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FIRE INSURANCE

Fires are an alarming cause of financial insecurity. The destruction of property values and the loss of human life can be a traumatic experience to families and businesses alike.

FIRE INSURANCE HISTORY

Fires and fire insurance have more than two hundred years of American history. The early fire marks of Benjamin Franklin's era still can be seen on some Philadelphia buildings. Early subscribers would pay fire-fighting companies in advance; in return they would receive a (a metallic logo) to put outside their building. Payments for fire marks supported the fire-fighting companies. If a protected property had a fire, the appropriate fire-fighting company was notified; once the fire mark was identified, the fire was fought.

During the early years of fire insurance, insurers drafted their own policies, and the contracts lacked uniformity. The contracts were lengthy and restrictive; numerous moral hazard clauses and other restrictive provisions were inserted in the contracts, which permitted insurers to deny claims; the contracts were cumbersome and difficult to understand. In 1873, Massachusetts became the first state to adopt a standard policy for the writing of fire insurance. New York passed a similar law in 1886.

The standard fire policy was later revised in 1918 and later in 1943. The 1943 New York Standard Fire Policy is now used in most states, and minor variations of it are used in the other states.

Two major advantages result from a standard policy, such as the Standard Fire Policy. First, loss-adjustment problems are reduced, since the possibility of two contracts with different policy provisions is reduced. Second, there are fewer legal difficulties, since the words, phrases, and provisions of the standard contract have been interpreted repeatedly by the courts and their meaning is known more precisely.

The SFP is an incomplete contract, and an appropriate form must be added to it. A form must be added because property has different characteristics, and the insurance needs of individuals and business firms vary widely. In recent years, the SFP has declined in importance.

Many states have passed laws that require insurance contracts to be more readable. In view of the trend towards readable contracts and package policies, the SFP has been eliminated as a separate contract for certain types of insurance, and its basic provisions are now incorporated into the newer contracts.

Despite its reduced importance the SFP remains an important document. The basic provisions of the SFP have been incorporated into the newer readable contracts. Many basic property insurance concepts were first legally defined in the SFP, for example, the principles of indemnity, insurable interest, actual cash value, and pro rata sharing of losses. Finally, the SFP is still used to insure commercial buildings and business property that do not qualify for coverage under the newer contracts.

DEFINITION OF FIRE

"Fire" is never defined in insurance policies, perhaps because its meaning is well established by the courts. First, there must be combustion or rapid oxidation that causes a flame or at least a glow. Thus, scorching, heating, and charring that occur without a flame or glow are not covered. Second, the fire must be hostile or unfriendly. A hostile fire is one that is unconfined and beyond designated boundaries. A friendly fire is one deliberately ignited and remaining within desired boundaries. It makes no difference if a fire begins as friendly and subsequently becomes hostile, or if a fire begins as hostile, if an insured is to collect for a fire loss, the proximate cause, or an intervening cause must be a hostile fire.

If water damage was sustained when the fire department put out a hostile fire, the proximate cause of the water damage would be the hostile fire, and this damage would be covered by a fire policy.

Fortunately for most property owners, fire insurance usually is purchased in packages specifying other related perils, so the legal issues confronted historically by insured purchasing only “fire” insurance should not be frequently encountered.

BASIC PROVISIONS OF THE STANDARD FIRE POLICY

Consideration

Policy Term

Persons Insured

The SFP covers the named insured and his or her legal representative. The named insured can be an individual, business association, or corporation. A party not specified, as a named insured has no legal right to receive a loss payment directly even though that party has an insurable interest in the property at the time of loss.

Limitations on recovery

- ❑ Face amount of the policy
- ❑ Actual cash value
- ❑ Amount to repair or replace the property with similar materials
- ❑ No allowance for increased cost of repair due to some ordinance or law
- ❑ No coverage for business income or other indirect loss
- ❑ Insurable interest of the insured

Covered perils

Only three perils are covered in the insuring agreement. To have coverage under the SFP, an insured peril must be the proximate cause of the loss. This means there is an unbroken chain of events between the occurrence of an insured peril and damage or destruction of the property.

Assignment of the policy

The SFP cannot be validly assigned to someone else without the insurers written consent.

CONDITIONS, EXCLUSIONS, AND OTHER PROVISIONS

❑ **Concealment and fraud**

If the insured willfully conceals a material fact or makes a material misrepresentation, either before or after a loss, the insurer can void the policy.

❑ **Excluded property**

This includes accounts, bills, currency, deeds, evidence of debt, money, and securities.

❑ **Excluded perils**

- Enemy attack
- Invasion
- Insurrection
- Rebellion
- Civil war
- Usurped power
- Order of any civil authority
- Neglect of the insured to protect the property
- Loss by theft

❑ **Other insurance**

❑ **Suspension of insurance**

- Material increase in hazard
- Vacancy or unoccupancy beyond sixty days
- No coverage for riot or explosion, unless a fire ensues

❑ ***Other perils and added provisions***

❑ ***Prohibition of waiver***

No policy provision can be waived unless it is in writing and attached to the policy.

❑ **Cancellation**

Either the insured or the insurer can cancel the SFP. In either case, a premium refund based on the short-rate table will be made to the insured rather than a pro rate refund based on the unearned premium.

❑ **Protection of the mortgagee's interest**

- Purchase of separate insurance
- Assignment of the policy by the insured Loss payable clause
- Standard Mortgage Clause.

❑ **Pro rate liability clause**

Applies when more than one policy covers the same insurable interest in the property.

❑ **Requirements if case lose occurs**

- The insured must give immediate written notice of the loss to the company.
- The insured is required to protect the property from further damage.
- Unless extended in writing by the company, the insured must file a satisfactory proof of loss within sixty days.

❑ **Appraisal Clause**

Appraisal clause is used when the insured and insurer cannot agree on the actual cash value or amount of the loss. The purpose of the appraisal clause is to reduce litigation and provide an equitable and fair procedure for resolving any disagreement concerning the amount of loss.

❑ **Company's Option**

The company has the option of paying the claim in dollars, or it can repair, rebuild, or replace the property with materials of like kind and quality.

❑ **No abandonment of property**

The company has the option to take salvage at its agreed or appraised value, but the company cannot be forced to take salvage, and the insured cannot abandon the property.

❑ **Other Provisions**

The insurer must pay the loss within sixty days after proof of loss is received.

A lawsuit against the company concerning the loss must be made within twelve months after the loss and only upon compliance with all policy provisions pertaining to the insured's obligations at the time of and after the loss.

The SFP contains a subrogation provision. The insurer may require from the insured an assignment of the right of recovery against any party who may have caused the loss to the extent of the loss payment.

FIRE INSURANCE RATING

A fire insurance rate is the cost per hundred dollars of exposure value. The premium is calculated by multiplying the rate times the number of hundreds of dollars of value in the exposure.

Fire insurers to produce rates commonly use two different methods: classes rating and schedule rating operates by combining comparable units into a class and then charging a class rate reflecting the loss experience and expenses of the class analyzes each property individually and is used primarily in rating commercial buildings.

SUMMARY

For more than forty years the 1943 New York Standard Fire Insurance Policy provided the backbone of American fire insurance contracts.

Commercial fire insurance is provided as one part of a seven-part commercial insurance package. Property coverage falls into three categories: buildings, personal business property, and property of others. Fire and ten other perils are specified causes of loss in the basic form. More extensive coverage is available in the broad and special forms.

Indirect loss coverage is available for income lost, and extra expenses, following a direct loss. Income lost because of direct losses at dependent properties can also be insured.

Fire insurance rates are usually determined on a schedule or a class-rating basis. Schedule rating requires comparing property to a standard exposure and increasing or

decreasing the premium for desirable or undesirable features. Class rating involves placing property in a class with similarly situated exposures.

PRACTICE EXERCISE

Fill In The Blank

- 1) SFP stands for _____.
- 2) _____ according to the courts, is defines as combustion or rapid oxidation that causes a flame or at least a glow.
- 3) _____ is the provision which includes the face amount of the policy, actual cash value, amount to repair or replace the property with similar materials, no allowance for increased cost of repair due to some ordinance or law, no coverage for business income or other indirect loss and insurable interest of the insured.
- 4) _____ is the condition in which the insured willfully conceals a material fact or makes a material misrepresentation, either before or after a loss , the insurer can void the policy.
- 5) _____ include enemy attack, invasion, insurrection, rebellion, civil war, usurped power, order of any civil authority, neglect of the insured to protect the property and loss by theft.
- 6) _____ clause applies when more than one policy covers the same insurable interest in the property.
- 7) A _____ is the cost per hundred dollars of exposure value.
- 8) The fire insurance _____ is calculated by multiplying the rate times the number of hundreds of dollars of value in the exposure.
- 9) Property coverage falls into three categories: _____, personal business property, and property of others.
- 10) _____ clause is used when the insured and insurer cannot agree on the actual cash value or amount of the loss.
- 11) Fire insurers to produce rates commonly use two different methods: class rating and _____ rating.

12) _____ coverage is available for income lost, and extra expenses, following a direct loss.

13) _____ rates are usually determined on a schedule or a class-rating basis.

Essay

List the basic provisions of the standard fire policy.

PRACTICE EXERCISE ANSWERS

Fill In The Blank

(1)Standard,Fire,Policy (2)Fire (3)Limitations on recovery (4)Concealment and fraud (5)Excluded perils(6)Pro-rate liability (7)fire insurance rate(8)rate(9)buildings(10)Appraisal(11)schedule(12)Indirect loss(13)Fire Insurance

Essay

Consideration, policy term, persons insured, limitations on recovery, covered perils, and assignment of the policy.

2

DWELLING COVERAGES

Homeowners insurance is a package policy that combines two or more separate contracts into one policy. Prior to the introduction of homeowners insurance in the 1950s, property insurance on a private dwelling and personal property, theft coverage, and personal liability insurance could not be obtained in one policy. The current homeowners (HO) format incorporates the standard fire policy with other coverage's including comprehensive personal liability insurance, additional living expense coverage, replacement-cost coverage on the dwelling, and medical expense coverage for people other than the homeowner and family.

In 1976 the Insurance Services Office (ISO) made a significant revision in the language of the HO insurance policy. The Homeowners 76 Policy referred to the policy owner as "you" and the insurer as "we". The standard fire policy was eliminated as a separate document, and its basic provisions were incorporated into the homeowner policy itself.

THE 1984 HOMEOWNERS PROGRAM

The Homeowners 76 Program was not adopted in several states and the older forms were used instead. Elimination of the standard fire policy as a separate document caused problems in some states, since law mandated the standard fire policy. The ISO revised the homeowner's policy in 1982 and it was initially introduced on a trial basis in six states in 1982 and early 1983, the most recent HO forms were introduced in 1984.

A homeowner contract on a private dwelling can be written only on an owner-occupied dwelling that does not contain more than two families (four in some states).

TYPES OF HOMEOWNERS POLICIES

HO-1 (Basic Form)

HO-1 insures the dwelling and other structures and also covers the insured's personal property. Homeowner's 1 is a named-perils policy. Homeowners 1 is not widely used at the present time and has been withdrawn from use in many states.

HO-2 (Broad Form)

HO-2 expands the coverage under the basic form and adds several new perils.

HO-3 (Special Form)

HO-3 insures the dwelling and other structures against the risks of direct physical loss to property except those losses specifically excluded. Personal property is covered by the same broad named perils listed in HO-2, plus the peril of damage by glass or safety glazing material which is part of a building, storm door, or storm window

HO-4 (Contents Broad Form)

HO-4 is specifically designed for tenants of rented premises. Homeowner 4 covers the tenant's personal property against loss or damage, and it also provides personal liability insurance as well.

HO-6 (Unit-owners Form)

HO-6 is designed for the owners of condominium units and cooperative apartments. Homeowners 6 covers the personal property of the insured for the same named perils listed in Homeowners 2.

There is also a minimum of \$1 000 of insurance on the condominium unit that cover the following property:

- a. Alterations, appliances, fixtures, and improvements that are part of the residence premises, such as built-in appliances, carpets, additional kitchen cabinets, and wallpaper.
- b. Real property that pertains exclusively to the residence premises, such as a patio or balcony, or trees or shrubs on the patio.
- c. Property that may be the insured's responsibility under the condominium owners agreement, such as fixtures or interior partitions.

- d. Structures owned solely by the insured, other than the condominium unit, which is at the location of the condominium unit, such as a private garage or fence

HO-8 (Modified Coverage Form)

HO-8 is a modified HO-1 form by which losses to the dwelling and other structures are paid based on the amount required to repair or replace the property using common construction materials and methods. Payment is not based on replacement cost. In addition, theft coverage is limited to losses that occur on the residence premises up to a maximum of \$1 000 per occurrence.

The HO-8 form is designed for older homes in urban neighborhoods where the replacement cost of a house may substantially exceed its market value.

POLICY LAYOUT

DECLARATIONS

The HO's front-page displays descriptive material called the declarations come from the insurance application. The declarations show rating information the insurer used to calculate the premium. The name and address of the named insured appears. The time when the policy begins and ends is shown. And the maximum limits of the insurance company's liability for the different coverage are entered, usually in boxes next to the various coverage.

The insurers limit of liability is divided into two sections. Section 1 provides property insurance protection and is divided into four coverage's (or insuring agreements), each with a separate limit of liability. Section 2 provides liability coverage and is divided into two coverages.

Homeowner's coverage is that each coverage (A through F) is treated separately. Dollars may not be transferred among the various coverages. The maximum amount the insured could collect is the sum of all the coverages.

Coverage A, covers the insured's home. Coverage B applies to such Items as an unattached garage or shed. Coverage C applies to property usually found in homes such as furniture, clothes, appliances, and other personal property. Coverage D, loss of use, pays for extra expenses if a covered loss prevents the insured from living in the home.

The limits of liability for the various insuring agreements found in Section 1 are determined as a percentage of coverage A. That is, once the insured chooses an

amount for coverage A, coverage B automatically equals 10 percent of this amount. Coverage C equals 50 percent of coverage A. Coverage D equals 20 percent of coverage A. If an insured needs additional protection, coverage's B, C, or D may be increased. Coverage may not be reduced below the specified percentages. The insured must pay an additional charge for increased coverage. Section 2 provides liability protection and is divided into two coverages. Coverage E provides protection from adverse legal judgments. Coverage F provides for medical payments to those injured by accident arising at the insured's premises or resulting from the insured's activities. Coverage is available without establishing the homeowner's legal liability.

DEFINITIONS

Immediately following the insuring agreement is a short glossary that determines the meaning of eight important terms that are found throughout the policy in boldface type.

- bodily injury means bodily harm, sickness or disease, including required care, loss of services and death that results.
- business includes trade, professional or occupation.
- insured means you and residents of your household who are:
 - a. your relatives; or
 - b. other persons under the age of 21 and in the care of any person named above.

Under Section 11, also means:

- c. with respect to animals or watercraft to which this policy applies, any person or organization legally responsible for these animals or watercraft which are owned by you or any person included in or above. A person or organization using or having custody of these animals or watercraft in the course of business or without the consent of the owner is not an insured;
- d. with respect to any vehicle to which this policy applies:
 - 1. persons while engaged in your employ or that of any person included in a or b above; or
 - 2. other persons using the vehicle on an insured location with your consent means:
- Insured Location means:
 - a. the residence premises

- b. the part of other premises, other structures and grounds used by you as a residence and:
 - 1. which is shown in the Declarations;
 - 2. or which is acquired by you during the policy period for your use as a residence;
 - c. any premises used by you in connection with a premises in a or b above;
 - d. any part of a premises:
 - e. vacant land, other than farm land, owned by or rented to an insured;
 - f. land owned by or rented to an insured on which a one or two family dwelling is being built as a residence for and insured;
 - g. individual or family cemetery plots or burial vaults of an insured or;
 - h. any part of a premises occasionally rented to an insured for other than business use;
- Occurrence means an accident, including exposure to conditions, which results, during the policy period, in:
 - a. bodily injury; or,
 - b. property damage.
 - property damage means physical injury to, destruction of, or loss of use of tangible property
 - Residence employee means:
 - a. an employee of a person whose duties are related to the maintenance or use of the including household or domestic services; or
 - b. one who performs similar duties elsewhere not related to the business of the insured
 - Residence premises means:
 - a. the one family dwelling, other structures, and grounds;

- b. that part of any other building; where you reside and which is showing the 'residence premises' as the in the Declarations
- Residence premises also means a two family dwelling where you reside in at least one of the family units and which is shown as the "residence premises" in the Declarations.

ANALYSIS OF HOMEOWNERS (HO-2) POLICY

SECTION 1 - PROPERTY COVERAGE

Section 1 of the HO consists of four parts. They are labeled A through D and "Additional Coverages". Section 1 informs the insured what property and other losses are covered and what losses are not covered.

1. Coverage A applies to the insured's residence premises shown on the Declarations. A second home or summer cottage, which might be considered a temporary residence, is not covered, since it does not appear in the Declarations.
2. Coverage B applies to other structures on the residence premises separated from the home by a clear space. An unattached garage or tools shed are examples of property covered in this section.
3. Coverage C applies to personal property of the insured located anywhere in the world. Special limits on some property are detailed in the policy.

Sometimes the question is raised whether a specific item is real or personal property. If it is real property, it would be covered under Coverage A; if it is personal, it would be covered under Coverage C. The English common law rule is land and anything permanently attached to land is real property

The Special Limits of Liability passage establishes maximum dollar amounts that can be recovered when the specifically identified property is lost. In some cases the limits apply only to loss by the peril or theft; in other cases, any loss is subject to the specified limits.

- a. Special limits of liability. These limits do not increase the Coverage C limit of liability. The special limit for each numbered category below is the total limit for each loss for all property in that category.

1. \$200 on money bank notes, bullion, gold other than goldware, silver other than silverware, platinum, coins and medals.
 2. \$1000 on securities, accounts, deeds, evidences of debt, letters of credit, notes, other than bank notes, manuscripts, passports, tickets and stamps.
 3. \$1 000 on watercraft, including their trailers, furnishings, equipment and outboard motors.
 4. \$1000 on trailers not used with watercraft.
 5. \$1000 on grave markers.
 6. \$1000 for loss by theft of jewelry, watches, furs, precious and semi-precious stones.
 7. \$2000 for loss by theft of firearms.
 8. \$2500 for loss by theft of silverware, silver-plated ware, goldware, gold-plated ware and pewter-ware. This includes flatware, hollowware, tea sets, trays and trophies made of or including silver, gold or pewter.
 9. \$2500 on property, on the residence premises used at any time or in any manner for any purpose.
 10. \$250 on property, away from the used at any time or in any manner for any business purpose.
- b. Some property is specifically excluded from coverage including the following:
1. Personal property insured elsewhere, such as in a Personal Property Floater.
 2. Animals, birds, or fish.
 3. Motor vehicles and equipment.
 4. Property associated with renting of an apartment was previously called "Additional Living Expense." The former term seems more informative, because R emphasizes that the insurance covers only the necessary increase in living expenses ... for the shortest time required to repair or replace the damage.
 5. Additional Coverage

- a. Debris removal costs are covered.
- b. Expenses incurred to protect property from further damage are covered.
- c. A limited amount of coverage is available for damage to trees and shrubs.
- d. Fire department service charges will be reimbursed.
- e. Property removed from the residence because it was endangered and that is subsequently damaged or stolen at the removal site is covered.
- f. Credit card fraud and similar frauds are covered for a limited amount.
- g. Certain loss assessments in cooperative-type buildings are paid up to a \$1000 limit.
- h. Collapse - Collapse had been a specifically named peril in prior versions of the HO insurance policy. Now it is given special treatment. Collapse is difficult to define, because it can be the result of many different causes. Moreover, some courts have introduced the doctrine of This rule states, when a loss arises from two separately identifiable perils, one covered (for example, negligence or collapse) and one excluded (for example, underground water pressure), coverage will be provided by the HO. Concurrent causation court decisions have led to deliberate treatment of losses associated with collapse as an additional coverage instead of as a named peril.

SECTION 1 - PERILS INSURED AGAINST (HO-2)

Property insurance policies take one of two basic formats: (1) they may specify the perils that can produce an insured loss, or (2) they may provide comprehensive or open perils coverage and specify the exclusions that apply. Previously insurers are now avoiding used term, 'all risks' coverage, because no insurance policy covers all possible losses.

The term "comprehensive coverage" now is also being avoided for the same reason.

Fire or Lightning.

“Fire” means a hostile fire, one not contained in its proper place. “Lightning” is a powerful discharge of natural electricity. Direct losses from lightning are sometimes hard to prove especially when the only damage that occurs is to TV sets and other appliances.

Windstorm or Hail.

Under this peril, HO-2 provides protection against tornadoes and all other sources of violent wind damage. The coverage excludes damage to the interior of the buildings or contents if the exterior of the building first sustains no damage.

Explosion.

Explosion is a difficult term to define, and the term is not defined in the policy. There may be fire or loud noise accompanying an explosion. There may be confinement of gases under pressure. When a combination of some or all of these events causes damage-for instance, when a furnace blows up HO-2 covers the damage caused by the event.

Riot or Civil Commotion.

War, civil war, and insurrection are not covered but lesser hostilities are covered. The issue of terrorists' acts will probably have to be addressed by the courts and by insurers.

Aircraft and Vehicles.

Aircraft damage includes damage caused by spacecraft falling on a house. HO-2 (but not HO-3) excludes losses to fences, driveways, and walks caused by vehicles operated by an occupant of the house.

Sudden and Accidental Smoke Damage.

The smoke damage caused by a smoldering electric blanket may be covered under this provision, as may damage resulting from faulty cooking appliances. If fire fighters cause water damage putting out the smoldering, this -too would be covered, because the proximate cause of the loss would be the smoldering blanket or stove.

Vandalism or Malicious Mischief.

If the homeowner's property is willfully and intentionally damaged by others, there is coverage.in the HO-2 contract, the coverage for these two perils is suspended if the house has been vacated for thirty days before the loss. Vacant means the insureds and their possessions are absent from the house. When an insured takes a vacation

with plans to return home, the house is “unoccupied” rather than vacant, and the coverage remains in effect.

Theft.

Theft means the crime of removing property without the owner's permission. Theft generally does not include losses by fraud or mysterious disappearance of property. Three exclusions to theft coverage are in the HO, including the theft committed by an insured. Additional restrictions apply if the theft occurs off the residence premises including in a college dorm or apartment.

Breakage of Glass.

Breakage of glass is a result and not a cause of loss. This is comprehensive coverage. Any peril causing structural glass (part of the building) to break produces an insured loss.

Falling Objects.

The building must sustain exterior damage before interior damage is covered. If a tree limb were to fall and break through the roof, coverage would be provided for the roof and damaged contents.

Weight of Snow, Ice or Sleet.

Accidental Damage Caused by Plumbing.

Loss to plumbing, appliances, sprinkler systems, or air conditioners is not covered. Only the losses resulting from water leakage by these units are covered. Damage caused by slow and repeated leaks is excluded, however, as is damage sustained if the building is vacant for more than thirty consecutive days before a loss.

Sudden Destruction of Water Heaters, Heating Systems, Air Conditioners, or Sprinklers.

The provision covers the explosion of these units, but losses resulting from freezing are covered separately.

Freezing of Plumbing.

If the building is occupied, or even if the building is unoccupied as long as a serious attempt is made to heat it, and frozen pipes that burst cause damage, HO-2 provides coverage.

Sudden Damage from Artificially Generated Electrical Currents.

Coverage is provided for electrical appliances excluding damage to tubes, transistors, and similar parts. If a surge of power were sent through the electric lines and burned out a motor, there is coverage. Short-circuit damage may also be covered in some cases.

Damage done by explosion, lava flow, or volcanic ash would be covered; earthquake damage is specifically excluded.

The eruption of Mount St. Helen's raised several questions about HO insurance coverage.

SECTION 1 - EXCLUSIONS

Eight exclusions apply to the Section 1 coverage in HO-2. Each of the eight exclusions eliminates the insurer's liability for the insured loss. The language of the HO makes this point as follows:

We do not insure for loss caused directly or indirectly by any of the following. Such loss is excluded regardless of any other cause or event contributing concurrently or in any sequence to the loss.

Ordinance or Law.

Meaning enforcement of any ordinance or law regulating the construction, repair, or demolition of a building or other structure, unless specifically provided under this policy.

Earth Movement.

Meaning earthquake including land shock waves or tremors before, during or after a volcanic eruption; landslide; mudflow; earth sinking, rising, or shifting; unless direct loss by:

- fire;
- explosion; or
- breakage of glass or safety glazing material which is part of a building, storm door or storm window; ensues and then we will pay only for the ensuing loss. This exclusion does not apply to loss by theft.

Water Damage. Meaning:

- flood, surface water, waves, tidal water, overflow of a body of water, or spray from any of these, whether or not driven by wind;

- water which backs up through sewers or drains; or
- water below the surface of the ground, including water
- which exerts pressure on or seeps or leaks through a building, sidewalk, driveway, foundation, swimming pool or other structure.

Direct loss by fire, explosion or theft resulting from water damage is covered.

Power Failure.

Meaning the failure of power or other utility service if the failure takes place off the But, if a Peril Insured Against ensues on the, we will pay only for that ensuing loss.

Neglect.

Meaning neglect of the insured to use all reasonable means to save and preserve property at and after the time of a loss.

War.

Including undeclared war, civil war, insurrection, rebellion, revolution, warlike act by a military force or military personnel, destruction or seizure or use for a military purpose, and including any consequence of any of these. Discharge of a nuclear weapon will be deemed a warlike act even if accidental.

Nuclear Hazard.

To the extent set forth in the Nuclear Hazard Clause of Section I - Conditions.

Intentional Loss.

Meaning any loss arising out of any act committed by or at the direction with the intent to cause a loss.

SECTION 1 - CONDITIONS

Several of the HO-2 conditions were derived from the Standard Fire Policy (SFP).

Loss Settlement.

The loss settlement provision presents several alternative paths to determine the amount of payment made to the insured in the event of loss.

Covered property losses are settled as follows:

Buildings under Coverage A or B at replacement cost without deduction for depreciation, subject to the following:

- a. If, at the time of loss, the amount of insurance in this policy on the damaged building is 80% or more of the full replacement cost of the building, immediately before the loss, we will pay the cost to repair or replace, after application of deductible and without deduction for depreciation, but not more than the least of the following amounts:
 1. the limit of liability under this policy that applies to the building;
 2. the replacement cost of that part of the building damaged for like construction and use on the same premises; or
 3. the necessary amount actually spent to repair or replace the damaged building.

- b. If, at the time of loss, the amount of insurance in this policy on the damaged building is less than 80% of the full replacement cost of the building immediately before the loss, we will pay the greater of the following amounts, but not more than the limit of liability under this policy that applies to the building:
 1. the actual cash value of that part of the building damaged; or
 2. that proportion of the cost to repair or replace, after application of deductible and without deduction for depreciation, that part of the building damaged, which the total amount of insurance in this policy on the damaged building bears to 80% of the replacement cost of the building.

Replacement Cost and Insurance to Value Requirement

The loss settlement provision of HO-2 contains a penalty provision that applies if the insured has purchased less than 80 percent of replacement cost. The HO penalty provision is similar to the commonly found in commercial property insurance policies. The purpose of both the coinsurance clause and the HO loss settlement clause is to make under insurance unattractive to the insured. Both clauses provide for that the insured to pay a penalty based on the amount of under insurance.

Many property policies contain a clause requiring the insured to purchase some minimum amount of insurance if the insured wants full coverage on all losses. If the insured purchases less than the minimum amount, there will be only partial recovery for losses. The minimum amount of insurance the company requires usually is stated as a percentage of the replacement cost of the insured property.

To determine whether the insured has met the coinsurance requirement on the dwelling, insurers use the following formula: amount of insurance purchased amounts X of = insurance 80% of replacement cost loss proceeds.

If the first term in the equation is less than 1, the insured will bear a portion of the loss. The insured is said to be a "coinsurer of the loss." If the fraction is equal to or greater than 1, the insurer will pay the full amount of the loss, limited to the face amount of insurance purchased.

Reasons for the Coinsurance Requirement

What is the reason for the coinsurance requirement? It exists to keep insurance rates fair.

If property owners, recognizing most losses are partial, purchased insurance equal to only 50 percent of the value of the covered property, they might think that the most significant part of the risk had been transferred. Without the coinsurance penalty, they would have an advantageous deal. The coinsurance requirement of property insurance policies prevents insureds from taking advantage of the insurers average rate structure. If someone purchases insurance equal to 50 percent of the value of the property when the insurer requires 80 percent coverage, that insured will receive only partial recovery for a loss.

Mortgage Clause

The HO has provisions protecting creditors making loans secured by the insured property. This protection is found in the mortgage is evidence of a debt. It is the security agreement when a loan is made on real estate. A mortgage gives the lender (mortgagee) a legal interest in the property mortgaged. If the borrower (mortgagor) defaults on the loan agreement, the mortgagee may foreclose on the mortgage and sell the property to satisfy the debt. Both the mortgagor and the mortgagee have an insurable interest in the property.

The word 'mortgagee' includes trustee.

If a mortgagee is named in this policy, any loss payable under Coverage A or B will be paid to the mortgagee and you, as interests appear. If more than one mortgagee is named, the order of payment will be the same as the order of the mortgages.

If we deny your claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee:

- notifies us of any change in ownership, occupancy, or substantial change in risk of which the mortgagee is aware;
- pays any premium due under this policy on demand if you have neglected to pay the premium; and
- submits a signed, sworn statement of loss within 60 days after receiving notice from us of your failure to do so.

Policy conditions relating to Appraisal, Suit Against Us and Payment apply to the mortgagee. If the policy is cancelled or not renewed by us, the mortgagee will be notified at least 10 days before the date of cancellation or non-renewal takes effect.

If we pay the mortgagee for any loss and deny payment to you:

- we are subrogated to all the rights of the mortgagee granted under the mortgage on the property; or
- at our option, we may pay to the mortgagee the whole principal on the mortgage plus any accrued interest. In this event, we will receive a full assignment and transfer of the mortgage and all securities held as collateral to the mortgage debt.

Subrogation will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim.

SECTION 2 - LIABILITY COVERAGE

COVERAGE E - PERSONAL LIABILITY

If a claim is made or a suit is brought against and for damages because of or caused by an to which this coverage applies, we will:

- pay up to our limit of liability for the damages for which the is legally liable; and
- provide a defense at our expense by counsel of our choice, even if the suit is groundless, false or fraudulent. We may investigate and settle any claim or suit that we decide is appropriate. Our duty to settle or defend

ends when the amount we pay for damages resulting from the occurrence equals our limit of liability.

COVERAGE F - MEDICAL PAYMENTS TO OTHERS

We will pay the necessary medical expenses that are incurred or medically ascertained within three years from the date of an accident causing Medical expenses means reasonable charges for medical, surgical, x-ray, dental, ambulance, hospital, professional nursing, prosthetic devices and funeral services. This coverage does not apply to you or regular residents of your household except residence employees. As to others, this coverage applies only:

1. to a person on the insured location with the permission of an insured, ,or
2. 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 the insured.
 - d. is caused by an animal owned by or in the care of an insured.

The interpretation of these clauses is that the insurer agrees to pay for successful judgments against the insured resulting from the non-business activities of the named insured and his household residents. It agrees to provide the insured with a lawyer to defend lawsuits. The insurer retains the right to make a settlement with a claimant if the insurer thinks a settlement is expedient (advantageous).

In professional liability insurance policies, such as medical liability insurance, the insured, whose professional reputation may be at issue, can prevent an insurer from trying to settle a claim without a court fight.

The insurers duty to make payment on its insured's behalf is not exactly coincident with its duty to defend its insureds. Payment is required only for covered acts. A legal defense is required even for false, fraudulent, or groundless lawsuits. Because of the potential difference between the duty to defend an insured and the duty to pay liability claims, the issue of the insurer's obligation has been litigated.

Section 2 - Exclusions

Because coverage's E and F are comprehensive-type coverage, several important exclusions limit the insurer's liability. Among the claims not covered are those arising from bodily injury or property damage.

1. Which is expected or intended by an insured. The "intent" required to exclude coverage is neither the "Intent to act nor the "Intent to cause a specific injury complained of". Rather it is the "intent to cause bodily injury."
2. Arising out of "business pursuits." A review of the litigation on this point does not lead to any general conclusions. Different courts in different jurisdictions have reached different conclusions given similar circumstances. Perhaps the safest point to note is that if an insured injures somebody while engaged in an activity done for monetary gain, a possibility exists that the HO will not provide liability coverage.
3. Arising out of the rendering or failure to render professional services. This clause reinforces the preceding clause, making it clear that if an insured is sued for actions as an accountant, attorney, or physician, the HO will not provide coverage.
4. Arising from the ownership, maintenance, use of motor vehicles, aircraft, or watercraft. There are some exceptions to these exclusions, so the HO provides some coverage in limited circumstances. Arising from the transmission of communicable diseases. An increasing amount of litigation during the later half of the 1980s alleged injury resulting from transmission of communicable disease, especially sexually transmitted diseases. The purpose of this exclusion is to relieve the insurer of responsibility for paying such claims or defending such lawsuits.

This exclusion is recent and may not appear in all companies' policy forms yet. Section 2, like Section 1 of HO-2, contains some additional coverage and some conditions. They follow the pattern developed in Section 1.

Sections 1 and 2 - Conditions

The final section of HO-2 contains conditions applicable to both Sections 1 and 2.

- Concealment and fraud.
- Waiver provisions.
- Cancellation by insurer and insured.
- Assignment (not valid unless insurer has given written consent).
- Subrogation.

- Death of an insured (the legal representative of the insured continue to receive coverage after the insured's death).

Liability insurance policies generally provide for the full limit of liability for each occurrence. In addition, there usually is no additional premium to be paid. The HO is a combination of fire, personal liability, and additional expense protection. The major divisions of HO-2 include the following-

- Definitions.
- Section 1 -Property Coverage's.
- Section 1-Perils Insured Against.
- Section 1-Exclusions.
- Section 1-Conditions.
- Section 2-Liability Coverage's.
- Section 2-Exclusions

We will continue this session with a look at other personal property insurance coverage's that can be used by individuals and families.

PRACTICE EXERCISE

Fill In The Blank

- 1) _____ expands the coverage under the basic form and adds several new perils.
- 2) _____ is designed for the owners of condominium units and cooperative apartments.
- 3) _____ show rating information the insurer used to calculate the premiums.

- 4) _____ means bodily harm, sickness or disease, including required care, loss of services and death that results.
- 5) _____ means the crime of removing property without the owner's permission.
- 6) _____ provides coverage if the building is occupied, or even if the building is unoccupied as long as a serious attempt is made to heat it and frozen pipes that burst cause damage.
- 7) _____ exist to keep insurance rates fair.
- 8) Coverage _____ and _____ are comprehensive-type coverage.
- 9) _____ form insures the dwelling and other structures and also covers the insured's personal property.
- 10) _____ form is specifically designed for tenants of rented premises.
- 11) _____ form by which losses to the dwelling and other structures are paid based on the amount required to repair or replace the property using common construction materials and methods.
- 12) _____ includes trade, professional or occupation.
- 13) _____ means you and residents of your household who are your relatives or other persons under the age of 21 and in the care of any person named above.
- 14) _____ means an accident, including exposure to conditions, which results, during the policy period, in the bodily injury, or property damage.
- 15) _____ means physical injury to , destruction of, or loss of use of tangible property.
- 16) _____ employee means an employee of a person whose duties are related to the maintenance or use of the including household or domestic services or one who performs similar duties elsewhere not related to the business of the insured.

17) _____ means the one family dwelling, other structures, and grounds and that part of any other building; where you reside and which is showing the "residence premises" as in the Declarations.

Essay

What are the two sections in which the insurers limit of liability is divided? What do they provide?

List the exclusions, which apply to Section 1 coverage in HO-2.

Explain Section 1 Coverage A.

What is the difference in coverage, under Section 1 Coverage A verses Section 1 Coverage C?

PRACTICE EXERCISE ANSWERS

Fill In The Blank

(1)HO-2 or Broad Form(2)HO-6 or Unit-owners Form(3)Declarations(4)Bodily injury(5)Theft(6)HO-2 or Broad Form(7)Coinsurance Requirement(8)E and

F(9)Basic(10)Contents Broad(11)Modified Coverage(12)Business(13)Insured(14)
Occurrence(15)Property damage(16)Residence(17)Residence premises

Essay

- 1) Section 1 provides property insurance protection and is divided into four separate coverage (or insuring agreements) each with a separate limit of liability. Section 2 provides liability coverage and is divided into 2 coverage.
- 2) Ordinance or law, earth movement, water damage, power failure, neglect, war, nuclear hazard, intentional loss.
- 3) Coverage A applies to the insured's residence premises shown on the Declarations. A second home or summer cottage, which might be considered a temporary residence, is not covered, since it does not appear in the Declarations.
- 4) If it is real property it would be covered under Coverage A. If it is personal, it would be covered under Coverage C.

3

PROPERTY INSURANCE COVERAGES

DWELLING 77 PROGRAM

The Dwelling 77 Program is designed for dwellings that are ineligible for coverage under the standard homeowners contracts and for persons who do not want or need a homeowners contract. Most of these homes can be insured under a Dwelling 77 policy.

ELIGIBLE DWELLINGS

Several types of residential properties are eligible for coverage. The dwelling forms can be used to insure a one- to four-family building that is occupied as a residence. Certain incidental business operations are permitted in the dwelling. They include a private school, a studio, an office, and a small service operation, such as a beauty parlor or telephone answering service. A completed home or home construction can also be insured under the dwelling forms: the home may be occupied by its owner or by a renter. A townhouse or row-home can be similarly covered if the structural unit does not exceed four families in size. Even a mobile home or trailer can be insured if the policy period does not exceed one year, and if the mobile home or trailer remains at a permanent location described in the policy.

Certain types of dwellings are ineligible for coverage. Farm dwellings and dwellings that house more than five boarders or roomers cannot be insured under the dwelling forms.

TYPES OF DWELLING FORMS

DWELLING PROPERTY 1 (BASIC FORM)

The basic form can be used to insure any of the eligible dwellings described earlier. Several coverages are provided, which are similar to the homeowners (HO-2) coverages.

Coverage A insures the dwelling and structures attached to the dwelling. However, losses are indemnified on the basis of actual cash value, not replacement cost.

Coverage B provides insurance on other structures, such as a detached garage, tennis court, or tool shed. Under the basic form, 10 percent of the amount of the insurance on the dwelling can be applied to cover the other structures. However, this is not additional insurance.

Coverage C insures personal property that is owned or used by the insured and residing family members. Personal property away from the premises is also covered. The insured can apply up to 10 percent of the insurance under coverage to cover personal property anywhere in the world. Again, the extension of coverage is not additional insurance.

Coverage D covers the fair rental value if a loss makes part of the dwelling rented to others or held for rental unfit for normal use. A maximum of 10 percent of the insurance on the dwelling can be applied to cover the loss of rents, subject to a maximum monthly limit of 1/12 of that 10 percent. For example, if the dwelling is insured for \$48,000, a total of \$4800 can be applied to cover the loss of rents, with a maximum monthly limit of \$400 (1/12 X \$8800). This insurance is not additional insurance.

The basic form covers only a limited number of perils. The perils of fire, lightning, and internal explosion can be purchased alone. The insured also has the option of adding the extended coverage perils plus vandalism and malicious mischief by payment of an additional premium. The extended -coverage perils are windstorm or hail, explosion, riot or civil commotion, aircraft, vehicles, and smoke.

DWELLING PROPERTY 2 (BROAD FORM)

The broad form extends the coverage contained in the basic form. Covered losses to the dwelling and other structures are indemnified on the basis of replacement cost rather than the actual cash value. The replacement cost provisions are similar to those found in the homeowner contracts. In addition to Coverage's A, B, C, and D, the broad form adds a new benefit for additional living expenses. If a covered loss makes the property unfit for normal use, the additional increase in living expenses is paid.

The broad form covers all of the perils that can be insured under the basic form, plus other perils. The covered perils area follows:

- Fire, lightning, internal explosion
- Windstorm or hail
- Explosion
- Riot or civil commotion
- Aircraft

- Vehicles
- Smoke
- Vandalism or malicious mischief
- Breakage of glass or safety glazing material
- Burglars
- Failing Objects
- Weight of ice, snow, or sleet
- Collapse of buildings or any part of a building
- Accidental discharge or overflow of water or steam
- Explosion of a steam or hot water system, air conditioning system, or an appliance for heating water
- Freezing of a plumbing, heating, or air conditioning system, or household appliance
- Sudden and accidental damage from an artificially generated electrical current

DWELLING PROPERTY 3 (SPECIAL FORM)

The special form covers the dwelling, other structures, and any other property covered under Coverage A or Coverage B for all direct physical losses except for those losses specifically excluded. Personal property, however, is covered for the same named perils that are found in the Dwelling Property 2 (broad form) policy discussed earlier.

MOBILE HOME INSURANCE

Mobile Home Insurance is presently written by an endorsement to either Homeowners 2 or Homeowners 3, which tailor the homeowners policy to meet the characteristics of mobile homes.

ELIGIBILITY

To be eligible for coverage, the mobile home must be at least ten feet wide and forty feet long. In addition, it must be capable of being towed on its own chassis, and it must be designed for year-round living. The policy can be issued only to the owner-occupant of the mobile home, and the occupancy must be only for private residential purposes. These requirements are imposed to eliminate coverage for camper trailers that are pulled by automobiles and are insured under an automobile policy.

COVERAGE

The coverage on a mobile home are similar to those found in the homeowners forms.

- Dwelling \$10,000 minimum
- Other Structures 10%ofCoverageA (\$2000 minimum)
- Personal Property 40% of Coverage A 20% of Coverage A
- Personal Liability \$100,000
- Medical payments to others \$1 00,000 each person

Coverage A insures the mobile home on a replacement cost basis. In addition, floor coverings, household appliances are also covered when installed on a permanent basis. Coverage A also applies to utility tanks and other structures attached to the mobile home such as a carport or small storage shed.

Some mobile homes have depreciated to the point where replacement cost coverage is inappropriate. In such cases, an optional cash value endorsement can be added, which limits the insurers obligation to the lowest of (1) repair cost, (2) replacement with similar property but not necessarily from the same manufacturer, or (3) actual cash value of the damaged property.

Coverage B insures other structures subject to a minimum limit of \$2000.

Coverage C insures unscheduled personal property and is limited to 40 percent of Coverage A.

Coverage D provides for loss-of-use coverage and is 20 percent of the Coverage A limit.

In addition, the mobile home endorsement provides for an additional coverage that pays up to \$500 for the cost incurred in transporting the mobile home to a safe place when it is endangered from a covered peril. The \$500 limit can be increased to a maximum of \$2500 by an additional premium.

Finally, Coverage's E and F provide for comprehensive personal liability insurance and medical payments to others. This coverage is identical to the coverage provided in the homeowner's contracts.

OCEAN AND INLAND MARINE INSURANCE

Marine insurance is one of the earliest forms of insurance protection. Commerce by ship was well established in the Mediterranean Sea 2,000 years before the birth of Christ. Coincident with the development of this trade, insurance transactions emerged as distinct commercial agreements, was a transaction protecting an owner from

financial loss if his ship were destroyed. If the ship-owner acquired the ship by means of a loan, an interest rate was paid to a moneylender. The moneylender, for a premium beyond the ordinary interest rate, would agree to forgive the loan if the ship were destroyed. Clearly, a bottomry loan was an early forerunner of ocean marine insurance.

On the other hand, some elements of the modern insurance transaction were missing. Today, marine insurance still does not reach the level of mathematical accuracy in rate making that life or fire insurance does. Judgmental estimates remain the basis of marine underwriting. Loans were comparable to bottomry loans, the difference being the subject of the loan. The ship's cargo, rather than the ship itself, was the subject of the loan. Otherwise, the transaction was comparable. A merchant, placing cargo on a ship, would take out a loan using the cargo as collateral. The moneylender, for a premium in addition to the regular interest charged, agreed to forgive the loan if the cargo were lost.

Today, as in historical times, ocean marine insurance plays a large role in international commerce.

Four distinct types of potential loss exposures are insured with ocean marine insurance policies.

- The hull exposure is the value of the ship. This coverage is comparable to the bottomry loan in that the insurer agrees to pay the ship owner if the ship is lost while the policy is in force.
- The cargo exposure is the value of the goods being shipped. This coverage is comparable to respondentia loans in that the shipper is compensated for losses suffered while the goods are being shipped.
- The loss of freight is the loss of income the ship's owner would have earned if the cargo (or passengers) had been delivered rather than lost. This coverage is comparable to the business interruption consequential loss coverage of fire insurance.
- The liability loss exposure is the loss a ship owner would suffer if the ship were held to be legally responsible for negligently injuring other people or their property.

INLAND MARINE INSURANCE

Inland marine insurance is essentially an American insurance distinction. Other countries have not separated the underwriting powers of insurers to the extent we have. That is, in other countries, if an insurer (underwriter) wants to write fire insurance,

marine insurance, or perhaps even life insurance, it is a private decision, and the insurer may proceed unconstrained by law. In America, however, there was an early tradition of allowing fire insurers to write fire insurance exclusively and marine insurers to write marine coverage exclusively.

In 1933, a nationwide definition of marine insurance was developed. (For the purpose of historical accuracy, the first title was the Nationwide Definition and Interpretation of the Insuring Powers of Marine and Transportation Underwriters).

In 1953, a second "nationwide definition" was adopted. This second definition, currently effective in a majority of states, provides for five types of property to be the proper subject of inland marine insurance:

- Property designated for export.
- Imported property until it reaches its destination.
- Domestic property in the process of shipment.
- Property used to facilitate ("instrumentality's of") transportation, such as bridges, tunnels, pipelines, and electrical transmission towers.
- Personal property that is easily moved and typically of significant value, such as jewelry, furs, and cameras.

Inland Marine Floaters

People own valuable personal property that is frequently moved from one location to another, such as jewelry, furs, cameras, clothes and luggage, boats, musical equipment, sports equipment, and similar property. An appropriate inland marine floater can insure this property. And is a policy that provides broad and comprehensive protection on personal property that is frequently moved from one location to another.

Although inland marine floaters are not uniform, they have several common characteristics.

- The insurance can be tailored to the specific type of personal property to be insured. Under the personal article floater, nine classes of property can be insured.
- The desired amount of insurance can be selected. The homeowner's policy has various limits on the amount of coverage on certain types of personal property. Higher limits are available by a floater policy.
- Broader and more comprehensive coverage can be obtained. Floaters can be written on an all-risks basis, which provides broad protection. However, in the current edition of most inland marine floaters by ISO, the word "all" has been deleted from the all-risks description of the perils

insured against. The reason for the deletion is to avoid creating reasonable expectations among policy-owners that the floater covers all losses, even those that specifically excluded in the policy.

- Most floaters cover insured property anywhere in the world. However, fine arts are covered only within the United States and Canada.

PERSONAL ARTICLES FLOATER

The personal article floater (PAF) is the principal contract now used to provide comprehensive protection on valuable personal property. The personal article floater insures nine optional classes of personal property against risks of direct physical loss to the property. All direct physical losses to the insured property are covered except those losses specifically excluded. Individual items are listed or scheduled and, insured for specific amounts. Coverage is worldwide with the exception of fine art.

- Personal jewelry is covered anywhere in the world. Each item must be described and a specific amount of insurance shown for it. Original bills of sale or a signed appraisal from a reputable jeweler are normally required.
- Personal furs and garments trimmed with fur, imitation fur, items consisting principally of fur, and fur rugs can be insured with the PAF. Each item must be listed separately with a specific amount of insurance for each item.
- Most photographic equipment can be insured under the PAF. Each item must be individually described and valued. Miscellaneous small items, such as carrying cases, filters, and holders can be written on a blanket basis without scheduling each item if the total of the value of the blanketed items does not exceed 10 percent of the total amount of insurance on cameras.
- Musical instruments, including cases, sound and amplifying equipment and similar articles can also be insured under the PAF. An important exclusion applies to this coverage. Instruments played for pay during the policy period are not covered unless an endorsement is added to the policy and a higher premium is paid.
- The PAF can also be used to insure silverware and goldware. However, pens, pencils, flasks, smoking implements, or jewelry, cannot be insured as silverware. Such property is insured as jewelry.

- Golf clubs, golf carts, and other golf equipment are covered anywhere in the world. The golfers clothes in a clubhouse locker or other building used in connection with the game of golf are also covered. Golf balls are covered for loss only by fire and by burglary when there are visible marks of forced entry into the building, locker, or room.
- Fine arts can also be insured under the PAF. This includes paintings, antique furniture, rare books, statuary, rare glass and bric-a-brac, and manuscripts. Coverage of fine arts is on a valued basis.

Newly acquired property is automatically covered for ninety days. The insured must notify the company within ninety days and pay an additional premium. The amount of insurance on newly acquired property is limited to 25 percent of the total insurance.

Several important exclusions apply to fine arts:

- Damage caused by repairing, restoration, or retouching is specifically excluded. Breakage of art glass windows, glassware, statuary, marble, bric-a-brac, porcelains, and similar fragile articles is specifically excluded. However, breakage is covered if caused by fire or lightning, explosion, aircraft or collision, windstorm, earthquake, or flood, malicious damage or theft, or derailment or overturn of a conveyance. Breakage can be covered by payment of an additional premium.

There is no coverage for property on exhibition at fair grounds or on the premises of national or international expositions unless the premises are covered by the policy.

- A valuable stamp or coin collection can be insured on either a blanket or scheduled basis. If the items are insured on a blanket basis, the stamps or coins are not described, and the insurance applies to the entire collection. However, if the stamps and coins are valuable, the property should be scheduled so that each item is specifically listed and insured.

In the case of loss to an item insured on a blanket basis, the amount paid is the cash market value at the time of the loss. However, there is a \$1 000 maximum limit on any unscheduled coin collection, and a \$250 maximum limit on any single stamp, coin, or individual article, or any single pair, block, series sheet, or card.

In the case of loss to a scheduled item, the amount paid at the time of loss is the lowest of the following:

- Actual cash value
- Reasonable cost of repairs
- Replacement cost
- Amount of Insurance

Several important exclusions apply to stamps or coins. The following losses are specifically excluded:

- ❑ Damage from fading, creasing, denting, scratching, tearing, or thinning
- ❑ Transfer of colors, inherent defect, dampness, extremes of temperature, or depreciation.
- ❑ Mysterious disappearance unless the item is scheduled or specifically insured, or is mounted in a volume and the page to which it is attached is also lost.
- ❑ Loss to property in the custody of transportation companies.
- ❑ Shipments by mail other than registered mail.
- ❑ Theft from any unattended automobile unless shipped as registered mail.
- ❑ Losses to property not part of a stamp or coin collection.

The intent of the above exclusions is to exclude losses that are due to carelessness or losses that are the responsibility of other parties.

The personal article floater can also be added to the homeowner's policy by the scheduled personal property endorsement (HO-6). The endorsement provides essentially the same coverages provided by the personal article floater. Some homeowners wish to cover personal property insured under the homeowner's policy on a broader and more comprehensive basis. Also, some homeowners have personal property whose value exceeds the limits of liability on certain property under the homeowner's policy. Higher limits can be obtained by adding this endorsement to the homeowner's policy.

PERSONAL PROPERTY FLOATER

The personal property floater (PPF) should not be confused with the personal article floater. The PPF provides extensive coverage on unscheduled personal property owned or used by the insured that is normally kept at the insured's residence. Thirteen classes of unscheduled personal property can be insured, and a separate amount of insurance applies to each class. The property is insured on a risks-of-direct-physical-loss basis. All losses are covered except those losses excluded. Worldwide coverage is provided when the property is temporarily away from the premises.

The PPF, however, does not cover certain types of personal property, which includes the following:

- ❑ Animals, fish or birds
- ❑ Motor vehicles designed for transportation or recreation.
- ❑ Boats, aircraft, campers, and trailers.
- ❑ Equipment for the preceding vehicles unless removed from the vehicle and at the insured's residence.
- ❑ Owned property used in a business, occupation, or profession (but professional books and equipment are covered while in the insured's residence).
- ❑ Property normally kept at another location throughout the year

Use of the PPF has declined in recent years because of the growth of homeowners insurance. However, renters can use the PPF and condominium owners who wish to insure their unscheduled personal property on other than a named-perils basis.

INSURANCE ON PLEASURE BOATS

The homeowner's policy provides only limited coverage of boats. Coverage on a boat, its equipment, and boat trailer is limited to \$ 1000. Theft of the boat away from the premises is excluded. Direct loss to a boat, equipment, motor, and trailer from windstorm or hail is covered only if the property is inside a fully enclosed building. Finally, boats and boating property are covered only against a limited number of named perils (broad form perils), and broader protection may be needed. For these reasons, boat owners frequently insure their boats under other insurance contracts that provide broader and more comprehensive protection.

Insurance on recreational boats generally can be divided into three categories.

1. Outboard motor and boat insurance is designed for motorboat owners who have adequate personal liability insurance under the homeowners policy but desire more comprehensive physical damage insurance on the boat. An inland marine floater can obtain this protection. Although the floaters on boats are not uniform, they have certain common characteristics. They are summarized as follows.

- a. **Covered Property.** The floater can be written to cover the boat, equipment, motor, and boat trailer or carrier. The insurance is written on an actual cash value basis and usually contains a deductible.
- b. **Insured Perils.** The floater can be written either on a named-perils basis or risks-of-direct-physical-loss basis. Most floaters currently are written on a risks-of-direct-physical-loss basis. This means that all direct physical losses to insured property are covered except those losses specifically excluded.

Personal liability insurance is not provided since it is assumed that the boat owner has adequate liability insurance under a homeowner's policy or comprehensive personal liability policy. However, the floater may contain collision damage liability insurance that protects the insured against a property damage lawsuit if the insured's boat collides with another boat while afloat.

- c. **Exclusions.** The outboard motor and boat insurance floaters contain numerous exclusions depending on the company. Some common exclusions are the following.

Certain general exclusions appear in all inland marine floaters. There is no coverage for loss due to wear and tear, vermin and marine life, rust and corrosion, gradual deterioration, inherent vice, latent defect, mechanical breakdown, and freezing or extremes of temperature.

There is no coverage if the boat is used to carry passengers for compensation or the boat or covered property is rented to another party, or covered property is being used in any official race or speed contest. The intent here is to exclude coverage for business loss exposures that require substantially higher premiums.

There is no coverage for loss or damage resulting from the repair, refinishing, or renovation of the boat or equipment. The party doing the work should be held responsible for the damage.

2. The boat owner's policy is a special package policy for boat owners that combine physical damage insurance, medical expense insurance, liability insurance, and other coverage into one contract. Although boat owner policies are not uniform, they contain certain common features as follows:
 - a. The boat owner's policy provides physical damage coverage on a direct and accidental, loss basis. The insurer agrees to pay for all direct and accidental loss to covered property except those losses specially excluded. The physical damage insurance applies to the boat, equipment, accessories, motor, and trailer.

- b. Liability coverage is also included that covers the insured for property damage and bodily injury liability from the negligent ownership or operation of the boat.
- c. Medical expense coverage is similar to that found in automobile insurance contracts. Medical expense coverage pays the necessary medical expenses incurred or medically ascertained within three years from the date of a boating accident that causes bodily injury to a covered person. A covered is the named insured or any family member while occupying any water craft, or any person while occupying the covered watercraft.
- d. Some boat owner policies have an optional uninsured boaters coverage for bodily injury caused by an uninsured boater, which is similar to the uninsured motorists coverage in automobile insurance.
- e. Boat owner policies also contain several exclusions.
 1. Usual exclusions that are found in inland marine floaters for wear and tear, inherent vice, latent defect, mechanical breakdown, faulty manufacture, war, and nuclear hazard
 2. Damage caused by any repair or restoration process (except for fire)
 3. Carrying people or property for a fee or renting covered property to others
 4. Using covered property (except sailboats) in any official race or speed test
 5. Exclusion of portable electronic, photographic or water sports equipment or fishing gear. For example, loss of cameras, portable radios, fishing equipment, or scuba diving equipment is not covered.

In addition, certain common exclusions apply to liability insurance and medical expense insurance.

- Intentional injury or damage by a covered person.
- Renting the boat to others or carrying persons or property for a fee.
- Using watercraft without a reasonable belief that the person is entitled to do so.

- Using watercraft (except sailboats) in any official race or speed test.
 - Losses covered by a workers compensation law or similar law or by a nuclear energy liability policy.
 - Property damage to property owned, rented, or used by a covered person.
 - Liability of any person while employed or engaged in the business of selling, repairing, servicing, storing, or moving watercraft.
3. Personal Yacht Insurance is a form of ocean marine insurance that is designed for larger boats such as cabin cruisers and inboard motorboats. The yacht coverage includes several coverages.
- a. Hull insurance. Hull insurance is the term used to describe physical damage coverage on the boat. In addition to the boat, the sails, tackle, machinery, furniture, and other equipment are also covered. The insurance is typically written on an 'all-risk" basis, which means all physical damage losses from external causes are covered, except those losses specifically excluded.
 - b. Protection and indemnity insurance is a form of marine liability insurance. The owner of the vessel is covered for property damage and bodily injury liability on an indemnity basis.
 - c. Additional Coverages. Several optional coverages can be added to the yacht policy:
 1. Medical payments insurance for covered persons.
 2. Possible liability of the insured to maritime workers covered under the United States Longshoremen and Harbor Workers Compensation Act who are injured in the course of employment.
 3. Boat Trailer Insurance.
 4. Land transportation insurance that covers the insured vessel while being transported by land conveyance
 5. Water skiing clause that provides liability protection if the vessel is used for water skiing, aquaplaning, or any sport in which persons or objects are being towed.

AIRCRAFT PROPERTY INSURANCE

The term "aircraft" as used in insurance is quite broad. In addition to airplanes, private and commercial, the term also applies to helicopters, hot air balloons, hand gliders, and space satellites. In many respects, aircraft insurance principles parallel those of ocean marine insurance. That is, aircraft owners need to purchase insurance to protect the hull, freight, and cargo (if commercial aircraft), and liability exposure.

The airplane itself, including its electronic equipment, is spoken of as a hull. An aircraft hull policy provides protection, either for damage done by specified perils or on an open peril basis. Remember, "open perils" does not mean all losses will be covered. It means, unless otherwise excluded, all losses will be covered.

The cost of aircraft insurance is a function of the perils covered; all-risk coverage is more expensive than specified peril coverage. Commercial insurers pay more for coverage because their planes are generally in the air more than private planes are. On the other hand, light planes are more susceptible to damage or theft while on the ground. An additional factor an insurer will consider in setting a rate is the experience and training of the airplane's pilot. In the United States, two different groupings of insurers provide most of the aircraft property (and liability) insurance. Associated Aviation Underwriters and United States Aircraft Insurance Group both write aircraft hull, aircraft liability, and airport liability insurance. Each of these groups has over thirty different member companies. These groupings or pools of insurance companies were necessary to provide the large amount of capital necessary to deal with very large loss potential in aircraft coverage combined with a relatively small number of exposure units among which losses must be predicted and spread. Lloyd's of London, either directly or through reinsurance arrangements, also plays an important role in the American (and worldwide) aircraft insurance market.

FEDERAL PROPERTY INSURANCE PROGRAMS

Federal insurance programs are often necessary because certain perils are difficult to insure privately, and coverage may not be available at affordable premiums from the private sector. Although there are numerous federal insurance programs, only the following will be covered in this section.

FEDERAL FLOOD INSURANCE

Buildings exposed to damage from a flood are difficult to insure privately without some government assistance. The requirements of an insurable risk are not easily met. The exposure units in flood-prone areas are not independent of each other, and if a flood occurs, a catastrophic loss may result. Thus, the premiums for property insurance in

flood areas would be too high for most insureds to pay. The problem of adverse selection also makes the flood peril difficult to insure privately, since only property owners in flood-prone areas are likely to seek protection.

The Federal Flood Insurance Program was created by the National Flood Insurance Act of 1968 and operates under the auspices of the Federal Insurance Administration (FIA). The purpose of the Act is to provide flood insurance at subsidized rates to persons who reside in flood areas.

Write-your-own-program. The flood insurance program originally was a joint undertaking of the federal government and private insurers. The partnership between the federal government and private insurers ended in 1978 when the federal government took over the program. However, in late 1983, the federal government enacted-write-your own-program to encourage private insurers to write flood insurance with financial assistance provided by the federal government.

Under the write-your-own program, private insurers sell flood insurance under their own names, collect the premiums, retain a specified percentage for commissions and expenses, and invest the remaining premiums. The companies service the flood insurance contracts, adjust losses, and pay their own claims. If premiums and investment income do not cover the insurers' losses, they are reimbursed for the difference. However, any profits go to the United States Treasury.

The FIA determines eligibility, rates, and coverage limitations. Agents and brokers who are not affiliated with the private insurers can write federal flood insurance directly with the National Flood Insurance Program (NFIP).

ELIGIBILITY REQUIREMENTS

Most buildings and their contents can be insured for flood insurance if the community agrees to adopt and enforce sound flood control and land use measures. When a community first joins the program, it is provided with a flood hazard boundary map that shows the general area of flood losses, and residents are allowed to purchase limited amounts of insurance at subsidized rates under the emergency portion of the program.

A flood insurance rate map is then prepared that divides the community into specific zones to determine the probability of flooding in each zone. When this map is prepared, and the community agrees to adopt more stringent flood control and land use measures, the community enters the regular phase of the program. Higher amounts of flood insurance can then be purchased at actuarial rates.

To encourage participation in the flood insurance program, lending institutions that make federally insured loans cannot approve mortgages on property in flood zones

unless federal flood insurance is purchased. Property owners in flood zones are ineligible for federal disaster relief benefits if they have not purchased flood insurance.

Finally, certain dwellings are ineligible for coverage. They include:

- homes built over water or below a high tide line,
- unanchored mobile homes in special hazard areas, and
- mobile homes placed in parks that were opened in coastal high-hazard areas after April 1, 1982.

AMOUNTS OF INSURANCE

Under the emergency program, the amount of federal insurance that can be purchased at subsidized rates is limited to \$35,000 on a single-family dwelling and \$10,000 on the contents. For other residential structures, the maximum amount of insurance is limited to \$100,000.

Under the regular program, the maximum amount of coverage for a single family home is \$185,000 and \$60,000 on the contents. Other residential structures can be insured up to \$250,000.

DEFINITION OF FLOOD

Flood is defined as a general and temporary condition of partial or complete inundation of normally dry areas from :

- the overflow of inland or tidal waters,
- the unusual and rapid accumulation of runoff or surface waters from any source,
- Mudslide.

Mudslide damage that is caused by conditions on the property or by conditions within the insured's control is not covered. A general condition of flooding must first exist. Water damage from a broken water pipe or clogged sewer is not covered. Property damage from water seepage or from the backup of sewers is covered only if the loss results from a general flooding condition.

FAIR PLANS

During the 1960s, major riots occurred in many cities in the United States, resulting in millions of dollars in property damage. Many property owners in riot-prone areas were unable to obtain property insurance at affordable premiums. This problem resulted in the creation of a FAIR plan, which were enacted into law. The basic purpose of a FAIR plan is to make property insurance available to urban property owners who are unable to obtain coverage in the normal markets. FAIR plans typically provide coverage for fire and extended-coverage insurance, vandalism, malicious mischief, and, in a few states, crime insurance and sprinkler leakage. FAIR plans exist in twenty-six states, the District of Columbia, and Puerto Rico.

FEDERAL CRIME INSURANCE

Persons residing in high crime rate areas often find it difficult to obtain crime insurance at affordable rates. For that reason, became operational in 1971. Federal crime insurance provides crime insurance at subsidized rates in the areas where the Federal Insurance Administration has determined that insurance is not available at affordable rates. Federal crime insurance can be purchases in twenty-three states, the District of Columbia, Puerto Rico, and the Virgin Islands. A servicing insurer has a contract with the Federal Insurance Administration to perform various insurance functions in selling crime insurance in a specific area. However, the Federal Insurance Administration is the actual insurer.

There are two federal crime insurance contracts:

- ❑ a residential policy
- ❑ a commercial crime policy.

The residential crime policy covers the loss of personal property from a burglary or robbery (including observed theft) while the property is on the insured premises or is in the presence of the insured.

The residential crime policy also covers damage to the insured's living quarters from a burglary or robbery, including damage to the insured's personal property. Damage to insured property away from the premises from vandalism or malicious mischief is also covered. However, damage to the building is covered only if the insured owns the building or is legally liable for damages.

Despite the high incidence of crime, federal crime insurance is not widely sold.

FEDERAL CROP INSURANCE

Federal crop insurance provides comprehensive coverage at subsidized rates for unavoidable crop losses, including those that result from hail, wind, excessive rain, drought, freezing, plant disease, snow, floods, and earthquake.

The insured is guaranteed a certain amount of crop production under the program. The guarantee is expressed in terms of bushels, pounds, or other commodity units. The program does not provide complete protection; only a maximum of 75 percent of the average production over a representative number of years is guaranteed.

TITLE INSURANCE

Title insurance protects the owner of property or the lender of money against any unknown defects in the title to the property under consideration. Defects to a clear title can result from an invalid will, incorrect description of the property, defective probate of a will, undisclosed liens, easements, and numerous other legal defects. The owner could lose the property to someone with a superior claim, or incur other losses because of an unknown lien, unmarketability of the title, and attorney expenses. Title insurance is designed to provide protection against these losses.

Title insurance policies have certain characteristics that distinguish them from other contracts.

- ❑ The policy provides protection against title defects that have occurred in the past prior to the effective date of the policy. Title insurance refers to past defects that are discovered in the future after the policy goes into effect.
- ❑ The insurer based on the assumption that no loss will occur writes the policy. Any, known title defects or facts that have a bearing on the title are listed in the policy and excluded from coverage.
- ❑ The premium is paid only once when the policy is issued. No additional premiums are required even though the policy term runs indefinitely in the future.
- ❑ The policy term runs indefinitely in the future. As long as title defect occurred before the issue date of the policy, any insured loss is covered no matter when it is discovered in the future.
- ❑ If a loss occurs, the insured is indemnified in dollar amounts up to the policy limits. The policy does not guarantee possession by the owner-, removal of any title defects, or a legal remedy against known defects

PRACTICE EXERCISE

Fill In The Blank

- 1) The _____ is designed for dwellings that are ineligible for coverage under the standard homeowners' contracts and for the persons who do not want or need a homeowners' contract.
- 2) The _____ extends the coverage contained in the basic form.
- 3) If a windstorm destroys your walls and you want to have this property removed, the cost to do so can be paid for under _____ form.
- 4) The _____ is the principal contract now used to provide comprehensive protection on valuable personal property.
- 5) Coverage of personal property is worldwide with the exception of _____.
- 6) The _____ is a special package policy for boat owners that combine physical damage insurance, medical expense insurance, liability insurance, and other coverage into one contract.
- 7) _____ Insurance is a form of ocean marine insurance that is designed for larger boats such as cabin cruisers and inboard motorboats.
- 8) _____ is addition to airplanes, private and commercial, the term also applies to helicopters, hot air balloons, hand gliders, and space satellites.
- 9) _____ insurance provides comprehensive coverage at subsidized rates for unavoidable crop losses, including those that result from hail, wind, excessive rain, drought, freezing, plant disease, snow floods, and earthquake.
- 10) _____ insurance protects the owner of property or the lender of money against any unknown defects in the title to the property under consideration.

- 11) The _____ provides extensive coverage on unscheduled personal property owned or used by the insured that is normally kept at the insured's residence.
- 12) _____ and _____ is designed for motorboat owners who have adequate personal liability insurance under the homeowner's policy but desire more comprehensive physical damage insurance on the boat.
- 13) The _____ Program was created by the National Flood Insurance Act of 1968 and operates under auspices of the Federal Insurance Administration.
- 14) _____ is defined as general and temporary condition of partial or complete inundation of normally dry area from the overflow of inland or tidal water, the unusual and rapid accumulation of runoff or surface waters from any source, and mudslide.
- 15) The _____ policy covers the loss of personal property from a burglary or robbery (including observed theft) while the property is on the insured premises or is in the presence of the insured.

Essay

- 1) List the four distinct types of potential loss exposures that are insured with ocean marine insurance policies.

- 2) In case of loss to a scheduled item, the amount paid at the time of loss is the lowest of what?

- 3) What are the two federal crime insurance contracts?

- 4) What are certain characteristics of title insurance which distinguish them from other contracts?

PRACTICE EXERCISE ANSWERS

Fill In The Blank

(1) Dwelling 77 Program (2) broad form (3) the broad form (4) personal article floater (5) fine art (6) boat owner's policy (7) Personal Yacht (8) Aircraft (9) Federal crop (10) Title (11) Personal Property Floater (12) Outboard motor and boat insurance (13) Federal Flood Insurance (14) Flood (15) Residential Crime

Essay

- 1) The hull exposures, the cargo exposures, the loss of freight, and the liability loss.
- 2) Actual cash value, reasonable cost of repairs, replacement cost, and amount of insurance.
- 3) A residential crime policy and a commercial crime policy.
- 4) The policy provides protection against title defects that have occurred in the past prior to the effective date of the policy (2) The insurer based on the assumption that no loss will occur writes the policy (3) The premium is paid only once when the policy is issued (4) The policy term runs indefinitely in the future (5) If a loss occurs, the insured is indemnified in dollar amounts up to the policy limits

4

MOTOR VEHICLE INSURANCE

Automobile accidents can cause financial and economic havoc to individuals and families. Legal liability arising out of the negligent operation of an automobile can reach traumatic levels. Medical expenses, pain and suffering, the death of a family member, and the damage or loss of property, or loss of an automobile can be devastating.

THE TORT LIABILITY SYSTEM AND AUTOMOBILE INSURANCE

Each person has certain legal rights. A legal wrong is a violation of a person's legal rights or a failure to perform a legal duty owed to a certain person or to society as a whole.

A tort is a legal wrong. A tort can be defined as a legal wrong, other than a breach of contract, for which the law allows a remedy in the form of money damages. The person who is injured or harmed (called the plaintiff or claimant) by the actions of another person (called the defendant or tortfeasor) can sue for damages.

Torts can generally be classified into three categories:

Intentional Torts. An intentional act or omission that results in harm or injury to another person or damage to the person's property. (Assault, battery, trespass, false imprisonment, fraud.)

Absolute Liability. Means that persons are liable for damages even though fault or negligence cannot be proven. (Occupational injury, blasting operations that injure another person, manufacturing of explosives, crop spraying by airplanes.)

Negligence. Negligence is a legal wrong or tort that results in harm or injury to another person. Negligence typically is defined, as the failure to exercise the standard of care required by law to protect others from harm. The meaning of the term "standard of care" is based on the care required of a reasonably prudent person. Actions are compared with the actions of a reasonably prudent person under the same circumstances. The standard of care required by law is not the same for each wrongful act.

Liability coverage is the most important part of the Personal Auto Policy. It protects a covered person against a suit or claim arising out of the negligent ownership or operation of an automobile.

AN OVERVIEW OF THE PERSONAL AUTO POLICY

The Personal Automobile Policy is designed to be the most commonly purchased insurance policy for the average family automobile. The Insurance Services Office first introduced it in 1977. The ISO form of the Personal Automobile Policy is written in simplified English, making it easier to read and understand than earlier contracts. It contains simple definitions and short sentences, highly technical terms have been eliminated, and the policy language is informal and personal.

The Personal Auto Policy emphasizes liability protection, making it the first coverage in the policy rather than the last as in the Homeowners Policy. The nature of the property covered, mobile rather than stationary makes the policies different. The potential number of non-family members using an automobile is greater than those potentially living in the family house. The possibility that the insured may drive several different non-owned automobiles also makes the Personal Auto Policy a more complicated policy with respect to defining 'the insured.'

POLICY LAYOUT

The Personal Auto Policy begins with a Declarations page. An insuring agreement, and Definitions. The Declarations identify the named insured, the vehicles covered, and the premium charged for the coverage. The insuring agreement makes the contract effective.

THE DECLARATIONS PAGE

The Declaration section is the first part of an insurance contract. Declarations are statements that provide information about the property being insured. Information contained in the declaration section is used for under-writing and rating purposes and for identification of the property to be insured. The declaration section can be found on the first page of the policy or on a policy insert. In some contracts the declarations are part of the written application that is attached to the policy. In property insurance, the declarations section contains information concerning the identification of the insurer, name of the insured, name of the insured, location of the property, period of protection, amount of insurance, amount of the premium, size of the deductible (if any), and other relevant information.

LIMIT OF LIABILITY

The Declaration page lists a single limit of liability for the insurer, such as \$1 00,000. This is the limit for all types of damage an insured may cause, including bodily injury and property damage. If judgments are greater than this limit, the insured, not the insurer, pays the excess.

The Personal Auto Policy may also be written on a split limit basis, i.e., \$50,000/\$100,000/\$25,000. With Coverage A written with split limits of \$50,000/\$100,000/\$25,000, the insurer will pay only \$50,000 to any one individual and only \$100,000 for one accident. These amounts are available for bodily injury liability. The \$25,000 indicates the amount for property damage liability.

AGREEMENT

In return for payment of the premium and subject to all the terms of this policy, we agree with you as follows:

DEFINITIONS

- A. Throughout this policy, "you" and "your" refer to:
 - 1. The "named insured" shown in the Declarations; and
 - 2. The spouse if a resident of the same household.

- B. "We," "us" and "our" refer to the Company providing this insurance. For purposes of this policy, a private passenger type auto shall be deemed to be owned by a person if leased:

1. Under a written agreement to that person; and
 2. For a continuous period of at least 6 months.
- C. Bodily injury means bodily harm, sickness or disease, including death that results.
- D. Business includes trade, profession or occupation.
- E. Family member means a person related to you by blood, marriage or adoption that is a Resident of your household. This includes a ward or foster child.
- F. Occupying means in, upon, getting in, on, out or off.
- G. Property damage means physical injury to, destruction of or loss of use of tangible property.
- H. Trailer means a vehicle designed to be pulled by a:
1. Private passenger auto; or
 2. Pickup or van.

It also means a farm wagon or farm implement while towed by a vehicle listed in 1 or 2 above.

ELIGIBLE VEHICLES

Only certain types of vehicles are eligible for coverage under the Personal Auto Policy. An eligible vehicle is a four-wheel motor vehicle (other than truck-type) that is owned by the insured or is leased by the insured for at least six continuous months.

Pickups and vans are also eligible for coverage if the vehicle is not customarily used in the insured's business or occupation other than farming or ranching. A vehicle that is owned by a family farm or ranch partnership or corporation is eligible for coverage if the vehicle is garaged principally on the farm or ranch, and other eligibility requirements are met.

A private passenger automobile owned by two or more resident relatives or two or more non-related individuals together can insure living by adding a miscellaneous type vehicle endorsement to the policy. Motorcycles, motor homes, motor scooters, golf carts, and similar vehicles can be insured under the Personal Auto Policy by adding the same endorsement to the policy.

- I. Your covered auto means:

1. Any vehicle shown in the Declarations.
2. Any of the following types of vehicles on the date you become the owner:
 - a. a private passenger auto; or
 - b. a pickup or van.
 1. This provision applies only if:
 - a. you acquire the vehicle during the policy period;
 - b. you ask us to insure it within 30 days after you become the owner; and
 - c. with respect to a pickup or van, no other insurance policy provides coverage for that vehicle.
 2. If the vehicle you acquire replaces one shown in the Declarations, it will have the same coverage as the vehicle it replaced. You must ask us to insure a replacement vehicle within 30 days only if-
 - a. you wish to add or continue Coverage for Damage to Your Auto; or
 - b. it is a pickup or van used in any "business" other than farming or ranching.
 3. If the vehicle you acquire is in addition to any shown in the Declarations, it will have the broadest coverage we now provide for any vehicle shown in the Declarations.
 4. Any "trailer" you own.
 5. Any auto or "trailer" you do not own while used as a temporary substitute for any other vehicle described in this definition which is out of normal use because of its:
 - a. breakdown
 - b. repair
 - c. servicing
 - d. loss; or
 - e. destruction

SUMMARY OF PERSONAL AUTO POLICY COVERAGES

The insuring agreement is the heart of an insurance contract. The insuring agreement summarizes the major promises of the insurer. In the insuring agreement, the company

agrees to pay any damages for bodily injury or property damage for which you are legally responsible because of an automobile accident.

LIABILITY COVERAGE

INSURING AGREEMENT

- A. We will pay damages for bodily injury or property damage for which any covered person becomes legally responsible because of an auto accident. We will settle or defend, as we consider appropriate, any claim or suit asking for these damages. In addition to our limit of liability, we will pay all defense costs we incur. Our duty to settle or defend ends when our limit of liability for this coverage has been exhausted. We have no duty to defend any suit or settle any claim for 'bodily injury' or 'property damage' not covered under this policy.

Liability coverage is generally written as a single limit that applies to both bodily injury and property damage liability. That is, the total amount of insurance applies to the entire accident without a separate limit for each person. The Personal Auto Policy can also be written with split limits. Split limits mean the amounts of insurance for bodily injury liability and property damage are stated separately.

In addition to the payment for damages for which you are legally liable, the company also agrees to defend you and pays all legal defense costs. The defense costs are paid in addition to the policy limits. However, the company's duty to settle or defend the claim ends when the limit of liability has been exhausted. Once the policy limits are paid out, the company has no further obligation to defend you. The company also has no obligation to defend any claim not covered under the policy.

Insured Persons

Coverage is provided for four groups of insureds under the liability section of the Personal Auto Policy.

- B. Insured as used in this Part means:

1. You or any "family member" for the ownership, maintenance or use of any auto or "trailer".

In Category 1 the named insured and resident family members are covered for the ownership, maintenance, or use of any auto, whether it is owned or borrowed, unless an exclusion applies.

2. Any person using "your covered auto".

Category 2 relates to any person using a covered auto. The car owner's insurance, not the driver's insurance, would pay a claim if the owner let somebody borrow his or her car. Coverage on the car involved in an accident is considered primary coverage. If the owners insurance is exhausted by the claim, then the driver could turn to his own insurer to pay the remainder of the claim until his own insurance was exhausted.

3. For "your covered auto", any person or organization but only with respect to legal responsibility for acts or omissions of a person for whom coverage is afforded under this part.
4. For any auto or "trailer", other than 'your covered auto,' any other person or organization but only with respect to legal responsibility for acts or omissions of you or any 'family member' for whom coverage is afforded under this Part. This provision (B.4.) applies only if the person or organization does not own or hire the auto or 'trailer.'

In Categories 3 and 4 some situations, people or organizations other than a driver can be sued due to a driver's negligence. In some of these instances the Personal Auto Policy will cover the liability of these people. Assume that a trade union sends a member, John, to buy some supplies for a union picnic. Also assume that John uses his own car. If an accident occurs during this trip, the Personal Auto Policy would cover the trade union's liability in a suit resulting from the accident. The union's liability arises because John was technically an agent of the union while on his way to purchase supplies for the picnic. The difference between Categories 3 and 4 is between the insured driving an owned or non-owned vehicle.

SUPPLEMENTARY PAYMENTS

In addition to our limit Of liability, we will pay on behalf of an "insured:'

1. Up to \$250 for the cost of bail bonds required because of an accident, including related traffic law violations. The accident must result in 'bodily injury' or 'property damage' covered under this policy.

Premiums on a bail bond can be paid up to \$250 because of an automobile accident that results in property damage or bodily injury. Payment would not be made for a traffic violation such as a speeding ticket except if an accident occurs.

2. Premiums on appeal bonds and bonds to release attachments in any suit we defend.

3. Interest accruing after a judgment is entered in any suit we defend. Our duty to pay interest ends when we offer to pay that part of the judgment, which does not exceed our limit of liability for this coverage.

Premiums on an appeal bond and a bond to release an attachment of property in any suit defended by the insurer are also paid as a supplementary payment. If interest accrues after a judgment is handed down, the interest is also paid as supplementary payment. However, any prejudgment interest is part of the liability limits.

4. Up to \$50 a day for loss of earnings, but not other income, because of attendance at hearings or trials at our request.
5. Other reasonable expenses incurred at our request.

You may be a defendant in a trial and be requested to testify. If you have meal or transportation expenses, they would be paid as a supplemental payment.

EXCLUSIONS

A. We do not provide Liability Coverage for any person:

1. Who intentionally causes "bodily injury" or "property damage"?

If you intentionally run over a bicycle with your car, the property damage is not covered.

2. For damage to property owned or being transported by that person.

If a suitcase or camera is damaged in an automobile accident while a person is on vacation, the damage would not be covered.

3. For damage to property:
 - a. rented to;
 - b. used by; or
 - c. in the care of; that person.

This exclusion (A.3.) does not apply to damage to a residence or private garage.

If you rent some skis that are damaged in an automobile accident, the property damage is not covered. However, if you rent a house and carelessly back into a partly opened garage door, the property damage would be covered.

4. For "bodily injury" to an employee of that person during the course of employment. This exclusion (A.4.) does not apply to 'bodily injury' to a domestic employee unless workers compensation benefits are required or available for that domestic employee.

The intent here is to cover the employee's injury under a workers compensation law.

However, a domestic employee injured during the course of employment would be covered if workers compensation benefits are not required or available.

5. For that person's liability arising out of the ownership or operation of a vehicle while it is being used to carry persons or property for a fee. This exclusion (A.5.) does not apply to a share-the-expense car pool.

There is no liability coverage on a vehicle while it is being used to carry persons or property for a fee. If bus drivers or taxicab drivers are on strike and you transport passengers for a fee, your liability coverage does not apply.

6. While employed or otherwise engaged in the "business" of:
 - a. selling
 - b. repairing
 - c. servicing
 - d. storing
 - e. parking

Vehicles designed for use mainly on public highways.

This includes road testing and delivery. This exclusion (A.6.) does not apply to the ownership, maintenance or use of "your covered auto" by:

- a. you;
- b. any family member, or
- c. any partner, agent or employee of you or any "family member."

If a person is employed or engaged in the automobile business, liability arising out of the operation of vehicles in the automobile business is excluded. The automobile business refers to the selling, repairing, servicing, storing, or parking of vehicles designed for use mainly on public highways. This also includes road testing and delivery. If an automobile mechanic has an accident and injures someone while road testing your car, your Personal Auto Policy liability coverage does not apply. However, if you are sued because you are the owner of the car, coverage applies. The intent of this exclusion is to exclude loss exposures that should be covered under the employee's liability policy, such as a garage policy.

7. Maintaining or using any vehicle while that person is employed or otherwise engaged in any "business" (other than farming or ranching) not described in Exclusion A.6. This exclusion (A.7.) does not apply to the maintenance or use of a:
 - a. private passenger auto;
 - b. pickup or van that you own; or
 - c. trailer used with a vehicle described in a. or b. above.

The purpose here is to exclude liability for commercial vehicles and trucks that are used in a business. However, if you drive your car on company business, your Personal Auto Policy liability coverage is in force.

8. Using a vehicle without a reasonable belief that the person is entitled to do so.

If your car is stolen, and someone is injured in an ensuing accident, the injured party is covered under your liability policy.

9. For "bodily injury" or "property damage" for which that person:
 - a. is an insured under a nuclear energy liability policy; or
 - b. would be an insured under a nuclear energy liability policy but for its termination upon exhaustion of its limit of liability.

A nuclear energy liability policy is a policy issued by any of the following or their successors:

- American Nuclear Insurers;
- Mutual Atomic Energy Liability Underwriters; or
- Nuclear Insurance Association of Canada.

B. We do not provide Liability Coverage for the ownership, maintenance or use of:

1. Any motorized vehicle having fewer than four wheels.

Motorcycles, motor scooters, mini-bikes, mopeds, and trail bikes are excluded under the policy, however, these vehicles can be covered by adding a miscellaneous vehicle endorsement to the policy.

2. Any vehicle, other than "your covered auto", which is:
 - a. owned by you; or
 - b. furnished or available for your regular use.

You can occasionally drive another person's car and still have coverage under your policy. If a non-owned vehicle is driven regularly or is furnished or made available for your regular use, your Personal Auto Policy liability coverage does not apply. If your employer furnishes you with a car, or a car is available for your regular use in a company carpool, the liability coverage does not apply.

3. Any vehicle, other than "your covered auto", which is:
 - a. owned by any "family member;" or
 - b. furnished or available for the regular use of any "family member".

If a son or daughter drives a non-owned vehicle on a regular basis, or the vehicle is furnished or made available for their regular use, the liability coverage does not apply.

However, this exclusion (B.3.) does not apply to your maintenance or use of any vehicle which is:

- owned by a "family member" or
- furnished or available for the regular use of a "family member".

The exclusion does apply to the named insured and spouse, or if a mother occasionally drives a car owned by another household member, i.e., a son or daughter, the mother's Personal Auto Policy provides coverage while driving her son or daughter's car.

LIMIT OF LIABILITY

- A. The limit of liability shown in the Declarations for this coverage is our maximum limit of liability for all damages resulting from any one auto accident. This is the most we will pay regardless of the number of-
1. "Insureds;"
 2. Claims made,
 3. Vehicles or premiums shown in the Declarations; or
 4. Vehicles involved in the auto accident.
- B. We will apply the limit of liability to provide any separate limits required by law for bodily injury and property damage liability. However, this provision (B.) will not change our total limit of liability.

The company's maximum limit of liability from any single automobile accident is the amount stated in the declarations. This is true regardless of the number of insureds, claims made, vehicles or premiums shown in the declarations, or vehicles involved in the auto accident.

OUT OF STATE COVERAGE

If an auto accident to which this policy applies occurs in any state or province other than the one in which 'your covered auto' is principally garaged, we will interpret your policy for that accident as follows:

- A. If the state or province has:
1. A financial responsibility or similar law specifying limits of liability for "bodily injury" or "property damage" higher than the limit shown in the Declarations, your policy will provide the higher specified limit.

If an accident occurs in a state that has a financial responsibility law with higher liability limits than the limits shown in the declarations, the Personal Auto Policy automatically provides the higher specified limits.

2. A compulsory insurance or similar law requiring a nonresident to maintain insurance whenever the nonresident uses a vehicle in that state or province, your policy will provide at least the required minimum amounts and types of coverage.

If the state has a compulsory insurance or similar law that requires a nonresident to have insurance whenever he or she uses a vehicle in that state, the Personal Auto Policy also provides the required minimum amounts and types of coverages.

- B. No one will be entitled to duplicate payments for the same elements of loss.

FINANCIAL RESPONSIBILITY

When this policy is certified as future proof of financial responsibility, this policy shall comply with the law to the extent required.

OTHER INSURANCE

If there is other applicable liability insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide for a vehicle you do not own shall be in excess over any collectible insurance.

In some cases, more than one automobile liability policy covers a loss. If other applicable liability insurance applies to an owned vehicle, the company pays only its pro rate share of the loss. The company's share is the proportion that its limit of liability bears to the total applicable limits of liability under all policies. However, if the insurance applies to a non-owned vehicle, the company's insurance is in excess over any other collectible insurance.

Medical Payments Coverage is an optional accident benefit that can be added to the Personal Auto Policy.

MEDICAL PAYMENTS COVERAGE

INSURING AGREEMENT

- A. We will pay reasonable expenses incurred for necessary medical and funeral services because of "bodily injury":
1. Caused by accident; and
 2. Sustained by an "insured"

We will pay only those expenses incurred within 3 years from the date of the accident.

The company will pay all reasonable medical and funeral expenses incurred by an insured within three years from the date of the accident. The benefits limits apply to each insured that is injured in the accident.

Medical payments coverage's is not based on fault. If you are injured in an automobile accident and you are at fault, medical payments can still be paid to you and to other injured passengers in the car.

- B. "Insured" as used in this Part means:
1. You or any 'family member:'
 - a. while "occupying;" or
 - b. as a pedestrian when struck by; a motor vehicle designed for use mainly on public roads or a trailer of any type.

The named insured and family members are covered if they are injured while occupying a motor vehicle or are injured as pedestrians when struck by a motor vehicle designed for use mainly on public roads. If a farm tractor, snowmobile, or bulldozer injures you, your injury is not covered.

2. Any other person while "occupying" "your covered auto". If an individual owns his car and is the named insured, all passengers in his car are covered for their medical expenses under his policy. However, if the insured is operating a non-owned vehicle, other passengers in the car (other than family members) are not covered for their medical expenses under his policy. The reason for this is to have the other passengers in the non-owned vehicle to seek protection under the medical expense coverage that applies to the non-owned vehicle.

EXCLUSIONS

We do not provide Medical Payments Coverage for any person for "bodily injury":

1. Sustained while 'occupying' any motorized vehicle having fewer than four wheels.

If you are injured while operating a motorcycle or moped, medical expense coverage does not apply.

2. Sustained while occupying your covered auto when it is being used to carry persons or property for a fee. This exclusion (2) does not apply to a share the expense car pool.
3. Sustained while occupying any vehicle located for use as a residence or premises.

If you own and occupy a house trailer as, a residence, medical expense coverage does not apply to injuries arising out of use of that vehicle.

4. Occurring during the course of employment if workers compensation benefits are required or available for the "bodily injury".

Coverage does not apply if the injury occurs during the course of employment and workers compensation benefits are required or available.

5. Sustained while occupying or when struck by, any vehicle (other than your covered auto) which is:
 - a. owned by you; or
 - b. furnished or available for your regular use.

The purpose here is to exclude medical payments coverage on an owned or regularly used car that is not described in the policy and for which an appropriate premium has not been paid.

6. Sustained while "occupying", or when struck by, any vehicle (other than 'your covered auto') which is:
 - a. owned by any 'family member;' or
 - b. furnished or available for the regular use of any family member.

However, this exclusion (6) does not apply to you. If a son living at home owns a car that is separately insured, and the parents are injured while occupying the son's car, the parent's medical expenses would be covered under their policy. ,

7. Sustained while 'occupying' a vehicle without a reasonable belief that that person is entitled to do so.

If a covered auto is stolen, the thief has no coverage for medical payments.

8. Sustained while occupying a vehicle when it is being used in the business of an insured. This exclusion (8) does not apply to "bodily injury" sustained while "occupying" a:

- a. private passenger auto:
- b. pickup or van that you own; or
- c. "trailer" used with a vehicle described in a or b. above.

The purpose here is to exclude medical payments coverage for non-owned trucks and commercial vehicles used in the business of an insured person. The exclusion does not apply to a private passenger auto (owned or non-owned), an owned pickup or van, or trailer used with any of the preceding vehicles.

9. Caused by or as a consequence of:
 - a. discharge of a nuclear weapon (even if accidental);
 - b. war (declared or undeclared)
 - c. civil war;
 - d. insurrection; or
 - e. rebellion or revolution.
10. From or as a consequence of the following,, whether controlled or uncontrolled or however caused:
 - a. nuclear reaction;
 - b. radiation; or
 - c. radioactive contamination.

If you are driving your car in the vicinity of a nuclear power plant and a nuclear meltdown occurs, the radiation exposure is not covered.

LIMIT OF LIABILITY

- A. The limit of liability shown in the Declarations for this coverage is that our maximum limit of liability for each person injured in any one accident. This is the most we will pay regardless of the number of:
 1. "Insureds",
 2. Claims made,
 3. Vehicles or premiums shown in the Declarations; or
 4. Vehicles involved in the accident.
- B. Any amounts otherwise payable for expenses under this coverage shall be reduced by any amounts paid or payable for the same expenses under Part A or Part C.
- C. No payment will be made unless the injured person or that person's legal representative agrees in writing that any payment shall be applied toward any settlement or judgment that person receives under Part A or Part C.

OTHER INSURANCE

If there is other applicable auto medical payments insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide with respect to a vehicle you do not own shall be excess over any other collectible auto insurance providing payments for medical or funeral expenses.

Some people drive without liability insurance. The uninsured motorists coverage is designed to pay for the bodily injury (and property damage in some states) caused by an uninsured motorist, hit-and-run driver, or by a driver whose company is insolvent.

UNINSURED MOTORISTS COVERAGE

INSURING AGREEMENT

- A. We will pay damages which an "insured" is legally entitled to recover from the owner or operator of an "uninsured motor vehicle" because of "bodily injury":
1. Sustained by an "insured" and
 2. Caused by an accident.

The owner's or operators liability for these damages must arise out of the ownership, maintenance or use of the 'uninsured motor vehicle.'

Any judgment that is for damages arising out of a suit brought without our written consent is not binding on us.

The company pays the damages that an insured person is legally entitled to receive from the owner or operator of an uninsured motor vehicle because of bodily injury caused by an accident. However, the coverage applies only if the uninsured motorists are legally liable. If the uninsured motorists are not liable, the company will not pay for the bodily injury.

- B. "Insured" as used in this Part means:
1. You or any "family member"
 2. Any other person "occupying" your covered auto
 3. Any person for damages that person is entitled to recover because of "bodily injury" to which this coverage applies sustained by a person described in 1 or 2 above.
- C. "Uninsured motor vehicle" means a land motor vehicle or trailer of any type:
1. To which no bodily injury liability bond or policy applies at the time of the accident.
 2. To which bodily injury liabilities bond or policy applies at the time of the accident. In this case its limit for bodily injury liability must be less than the

minimum limit for bodily injury liability specified by the financial responsibility law of the state in which "your covered auto" is principally garaged.

This means the maximum amount paid for a bodily injury usually is limited to the state's financial responsibility or compulsory insurance law requirements.

3. Which is a hit and run vehicle whose operator or owner cannot be identified and which hits:
 - a. you or any "family member";
 - b. a vehicle which you or any family member are occupying or
 - c. "your covered auto".

If a hit-and-run driver while occupying a covered auto, non-owned auto or while walking strikes the named insured or any family member, the uninsured motorists coverage will pay for the injury.

4. To which bodily injury liabilities bond or policy applies at the time of the accident but the bonding or insuring company;
 - a. denies coverage; or
 - b. is or becomes insolvent.

However, "uninsured motor vehicle" does not include any vehicle or equipment:

1. Owned by or furnished or available for the regular use of you or any "family member".
2. Owned or operated by a self-insurer under any applicable motor vehicle law.
3. Owned by any government unit or agency.
4. Operated on rails or crawler treads.
5. Designed mainly for use off public roads while not on public roads.
6. While located for use as a residence or premises.

EXCLUSIONS

- A. We do not provide Uninsured Motorists Coverage for "bodily injury" sustained by any person:
 1. While "occupying", or when struck by, any motor vehicle owned by you or any 'family member' which is not insured for this coverage under this policy. This includes a trailer of any type used with that vehicle.

The reason for this exclusion is to prevent “free” uninsured motorists coverage on automobiles owned by the named insured or family member.

2. If that person or the legal representative settles the “bodily injury” claim with our consent.

If a person settles a bodily injury claim without the company's consent, coverage does not apply. The purpose of this exclusion is to protect the company's interest in the claim.

3. While “occupying” “your covered auto” when it is being used to carry persons or property for a fee. This exclusion (A.3.) does not apply to a share-the-expense car pool.
4. Using a vehicle without a reasonable belief that that person is entitled to do so.

If a thief steals your car and is later injured by an uninsured motorist, the thief is not covered under your policy.

- B. This coverage shall not apply directly or indirectly to benefit any insurer or Self-insurer under any of the following or similar law:

1. workers compensation law; or
2. disability benefits law.

The uninsured motorist coverage cannot directly or indirectly benefit a workers compensation insurer or self-insurer. A workers compensation insurer may have a legal right of action against a third party who has injured an employee. If an uninsured driver injures an employee who receives workers compensation benefits, the workers compensation insurer could sue the uninsured driver or attempt to make a claim under the injured employee's uninsured motorist coverage. This exclusion prevents the uninsured motorist coverage from providing benefits to the workers compensation insurer.

LIMIT OF LIABILITY

- A. The limit of liability shown in the Declarations for this coverage is our maximum limit of liability for all damages resulting from any one accident. This is the most we will pay regardless of the number of:

1. “Insureds”
2. Claims made,
3. Vehicles or premiums shown in the Declarations; or
4. Vehicles involved in the accident.

- B. Any amounts otherwise payable for damages under this coverage shall be reduced by all sums:
1. Paid because of the "bodily injury" by or on behalf of persons or organizations that may be legally responsible. This includes all sums paid Under Part A; and
 2. Paid or payable because of the "bodily injury" under any of the following or similar law:
 - a. workers compensation law; or
 - b. disability benefits law.
- C. Any payment under this coverage will reduce any amount that person is entitled to recover for the same damages under Part A.

The amount paid under the uninsured motorist's coverage can be reduced under certain conditions. The amount paid is reduced by any sums paid by the negligent driver or organization legally responsible for the accident or by any benefits payable under a workers compensation, disability benefits, or similar law.

OTHER INSURANCE

If there is other applicable similar insurance we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide with respect to a vehicle you do not own shall be excess over any other collectable insurance.

UNDERINSURED MOTORIST COVERAGE

The underinsured motorist coverage can be added to the Personal Auto Policy to provide more complete protection. This coverage pays damages for a bodily injury caused by the ownership or operation of an underinsured vehicle. The maximum amount paid under this coverage is the underinsured motorists limit less the amount paid by the negligent driver's insurer.

Under insurance Motorist Coverage and Uninsured Motorist Coverage are exclusive and do not duplicate each other. An insured can collect on one coverage or the other, but not both.

The conditions that must be satisfied before an underinsured motorist's coverage can be written are:

1. Higher uninsured motorist coverage limits must be carried than the limits required by the state's financial responsibility or compulsory insurance law.
2. Both the uninsured and the Underinsured motorist coverages must be written for the same amount of insurance.
3. The underinsured motorist coverage must apply to all automobiles covered under the policy.

ARBITRATION

A. If an "insured" and we do not agree:

1. Whether that person is legally entitled to recover damages under this Part; or
2. As to the amount of damages;

Either party may make a written demand for arbitration. In this event, each party will select an arbitrator. The two arbitrators will select a third. If they cannot agree within 30 days, either may request that a judge of a court having jurisdiction make selection.

B. Each party will:

1. Pay the expenses it incurs; and
2. Bear the expenses of the third arbitrator equally.

C. Unless both parties agree otherwise, arbitration will take place in the county in which the "insured" lives. Local rules of law as to procedure and evidence will apply. A decision agreed to by two of the arbitrators will be binding as to:

1. Whether the "insured" is legally entitled to recover damages; and
2. The amount of damages. This applies only if the amount does not exceed the minimum limit for bodily injury liability specified by the financial responsibility law of the state in which "your covered auto" is principally garaged. If the amount exceeds that limit, either party may demand the right to a trial. This demand must be made within 60 days of the arbitrator decision. If this demand is not made, the amount of damages agreed to by the arbitrators will be binding.

PART D – COVERAGE FOR DAMAGE TO YOUR AUTO

- A. We will pay for direct and accidental loss to "your covered auto" or any "non-owned auto," including their equipment, minus any applicable deductible shown in the Declarations. We will pay for loss to "your covered auto" caused by:
1. Other than "collision" only if the Declarations indicate that Other Than Collision Coverage is provided for that auto.
 2. Collision only if the Declarations indicate that Collision Coverage is provided for that auto.

If there is a loss to a "non-owned auto", we will provide the broadest coverage applicable to any "your covered auto" shown in the Declarations.

The company agrees to pay for any direct and accidental loss to a covered auto or any non-owned auto, including its equipment, less any applicable deductible. A covered auto can be insured for both (1) a collision loss and (2) an other than collision loss (formerly called comprehensive). A collision loss is covered only if the declaration page indicates that collision coverage is provided for that auto. Coverage for an other than collision loss is in force only if the declarations page indicates that other than collision coverage is provided for that auto. If both coverages are selected, the premium for each coverage is shown separately on the declaration page.

- B. "Collision" means the upset of your covered auto or its impact with another vehicle or object.

Collision losses are paid regardless of fault. If the insured causes the accident, the insurer will pay for the damage to his car, less any deductible. If another driver damages his car, he can collect from the negligent driver (or the negligent driver's insurer), or from his insurer. If an insured collects from his own company, he must give up subrogation rights to the company.

Loss caused by the following is considered other than "collision":

- Missiles or falling objects,
- Fire,
- Theft or larceny,
- Explosion or earthquake,
- Windstorm,
- Hail, Water or Flood,
- Malicious mischief,
- Riot or Civil Commotion,
- Contact with bird or animal,
- Breakage of glass.

If breakage of glass is caused by a "collision", you may elect to have it considered a loss caused by "collision".

This is important because both coverage's (collision loss and other-than-collision loss) may be written with deductibles. Without this qualification, an insured would have to pay two deductibles if the car had both body damage and glass breakage in the same accident (assuming both coverages are elected). By treating glass breakage as part of the collision loss, only one deductible has to be satisfied.

C. "Non-owned auto" means any private passenger auto, pickup, van or trailer, not owned by or furnished or available for the regular use of you or any family member while in the custody of or being operated by you or any family member. However, "non-owned auto" does not include any vehicle used as temporary substitute for a vehicle you own which is out of normal use because of its:

1. Breakdown,
2. Repair,
3. Servicing,
4. Loss or
5. Destruction

A non-owned auto is defined as any private passenger auto, pickup, van or trailer not owned by or furnished or made available for the regular use of the named insured or family member, while it is in the custody of or is being operated by the named insured or family member.

The key point is not how frequently you drive a non-owned auto, but whether the vehicle is furnished or made available for your regular use.

Note. Part D coverages that apply to a covered auto also apply to a temporary substitute vehicle for that auto.

TRANSPORTATION EXPENSES

In addition, we will pay up to \$10 per day, to a maximum of \$300, for transportation expenses incurred by you. This applies only in the event of the total theft or "your covered auto". We will pay only transportation expenses incurred during the period:

1. Beginning 48 hours after the theft; and
2. Ending when "your covered auto" is returned to use or we pay for its loss.

Payments can be for a train, bus, taxi, rental car, or any other transportation expense.

EXCLUSIONS

We will not pay for:

1. Loss to 'your covered auto' which occurs while it is used to carry persons or property for a fee. This exclusion (1) does not apply to a share-the-expense car pool.
2. Damage due and confined to:
 - a. wear and tear;
 - b. freezing;
 - c. mechanical or electrical breakdown or failure; or
 - d. road damage to tires.

This exclusion (2) does not apply if the damage results from the total theft of "your covered auto". The intent of this exclusion is to cover tire defects under the tire manufacturer warranty and to exclude normal maintenance costs of operating an automobile.

3. Loss due to or as a consequence of-
 - a. radio active contamination;
 - b. discharge of any nuclear weapon (even if accidental);
 - c. war (declared or undeclared);
 - d. civil war;
 - e. insurrection; or
 - f. rebellion or revolution.
4. Loss to equipment designed for the reproduction of sound. This exclusion (4) does not apply if the equipment is permanently installed in "your covered auto" or any "non-owned auto".
5. Loss to tapes, records or other devices for use with equipment designed for the reproduction of sound.

An endorsement can be added that covers tapes, records, or other devices owned by the named insured or family members.

6. Loss to a camper body or "trailer" you own which is not shown in the Declarations. This exclusion (6) does not apply to a camper body or "trailer" you:
 - a. acquire during the policy period; and
 - b. ask us to insure within 30 days after you become the owner.

7. Loss to any non-owned auto or any vehicle used as a temporary substitute for a vehicle you own, when used by you or any family member without a reasonable belief that you or that family member is entitled to do so.
8. Loss to:
 - a. TV antennas;
 - b. awnings or cabanas; or
 - c. equipment designed to create additional living facilities.
 - d. Loss to any of the following or their accessories:
 - e. citizens band radio;
 - f. two-way mobile radio;
 - g. telephone; or
 - h. scanning monitor receiver,

This exclusion (8) does not apply if the equipment is permanently installed in the opening of the dash or console of "your covered auto" or any "non-owned auto." The auto manufacturer for the installation of a radio must normally use this opening.

9. Losses to any custom furnishings or equipment in or upon any pick up or van. Custom furnishings or equipment include but are not limited to:
 - a. special carpeting and insulation, furniture, bars or television receivers;
 - b. Facilities for cooking and sleeping;
 - c. height-extending roofs-, or
 - d. custom murals, paintings or other decals or graphics.

A special customizing equipment endorsement can be added that covers the excluded furnishings or equipment by payment of an additional premium.

10. Loss to equipment designed or used for the detection or location of radar.

This exclusion has been enacted because radar detection equipment is designed, and has been used, to circumvent state and federal speed laws.

11. Loss to any "non-owned auto" being maintained or used by any person while employed or otherwise engaged in the "business" of:
 - a. selling;
 - b. repairing;
 - c. servicing;
 - d. storing
 - e. parking

vehicles designed for use on public highways. This includes road testing and delivery.

The above are business loss exposures that should be covered under a commercial garage policy.

12. Loss to any "non-owned auto" being maintained or used by any person while employed or otherwise engaged in any "business" not described in exclusion (11). This exclusion (12) does not apply to the maintenance or use by you or any "family member" of a "non-owned auto" which is a private passenger auto or "trailer".

The above is a business loss exposure that should be insured by a commercial policy covering the "business". This exclusion does not apply to a non-owned auto, which is a private passenger auto or trailer.

LIMIT OF LIABILITY

- A. Our limit of liability for loss will be the lesser of the:
 1. Actual cash value of the stolen or damaged property; or
 2. Amount necessary to repair or replace the property.

However, the most we will pay for loss to any "non-owned auto" which is a "trailer" is \$500.

The actual cash value of the vehicle at the time of loss is determined by adjusting for depreciation and the physical condition of the damaged property. If the vehicle is declared a total loss, the amount paid is the actual cash value of the vehicle (less any deductible).

- B. An adjustment for depreciation and physical condition will be made in determining actual cash value at the time of loss.

PAYMENT OF LOSS

We may pay for loss in money or repair or replace the damaged or stolen property. We may, at our expense, return any stolen property to:

1. You; or
2. The address shown in this policy.

If we return stolen property we will pay for any damage resulting from the theft. We may keep all or part of the property at an agreed or appraised value.

In the case of an expensive antique or customized car, a stated amount endorsement can be inserted in the policy. This endorsement does not create a valued policy. If the stated amount of insurance is less than the actual cash value of the car, or the amount of insurance is paid, (less any deductible). If the stated amount of insurance exceeds the actual cash value of the car, or the amount necessary to repair or replace the car, the lower of these latter two figures is the amount paid (less any deductible).

NO BENEFIT TO BALLEE

This insurance shall not directly or indirectly benefit any carrier or other bailee for hire.

OTHER INSURANCE

If other insurance also covers the loss we will pay only our share of the loss. Our share is the proportion that our limit of liability bears to the total of all applicable limits. However, any insurance we provide with respect to a "non-owned auto" or any vehicle used as a temporary substitute for a vehicle you own shall be excess over any other collectible insurance.

APPRAISAL

- A. If you and we do not agree on the amount of loss, either may demand an appraisal of the loss. In this case, each party will select a competent appraiser. The two appraisers will select an umpire. The appraisers will state separately the actual cash value and the amount of loss. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two will be binding. Each party will:
 - 1. Pay its chosen appraiser; and
 - 2. Bear the expenses of the appraisal and umpire equally.
- B. We do not waive any of our rights under this policy by agreeing to an appraisal.

DUTIES AFTER AN ACCIDENT OR LOSS

- A. We must be notified promptly of how, when and where the accident or loss happened. Notice should also include the names and addresses of any injured persons and of any witnesses.

B. A person seeking any coverage must:

1. Cooperate with us in the investigation, settlement or defense of any claim or suit.
2. Promptly send us copies of any notices or legal papers received in connection with the accident or loss.
3. Submit, as often as we reasonably require to physical exams by physicians we select. We will pay for these exams.
 - a. to examination under oath and subscribe to the same.
4. Authorize us to obtain:
 - a. medical reports; and
 - b. other pertinent records.
5. Submit a proof of loss when required by us.

C. A person seeking Uninsured Motorist Coverage must also:

1. Promptly notify the police if a hit and run driver is involved.
2. Promptly send us copies of the legal papers if a suit is brought.

D. A person seeking Coverage for Damages to Your Auto must also:

1. Take reasonable steps after the loss to protect "your covered auto" and its equipment from further loss. We will pay reasonable expenses incurred to do this.
2. Promptly notify the police if "your covered auto" is stolen.
3. Permit us to inspect and appraise the damaged property before its repair and disposal.

Under no circumstances should the insured admit that he caused the accident. The question of negligence and legal liability will be resolved by the insurers involved (or court of law if necessary) and not by the insured. The insured does not have the right to admit that he is responsible for the accident.

Failure to report an accident promptly to your insurer could jeopardize your coverage if the other driver later sues you.

GENERAL PROVISIONS

BANKRUPTCY

Bankruptcy or insolvency of the "insured" shall not relieve us of any obligations under this policy.

CHANGES

This policy contains all the agreements between you and us. Its terms may not be changed or waived except by endorsement issued by us. If a change requires a premium adjustment, we will adjust the premium as of the effective date of change. We may revise this policy form to provide more coverage without additional premium charge. If we do this, your policy will automatically provide the additional coverage, as of the date the revision is effective in your state.

FRAUD

We do not provide coverage for any "insured" that has made fraudulent statements or engaged in fraudulent conduct in connection with any accident or loss for which coverage is sought under this policy.

LEGAL ACTION AGAINST US

- A. No legal action may be brought against us until there has been full compliance with all the terms of this policy. In addition, under Part A, no legal action may be brought against us until:
 - 1. We agree in writing that the "Insured" has an obligation to pay; or
 - 2. The amount of that obligation has been finally determined by judgment after trial.

- B. No person or organization has any right under this policy to bring us into any action to determine the liability of an "insured".

OUR RIGHT TO RECOVER PAYMENT

- A. If we make a payment under this policy and the person to or for whom payment was made has a right to recover damages from another we shall be subrogated to that right. That person shall do:

- 1. Whatever is necessary to enable us to exercise our rights; and
- 2. Nothing after loss to prejudice them.

However, our rights in this paragraph (A) does not apply under Part D, against any person using "your covered auto" with a reasonable belief that that person is entitled to do so.

- B. If we make a payment under this policy and the person to or for whom payment is made recovers damages from another, that person shall:

- 1. Hold in trust for us the proceeds of the recovery, and
- 2. Reimburse us to the extent of our payment.

POLICY PERIOD AND TERRITORY

- A. This policy applies only to accidents and losses which occur:
 - 1. During the policy period as shown in the Declarations; and
 - 2. Within the policy territory.
- B. The policy territory is:
 - 1. The United States of America, its territories or possessions;
 - 2. Puerto Rico; or
 - 3. Canada.

This policy also applies to loss to, or accidents involving, "your covered auto" while being transported between their ports.

TERMINATION

- A. Cancellation. This policy may be cancelled during the policy period as follows:
 - 1. The named insured shown in the Declarations may cancel by:
 - a. returning this policy to us; or
 - b. giving us advance written notice of the date cancellation is to take effect.

2. We may cancel by mailing to the named insured shown in the Declarations at the address shown in this policy:
 - a. at least 10 days notice;
 - b. if cancellation is for nonpayment of premium; or
 - c. if notice is mailed during the first 60 days this policy is in effect and this is not a renewal or continuation policy; or at least 20 days notice in all other cases.

3. After this policy is in effect for 60 days, or if this is a renewal or continuation policy, we will cancel only:
 - a. for nonpayment of premium; or
 - b. if your drivers license or that of:
 1. any driver who lives with you or
 2. any driver who customarily uses your covered auto has been suspended or revoked.

This must have occurred:

1. during the policy period; or
 2. since the last anniversary of the original date if the policy period is other than 1 year, or
- c. if the policy was obtained through material misrepresentation.
- B. Non-renewal. If we decide not to renew or continue this policy, we will mail notice to the named insured shown in the Declarations at the address shown in this policy. Notice will be mailed at least 20 days before the end of the policy period. If the policy Period is other than 1 year, we will have the right not to renew or continue it only at each anniversary of its original effective date.
- C. Automatic Termination. If we offer to renew or continue and you or your representative does not accept, this policy will automatically terminate at the end of the policy period. Failure to pay the required renewal or continuation premium when due shall mean that you have not accepted our offer.

If you obtain other insurance on "your covered auto", any similar insurance provided by this policy will terminate as to that auto on the effective date of the other insurance.

D. Other Termination Provisions.

1. If the law in effect in your state at the time this policy is issued, renewed or continued:
 - a. requires a longer notice period;
 - b. requires a special form of or procedure for giving notice; or
 - c. modifies any of the stated termination reasons;

we will comply with those requirements.

2. We may deliver any notice instead of mailing it. Proof of mailing of any notice shall be sufficient proof of notice.
3. If this policy is cancelled, you may be entitled to a premium refund. If so, we will send you the refund. The premium refund, if any, will be computed according to our manuals. However, making or offering to make the refund is not a condition of the cancellation.
4. The effective date of cancellation stated in the notice shall become the end of the policy period.

TRANSFER OF YOUR INTEREST IN THIS POLICY

- A. Your rights and duties under this policy may not be assigned without our written consent. However, if a named insured shown in the Declarations dies, coverage will be provided for:
 1. The surviving spouse if resident in the same household at the time of death. Coverage applies to the spouse as if a named insured shown in the Declarations; and
 2. The legal representative of the deceased person as if a named insured shown in the Declarations. This applies only with respect to the representative's legal responsibility to maintain or use "your covered auto".
- B. Coverage will only be provided until the end of the policy period.

TWO OR MORE AUTO POLICIES

If this policy and any other auto insurance policy issued to you by us apply to the same accident, the maximum limit of our liability under all the policies shall not exceed the highest applicable limit of liability under any one policy.

INSURING MOTORCYCLES AND OTHER VEHICLES

The personal auto policy does not provide coverage for motorcycles, motor homes or off-road vehicles. A Miscellaneous type vehicle endorsement can be added to the Personal Auto Policy to provide coverage to motorcycles, motor homes, mopeds, golf carts, dune buggies, and other vehicles not covered under this policy. Snowmobiles and large trucks however cannot be added to the policy with the miscellaneous type vehicle endorsements. It provides the same coverages that are found in the Personal Auto Policy, and it has a schedule that describes the vehicle to be covered, the limits of liability for each coverage, and the premium owed.

If the miscellaneous type vehicle endorsement is added to the Personal Auto Policy, there are certain conditions that should be brought to the policyholder attention.

First, liability coverage does not apply to a non-owned motorcycle with his permission, however, liability coverage does not apply if the insured is operating a non-owned motorcycle.

Second, property damage to a non-owned vehicle is excluded; a borrowed or rented vehicle would not be covered.

Third, a passenger hazard exclusion is available, this excludes liability for bodily injury to any passenger on the vehicle. The election of this exclusion reduces the premium.

Finally, the amount paid for any physical damage losses to the vehicle is limited to the lowest of the stated amount shown in the endorsement, (2) the actual cash value, or (3) the amount necessary to repair or replace the property (less any deductible).

APPROACHES FOR COMPENSATING AUTOMOBILE ACCIDENT VICTIMS

Financial Responsibility Laws.

This requires persons to furnish proof of financial responsibility up to certain minimum dollar limits.

Financial responsibility laws can be divided into two broad categories:

- ❑ Security-type laws, and
- ❑ Security and proof method.

Under a security-type law, a person involved in an automobile accident is required to furnish proof of financial responsibility up to certain minimum dollar limits. This can be done by purchasing an automobile liability policy for the specified limits, by posting a bond, depositing securities, or money in the amount required by law, or by showing that the person is a qualified self-insurer.

Under the security-and-proof method, the driver's license and vehicle registration can be suspended unless the involved person submits security to pay for a judgment arising out of a current accident and also shows proof of financial responsibility for future accidents. Both conditions must be met before the driver's license and registration is restored.

Some flaws in the financial responsibility laws are:

- ❑ There is no guarantee that all accident victims will be paid. Financial responsibility laws normally have no penalties other than the loss of driving privileges.
- ❑ Accident victims may not be fully indemnified for their injuries. Most financial responsibility laws require only minimum liability insurance limits. If the bodily injury exceeds the minimum limit, the accident victim may not be fully compensated.
- ❑ There may be considerable delay in compensating the accident victim if the case goes to trial.

Compulsory Insurance Laws.

These laws require the owners and operators of automobiles to carry automobile liability insurance at least equal to a certain amount before the automobile can be registered and licensed. More than half of the states has enacted some type of compulsory automobile liability insurance law as a condition for driving with within the state.

Compulsory insurance laws are considered superior to financial responsibility laws because they provide a stronger guarantee of protection to the public against loss.

However, compulsory insurance laws do have their flaws:

- ❑ A compulsory insurance law may not reduce the number of uninsured motorists. Drivers may let their insurance lapse after their vehicle is licensed.
- ❑ Compulsory laws do not provide complete protection. The laws require only a minimum amount of liability insurance, which may not meet the full needs of the victims.

- ❑ Payment to all injured persons is not guaranteed. Some injured victims may not be compensated because an out-of-state, uninsured driver injures them.
- ❑ Compulsory laws do not prevent or reduce the number of automobile accidents, which is the heart of the automobile accident problem.

Unsatisfied Judgment Funds.

Maryland, Michigan, New Jersey, New York, and North Dakota have established unsatisfied judgment funds for compensating innocent accident victims. An unsatisfied judgment fund is a fund established by the state to compensate victims who have exhausted all other means of recovery. To receive compensation from the unsatisfied judgment fund, first, the accident victim must obtain a judgment against the negligent motorist who caused the accident and must show that the judgment cannot be collected.

Second, the negligent motorist is not relieved of legal liability when payments are made out of the fund. The negligent motorist must repay the fund or lose his or her driver's license until the fund is reimbursed.

Uninsured Motorist Coverage.

The insurer agrees to pay the accident victim who has a bodily injury (or property damage) caused by an uninsured motorist, by a hit-and-run driver, or by a driver whose company is insolvent.

No-Fault Automobile Insurance.

No-fault insurance means that after an automobile accident each party collects from his or her own insurer, regardless of fault. It is not necessary to determine who is at fault and prove negligence before a loss payment is made. A true no-fault law places some restrictions on the right to sue the negligent driver who actually caused the accident. If a claim is below a certain dollar threshold, (\$2,500 for example) the motorist would not be permitted to sue but would instead collect from his or her own insurer. If the injury exceeds the threshold amount, the injured person has the right to sue the negligent driver for damages. A *verbal threshold* means that a suit for damages is allowed only in serious cases, such as those involving death, dismemberment, disfigurement, or permanent loss of a bodily member or function.

Under a pure no-fault law, the injured cannot sue at all, regardless of the seriousness of the claim, and no payments are made for pain and suffering. In effect, the tort liability system is abolished. The insured person receives unlimited benefits from his or her own insurer for medical expenses and the loss of wages. No state has enacted a pure no-fault law at this time.

Under a modified no-fault law an insured person has the right to sue a negligent driver only if the claim exceeds the monetary or verbal threshold.

An *add-on plan* pays benefits to an accident victim without regard to fault, but the injured person still has the right to sue the negligent driver who caused the accident.

Arguments for no-fault laws.

- ❑ Difficulty of determining fault. Most accidents occur suddenly and unexpectedly, and details surrounding them can seldom be accurately determined.
- ❑ Limited scope of reparations system. Smaller claims may be over paid, while serious claims may be underpaid. Small claims may be over compensated because inflated settlements cost insurers less than taking claims into court.
- ❑ Large proportion of premium dollars used to pay legal costs. For each dollar of liability insurance premium collects, 23 cents were used for the salaries and fees of defense attorneys, plaintiffs' attorneys, claims investigators, and other claim costs. Only 44 cents go to automobile accident victims to compensate them for their losses.
- ❑ Delay in payments. Large numbers of claims may not be promptly paid because of investigations, negotiations, and waiting for court dates. Seriously injured persons or their survivors had to wait an average of sixteen months for final payment from automobile liability insurance

Arguments against no-fault laws.

- ❑ the defects of the negligence system are exaggerated.
- ❑ claims of efficiency and premium savings are exaggerated.
- ❑ Safe drivers may be penalized.
- ❑ The present system needs only to be reformed.

Basic characteristics of no-fault laws.

- ❑ About half the states have some type of no-fault insurance plan in existence. The majority of states have modified no-fault plans where restrictions are placed on the right to sue.
- ❑ No-fault benefits are provided by adding an endorsement to the automobile insurance policy. the endorsement is typically called personal injury protection coverage. The following no-fault benefits are typically provided:
 - ❑ Medical expenses, usually paid up to some maximum limit.
 - ❑ No-fault benefits are made for a stated percentage of the disabled person's weekly or monthly earnings, with a maximum limit in term of time and duration.
 - ❑ Benefits are also paid for essential services expenses for certain services ordinarily performed by the injured person.
 - ❑ Funeral expenses are also paid up to some limit.
 - ❑ Survivors' loss benefits can also be paid to eligible survivors, such as a surviving spouse and dependent children.

Although no-fault laws contain some defects, the original objectives of these laws generally are being attained.

AUTOMOBILE INSURANCE FOR HIGH-RISK DRIVERS

Drivers who have difficulty in obtaining automobile insurance through normal market channels have an opportunity to obtain automobile insurance in the residual market (the shared market). In this market automobile insurers participate to make insurance available to drivers unable to obtain coverage in the standard market.

Automobile Insurance Plans (Assigned Risk Plans)

Under this arrangement, all automobile insurers in the state are assigned their proportionate share of high-risk drivers based on the amount o automobile liability insurance premiums written in the state.

First, persons applying for insurance in an automobile insurance plan must show that they have tried but were unsuccessful in obtaining automobile insurance within sixty days of the date of application.

Responsibility law requirements.

Second, the premiums paid for the insurance are substantially higher than the insurance obtained in the voluntary markets.

Finally, a company is not required to insure a high-risk driver for more than three years.

- ❑ the major advantage of the Assigned Risk Plan is that a high risk driver generally has at least one source for obtaining liability insurance.
- ❑ The major disadvantages of automobile insurance plans include then following:
 - ❑ First, despite higher premiums paid by high-risk drivers, the automobile insurance plans have incurred substantial underwriting losses.
 - ❑ Second, high premiums may cause many high-risk drivers to go uninsured.
 - ❑ Third, the driver does not have a choice of insurers.

Joint Underwriting Associations, (JUA).

A joint underwriting association is an organization of automobile Insurers operating in the state in which high-risk business is placed in a common pool, and each company pays its pro-rate share of pool losses and expenses. Florida, Hawaii, Michigan, Missouri, and New Jersey have established joint underwriting associations to make automobile insurance available to high-risk drivers.

Reinsurance Facilities.

Under this arrangement, the company must accept all applicants for insurance a both good and bad drivers. If the applicant is considered a high-risk drivers the company has the option of placing the driver in the reinsurance pool. In the past, the reinsurance facilities have experienced substantial underwriting losses.

Maryland Automobile Insurance Fund.

The Maryland Automobile Insurance Fund was created in 1973 for the purpose of providing insurance for state motorists who could not obtain insurance in the voluntary markets. The state fund came into existence because of high rates charged by private insurers, large number of motorists who had been placed in the assigned risk plan, and difficulties in obtaining insurance by high-risk drivers.

Specialty Automobile Insurers

Specialty Automobile insurers are companies that specialize in insuring motorists with poor driving records. These companies typically insure drivers who have been cancelled or refused insurance, teenage drivers and drunk drivers. The premiums are substantially higher than premiums paid in the normal or standard markets.

COST OF AUTOMOBILE INSURANCE

There are a number of major factors for determining the rates of private passenger automobile premiums.

Territory.

Each state is divided into rating territories; a large city, a suburb, or a rural area. The base rate is determined largely by the territory where the automobile is principally used and garaged.

Age, Sex, and Marital Status.

Most states permit these factors to be used in determining premiums. Age is an important rating since young drivers account for a disproportionate number of accidents. Young male drivers who own or are the principal operators of automobiles normally pay the highest rates, since this group has the highest accident rate and the most costly accidents.

Use of the Automobile

Insurers classify automobiles on the basis of the purpose for which the car is driven.

- ❑ Pleasure use; not used in business or driven to work less than a specified distance, for example, less than three miles one way.
- ❑ Driven to work; not use in business but driven less than a specified number of miles to work each day.
- ❑ Business use; customarily used in business or professional pursuits.
- ❑ Farm use; garaged on a farm or ranch, and not used in any other business or driven to school or other work..

A car classified for farm use has the lowest rating factor, using a car for business purposes requires a higher rating factor.

Driver Education

This discount is based on the premise that driver education courses for teenage drivers can reduce accidents and hold down insurance costs.

Good Student Discount

This discount is available from a limited number of companies and is based on the premise that good students are better drivers. To qualify the driver must be a full-time high school or college student and be at least sixteen years of age. A school official must sign a form certifying that the student has met the scholastic requirements.

Number and Type of Automobiles

The multi-car discount is based on the assumption that two cars owned by the same person will not be driven as frequently as only one car owned by the same person. The year, make and model of the cars also affect the cost of insurance on the car.

Individual Driving Record

Some companies offer safe driver plans where the premiums paid are based on the individual driving record of the insured and operators who live with the insured. In states that have an accident point system, the actual premium paid may be based on the total number of accumulated points assessed against the insured's driving record.

Purchase Higher Deductibles

If the insured purchases a higher deductible on collision and comprehensive insurance, the premium can be reduced by as much as twenty percent.

Improve Your Driving Record

A clean driving record covering the previous three years can substantially reduce the premiums of a high-risk driver. A conviction for drunk driving can be extremely costly when purchasing automobile insurance.

SUMMARY

Approximately \$1 00 Billion a year in damage is estimated to be caused by automobile accidents. This damage includes destroyed property, medical and funeral expenses, and the lost income of people involved in accidents.

PRACTICE EXERCISE

Fill In The Blank

- 1) A _____ is a legal wrong.
- 2) _____ are statements that provide information about the property being insured.
- 3) _____ means a person related to you by blood, marriage or adoption that is a resident of your household.
- 4) _____ means in, upon getting in, on, out of off.
- 5) _____ means a vehicle designed to be pulled by a private passenger auto, pickup or van.
- 6) Your _____ means any vehicle shown in the Declarations or any of the following types of vehicles on the date you become the owner: a private passenger auto, pickup or van.
- 7) _____ is generally written as a single limit that applies to both bodily injury and property damage liability.
- 8) If you rent skis that are damaged in an automobile accident, the property damages _____ covered.
- 9) The insurance company will pay reasonable expenses incurred for necessary medical and funeral services because of _____.
- 10) _____ is the maximum limit of liability for each person injured in any one accident.
- 11) _____ means the upset of your covered auto or its impact with another vehicle or object.
- 12) A _____ is defined as any private passenger auto, pickup, van or trailer not owned by or furnished or made available for the regular use of the named insured or family member, while it is in the custody of or is being operated by the named insured or family member.

- 13) _____ or insolvency of the insured shall not relieve us of any obligations under this policy.
- 14) _____ requires persons to furnish proof of financial responsibility up to certain minimum dollar limits.
- 15) Financial responsibility laws can be divided into two broad categories: _____ laws and security and proof method.
- 16) A/An _____ plan pays benefits to an accident victim without regard to fault, but the injured person still has the right to sue the negligent driver who caused the accident.
- 17) _____ is an arrangement in which all automobile insurers in the state are assigned their proportionate share of high-risk drivers based on the amount of automobile liability insurance premiums written in the state.
- 18) A/An _____ is an organization of automobile insurers operating in the state in which high-risk business is placed in a common pool, and each company pays its pro-rate share of pool losses and expenses.
- 19) The _____ was created for the purpose of providing insurance for state motorists who could not obtain insurance in the voluntary markets.
- 20) _____ are companies that specialize in insuring motorists with poor driving records.

Essay

- 1) Torts can generally be classified into what three categories?

- 2) The limits of liability for loss will be lesser of the what?

- 3) Insurers rate automobiles on the basis of what the purpose the car is driven. What are these classifications in which they are rated?

PRACTICE EXERCISE ANSWERS

Fill In The Blank

(1)tort(2)Declarations(3)Family member (4)Occupying (5)Trailer (6)covered (7)Liability coverage(8)is not(9)bodily injury(10)Limit of liability(11)Collision (12)non-owned auto(13)Bankruptcy(14)Financial Responsibility Laws (15)security-type(16)add-on(17)Automobile Insurance Plan or Assigned Risk Plan(18)(JUA) Joint Underwriting Association(19)Maryland Automobile Insurance Fund(20)Specialty Automobile Insurers

Essay

- 1) Intentional Torts, Absolute Liability, and Negligence
- 2) Actual cash value of the stolen or damaged property and the amount necessary to repair or replace the property.
- 3) Pleasure use, driven to work, business use, and farm use.

PUBLISHER'S NOTE

IMPORTANT NOTICE

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