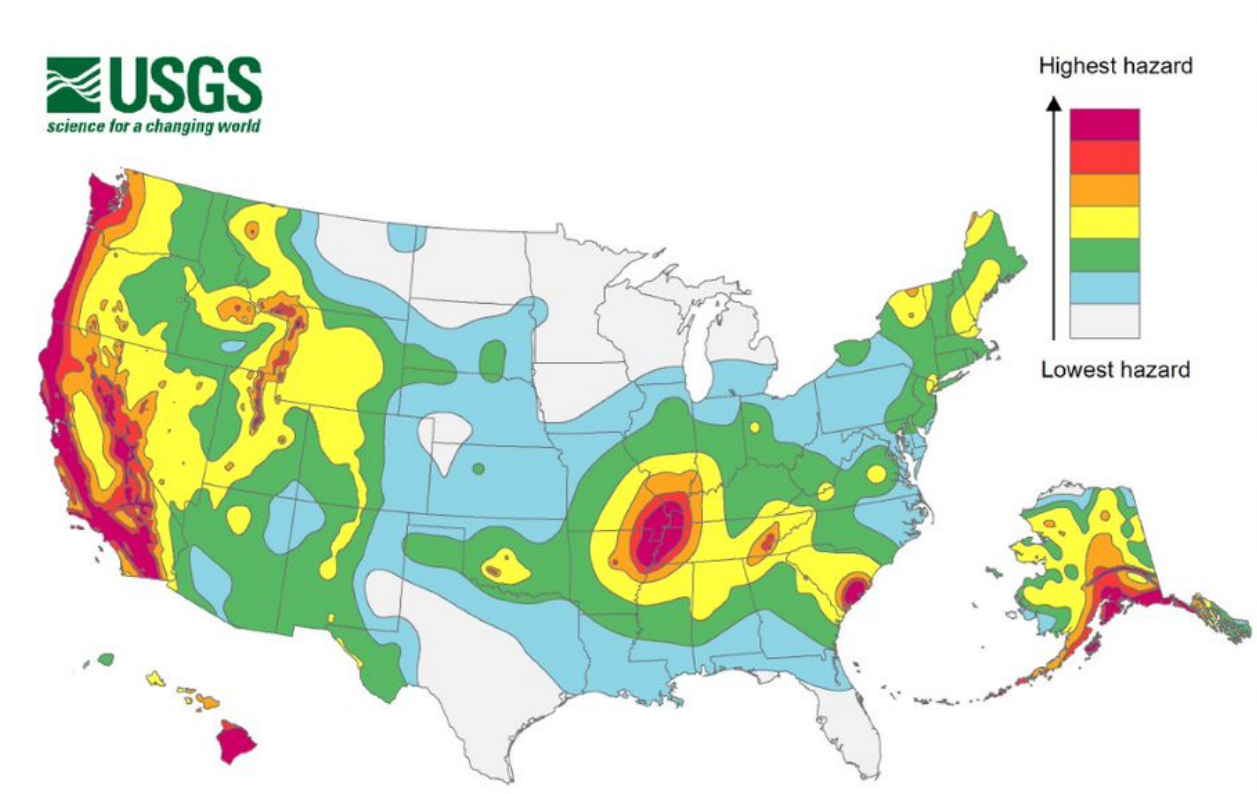
- *Applied Insurance Research Worldwide (A I R Worldwide)*
- *seismological and geological information*
- *United States Geological Service (USGS)*

There is no definition of "earthquake" in a Homeowners' or Renters' Insurance Policy BECAUSE, earthquakes aren't covered in the unendorsed Homeowners' or Renters' policies.

It's common for people to believe that they will not be affected by catastrophic events, but there is evidence to the contrary. **It is up to you, as an insurance professional, to help clients understand potential risks in their area.**

## LESSON 6.3 THE EARTHQUAKE ENDORSEMENT

Where is your location on this map?



How likely are earthquakes to affect your customers?

*Student responses may vary depending on their location on the map.*

### The Earthquake Endorsement

The endorsement, its forms, and its premiums vary by state, and not all \_\_\_\_\_ endorsements \_\_\_\_\_ are the same. Therefore it is important to read, understand, and communicate the information included in the policy written by the insurance company you represent. When an earthquake endorsement isn't enough to cover your client's needs, an earthquake \_\_\_\_\_ policy \_\_\_\_\_ can be made available.

## LESSON 6.3 THE EARTHQUAKE ENDORSEMENT

### The Earthquake Policy

What is an Earthquake Policy designed to cover?

*An Earthquake Policy is designed to cover damages to the home, personal belongings inside the home, and additional living expenses should the home be uninhabitable. (9:48)*

Several factors can influence a client's decision to purchase an Earthquake Policy.

- The client's geographical location. What is the risk of earthquake activity where a homeowner lives?
- A home's age. Newer homes may meet higher "seismic" standards, meaning they are constructed to withstand more earthquake activity.
- The materials used in the construction. Wood-framed homes, for example, are more flexible than homes constructed of brick.
- The height and number of stories to a house. Homes with multiple stories are at greater risk of earthquake damage than are single-story homes. (11:22)

Earthquake Policy, Earthquake Endorsement, or no coverage at all? It's a discussion you may need to have with your clients, particularly if they live in high-risk locations.

## LESSON 6.3 THE EARTHQUAKE ENDORSEMENT

### ACTIVITY: C. A. T. COVERAGE

One day, while spending a relaxing weekend at home, the Brown family was in their den playing a game when they felt everything in their house move and shift. They realized that an earthquake had just happened. Luckily, there was no permanent damage to their home or property. But, the incident caused the Brown family to realize they lived close to the New Madrid fault line and that they should, perhaps, reevaluate their earthquake coverage.

1. The Brown family got lucky this time, but what would be covered under their current Homeowners' Policy?

*The unendorsed Homeowners' Policy does not cover earthquake damage, but will cover fire damage that could have potentially been caused by the earthquake.*

2. The Brown family soon realized they might need an Earthquake endorsement. What would be covered by the endorsement in the event of a major earthquake?

*You can add earthquake coverage to your Homeowners' Policy. This will cover repairs to your home minus the deductible.*

3. If the Brown home was destroyed by a fire that was caused by an earthquake, would they have coverage under the Earthquake policy?

*Fire is not a peril on the Earthquake policy or endorsement, it is a covered peril in the Homeowners' Policy.*

## LESSON 6.4 INTRODUCTION TO FLOOD INSURANCE

### NOTES GUIDE

Our focus in this lesson is the catastrophic exposure of flood. By the end of this lesson, you will be able to explain national and private options for flood insurance.

What is the nation's most common natural disaster?

*Flood is the nation's most common natural disaster. (0.16)*

Private insurers have found it too expensive for the insurance industry to stand alone in making flood insurance available. Federal assistance comes in the form of an insurance program known as what?

*The National Flood Insurance Protection Program (NFIP) (0.29)*

What are the purposes of the NFIP?

1. to allow for the transfer of some of the financial risk for flood damage to the federal government through access to flood insurance.
2. to develop and regulate floodplain standards. (2:09)

Flood maps show the base flood elevation. According to the Federal Emergency Management Agency, **base flood elevation** (or BFE) is the computed elevation to which floodwater is anticipated to rise during the base flood.

If a BFE describes a 100-year floodplain, that doesn't mean a flood that occurs once every 100 years. Instead, it means an area that has a 1% or greater chance of flooding in any year with flooding levels equal to or greater than the year before.

So, why is an understanding of the 100-year floodplain important to property owners and insurers? If clients ask you which is a greater threat to their home—fire or flood—what would your answer be?

Statistics gathered by FEMA show that during a 30-year mortgage period, "homes in a 100-year floodplain are 26 times more likely to incur damage from a flood than from a fire." (3:58)

Property owners seeking federally-backed mortgages for properties located in a floodplain are required to purchase flood insurance. (4:12)

## LESSON 6.4 INTRODUCTION TO FLOOD INSURANCE

The National Flood Insurance Program (NFIP) policy does not include loss of use to reimburse costs like temporary housing and increased costs of living. This lack of coverage may require having a frank discussion with clients. If homes flood, there is also no coverage available for:

- business interruption expense,
- basements that have been converted into living spaces. (9:47)

However, refrigerators, decorative wall and window treatments, electronics, electrical systems, water heaters, freezers, washers and dryers, and other furniture may be covered.

### Other Flood Insurance Options

Briefly describe each option below.

Name	Description
Write-Your-Own program (W.Y.O.)	<i>an insurance company writes policies through their agencies and processes the claims for expense allowances. The federal government pays the claims. (10:25)</i>
Specialty Programs	<i>Any private, high-premium, high-deductible product that comes with coverage for loss of use. (11:50)</i>
Excess flood insurance	<i>allows policyholders to add excess coverage above their primary flood policy. (12:14)</i>
Difference-in-Condition forms	<i>used to provide coverage for very costly commercial properties which can be damaged under unusual and unique circumstances. (13:12)</i>

For the insurance professional, it is important to understand both federal and private options for covering flood-related loss and the limitations of those options.

## LESSON 6.4 INTRODUCTION TO FLOOD INSURANCE

### ACTIVITY: HOME ON THE PLAIN

Have you ever watched the movie, “Home Alone?” Most people realize during the movie that much damage is rendered to the home. Wind knocks out the power to the home in the movie and causes the family to oversleep and ultimately leave a young sibling alone. Many other weather related damages can occur to a home. Which of the following scenarios would most likely cause the homeowners to require flood insurance?

Scenario	Flood Insurance: Yes or No?
Alicia purchased her home on the edge of a beautiful lake.	<i>Alicia is most likely in a flood plain and would require flood insurance.</i>
Jack owns a hunting cabin in the mountains at a high elevation.	<i>Jack's home is out of the flood plain and should not require flood insurance but he can still purchase flood insured as an added protection.</i>
Jared purchased a home in the Gulf below Baton Rouge, Louisiana.	<i>Most of the Gulf is identified as a floodplain and would require flood insurance.</i>
The Smith family purchased a home that was identified on a map by the Federal Emergency Management Agency as a 100- year flood zone.	<i>This means that the home is in an area that has a 1% greater chance of having a flood. 1% is the amount that FEMA determines that would require flood insurance.</i>

**LESSON 6.5 FLOOD INSURANCE: WHY BUY IT?****NOTES GUIDE**

People often have no idea that they or their property are at risk because they don't live in areas with historical records of flood events. They may think floods only happen to people who live in flood zones.

\_\_\_\_ 70 \_\_\_\_ % of flood claims are made by property owners who reside in flood zones.

\_\_\_\_ 30 \_\_\_\_ % of flood claims are made by property owners who reside outside flood zones.  
(0:37)

Because flood risk changes over time, FEMA reviews and updates flood zone maps regularly. Flood Insurance Rate Maps show areas of "high," "moderate," and "low" flood risk.

Look at the example of a Special Flood Hazard Area map on the next page.

Zones labeled with the letter "A" are \_\_\_\_ high-risk zones \_\_\_\_\_. Areas in zone A that are part of the National Flood Insurance Program MUST have \_\_\_\_ flood insurance \_\_\_\_\_.  
(4:42)

Zones labeled with the letter "V" are also \_\_\_\_ high-risk zones \_\_\_\_\_, but these locations are in coastal areas. Once again, areas in this zone that are part of the National Flood Insurance Program MUST have \_\_\_\_ flood insurance \_\_\_\_\_. (4:57)

Zones labeled with the letters "B," "C," and "X" are in \_\_\_\_ moderate \_\_\_\_ to \_\_\_\_ low-risk areas \_\_\_\_\_. Flood insurance is not required, but is \_\_\_\_ available \_\_\_\_ to property owners and renters in these zones if their communities are part of the National Flood Insurance Program. (5:12)

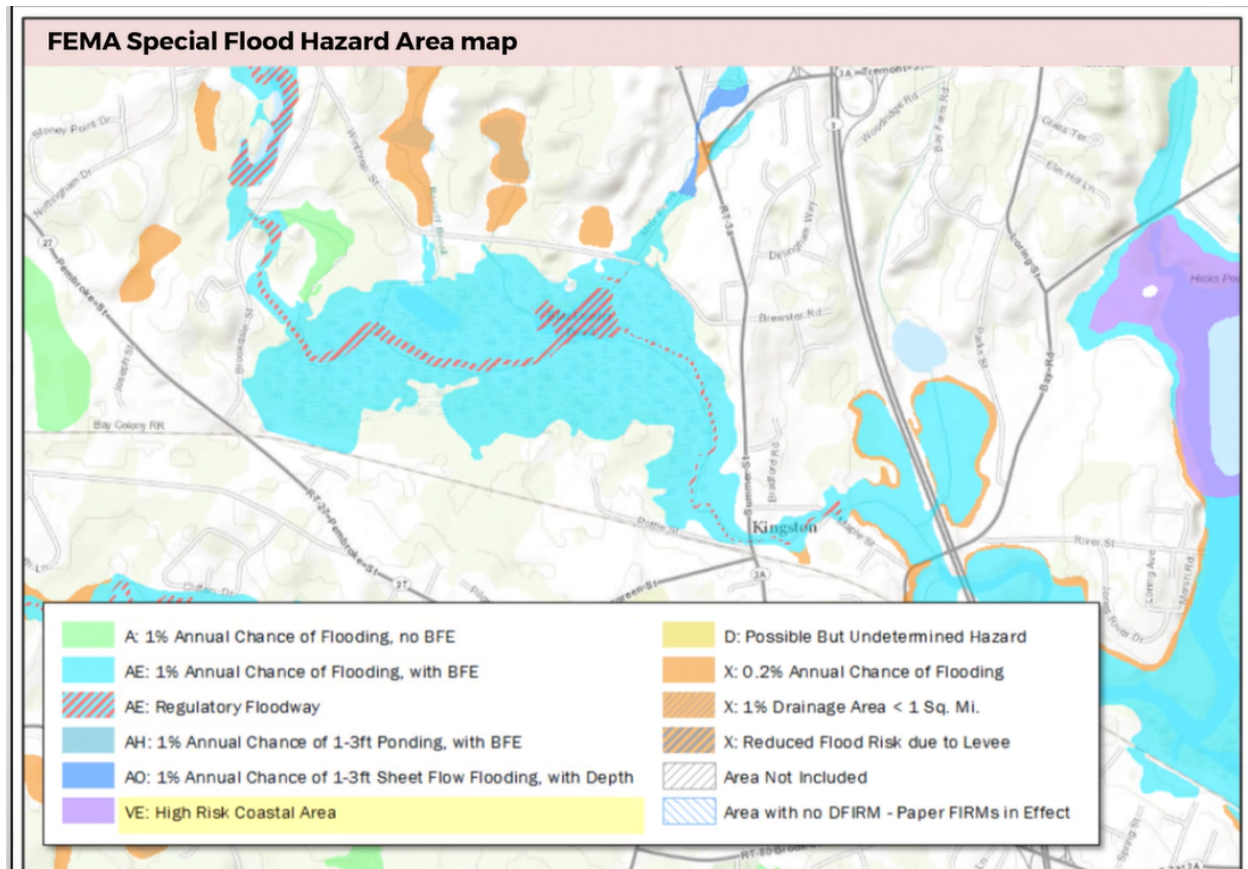
Many factors can lead to changes in the size and impact of flooding events, including \_\_\_\_ population \_\_\_\_ growth and \_\_\_\_ development \_\_\_\_\_. (5:30)

Homeowners have flood-insurance options, and given the existing and growing risk, you may need to prepare a solid answer should they ask, "Why buy flood insurance?"

**LESSON 6.5 FLOOD INSURANCE: WHY BUY?**

## ACTIVITY: WHERE WOULD YOU BUILD?

Look at the FEMA map below and answer the following questions.



- Which zones are the most likely to be flooded and required NFIP Flood Insurance?  
*A, AE, AH, AO, VE zones which have a 1% or greater annual chance of flooding.*
- What is BFE?  
*Base Flood Elevation: The elevation of surface water resulting from a flood that has a 1% chance of equaling or exceeding that level in any given year.*
- Which zones have the lowest risk of flooding?  
*In the map, X has the lowest risk of flooding. Other low risk zones not shown in the map are B & C.*
- The area, "X," has a reduced flood risk due to a levee. Does this eliminate the need for flood insurance?  
*No, the levee can break and still cause flooding.*

## LESSON 6.6 TORNADO AND WILDFIRE

### NOTES GUIDE

Every state in the U.S. is affected by severe weather or its consequences. Tornadoes occur in the U.S. more than anywhere else in the world.

Scientists rate each tornado with an Enhanced Fujita scale measurement, or EF, that indicates its approximate wind speed. (1:43)

The wind speed of an EF0 tornado, which is between 65 and 85 miles per hour, is powerful enough to tear off tree branches and send debris crashing through windows. (2:01)

The winds of an EF5 tornado can reach speeds near 300 miles per hour. Such speeds can rip asphalt from roads, shred homes, and turn motor vehicles and other debris into airborne missiles. This flying debris is actually the greatest threat to life. (2:14)

Data collected by the National Oceanic and Atmospheric Administration, or NOAA, show that a single tornadic event can result in property damages exceeding \$2 billion, and each tornado season generates hundreds of tornadoes. (2:33)

As an insurance professional, you always have your clients' needs in mind. If your clients live in geographical locations that are susceptible to the powerful and damaging storms that can also trigger tornadoes, you will want to discuss such exposures with your clients.

Which Homeowners' Policy would provide the most coverage for a client's Dwelling and Other Structures when there is a possible exposure to tornadoes?

*On the HO-3 Special form, the Coverage A (Dwelling) and Coverage B (Other Structures) coverages are insured with Open Perils, which would include tornadoes. (3:15)*

Enhanced Fujita Scale (EF-Scale)	
EF0	65 to 85 MPH
EF1	86 to 110 MPH
EF2	111 to 135 MPH
EF3	136 to 165 MPH
EF4	166 to 200 MPH
EF5	201+ MPH

## LESSON 6.6 TORNADO AND WILDFIRE

What is a **Wildfire Urban Interface (WUI)**?

*A WUI is where human-made structures border or mix with nature, and some of those natural areas have biological and geographical features that increase the risk of wildfire. (4:45)*

In the past 30 years, the number of wildfires affecting areas as large as 50,000 acres has increased. Not only are there more fires that affect broader areas, but the fires have become increasingly intense, and the costs required to reduce risks, protect life and property, and fight fires have risen sharply. In recent years, firefighting costs alone have exceeded \$1 billion annually.

The USDA Forest Services produces a map showing the wildfire hazard potential across the U.S. When you look closely at their Wildfire Hazard Potential map, you see that almost every part of the U.S. is at risk.

Areas at very high risk are predominantly in the Rocky Mountain states, Arizona, Nevada, and the length of the West Coast.

The Insurance Services Office issues fire score ratings to measure how well local fire departments can protect local communities and homes. Insurance companies use these scores to help establish home insurance rates.  
(7:04)

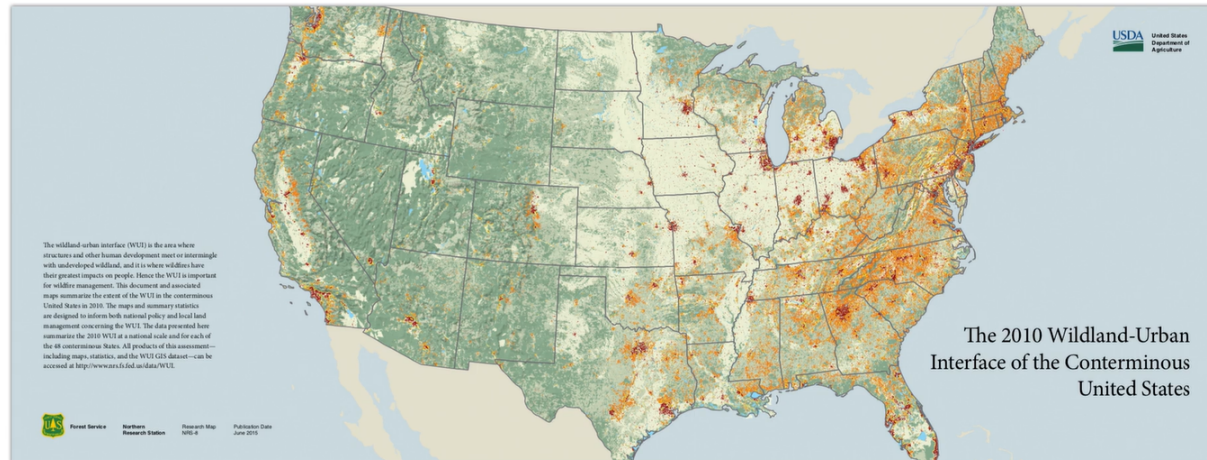
How can you, as an insurance professional, apply your understanding of wildfires to help your clients?

- Take time to determine which of your clients is most vulnerable to property damage due to wildfire activity. (8:13)
- Speak to clients about clearing brush within 100 feet of their properties. (8:35)
- Ask your clients to consider the building materials used in the construction of their homes. (9:04)
- Discuss preparedness, including knowing evacuation routes. (9:18)
- Instruct them to take important documents, like passports or birth certificates, when evacuating. (9:50)

## 6.6 TORNADO AND WILDFIRE

### ACTIVITY: WILDLAND-URBAN INTERFACE

Many homes today live near a wildland-urban interface. Almost one-third of U.S. homes are in these areas.



While wildfires are increasingly becoming a common occurrence, what are five things you learned in the video that can help with wildfire prevention?

1. *Build your home away from wildland areas.*
2. *Keep piles of brush away from your home.*
3. *Fuel tanks should be kept well away from structures.*
4. *Install appropriate landscaping, water sufficiently, and remove trees near homes.*
5. *Build your home with proper building materials.*