Lesson 4: Covered Perils

Homeowners Property Coverages: Perils, Exclusions and Conditions

Two approaches for describing covered causes of loss:
- **Named perils protection** covers **only** the specified causes of loss listed in the policy.
- **Open perils protection** covers **all** risks of direct physical loss **not** specifically excluded.

Four types of HO policy forms:
- **Basic Form (HO-8)** insures against only a limited list of perils. [See below.]
- **Broad Form (HO-2, HO-4, HO-6)** insures against the basic form perils plus six additional perils.
- **Special Form (HO-3)** provides:
  a. Open perils coverage on the dwelling, other structures, and loss of use; **and**
  b. Named perils coverage on personal property
- **Comprehensive Form (HO-5)** insures the dwelling, other structures, personal property, and loss of use on an open perils basis.

Perils Insured

**The Ten Basic Named Perils:**
- **Fire and lightning**—excluding all loss from man-made electricity
- **Windstorm and hail**—excluding loss:
  a. by frost, ice, or snow; **and**
  b. **loss to:**
     1) outside personal property;
     2) the building’s interior;
     3) inside personal property
     *unless the building’s exterior is first damaged by wind or hail.*
- **Explosion**
- **Riot and civil commotion**
- **Aircraft**
- **Vehicles**—but **not** loss caused by a vehicle owned or operated by a resident of the residence premises (under all homeowners policies) and, specifically, damage to fences, driveways, or walks caused by a vehicle owned or operated by a resident of the residence premises
(under HO-2, HO-3, and HO-6)

- **Smoke** (including soot, fumes, and vapors from boilers and furnaces)--but only by sudden and accidental smoke damage
- **Vandalism and malicious mischief**--excluding when the property had been vacant over 60 days immediately prior to loss
- **Theft**--but not theft:
  a. Committed by the insured;
  b. Of construction materials;
  c. Of contents from a rented part of the premises;
  d. Of watercraft, trailers, and campers;
  e. From a student’s residence that is unoccupied over 60 days; or
  f. From a secondary home **except while** the insured is living there
- **Volcanic eruption**--but not earthquake, land shock waves, or tremors

Note: The HO-8 does not cover theft of property off-premises unless it is in a bank, safe-deposit company, or public warehouse. The maximum covered theft loss under the HO-8 is $1,000. That limit can be increased with a Theft Coverage Increase Endorsement.

**The Sixteen Broad Named Perils are the ten basic named perils above, plus**

- Falling objects--This excludes loss to the building’s interior or contents unless the building’s exterior is first damaged by the falling object. There is no coverage for damage to the falling object. (If you drop your TV inside your home, there is no coverage for damage to either your floor or your TV.)
- Weight of ice, snow, or sleet--This excludes losses to awnings, fences, and exterior building property and personal property not in the building. (The HO-4 only includes damage to personal property inside a building.)
- Accidental discharge of water or steam from and damage to appliances and heating, cooling, and plumbing systems--but not after 30 days of vacancy
  This peril also includes the cost to tear out and replace damage to a non-building covered structure if a covered building was damaged by the discharge.
- Sudden and accidental tearing apart--of a steam, hot water, air conditioning, or sprinkler system including both damage to the system and damage to other covered property caused by the accident
- Freezing--of such systems, but only if the insured used reasonable care to maintain heat or to drain such system; if the dwelling is protected by an automatic sprinkler system, the insured must use reasonable
care to maintain heat and to ensure a water supply to the system.
• Damage from man-made electricity—excluding damage to electronic components

Open Perils Coverage covers all risks of direct physical loss except:
• Perils listed in the Section I Exclusions (See below)
• Collapse—*but* see Additional Coverage #8
• Freezing of a building system containing water—*unless* the insured exercised due diligence to avoid loss (if the insured tried to maintain heat or to drain the system)
• Freezing, thawing, or other pressure of water or ice to outdoor property—such as foundations and pools
• Theft of construction materials—*but* such theft is excluded *only* until the dwelling is completed and occupied
• Vandalism—to property vacant over 60 consecutive days
• Mold, fungus, and wet rot—*unless*:
  a. The condition is hidden; and
  b. Results from an accidental leak of water or steam from:
     1) Appliances and heating, cooling, and plumbing systems; or
     2) A storm drain or water, steam, or sewer pipes off the premises
• Wear and tear, marring, deterioration, inherent vice (characteristic deterioration as milk sours and iron rusts), and mechanical breakdown (Any loss which is not both sudden and accidental)
• Smoke from agricultural and industrial operations
• Pollutants—damage from solid, liquid, gaseous, or thermal pollutants *unless* the pollutants were released as a result of a Coverage C (named) peril
• Settling—of the dwelling’s foundation, patios, pavements, and building structure
• Damage caused by animals—including animals the insured owns or keeps, such as: birds, vermin, rodents, and insects, *but not* wild animals that are *not* owned by the insured and are *not* on the list of excluded animals

[Building losses that would be covered by HO-3 but not HO-2 include:
• Ceiling water stains caused by condensation on attic insulation;
• Damage to draperies caused by freezing to a plate glass window;
• Chipping of an enamel tub caused by dropping an object on the tub;
• Seepage of water at an ice dam built up at the building’s eves; and
• A young child’s “artwork” on wallpaper]

Open Peril Exclusions Specific to Coverage C of The HO-5:
• Breakage—of specific fragile items *unless* caused by the basic perils numbered 1 - 9 above, building collapse, water not otherwise excluded, or sudden and accidental tearing apart
• Dampness heat, or cold—*unless* the direct cause of loss was rain, snow, sleet, or hail
• Repairing or renovating property--other than watches, furs, or jewelry
• Collision--other than collision with a land vehicle or sinking, swamping, or stranding of watercraft and its trailers and equipment (Example: A “collision” of a dropped TV with the floor would not be covered.)
• Destruction or seizure--of personal property by government authority
• Acts or decisions--of any person, group, or government

Section I General Exclusions exclude under all Section I Coverages loss caused by:
• Ordinance or law--encompassing enforcement of any law regulating any building or affecting its value or related to cleanup of debris after a loss
• Earth movement--but ensuing loss by fire, explosion, theft, and looting are covered
• Water damage (any water at or below ground level)--but ensuing loss by fire, explosion, theft, and looting are covered
• Power failure--but power failure is covered if caused by an insured, on-premises loss
• Neglect--Simply, the insured must try to save and protect his property after a loss (as if he had no insurance).
• War
• Nuclear hazards
• Intentional loss--by or at the direction of any insured
• Governmental action--destruction or seizure of the dwelling, other structures, or personal property unless action was taken to prevent the spread of fire

Additional General Exclusions IN FORMS HO-3 AND HO-5:
1. Weather conditions--but ensuing loss by insured perils is covered
2. Acts or decisions (or failure to act or decide) by a government unit--but ensuing loss is covered if due to a covered peril
3. Faulty or defective plans, zoning, workmanship, or materials--but ensuing loss is covered if due to a covered peril

Basis Of Loss Settlement

Under Coverages A and B:
Under the HO-2, HO-3, and HO-5:
If the insured carried insurance equal to at least 80% of the cost of replacing the building (minus the value of land, excavation, foundation, and underground piping), then the insurer pays the RC (replacement cost--the cost to repair or replace the damaged building), without deduction for depreciation, subject to
• The deductible;
and
• The coverage limit.
If the insured carried **under 80%** of the replacement cost, then the insurer pays the **greater of**:
  • The actual cash value (ACV) (replacement cost less depreciation); or
  • (the amount of the loss) times (the amount of insurance carried) divided by (80% of the replacement cost), minus the deductible.
*If the replacement cost of a partial loss exceeds 5% or $2,500, then the settlement is limited to ACV less the deductible until the repair or replacement is made. These provisions are designed to prevent insureds from deliberately underinsuring.

The HO-6 provides RC coverage for Coverage A property that is repaired or replaced within a “reasonable time” based on conditions at the time of the loss. Damaged property that is **not** repaired or replaced is valued at ACV.

The HO-8 provides modified RC coverage. Payment for repairs under the HO-8 is limited to common construction materials and methods that are “functionally equivalent” to antique or custom construction. If replacement or repairs are **not** made within 180 days of the loss, the insured will be paid the **least** of the ACV loss, the policy limit, the market value of the dwelling, or the ACV of the dwelling.

**Under Coverage C:**
The basis of loss payment is ACV **minus** the deductible (**not** exceeding the amount necessary to repair or replace).

**Loss to a pair or set** is settled as the **lesser of**:
1. the cost to actually replace the damaged item; **or**
2. the value of the pair or set **before** the loss, **minus** the value of the pair or set **after** the loss

**Policy Conditions**

**General Policy Conditions:**
• Liberalization automatically broadens coverage **without** charging an additional premium if the insurer has broadened coverage for all of its homeowners policies.
• Waiver or change of provision--
  a. requires the insurer to put changes of provisions in writing; **and**
  b. preserves the insurer’s rights when the insurer requests an appraisal or examination
• Cancellation specifies the requirements for a valid policy cancellation.
• Non-renewal specifies the requirements for a valid policy non-renewal.
• Assignment invalidates any policy assignment made without the insurer’s written consent.
• Subrogation allows the insured to waive his rights to recovery if the waiver was in writing before the loss occurred.
• Death allows the insurer to cover the insured decedent’s legal representative as an insured.

Section I Conditions:

• Insurable Interest And Limit Of Liability--The insurer won’t pay more than an item’s total value. No one gets paid more than his insurable interest.
  An insurable interest exists in property, if the person would suffer a financial loss if the property were damaged or destroyed.
• Insured’s Duties after a Loss:
  a. Notify the insurer promptly.
  b. Cooperate with the insurer.
  c. Tell the police if it was a theft.
  d. Protect the property from further damage.
  e. File a signed, detailed proof of loss within 60 days of the insurer’s request.
  A proof of loss describes the loss, the property values, and the insurable interests in the property. The insured’s failure to fulfill his duties can result in denial of coverage.
• Appraisal--If the insurer and insured disagree on the amount of loss (not whether coverage applies):
  a. the insured and the insurer each choose and pay an impartial appraiser;
  b. the appraisers choose an umpire (whose cost is shared);
  c. the decision of any two appraisers binds both parties
• Other Insurance--The insurer will pay its proportionate share by limits of insurance. Homeowners policies are excess to service agreements.
• Suit Against The Insurer--The insured:
  a. can not sue the insurer more than 2 years after the loss; and
  b. must first comply with all policy provisions
• Insurer Option--The insurer may replace property instead of paying money.
• Loss Payment--Unless the policy names another person to receive payment, the insurer will make any loss payments to the insured.
• Abandonment Of Property--The insurer does not have to accept abandoned property.
• Mortgagee Clause--The insurer will make any Coverage A or B settlement check out to the insured and to the mortgage holder (if any).
  The bank is the mortgagee.
  The homeowner is the mortgagor.
The mortgagee will be notified before cancellation or non-renewal.

- **No Benefit To Bailee**--The insurer will *not* cover any professional bailee (dry cleaner, mover, or other person storing or working on insured property).

- **Recovered Property**--If property is recovered after the claim has been settled, at the insured’s option, the property may be retained by either the insured or the insurer. If the recovered property is returned to or retained by the insured, the loss payment will be adjusted based on the amount received for the recovered property.

- **Volcanic Eruption Period**--All eruptions within 72 hours are considered one eruption.

  The insured has only one deductible.

  The insurer has only one policy limit.

- **Policy Period**--excludes losses that occur outside the stated policy period

- **Concealment Or Fraud**--denies coverage for the insured that intentionally conceals or misrepresents material facts or otherwise acts fraudulently

- **Loss Payees**--Loss payees listed on the Declarations Page are included as the insured.