



STUDENT LEARNING GUIDE

MODULE 3

Insuring Personal Residential

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?
2. How is the Dwelling Policy more advantageous to some homeowners?
3. When is insurance coverage a requirement for a homeowner?

LESSON 1.1 THE DWELLING POLICY – ELIGIBILITY**NOTES GUIDE**

There are two approaches to insuring personal residential exposures.

A.

B.

In this lesson, we're focusing on the Dwelling Policy.

A dwelling policy only insures for _____
and does not provide _____ or _____.

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

A.

B.

C.

D.

Why are dwelling policies so significant for many customers?

Coverage can be more _____ on a dwelling policy, but _____
guidelines are broader.

LESSON 1.1 THE DWELLING POLICY – ELIGIBILITY

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

What is an insurable risk?

Why is it important to a homeowner to be considered eligible and accepted as an insurable risk?

What perils, or causes of loss, do you think are covered in a dwelling policy?

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

- Used solely for _____ with no more than five _____.
- A structure that has up to _____.
- A dwelling with no more than four _____ and which may be in a _____, or
- A dwelling _____.
- A _____ or _____ 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 _____ and must be situated in a _____ 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***:

habitation: the state of living in a particular place.

There are three common forms of occupancy. They include:

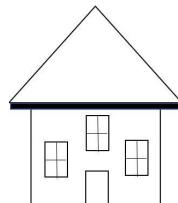
- A. habitation by _____,
- B. habitation by _____, and
- C. habitation by _____.

Let's Review

- A _____ 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 _____ are not as strict as those for a _____.
- Many of the covered _____, 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 _____ in a Dwelling Policy.
- A _____ is a house's structure and things attached to that structure, such as garages, decks, or porches.
- A dwelling can have up to _____ units or apartments.
- A dwelling can be a mobile home or trailer house, as long as it is situated in a _____ location that is described in the policy Declarations Page and has only _____. 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 _____, _____, _____, 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		
Dwelling used solely as an insurance office		
A duplex rented to two families		
A dwelling rented to six college friends		

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:

B. The Dwelling Policy Form

Form	Coverage	Used for
Basic Form (DP-1)		
Broad Form (DP-2)		
Special Form (DP-3)		

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 unrepairs hail damage.

C. Endorsements:

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

ISO Dwelling Policy (DP3)

roof drain, gutter, downspout or similar fixtures or equipment;

(8) Any of the following:

- (a) Wear and tear, marring, deterioration;
- (b) Mechanical breakdown, latent defect, inherent vice or any quality in property that causes it to damage or destroy itself;
- (c) Smog, rust or other corrosion, mold, wet or dry rot;**
- (d) Smoke from agricultural smudging or industrial operations;
- (e) Discharge, dispersal, seepage, migration release or escape of pollutants unless the discharge, dispersal, seepage, migration, release or escape is itself caused by a Peril Insured Against named under

ISO Special Provisions Form for Texas

operation.

PERILS INSURED AGAINST

For Form DP 00 03, Paragraph A.2.c.(8)(c) is replaced by the following:

- (c) Smog, rust or other corrosion, wet or dry rot;

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

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

Dwelling Policy forms do not provide automatic coverage for _____ unless a _____ is shown in the Declarations Page.

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 _____, understand the _____ in policies, and know how to protect clients against _____.

Why is the Homeowners' Policy called a "package"?

_____ rules, _____ 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.

_____ for a Homeowners' Policy are _____ than those used for a Dwelling Policy and consider specific details like:

Eligibility guidelines may _____ premium, _____ premium, or _____ 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
	HO-2, HO-3, HO-5, and HO-8.	
	HO-4	
	HO-6	

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

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?

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?
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?
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?
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?

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	
HO-3, Special Form	
HO-4, Contents Broad Form also known as a Tenant or Renter's Policy	
HO-5, Comprehensive Form	
HO-6, Unit-Owners Form also known as the Condo Policy	
HO-8, Modified Coverage Form	

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.	
2. A client has just rented an apartment and filled it with new, expensive furniture and technology.	
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.	
4. A client has just purchased a condo as his new residence.	
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.	
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.	

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:

The Agreement

Definitions

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:	There are six coverage parts provided under the Homeowners' Policies—Coverages A through F. They are:
	<p><i>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.</i></p>

Perils Insured Against**Additional/Supplementary Coverages**

LESSON 1.5 COMMON POLICY STRUCTURES

Exclusions

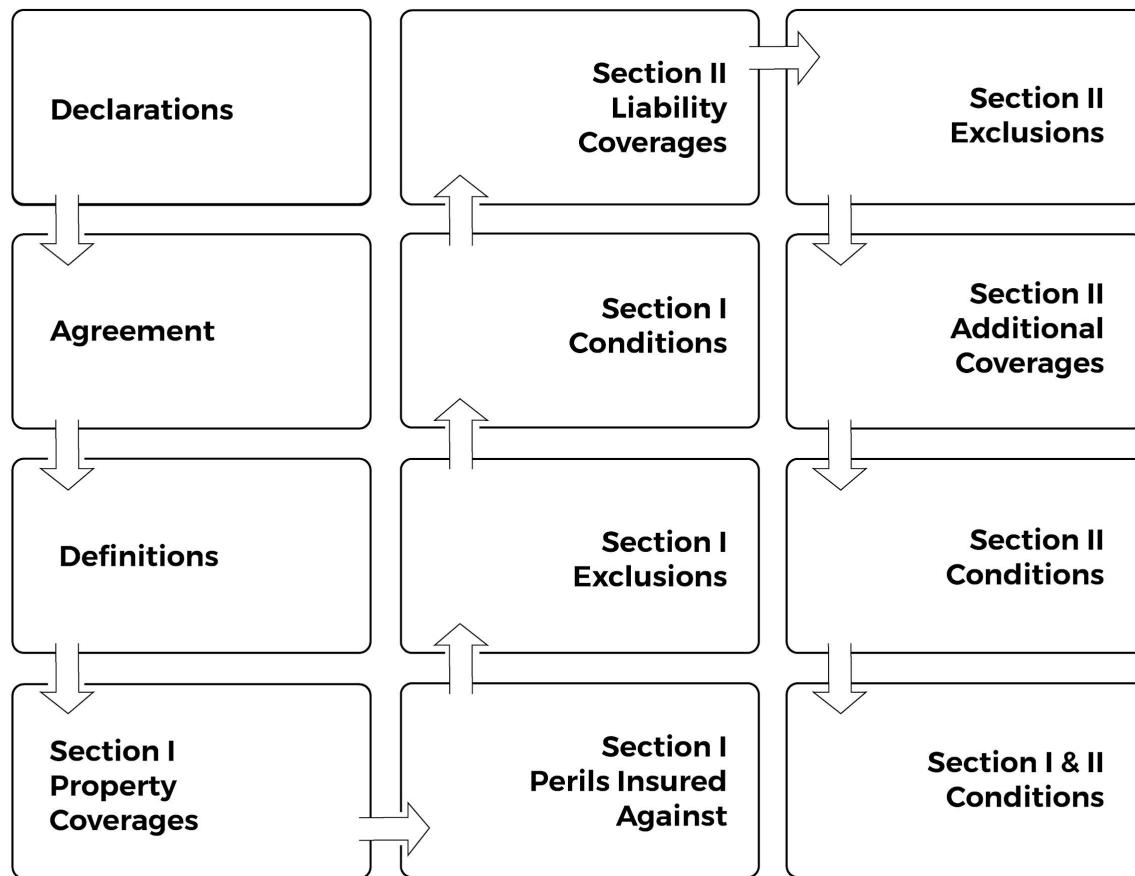
Conditions

Endorsements

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		
2. Agreement		
3. Coverages		
4. Exclusions		
5. Conditions		
6. Damage or Loss		
7. First Page of Policy		

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?

LESSON 1.6 UNDERSTANDING THE DECLARATIONS PAGE AND AGREEMENT

NOTES GUIDE

The Declarations Page lists the _____ of coverage.

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

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)																											
INSURED Joe Brown & Janet Brown 3356 Superman Drive Austin, TX 76502		TYPE: New Policy																									
ADDITIONAL INSURED n/a		MORTGAGEE: ACME Bank and Mortgage ISAOA/ATIMA 501 Loan Way Houston, TX 77016																									
POLICY INFORMATION Policy Number: HTX00463 15 29 95A Policy Effective Date*: 03/27/2020 12:01 am Policy Expiration Date*: 03/27/2021 12:01 am <small>*Standard time zone at property location</small>																											
PROPERTY LOCATION (Residence Premises) Address: 3356 Superman Drive, Austin TX 76502 Policy Type: Homeowner HO 00 03 Year Built: 1980 Square Footage: 2000 Constructions: Brick Veneer																											
Policy Coverage <table> <tr> <td>Coverage A – Dwelling</td> <td style="text-align: right;">Limits</td> </tr> <tr> <td>Coverage B – Other Structures</td> <td style="text-align: right;">\$250,000</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>Coverage C – Personal Property</td> <td style="text-align: right;">\$25,000</td> </tr> <tr> <td>Coverage D – Loss of Use</td> <td style="text-align: right;">\$125,000</td> </tr> <tr> <td>Coverage E – Personal Liability</td> <td style="text-align: right;">\$75,000</td> </tr> <tr> <td>Coverage F – Medical Payments to Others</td> <td style="text-align: right;">\$500,000</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>Loss</td> <td style="text-align: right;">Wind/Hail</td> <td style="text-align: right;">Theft</td> <td style="text-align: right;">Hurricane</td> </tr> <tr> <td>Deductible:</td> <td style="text-align: right;">\$2500</td> <td style="text-align: right;">1%</td> <td style="text-align: right;">\$5,000</td> </tr> </table>		Coverage A – Dwelling	Limits	Coverage B – Other Structures	\$250,000	<hr/>		Coverage C – Personal Property	\$25,000	Coverage D – Loss of Use	\$125,000	Coverage E – Personal Liability	\$75,000	Coverage F – Medical Payments to Others	\$500,000	<hr/>		Loss	Wind/Hail	Theft	Hurricane	Deductible:	\$2500	1%	\$5,000		
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Deductible:	\$2500	1%	\$5,000																								
Endorsements: HO 04 20 HO 04 54 HO 04 90 HO 04 98 HO 24 82																											

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		

Note:
Coverage B – Can be increased by endorsement
Coverage C – Can be increased or decreased
Coverage D – Can be increased
Coverage E – Can be increased up to \$500,000
Coverage F – Can be increased up to \$5,000

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?

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?

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?

What?

When?

Where?

How?

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”:
- “We,” “us,” and “our”:

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?

Define “Bodily injury”:

LESSON 1.7 THE HOMEOWNERS' POLICY DEFINITIONS (PART I)

Define “Business”:

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

It is important to keep in mind that the purpose of the Homeowners’ Policy is to afford coverage for liability arising from _____.

The policy is not designed to provide protection for most _____ activities, although additional business-related coverage is available through _____ 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?

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.		
Jill keeps her nephew while her brother, David, is at work. She is provided food and is paid \$100 per day.		
Curtis likes to cook brisket in his smoker on the weekends. He provides meals for the elderly people in his neighborhood.		
Linda keeps three teacher's children who are ages 1–3 in her home each day. Each teacher pays her \$250 per week.		
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.		

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?

Who can you think of that might be an insured?

What does the “insured location” refer to?

How does the ISO Homeowners’ Policy identify the location or locations for which the policy extends coverage? There are eight parts to this definition.

LESSON 1.8 THE HOMEOWNERS' POLICY DEFINITIONS (PART II)

Define "Motor Vehicle":

Define "Occurrence":

Define "Property damage":

Define "Residence employee":

Define "Residence premises":

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.		
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.		
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.		
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.		

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?
2. How is the Homeowners' Policy more advantageous to some homeowners?
3. When is insurance coverage a requirement for a homeowner?

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.



Coverage A Dwelling also applies to:

A.

B.

Notice that the Homeowners' Policy _____ cover _____.

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

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 _____ to other structures on the “residence premises” that are _____ to the main dwelling.

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

-
-
-

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?

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

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 _____.

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

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 _____ 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?

Coverage C provides protection for personal property. How would you define Personal Property?

1. The first section in Coverage C Personal Property is _____.
This part of the policy states that personal property is covered while owned or used by an "insured" _____.
2. The second section in Coverage C is _____.
The Homeowners' Policy limits coverage for property that is usually located at another location such as the "insured's" _____ residence, a _____ home, or at a _____ facility. In these cases, only _____ of the Coverage C amount (or \$1,000 whichever is greater) is available to cover a loss at these properties.

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 _____.

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 _____.
- The limit for watercraft and their trailers is _____.
- The limit for property used for business and stored on premises is _____.
- The limit for stolen jewelry, watches, and furs is _____.

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 _____.

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 _____.

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?

-

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			
Detached Garage (Rented)			
Pool House for Guests			
Heirloom Jewelry			
Cash			
Personal Belongings			
Boat and Trailer			
Exotic Fish Tank and decorative accessories.		(important note that water is not covered per Coverage C - Personal Property - Property Not Covered)	
Exotic Fish			

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 _____ should the home become uninhabitable because of a _____.

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.

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.

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?

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

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
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 of 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
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		

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	
Reasonable Repairs	
Tree, Shrubs, and Other Plants	
Fire Department Service Charge	

LESSON 2.4 HOMEOWNERS' POLICY SECTION I: ADDITIONAL COVERAGES

Coverage	Description
Property Removed	
Credit Card, Electronic Fund Transfer Card Or Access Device, Forgery, And Counterfeit Money	
Loss Assessment	
Collapse	

LESSON 2.4 HOMEOWNERS' POLICY SECTION I: ADDITIONAL COVERAGES

Coverage	Description
Glass or Safety Glazing Material	
Landlord's Furnishings	
Ordinance or Law	
Grave Markers	

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		
Personal Property removed from the residence to spare it from a wildfire is covered when it is damaged two days later by a flood?		
Trees that died after a drought are covered.		
Ordinance or Law coverage is included within Coverage A – Dwelling Limit of Liability.		

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

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

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
Freezing of plumbing, heating, A/C, or appliances	
Freezing, thawing, weight of water	
Theft in or to a residence under construction	
Losses occurring from vandalism or malicious mischief	
Mold, fungus, or wet rot	

LESSON 2.5 HOMEOWNERS' POLICY SECTION I: PERILS INSURED AGAINST

PERILS NOT COVERED TABLE (page 2)

Collapse caused by:	Notes
Wear and tear, inherent vice, mechanical breakdown, rust, rot, or smoke from industrial operations or agricultural smudging	
Pollution	
Shifting, settling, sagging foundations	
Damage caused by birds, rodents, and insects	

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 _____ resulting from a covered peril to personal property owned or used by an "insured."

When it comes to coverage for the personal property of the insured provided in a Homeowners' Policy, it is typically on a _____ 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.

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:

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	
14. Freezing	
15. Sudden And Accidental Damage From Artificially Generated Electrical Current (also known as a Power Surge)	

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.	
This peril does not include damage caused to the system or appliance which water escaped from.	
The peril does not include loss to electronic components or circuitry of computers or home entertainment systems.	
including the emission or puffback of soot, fumes or vapors from a boiler, furnace, or related equipment.	
Does not include damage to property if the dwelling has been vacant for more than 60 consecutive days immediately before the damage occurs.	
A conveyance.	
in or to a dwelling or structure under construction;	
meaning any contrivance used or designed for flight.	

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 _____ coverage for high risk _____.

What is an exposure?

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

An exposure may be excluded because:

Reason	Example

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	
2. Earth Movement	
3. Water	
4. Power Failure	

LESSON 2.6 HOMEOWNERS' POLICY SECTION I: EXCLUSIONS

Exclusion	Description
5. Neglect	
6. War	
7. Nuclear Hazard	

LESSON 2.6 HOMEOWNERS' POLICY SECTION I: EXCLUSIONS

Exclusion	Description
8. Intentional Loss	
9. Governmental Action	

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.

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)
Condition A  Insurable Interest and Limit of Liability	
Condition B  Deductible	
Condition C  Duties After a Loss	

LESSON 2.7 HOMEOWNERS' POLICY SECTION I: CONDITIONS

Condition	Explanation (Include how losses are paid if applicable)
Condition D  Loss Settlement	

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?

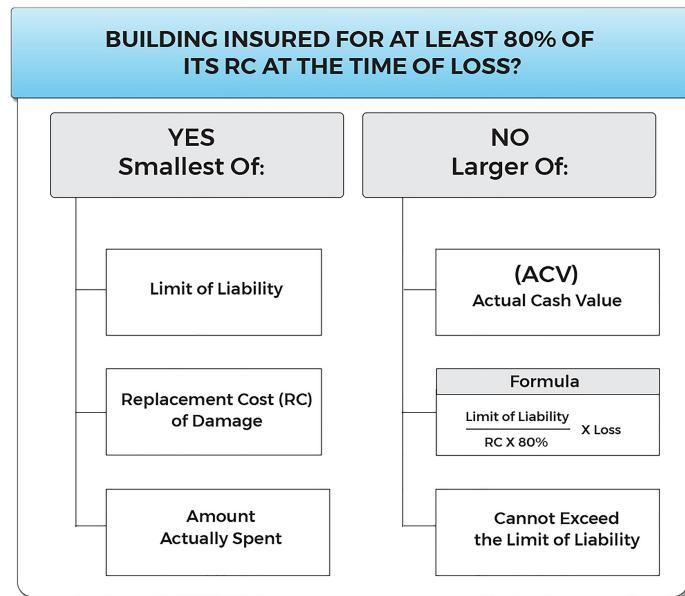
_____ are available to change actual cash value to replacement cost.

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

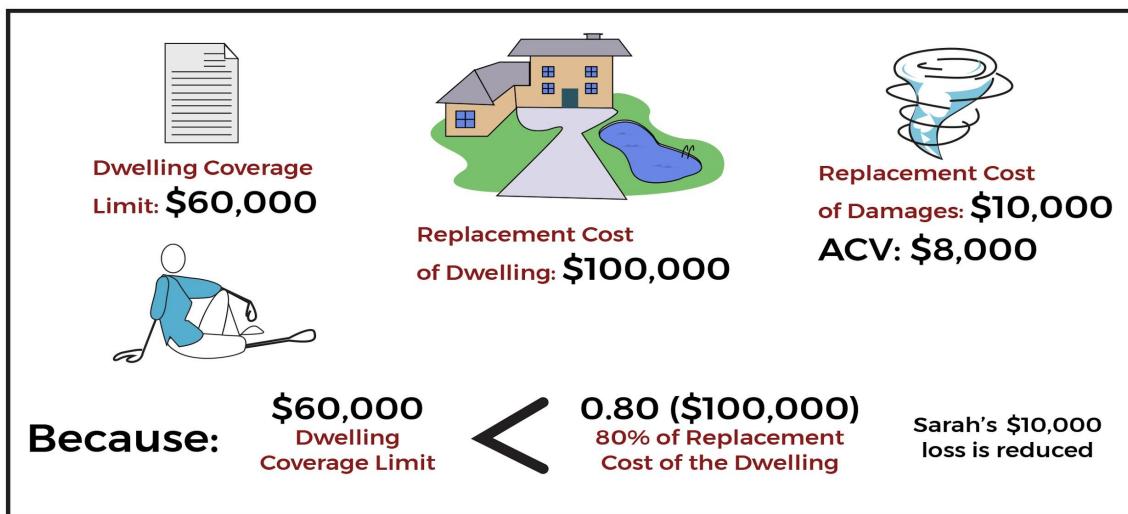
Under what circumstances?

_____ 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.

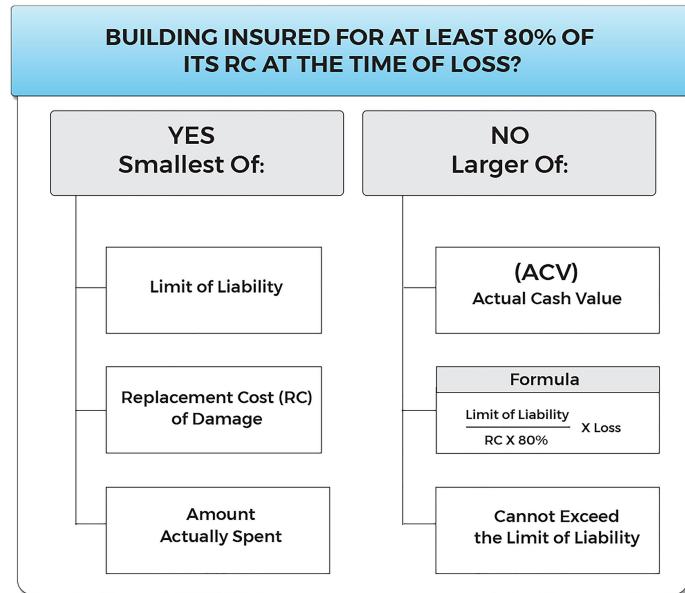


Because Sarah carried a Coverage A limit of liability less than 80% of the replacement cost, the \$10,000 loss will be reduced; however, because the ACV cost of the damaged property is greater than the formula reduction, the claim will pay the greater ACV of \$8,000 dollars.

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.



- 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?

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

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

How much will Frank be paid for damage to his kitchen?

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?

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

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

How much will Joan be paid for damage to her home?

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?

Step 2: Is the building coverage limit less than 80% of the replacement cost?

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

Step 4. Use the equation to calculate the penalty.

Step 5: is the ACV of the damage property more than the penalty amount?

How much will Emilio be paid for damage to his home?

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?
2. Can you remember what the word “limits” means from the personal auto policy coverage?
3. What is a liability claim?

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?

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

What is liability coverage, in practical terms?

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)				
INSURED Joe Brown & Janet Brown 3356 Superman Drive Austin, TX 76502	TYPE: New Policy			
ADDITIONAL INSURED n/a	MORTGAGEE: ACME Bank and Mortgage ISAOA/ATIMA 501 Loan Way Houston, TX 77016			
POLICY INFORMATION				
Policy Number: HTX00463 15 29 95A				
Policy Effective Date*: 03/27/2020 12:01 am				
Policy Expiration Date*: 03/27/2021 12:01 am				
<i>*Standard time zone at property location</i>				
PROPERTY LOCATION (Residence Premises)				
Address: 3356 Superman Drive, Austin TX 76502				
Policy Type: Homeowner HO 00 03				
Year Built: 1980				
Square Footage: 2000				
Constructions: Brick Veneer				
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			
Deductible:	Loss	Wind/Hail	Theft	Hurricane
HO 04 20	HO 04 54	HO 04 90	HO 04 98	HO 24 82
<i>This client increased the automatic Limit by paying additional premium</i>				

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:

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 _____.

Coverage F (Medical Payments To Others)

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

What are some examples of medical expenses?

Coverage F does *not* apply to _____ or _____ of the "insured's" household, other than

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

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

COVERAGE F – MEDICAL PAYMENTS COVERAGE FOR THOSE NOT SPECIFICALLY EXCLUDED	
WHO AND WHEN	
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 _____. Sometimes, parts of the coverage are given back through _____, and added _____.

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 "_____," or
- Off an "insured location" only if the recreational vehicle is designed as a _____ 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.

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 _____,
- _____ to others,
- used to carry _____ for a charge,
- OR used for any _____ purposes.

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 PICTONARY**

Using drawing tools and drawing tools and the table provided below, below, students will depict three scenarios from the video/lecture that depict three exclusions covered and three exclusions not covered.

Covered	Not Covered
1.	1.
2.	2.
3.	3.

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 _____ for intentional injury or property damage.

2. Business

The Homeowners' Policy _____ "bodily injury" or "property damage" arising from a _____.

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 _____ for use as a residence;
 2. rented _____ for use as a residence, with conditions; or
 3. rented _____ as an office, school, studio, or private garage.
- Coverage is provided for an "insured" under the _____ who has a _____, _____ "business" with _____.

3. Professional Services

"Bodily injury" or "property damage" that results from the rendering or failure to render professional services is _____ under the Homeowners' Policy.

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 _____ by an "insured," _____ to an "insured," or *rented to others* _____, and that is not an _____ is NOT covered.

5. War

"Bodily injury" or "property damage" caused either directly or indirectly by war and its consequences is _____.

6. Communicable Diseases

"Bodily injury" or "property damage" arising from the transmission of a communicable disease by an "insured" is _____.

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

E. COVERAGE E – PERSONAL LIABILITY AND COVERAGE F – MEDICAL PAYMENTS TO OTHERS: E. Coverage E – Personal Liability And Coverage F – Medical Payments To Others:	
<p> Key Exclusion:</p> <p>1. Expected Or Intended injury "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 E.1. 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> Key Exclusion:</p> <p>2. "Business"</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 E.2. 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 E.2 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 E.2.b. This Exclusion does not apply to the rental of an "insured location":</p> <ul style="list-style-type: none"> • On an occasional basis if used only as a residence • In part for use only as a residence, with conditions • In part as an office, school, studio, or private garage <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)

E. COVERAGE E - PERSONAL LIABILITY AND COVERAGE F - MEDICAL PAYMENTS TO OTHERS:	
E. Coverage E – Personal Liability And Coverage F – Medical Payments To Others:	
Key Exclusion: 3. Professional Services "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.
4. "Insured's" Premises Not An "Insured Location" "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"
5. War "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
6. Communicable Disease "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.
7. Personal Abuse, Corporal Punishment Or Or Physical Or Mental Abuse "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.
8. Controlled Substance "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>F. Coverage E- Personal Liability Coverage E does not apply to:</p> <p>1. Liability:</p> <ul style="list-style-type: none"> 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; b. Under any contract or agreement entered into by an "insured". However, this exclusion does not apply to written contracts: <ul style="list-style-type: none"> (1) That directly relate to the ownership, location"; or (2) Where the liability of others is assumed by you prior to an "occurrence"; unless excluded in a. above or elsewhere in this policy; 	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>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>	"Property damage" to property owned by an "insured."
<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>	"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>4. "Bodily injury" to any person eligible to receive any benefits voluntarily provided or required to be provided by and "insured" under any:</p> <ul style="list-style-type: none"> a. Workers' compensation law; b. Non-occupational disease law; or c. Occupational disease law; 	"Bodily injury" to any person eligible to receive any benefits voluntarily provided or required to be provided by an "insured" under specific laws.

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> <p>(1) Nuclear Energy Liability Insurance Association; (2) Mutual Atomic Energy Liability Underwriters; (3) Nuclear Insurance Association of Canada; 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 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 Definition 5.a. or 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)

COVERAGE F – MEDICAL PAYMENTS TO OTHERS WHAT COVERAGE F DOES NOT APPLY TO:	
1. To a “residence employee” if the “bodily injury”: <ul style="list-style-type: none"> a. Occurs off the “insured location”; and 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”
2. To any person eligible to receive benefits voluntarily provided or required to be provided under any: <ul style="list-style-type: none"> a. Workers’ compensation law; b. Non-occupational disability law; or 	A person eligible to receive benefits provided voluntarily or by specific laws
3. From any: <ul style="list-style-type: none"> a. Nuclear reaction; b. Nuclear radiation; or c. Radioactive contamination; all whether controlled or uncontrolled or however caused; or d. Any consequence of any of these; or 	A person who experiences “bodily injury” caused by a nuclear reaction, nuclear radiation, or radioactive contamination.
4. 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	
2. Your daughter, who is 18, embroidered ball caps for local baseball teams and is injured by the embroidery machine.	
3. Viruses such as Coronavirus transmitted by others	
4. A home invader is injured when you hit them with a bat to keep them from entering the home.	
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.	
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.	
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.	

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 Coverages. These are:

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:

One:

Two:

Three:

Four:

First Aid Expenses

3.4 HOMEOWNERS' POLICY SECTION II: ADDITIONAL COVERAGES

Damage to Property of Others

An insurance carrier will pay up to _____ for _____ when an "insured" causes damage to _____.

What exclusions apply to this section?

The company will not pay under Section II if:

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 _____ for "your" share of an assessment for a liability loss that caused _____ or _____ that is not excluded under Section II.

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. ?
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?
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?

3.5 CONDITIONS TO SECTIONS I AND II**NOTES GUIDE**

_____ 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.

A. Limit of Liability	
B. Severability of Insurance	
C. Duties After "Occurrence"	

3.5 CONDITIONS TO SECTIONS I AND II

D. Duties of an Injured Person, Coverage F (Medical Payments to Others)	
E. Payment of Claim, Coverage F (Medical Payments to Others)	
F. Suit Against Us	
G. Bankruptcy Of An “Insured”	
H. Other Insurance	
I. Policy Period	
J. Concealment Or Fraud	

3.5 CONDITIONS TO SECTIONS I AND II

The following conditions apply to BOTH Sections I AND II.

A. Liberalization Clause	
B. Waiver Or Change Of Policy Provisions	
C. Cancellation	
D. Nonrenewal	
E. Assignment	
F. Subrogation	
G. Death	

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)	
2. Suit against us	
3. Bankruptcy of an “insured”	
4. Concealment or fraud	
5. Limit of liability	

- 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?

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

How do you think this will affect Homeowners’ insurance?

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

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:

Professions:

Occupations:

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;	
(2) Volunteer activities for which no money is received other than payment for expenses incurred to perform the activity;	
(3) Providing home day care services for which no compensation is received other than the mutual exchange of such services; or	
(4) The rendering of home day care services to a relative of an "insured."	

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 on business coverages. Business Owners' insurance or Time Element insurance is not covered in the Homeowners' Policy. Read through the scenarios below and determine whether or not a Business Owners' Policy would be the client's best option.

1. Michael has a home business that he conducts in a shop on his property. He repairs and services motorcycles and lawn mowers and requires a 50-gallon gas tank for use in his business. He does this part-time and earns about \$100 per week.

Does Michael need a Business Owner's Policy? Explain.

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

Does Crystal need a business owner's policy? Explain

3. Jennifer runs a small photography business from her home and sometimes meets clients at event centers or in natural settings such as a park. She makes around \$300 per week taking pictures.

Does Jennifer need a business owner's policy? Explain

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

Section I Coverage A (Dwelling)	
Section I Coverage B (Other Structures)	These exclusions apply even when the cause of loss is unrelated to the “business” exposure.
Section I Coverage C (Personal Property)	

3.7 BUSINESS EXCLUSIONS AND COVERAGE ENDORSEMENTS

Business Exclusions in Section II

Section II Motor Vehicle Liability	
Section II Watercraft Liability	
Section II Personal Liability And Medical Payments to Others	There are several exceptions to this “business” exclusion that can be found in the policy.
Section II Professional Services	
Section II Additional Coverages Damages to Property of Others	

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

The Permitted Incidental Occupancies (Residence Premises) endorsement

The Landlord's Furnishings endorsement

Increased Limits On Business Property endorsement

The Business Pursuits endorsement

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.
- b. Wanda provides music lessons in her home, but she is also available to provide lessons in the client's home.
- c. Kerry has a shop building on his property where he repairs electronics and computers.
- d. Darla provides washer and dryer units for her duplexes.
- e. Linda sells cookware from her home and travels to shows. She keeps around \$3,000 in cookware inventory in her home.

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?
2. Why is it in the best interest of the insurance company to offer Umbrella Policies?
3. What is the main difference between an Umbrella Policy and a Hybrid Policy?

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

These policies are designed to provide _____ over primary coverage, also known as _____ coverages that have specific minimum limits of liability.

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

-

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.
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?
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?

4.2 UNDERLYING INSURANCE AND SELF-INSURED RETENTION

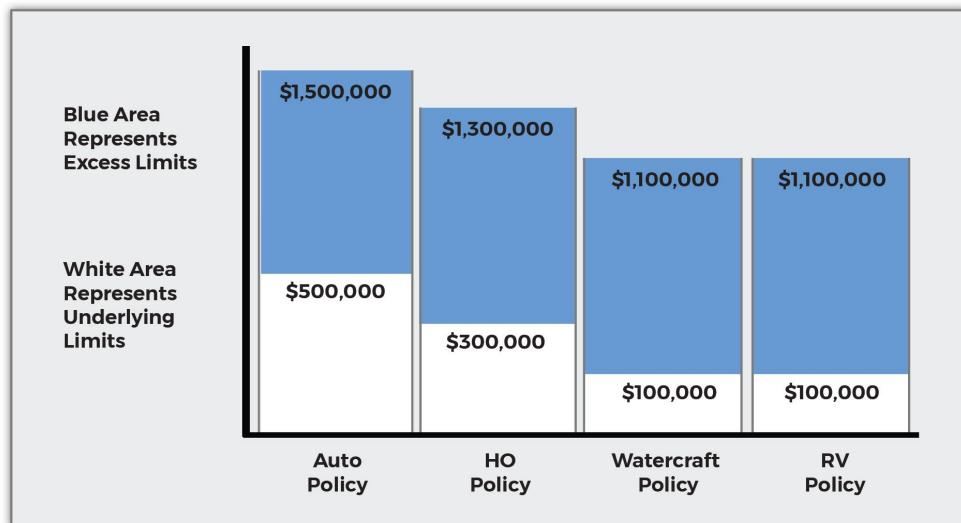
NOTES GUIDE

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

Define **underlying policy**.

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

- Underlying policies must be in place _____ an Umbrella, Excess, or Hybrid Policy can be issued.
- The _____ 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.
- The client must _____ their underlying insurance at the full limits stated in the Declarations Page.



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

4.2 UNDERLYING INSURANCE AND SELF-INSURED RETENTION

What is a **coverage gap**?

The ISO Personal Umbrella Liability Policy replaces the term “deductible” with the term _____.

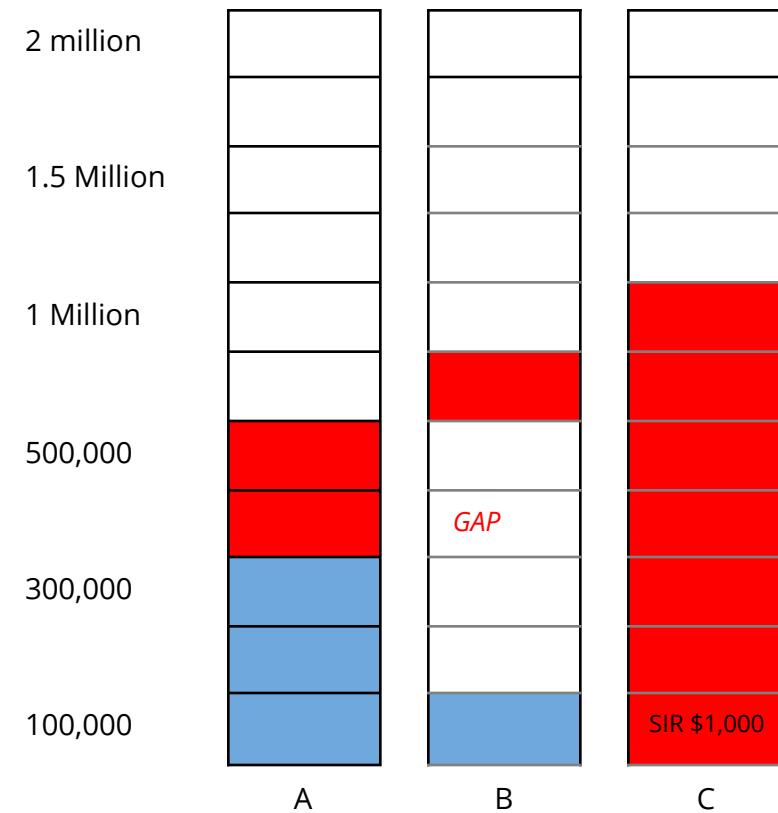
Umbrella, Excess, and Hybrid Policies are not designed to pay the first dollars in a claim. These policies kick in and pay _____ the first-dollar amounts have been paid by underlying insurance.

The _____ 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?

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?

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?

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?

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?

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?

Part	Similarities	Differences
The Dec Page		
The Agreement		
Definitions		

4.3 UMBRELLA POLICY STRUCTURE

Part	Similarities	Differences
Coverages		
Exclusions		

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

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

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

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:

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.

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 _____ the insurer promptly of any loss and cooperate in any investigation and settlement of any claim.

VI. General Provisions

A. Appeals

C. Bankruptcy of an Underlying Insurer

H. Policy Period and Territory

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

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 Post-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.

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.

CISR Students Action Plan for Review			
3 Units	Test Scores on 3 Units	Video and Study Guide Review	Goal Setting
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:		

CISR Students Action Plan for Retake			
3 Units	Test Scores on 3 Units	Video and Study Guide Review	Goal Setting
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?
2. What resources are available for homeowners to determine their risk for a catastrophic event such as an earthquake?
3. When is insurance coverage a requirement for a homeowner?

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?

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 _____ 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).

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 _____, coverage will NOT be applicable under the Homeowners' Policy.

There is an exception to the exclusion of motor vehicles. Coverage will be provided for a _____ that is not required to be _____ for use on public roads, or which is used _____ to service a residence.

LESSON 6.1 RECREATIONAL VEHICLES (PARTS I AND II)

A _____ is the only recreational vehicle that may be eligible for property coverage by an endorsement.

For recreational vehicles other than motorized golf carts, there is no _____ to the Homeowners' Policy to provide property coverage. As a result, a _____ is necessary for coverage.

Limited coverage for damage to _____ or _____ recreational vehicles is found under Section II Liability Coverages.

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 _____ as defined in the Homeowners' Policy?
- Does the vehicle fit the _____ of "motor vehicle liability"?
- What type of recreational vehicle is it? And,
- Does the "motor vehicle liability" exclusion, including its _____, apply to the loss?

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?

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.
ATVs All-Terrain Bikes, Dune Buggies, and Other Recreational Vehicles	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.
	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	
Snowmobile endorsement	
Incidental Low Power Recreational Motor Vehicle Liability Coverage endorsement	

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	
The unregistered golf cart is used on your property exclusively for upkeep	
Your golf cart is damaged in a collision	
Used while attending a golf tournament for a company-sponsored event	
Used as a registered vehicle to drive to the local store on public roads	

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?

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?

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?

What other related equipment is considered “watercraft” in this section?

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

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?

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:

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.

WATERCRAFT EXCLUSIONS			
COVERED OR NOT COVERED			
Type of Vessel	Owned	Borrowed	Rented
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	HO or Separate Policy?
<p>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?</p>	
<p>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?</p>	
<p>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?</p>	
<p>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?</p>	

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?

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

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

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

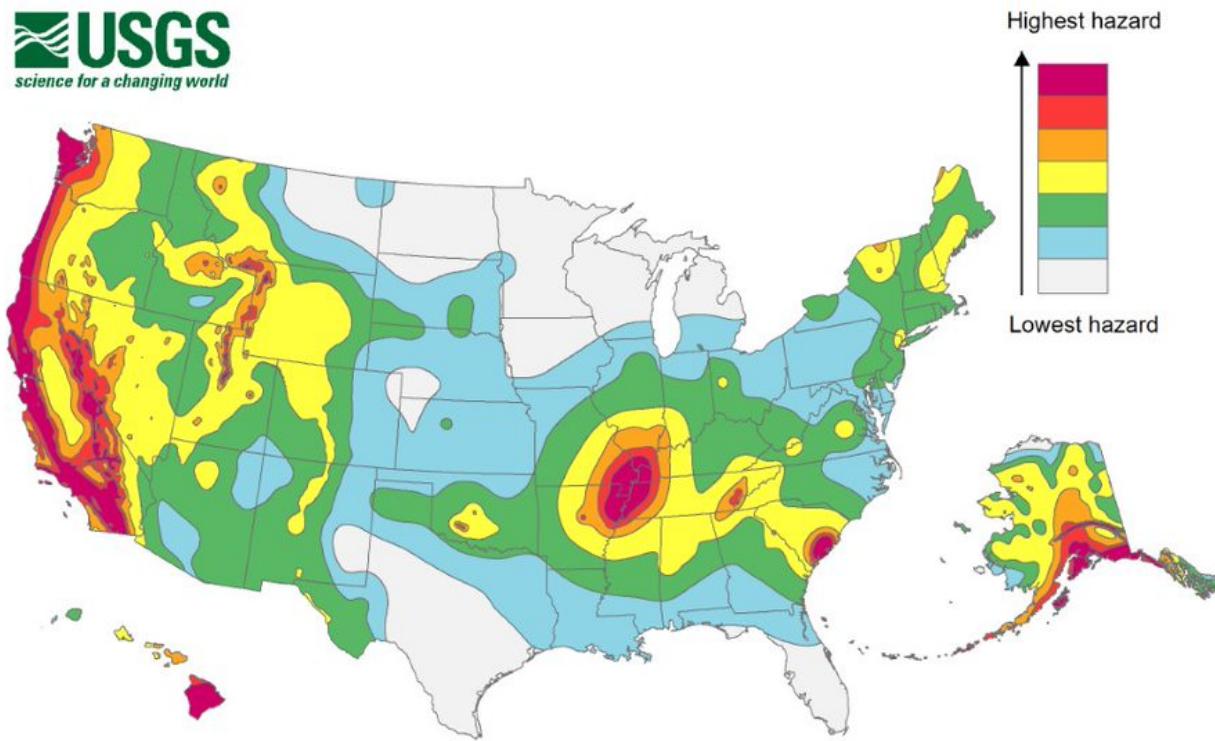
What resources are available to insurance professionals trying to understand the potential of a catastrophic event like an earthquake?

There is no definition of "earthquake" in a Homeowners' or Renters' Insurance Policy BECAUSE, _____ 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?

The Earthquake Endorsement

The endorsement, its forms, and its premiums vary by state, and not all _____ 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 _____ can be made available.

LESSON 6.3 THE EARTHQUAKE ENDORSEMENT

The Earthquake Policy

What is an Earthquake Policy designed to cover?

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

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

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

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?

What are the purposes of the NFIP?

1. to allow for the transfer of some of the _____ for flood damage to the _____ through access to flood insurance.
2. to develop and regulate _____ standards.

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 _____ more likely to incur damage from a flood than from a fire."

Property owners seeking federally-backed _____ for properties located in a _____ are required to purchase _____.

LESSON 6.4 INTRODUCTION TO FLOOD INSURANCE

The National Flood Insurance Program (NFIP) policy does _____ include _____ to reimburse costs like temporary _____ and _____. This lack of coverage may require having a frank discussion with clients. If homes flood, there is also no coverage available for:

- _____ expense,
- _____ that have been converted into _____.

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.)	
Specialty Programs	
Excess flood insurance	
Difference-in-Condition forms	

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.	
Jack owns a hunting cabin in the mountains at a high elevation.	
Jared purchased a home in the Gulf below Baton Rouge, Louisiana.	
The Smith family purchased a home that was identified on a map by the Federal Emergency Management Agency as a 100- year flood zone.	

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.

_____ % of flood claims are made by property owners who reside in flood zones.

_____ % of flood claims are made by property owners who reside outside flood zones.

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 _____. Areas in zone A that are part of the National Flood Insurance Program MUST have _____.

Zones labeled with the letter "V" are also _____, but these locations are in coastal areas. Once again, areas in this zone that are part of the National Flood Insurance Program MUST have _____.

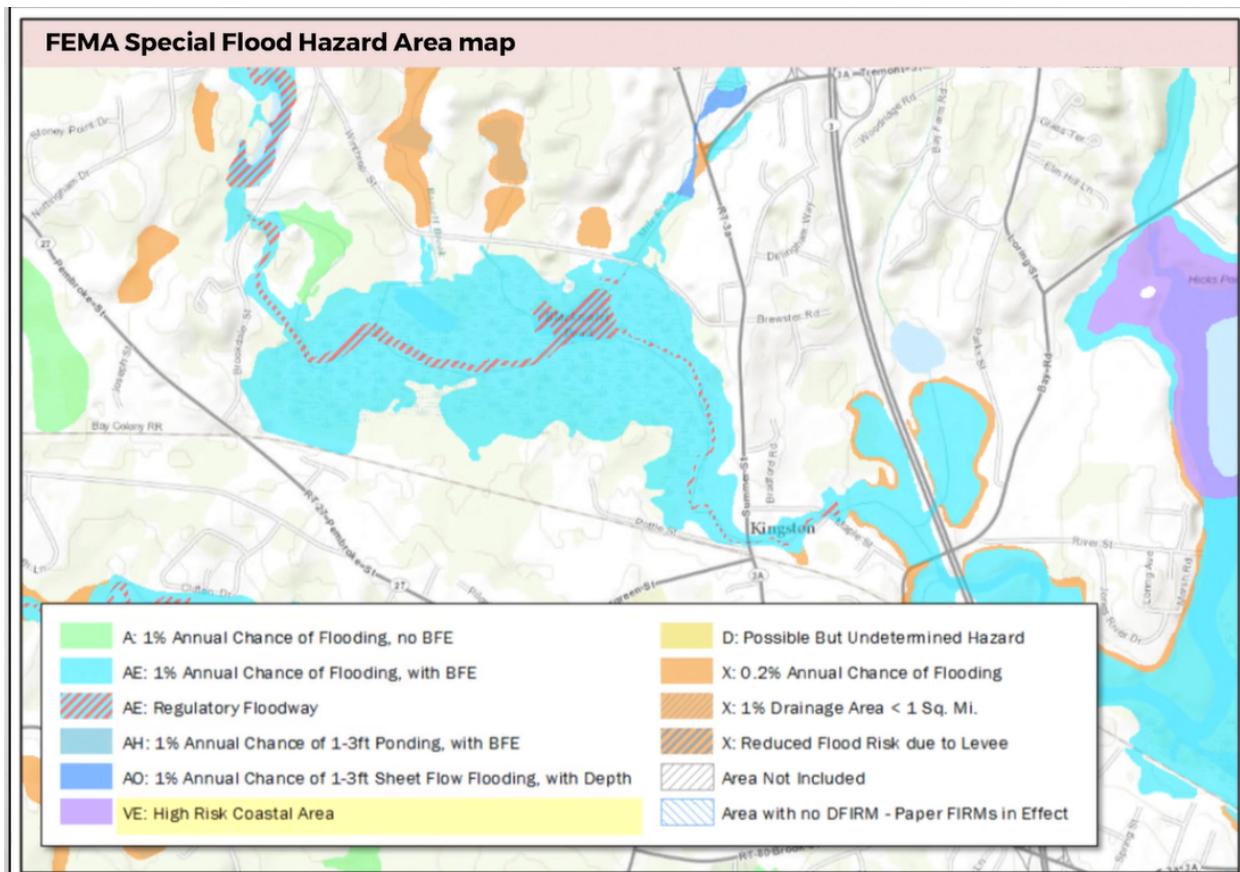
Zones labeled with the letters "B," "C," and "X" are in _____ to _____. Flood insurance is not required, but is _____ to property owners and renters in these zones if their communities are part of the National Flood Insurance Program.

Many factors can lead to changes in the size and impact of flooding events, including _____ growth and _____.

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.



1. Which zones are the most likely to be flooded and required NFIP Flood Insurance?
2. What is BFE?
3. Which zones have the lowest risk of flooding?
4. The area, "X," has a reduced flood risk due to a levee. Does this eliminate the need for flood insurance?

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 _____.

The wind speed of an EF0 tornado, which is between _____ miles per hour, is powerful enough to tear off tree branches and send debris crashing through windows.

The winds of an EF5 tornado can reach speeds near _____ 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.

Data collected by the National Oceanic and Atmospheric Administration, or NOAA, show that a single tornadic event can result in property damages exceeding _____, and each tornado season generates hundreds of tornadoes.

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.

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

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

LESSON 6.6 TORNADO AND WILDFIRE

What is a Wildfire Urban Interface (WUI)?

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 _____ areas, but the fires have become increasingly _____, 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 _____ 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 _____ 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 _____.

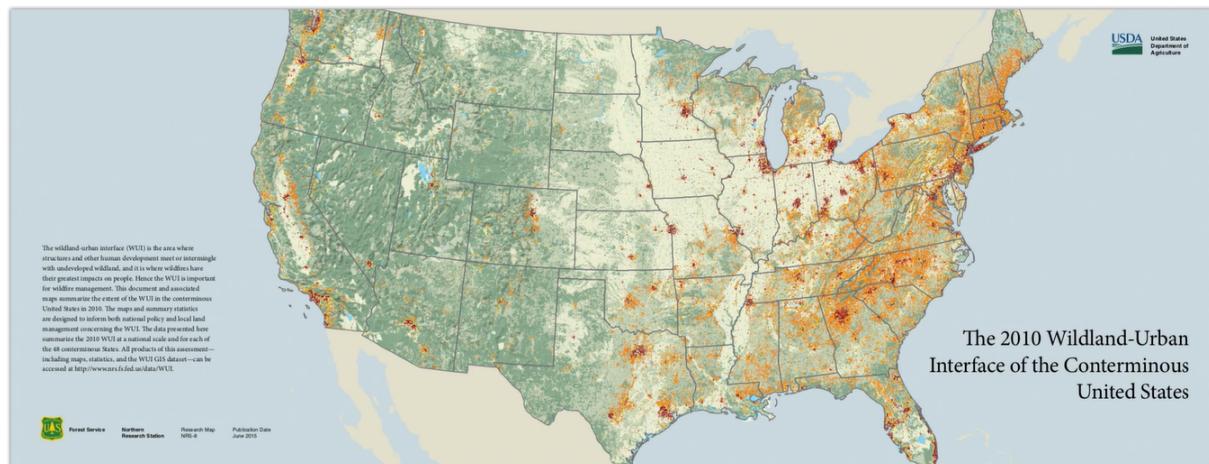
How can you, as an insurance professional, apply your understanding of wildfires to help your clients?

- Take time to determine which of your clients is _____ to property damage due to _____ activity.
- Speak to clients about clearing _____ within _____ of their properties.
- Ask your clients to consider the _____ used in the construction of their homes.
- Discuss _____, including knowing _____ routes.
- Instruct them to take important documents, like _____ or _____, when evacuating.

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?