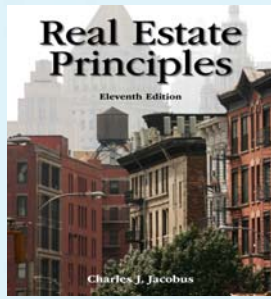


Chapter 24

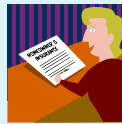
Property Insurance



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Property Insurance

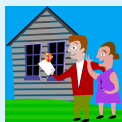
- ❖ If you own real estate, you take the risk that your property may be damaged due to fire or other catastrophe.
- ❖ Fire insurance is the foundation of property damage policies.



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Insurance Terms

- ▶ Insured = Homeowner
- ▶ Insurer = Insurance Company
- ▶ Insurance Premium = Payment



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Insured Risks – Endorsements

- | | |
|----------------|---------------------|
| ✓ Hail | ✓ Explosion |
| ✓ Tornado | ✓ Glass break |
| ✓ Earthquake | ✓ Water pipe leaks |
| ✓ Riot | ✓ Vandalism |
| ✓ Windstorm | ✓ Freezing |
| ✓ Smoke damage | ✓ Building collapse |

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Homeowner Policy

- ▶ Contains coverage deemed by insurance experts to be the most useful to persons who own the home in which they live.



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Other Insurance

- ▶ Tenant's policy – provides coverage for personal property of renter.
- ▶ Condominium policy – covers personal property of owner.



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Perils Covered

▶ Basic Form (HO-1)

- Fire & lightning
- Losses occurring during removal
- Windstorm or hail
- Explosion
- Riot or civil commotion
- Aircraft
- Vehicles
- Smoke
- Vandalism and malicious mischief
- Theft
- Breakage of glass

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Perils Covered

▶ Broad Form (HO-2)

- All Basic Form (HO-1) coverage
- Falling objects
- Weight of ice, snow, sleet
- Collapse of building
- Sudden accident due to steam or hot water heating system
- Accidental leakage of water within plumbing, heating or AC
- Freezing of plumbing
- Accidental injury to electrical appliances from bad current

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Perils Covered

▶ Comprehensive Form (HO-5)

- All perils (HO-1 plus HO-2)
- Contents covered for all perils not just basic
- DOES NOT COVER **flood**, landslide, mud flow or tidal wave
- DOES NOT COVER earthquake, underground water, settling, cracking
- DOES NOT COVER war, nuclear accident

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Perils Covered

- ▶ Special Form (HO-3)
 - ▶ Provides comprehensive coverage on dwelling (similar to HO-5)
 - ▶ Broad form coverage (HO-2) on personal property

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Perils Covered

- ▶ Tenant Form (HO-4)
 - ▶ Broad form coverage for personal property and loss of use of rental property
 - ▶ No liability coverage automatically included in policy (get your own Pitbull coverage)
 - ▶ Does not cover damage to building

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Perils Covered

- ▶ Condominium Policy (HO-6)
 - ▶ Condo Association buys insurance covering common elements
 - ▶ Personal property covered
 - ▶ Additions or alterations to unit not covered by association covered
 - ▶ Liability covered
 - ▶ Coverage for liability against the association may be needed

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Optional Endorsements

- ▶ Medical payments coverage
- ▶ Inflation guard (automatically increases property damage coverage)
- ▶ Worker compensation to cover nanny

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Amount of Recovery

- ▶ New for old
 - Full cost of repair
- ▶ Old for Old
 - Actual cash value of loss
 - New price minus depreciation

POINTER: Read policy to see if coverage pays the "*replacement cost*" or "*actual cash value*"

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Liability Coverage

- ▶ Medical Payments
- ▶ Endorsements



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Lender Requirements

- ▶ Borrower must carry fire and extended coverage
- ▶ Policy must name lender as “additional insured” or “loss payee”
- ▶ Must meet lender’s coverage requirements
- ▶ Usually require escrow of one-twelfth premium each month.
- ▶ May require “replacement cost” insurance
- ▶ Flood Insurance may be required

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Other Insurance Issues

- ▶ Policy cancellation or suspension
- ▶ Policy Takeovers
- ▶ Insurable Interests
- ▶ Home Owners Warranty (Home Buyer’s Insurance)
- ▶ Landlord Policies – Loss of rent

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Flood Insurance

- ▶ Flood = an excess of water (or mud) on land that is normally dry
- ▶ Losses are not normally covered by homeowner’s insurance
- ▶ Protecting your investment
 - Disaster relief in limited circumstances
 - Flood Insurance

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Rethinking Flood Insurance

Washington Post Editorial, Sept 21, 2005

- ▶ The theory of the program is that people who choose to live in areas prone to flooding should pay for that risk by buying insurance.
- ▶ Currently, homeowners have to buy flood insurance if they live in a flood-prone area and they have a mortgage through a federally regulated or insured lender.
- ▶ Attempting to persuade homeowners to buy coverage, the current system is subsidized; this allows people to build houses [with cheap insurance] in exposed locations.

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Home Buyer's Insurance

- ▶ Home Owners Warranty Corp. (HOW)
 - Warrants major structural defects & other defects
- ▶ Home warranty plans
 - Plumbing, electrical, heating, hot water heater
 - Reasonable cost about \$400 per year
 - Different plans for different insurers

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Key Terms

- All-risk policy
- Broad form (HO-2)
- Endorsement
- Homeowner policy
- Inflation guard
- Insurance premium
- Insured
- Loss Payee
- Medical payments
- New for old
- Old for old
- Peril
- Public liability

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