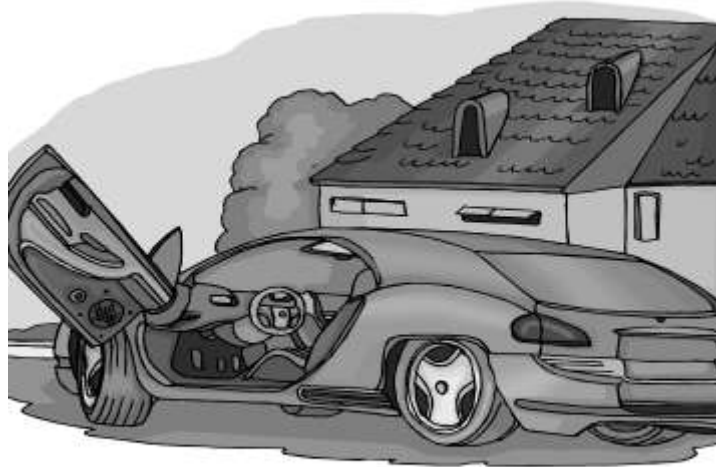


Bradley Enterprises'

Property and Casualty Manual



Property and Casualty Manual For North Carolina



This is another Bradley Enterprises' "Classroom Proven" manual!

**Unit I:
Modules 1-12**

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Module 1: Basics

Risk: chance or uncertainty of loss

Exposure = Risk

Managing Risk:

- **Avoid**
- **Control**
 - **Loss prevention: Curtail loss frequency**
 - **Risk prevention: Limit loss severity**
- **Retain risk** (*not insured*)
- **Transfer risk** (*insured*) (*Insurance is a way of transferring risk*)

Definition of insurance: A contract for transferring risk from a person, business, or organization to an insurance company that agrees, in exchange for a premium, to pay for losses through an accumulation of premiums.

Law of large numbers: the more examples used to develop any statistic, the more reliable the statistic will be.

Insurance can only be used to cover **Pure Risk** (*someone may steal something*). Insurance cannot be used to cover **Speculative Risk** (*losses in the stock market*).

Insurance contracts are Personal (*the contracts insure the person or business, not the property*).

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Elements of insurability

- **Insurable interest:** You must have an insurable interest! (*you can insure your home or business, but not your neighbor's*)
- Loss must be **definite** (*time, place, etc and difficult to falsify*)
- Risk must be **unexpected**
- Risk must be large enough to create a **financial hardship**
- Loss must be **calculable**
- Cost of insurance must be **affordable**
- Must be a **large number of persons with a similar potential loss available for insurance so that overall, losses become predictable**
- Loss **must not happen to a large number of insureds at the same time**
- **Spread of risk** (*insuring many people over large areas, not small number in a small area*)

Peril = cause of loss (*car wreck, tornado, storm, etc.*)

Hazard = anything that increase chance of loss

- **Three type of hazards:**

- **Physical hazard** (*hazard that arises from condition or occupancy of property*)
- **Morale hazard** (*careless or irresponsible behavior*)
- **Moral hazard** (*person might intentionally create a situation that would cause a loss*)

Losses

- **Economic** (*Total financial loss resulting from the death or disability of a wage earner, or from the destruction of property. Includes the loss of earnings, medical expenses, funeral expenses, the cost of restoring or replacing property and legal expenses. It does not include noneconomic losses, such as pain caused by an injury.*)
- **Direct** (*financial loss directly related to the loss of property*)
- **Indirect** (*financial loss indirectly related to the loss of property, exp: hotel burns, the owners lost the building (direct loss) and also lost the monies (indirect loss) that would have been made from guests staying over the next few months while hotel is being rebuilt.*)

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Module 2: Vocabulary

Elements of valid contract

- **Competent parties** (*parties must be of legal age and can not be nuts*)
- **Legal purpose** (*you can not enforce a contract for the sell of illegal drugs*)
- **Offer and acceptance**
- **Consideration** (*monies*)

Insurance contracts are contracts of indemnity (*putting the customer back where they were financially before the loss, within the limits of the contract*)

Vocabulary

- **Estoppel** (*being prevented from asserting a right*)
- **Accident** (*unexpected or unintended event that results in injury or loss of property*)
- **Aleatory** (*equal values are not given by both parties*)
- **Contract adhesion** (*the policy is developed by the insurance company and offered on a take it or leave it basis*)
- **Contract of utmost good faith** (*the insured depends on the insurance company to fulfill its side of the contract and the insurance company depends on the insured's statement in the application*)
- **Conditional** (*all insurance policies list the circumstances under which a policy will be paid or not paid*)
- **Unilateral Aspect of Insurance:** (*Only the insurance company is bound to performance by the insurance contract. The insured may chose to pay the premiums or not at anytime.*)
- **Waiver** (*items not covered by policy*)
- **Endorsement** (*additions to the basic policy*)

Parts of the insurance contract:

- **Declarations** (*first page of policy, name of insured, address, amount of coverage, description of property, and perils insured against*)
- **Insuring agreement** (*heart of policy, states what is covered against what, level of indemnification [how much they will pay if loss occurs]*)
- **Conditions** (*ground rules, responsibilities, and obligations*)
- **Exclusions** (*what is not covered*)
- **Definitions** (*what the words used in the contract mean*)

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Module 3: General

Types of insurance companies:

- **Stock** (*owned by stock holders – bought and sold on open stock market*)
- **Mutual** (*owned by policy holders – cash building policies receive dividends*)
 - **Assessment** (*small number of mutual companies who provide fire and windstorm insurance for small towns and farmers*)
- **Reciprocal** (*give and take, members of group share in losses*)
- **Lloyd's associations** (*example Lloyd's of London – extreme risk – space shuttle, etc.*)
- **Fraternal Benefit Societies** (*usually mutual insurance companies, have a mock form of government (lodge work) associated with them*)
- **Private, Government Insurers** (*this type of insurance is some times called residual market*) coverage provided includes:
 - **War Risk Insurance**
 - **Nuclear Energy Liability Insurance**
 - **Flood Insurance**
 - **Federal Corp Insurance**

Mono-line: *company that writes only one line of insurance*

Multi-line: *company that writes more than one line of insurance*

Lines of Insurance:

- **Property** (*covers any type of property risk*)
- **Casualty** (*covers a variety of unrelated insurance products -- examples include: aviation, auto, workers compensation, and surety bonds*)
- **Life** (*insures against premature death*)
- **Health and Disability** (*health problems and disability problems*)

Individual or Business:

- **Personal Lines** (*for individuals or family*)
- **Commercial Lines** (*for businesses*)

The Agent's Duties:

- **Selling insurance**
- **Issuing and countersigning policies**
- **Collecting premiums**
- **Providing a link between the insured and the insurance company**
- **Countersigning policies** (*signing each policy before delivery to customer*)

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- **Field underwriting** (*you are the company's first line of defense*)
- **Prepare quotations**
- **Fill-in applications**
- **Suspense or Dairy system** (*Maintain customer files*)
- **Service customer**
- **Be covered by Errors and Omission insurance** (*E and O insurance covers the insurance agent against their mistakes while writing insurance policies*)
- **An agent must:**
 - **Represent the insurance company's best interest**
 - **Obey all legal instructions from insured**
 - **Deposit customer funds in separate account**
 - **Use prudent care concerning all duties**
 - **Keep insurance company informed of all facts related to the agency relationship**

Agent Authority (*Agent or agency relationship is authorized to act on behalf of a Principle*):

- **Expressed** (*authority specifically given to an agent in writing*)
- **Implied** (*authority not formally given to an agent*)
- **Apparent** (*authority that a reasonable person assumes the agent has*)

Insurance Marketing Systems:

- **Exclusive agency system** (*or captive agency system – sell for only one company*)
- **Direct writer system** (*agents are employees of insurance company*)
- **Direct response system** (*have no agents – sold only through mail or over phone*)
- **Independent agency system** (*independent, sell for many companies, not just one company, can bind coverage*)

Insurance Professionals:

- **Brokers** (*work for the best interest of the insured, not the insurance company, also independent, can not bind coverage*)
- **Solicitor** (*can sell insurance, collect premiums, however can not counter sign policies or issue policies*)
- **Excess or surplus lines** (*have specialized insurance coverages not available from other sources*)
- **Producer** (*any person that is authorized to sell insurance products: an agent, broker, or solicitor*)
- **Consultant** (*offers insurance products for a fee, not a commission*)

Insurance Company Functions:

- **Underwriting department** (*approve, rate or reject risks*)
- **Policy issue and administration** (*the worker bees with the insurance company*):

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- Policy analyst or screener
- Assembly and filling areas
- **Claims Department:**
 - Claims adjusters or representatives
 - Independent adjusters
- **Actuarial and statistical department** (*the numbers department, includes actuaries that determine policies rates*)
- **Accounting department**
- **Investment department**
- **Legal department**
- **Audit department**
- **Loss control department**
- **Agency department**
- **Marketing department**
- **Reinsurance department**
- **Support department:**
 - Personnel
 - Training
 - Information systems
 - Administration, forms and filing
 - Building and maintenance

State Insurance Operations:

- **Each state has an insurance department with officials to enforce state rules**
 - Directors
 - **Superintends or commissionaires** (*commissionaires make up the members of the National Association Of Insurance Commissionaires, NAIC*)
- **Areas of responsibilities:**
 - Companies
 - Agents
 - Ratification
 - Enforcement (*apply the rules and regulations of the state*)
 - **Insurance companies approval**
 - **Admitted** (*or authorized to do business in the state*)
 - **Non admitted** (*or unauthorized to do business in a given state*)
- **Insurance guaranty associations** (*provides protection for public if an insurance company becomes insolvent and can not pay claims*)
- **Approval or Ratification** (*policies forms, endorsements, and rates used doing business in the state. Some states are file and use states where the insurance*

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*company only has to file forms, endorsements and rates then used them. Some states are **Open Competition** states where the only requirement is the products must be adequate, rates can not be **excessive** and the company must practice non discrimination).*

- **Rates** (*in some states rates are **mandatory***)

Location of home office affects designation of company:

- **Domestic** (*insurance company's home office is located within the state*)
- **Foreign** (*insurance company's home office is located in another state*)
- **Alien** (*insurance company's home office is located in another country*)

Insurance Rating Companies (*rates companies from A++ down to F*):

- **A. M. Best**
- **Standard & Poor**
- **Finch**
- **Moody's**

Legal requirements for agents:

- **Must be licensed by the state.**
- **Fiduciary** (*responsible with the customer's monies*)
- **Misrepresentation** (*or breach of warranty*) (*enjoined from misrepresenting insurance products*)
- **Twisting** (*it is illegal to replace a policy with one of lesser quality*)
- **Rebating** (*it is illegal to split a commission with a customer*)
- **Unfair discrimination** (*agents can not give higher or lower rates for any reason for policies that have identical coverages – also agents can not accept bribes to provide lower premiums to selected customers*)

Service Bureaus (*compile statistics, rates, financial records, operational and loss records*):

- **Insurance Service Office (ISO)**
- **The National Council on Compensation Insurance (NCCI)**
- **Surety Association of America** (*rates surety bonds*)
- **There are numerous other rating bureaus.**

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Module 4: Application

Application (= offer)

Binders (oral or written statement made by an agent for immediate protection that is valid for a specific time that provides temporary coverage. A binder does not guarantee that a policy will be issued).

Underwriting (evaluating risk):

- **Inspection services**
- **Government bureaus** (such as Bureau of Motor Vehicles)
- **Insurance industry bureaus** (such as the Automated Property Loss Underwriting System)
- **Financial information services** (such as Standard and Poor's)
- **Previous insurers**
- **The company's own claim files**
- **Fair Credit Reporting Act** (credit standing, personal character, reputation, habits, and lifestyle):
 - **Regular**
 - **Investigative** (includes data gathered through personal interviews with friends, neighbors and associates)
- **Adverse Selection** (underwriters do not want to insure people/property that have an extremely high risk, they want to avoid adverse selection)

Rating Methods:

- **Judgment Rating** (oldest way – involves pure judgment based on experience)
- **Manual Rating** (or class rating – based on manuals – Rate per unit X number of units = premium)
- **Merit Rating** (includes both judgment and manual rating methods)

Certificate of Insurance (proof the policy has been written)

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Insurance Application Facts:

- **Statements on the Application** (*are representations, not warrants of truth*)
- **Misrepresentation** (*a representation that turns out not to be true*)
- **Material fact** (*information which the insurance company will use to base the policy on*)
- **Concealment** (*not disclosing a material fact that could effect the issuing of a policy*)
- **Fraud** (*misrepresentation of material fact*):
 - **Someone deliberately lies**
 - **The intent of the lie is for someone else to rely on that lie**
 - **Another person relies on that lie**
 - **The other person suffers harm as a result of relying on that lie**

Cancellation and Non Renewal:

- **Occurs during policy period or term** (*the date the policy starts and ends*)
- **Must be by letter**
- **Return of unused premiums** (*may be returned on short rate basis which includes the cost of issuing the policy*)
- **Pro rata basis** (*in this case the company can only keep used premium*)
- **Flat cancellation** (*occurs when the policy is cancelled by either the insured or the insurer on the policy anniversary date*)

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Module 5: Policies

Policy Standardization:

- **Declaration Section**

- *This section includes the name of person or business insured; if more than one individual is named in this section the person whose name appears first may be assigned a higher level of duties and rights.*
- *Other parties' names may be included in this section as insured as well, such as Mortgagees, see Mortgage Condition.*
- *This section may also include additional insured, such as a mortgage holding company.*
- **Property coverage:**
 - **Specific Insurance:** *Description of property at a specific location may also be included.*
 - **Blanket Insurance:** *Description of property covered at any location may also be included.*
- **Policy Period** *(effective dates of policy, start and stop)*
- **Policy Territory** *(the location of the property to be covered by policy, typically included the United States, Puerto Rico and Canada)*
- **Policy Limit** *(maximum amount the company will pay):*

- **Limit of coverage**
- **Limit of insurance**
- **Limit of liability**
- **How limit is defined:**

- **Split** *(may have separate limits for BI [bodily injury] and PD [property damage])*
- **Single (or Combined)** *(may have a single limit combined for BI and PD)*
- **Per Occurrence** *(accident that occurs at specific time and place)*
- **Per Accident** *(more restrictive than per occurrence, means essentially the same thing)*
- **Per Person** *(the most that will be paid per person injured, per accident)*
- **Aggregate Limit** *(the most that will be paid for all losses, per accident)*

- **Agreed amount contract or valued** *(agreed upon values written into the contract)*

- **Deductibles** *(amount of lost that the insured must pay out-of-pocket before insurance company will cover the rest of the lost)*

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Policy Standardization *(continued)*

- **Insuring Agreements** *(defines what losses are actually covered):*
 - **Policy Coverages:**
 - **Policy coverages** *(what is covered in detail)*
 - **Additional coverages** *(or extended coverages or coverage extensions, or other coverages – may have separate limits)*
 - **Perils Insured against:**
 - **Named peril** *(or Specific peril)*
 - **Open peril** *(sometimes called all risk or special coverage)*
 - **Injuries/Damages:**
 - **Bodily Injury (BI)** *(injury, sickness, disease and death arising out of injury, sickness or disease [Accidental Death and Dismemberment is part of this coverage])*
 - **Property Damages (PD)** *(destruction of property including the loss of use of same)*
 - **Personal Injury (PI)** *(slander, libel, false arrest, and invasion of privacy)*
 - **Defense Costs** *(covers defense costs related to defending an insured against claims for BI, PD, and PI)*
 - **Prejudgment Interest** *(at the time of judgment provides retro active damage compensation as if judgment was made at time of accident – pays the difference, if any. Exp: An accident in 1999 was not settled until 2004, the value of the new 1999 car damaged is now less than in 1999 when the accident actually occurred – prejudgment interest would cover this difference).*
 - **Supplementary Payments** *(paid in excess of policy liability limits) include:*
 - **Defense cost**
 - **Claim investigation expenses**
 - **Bond premiums** *(exp. Bail bonds, appeal bonds, release of attachment bonds)*
 - **First aid to others at time of accident**
 - **Expenses for investigation or defense of claim** *(if requested by insurance company)*
 - **Lost earnings**
 - **Prejudgment interest** *(not included as part of damages)*
 - **Postjudgment interest** *(interest accruing on the judgment after an award, but prior to payment by the insurance company)*

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Policy Standardization *(continued)*

- **Conditions:**

- **Duties following loss:**

- **Notice of claim** *(must be prompt to insurance company)*
- **Protect the property from further damage**
- **Proof of loss** *(must be detailed official list of damages)*
- **Make property available for inspection**
- **Submit to examination under oath**
- **Assist during claim investigation** *(if required)*

- **Valuation** *(how losses will be paid)* **can collect the lesser of:**

- **Insurable interest**
- **Policy value**
- **Actual cash value**
- **Cost to repair**
- **Replacement cost**
- **Functional replacement cost**
- **Salvage value**

- **Liberalization Condition** *(provides for broader coverages for a specified policy and related policies without increasing premiums)*
- **Assignment Condition** *(specifies that written consent is required to transfer policy rights to anyone else, except in the case of death)*
- **No Benefit Bailee Condition** *(bailee is a person or organization that has temporary possession of personal property of another – Bailee Condition states that the bailee must be independently insured against any losses and is not covered by any policy owned by the personal property owner)*
- **Mortgage Condition** *(or loss payee condition specifies the rights and duties of the mortgagee under the policy)*
- **Contribution by equal shares** *(when property is covered by more than one insurance policy the insurance companies share equally in the loss)*

- **Exclusions:**

- **Named Peril Policy** *(any peril not specified is automatically excluded, however additional exclusions in this section may also be listed)*
- **Open Peril Policy** *(covers all perils except the one listed in this section)*
- **Five broad categories** *(commonly in all property policies):*

- **Nonaccidental losses** *(excluded because loss is certain: wear and tear, deterioration, rust, corrosion/mechanical or electrical breakdown)*
- **Losses controllable by the insured** *(excluded because loss is controllable when extra care is used: marring, scratching, breaking, or chipping)*
- **Extra-hazardous perils** *(unique peril where additional coverage is required, of course at a higher premium)*
- **Catastrophic losses** *(losses so broad in nature that they could bankrupt the company)*

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Property and Casualty Manual

Policy Standardization *(continued)*

- **Exclusions** *(continued)*
 - **Property covered in other policies** *(property normally covered by other policies, such as personal property would normally exclude your car—your car would normally be covered by an auto policy)*
 - **Limitations** *(may eliminate or reduce coverages, such as in a building left vacant for 60 days, some losses will not be covered at all, while other loss coverages will be reduced by 15%)*
 - **Other exclusions include:**
 - **Damage to property owned by the insured**
 - **Damage to property in the insured's care, custody or control**
 - **Bodily injury to an insured**
 - **Losses covered by other policies** *(such as Workers Compensation laws and Nuclear Energy Liability policies)*
 - **Injuries or damages caused intentionally by the insured**
 - **Concurrent Causation** *(refers to when two or more perils are concurrent in the loss; this creates problems when one of the perils are not covered in the policy)*
 - **Vacancy** *(absent of people and property on premises) and Unoccupied* *(absent of people) (property insurance may limit or exclude coverage for losses when the property is vacant or unoccupied.)*
- **Definitions** *(terms used in policy defined)*

Determining policy liability for loss:

- **Actual Cash Value (ACV)** *($ACV = \text{Replacement Costs} - \text{Depreciation}$ [loss of value]) (common method of determining value of loss)*
- **Repair cost** *(when loss is less than ACV)*
- **Replacement Cost** *(insurance pays the current cost for item replacement that was lost or destroyed)*
- **Functional replacement cost basis** *(insurance pays the amount to purchase an equivalent item of equivalent condition prior to lost --- used cars get used parts replaced under this method)*
- **Market Value** *(current market value of property – for example: house prices may go up or down depending on the surrounding property usage.)*
- **Coinsurance**
 - **80% Coinsurance Condition** *(means the property must be covered by at least 80% of full value – if not insured for at least 80%, partial loss payouts may be reduced proportionally. This is called coinsurance penalty)*
 - **Agreed Value or Stated amount** *(defines the value of specified items, if loss is within policy limits the policy pays full amount -- used to avoid coinsurance penalty)*

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Property and Casualty Manual

Determining policy liability for loss (continued)

- **Lost payment** (must be within a reasonable time – some policies state a specific time frame)
 - **Pair or set** (states that in the case of a loss to an item that is part of a pair or set, the insurance company is not obligated to pay the value of the entire set. The company may either repair or replace part of the set or pay the difference between the actual cash value of the property before and after the loss.)
 - **Salvage and Abandonment Compared**
 - **Salvage** (insurance company may take possession of damaged goods after payment of claim, salvaged goods are used to reduce the costs to the insurance company for the payment of claim)
 - **Abandonment** (the insured is not allowed to abandon their damaged property to the insurance company and then demand payment)
 - **Subrogation** (the transfer of the insured's right of recovery against others to the insurance company) May also be called Transfer of Right of Recovery Against Others to Us
- **Appraisal Condition** (either party may demand an appraisal on the item in question – if both parties choose a separate appraiser the appraisers choose an umpire to settle any differences in the appraisals results – insured pays for his own appraiser fees and half of the fees for the umpire)
 - **Arbitration Condition** (similar to appraisal condition, however it is not limited to disputes of the value of the loss, such as disputes arising from liability insurance claims between two insurance companies)
- **Other insurance** (when two or more insurance companies cover the same loss. Other Insurance is also called: Other Sources of Recovery or Insurance Under Two or More Coverages)
 - **Primary Insurance** (the company responsible for the majority of the loss)
 - **Excess Insurance** (the secondary company or companies that pay for the excess of the loss that the primary insurance company did not pay)
 - **Pro Rata Method** (most common method of resolution when other insurance companies are involved in a given claim. Example: \$10,000 loss --- one insurance policy coverage is \$50,000 [we will call this policy A]; the other insurance company policy coverage is for \$100,000 [we will call this policy B]:

$$\text{liability limit of policy A} / (\text{liability limit of policy A} + \text{liability limit of policy B}) \times \text{amount of loss} = \text{amount to be paid to policy A}$$

exp solved: $\$50,000 / (\$50,000 + \$100,000) \times \$10,000 = \$3,333.33$

$$\text{liability limit of policy B} / (\text{liability limit of policy A} + \text{liability limit of policy B}) \times \text{amount of loss} = \text{amount to be paid to policy B}$$

exp solved: $\$100,000 / (\$50,000 + \$100,000) \times \$10,000 = \$6,666.66$

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Property and Casualty Manual

Determining policy liability for loss *(continued)*

- **Reporting Forms**
 - **Non reporting forms** *(charge a flat premium. For example: auto and home insurance)*
 - **Reporting forms** *(charge a deposit premium or estimated premium and periodically the insured submits an updated report to the insurer concerning the status of factors on which the premium is based, information is used to determine current/future cost of insurance – when the deposit is used up the insured then pays premium calculated at the end of each reporting period. Insurer may require a premium audit to making any final adjustment prior to determining a final premium.)*

Other

- **Monoline Policies:** An insurance policy that provides coverage for a single line of insurance.
- **Package Policies:** includes two or more lines or types of coverage in a single contract. Examples: Homeowner's (including property and personal liability) and special multiple peril policies (including commercial property and liability).

Bradley Enterprises'

Property and Casualty Manual

Module 6 :

Liability

Liability Insurance:

- **Purpose of Liability Insurance** (*protect an insured from financial losses arising out of liability claims by transferring the risk to insurance company.*)
- **Liability losses** (*also known as third party losses. Losses that occur from actions toward other people or their property.*)
- **Tort** (*civil wrong that violates the rights of another: intention or unintentional*)
- **Negligence** (*lack of reasonable care that is required to protect others from the unreasonable chance of harm.*)

Four factors required to establish negligence:

- **Legal duty owed** (*as a general rule: each person owes a duty to another to protect the other's rights and property--- sometimes known as the reasonable person rule – sometimes expressed as **degree of care** or **standard of care**. Degree of care can vary based on who the individual is; an invitee has much more responsibility than that of a trespasser.)*
- **Breach of legal duty owed**
- **Proximate cause** (*the action(s) that caused the loss*)
- **Damages** (*without damages there can be no finding of negligence*)
- **Defenses against Negligence:**
 - **Contributory** (*in some states if a person contributes to their own damages in any way, another party can not be held liable*)
 - **Comparative** (*in other states if both parties contribute to a loss, awards are based on the extent to which each party was negligent*)
 - **Assumption of Risk** (*in some states if a person knowingly exposes themselves to danger or injury they may not be able collect damages. Exp: spectators injured at racing events*)
 - **Intervening Cause** (*an event that changes the sequence of events leading to a loss – intervening cause becomes the **proximate cause** of the loss*)
 - **Statutes of Limitations** (*if lawsuits are not filed within a time specified under law, the lawsuit will not be legally valid*)
- **Absolute Liability** (*or strict liability*) (*imposed by law on individuals involved in certain activities involving:*
 - *Dangerous materials*
 - *Hazardous operations*
 - *Dangerous animals*)

Bradley Enterprises'

Property and Casualty Manual

- **Vicarious Liability** (or imputed liability) (liability arrived at because of the actions of an individual under the control of another. For exp: employer being held responsible for an accident one of their employees had while on company time)

Liability Insurance (continued)

The Parties Involved in the Loss:

- **First Party** (the insured)
- **Second Party** (insurance company representing the insured)
- **Third Party** (the person suffering the injury)

Damages/losses:

- **Third Party Losses** (again: liability losses are known as Third Party Losses)
- **Damages** (monetary compensation)
 - **Compensatory Damages** (reimbursement for actual losses):
 - **Special** (includes all direct and specific expenses; exp. Medical, funeral, lost wages, etc).
 - **General** (pain, suffering, and disfigurement; exp. Court sometimes awards damages that are punitive or exemplary for wantonly or willfully committed acts).

Bradley Enterprises'

Property and Casualty Manual

Module 7 : Dwelling

Dwelling Insurance (*protects individuals from financial loss resulting from loss of their dwelling and personal property*)

- **Home owners policies** (*provides both property and liability coverages; unendorsed Dwelling policies provide property coverage only*)
- **Dwelling policies** (*provides more limited Property coverages than Home owners policies*)

Dwelling policies may include small businesses (*may include **incidental** business and professional occupancy – must involve service as opposed to sales and involve no more than two people working on premises at any one time. Exp. includes beauty parlor, photography studios and professional offices.*)

Dwelling 89 policy (*issued by Insurance Services Office (ISO)*)

- **Basic form** (*also known as DP-1 or DP 00 01*):
 - **Coverage A – Dwelling** (*covers dwelling and other attached structures, materials, supplies used for construction or repair and outdoor equipment used to service premises*).
 - **Coverage B – Other Structures** (*other structures on premises connected only by fences, utility line or similar connection – separate structure may not be used for commercial, manufacturing or farming purposes*).
 - **Coverage C – Personal Property** (*personal property usually at the dwelling place*).
 - **Automatic removal** (*covers property being moved from old location to new and is based on the amount of property at each location*).
 - **Exclusions include:**
 - *Personal property owned by guest or servants.*
 - *Money, securities, manuscripts, bullion, currency, accounts, deeds, and evidences of debt.*
 - *Bank notes, coins, gold other than gold ware, letters of credit, medals, personal records, platinum, silver other than silverware, ticket, and stamps.*
 - *Books of accounting, drawings and other paper records, electronic data processing tapes, wires, records, discs or other software media (does not apply to blank recording or storage media or prerecorded media).*
 - *Credit cards and fund transfer cards.*
 - *Aircraft*

Bradley Enterprises'

Property and Casualty Manual

Dwelling 89 policy (continued)

- *Motor vehicles; other than motorized equipment used to maintain the premises*
- *Boats; other than rowboats and canoes*
- **Coverage D** *(fair rental value if structure is uninhabitable and insured can not collect normal rent on property due to damage – losses are limited to 10% of dwelling coverage and is further limited to two weeks if civil authority prevents use of undamaged property due to damage of other near by property).*

○ **Covered perils:**

• **Automatically covered perils include:**

- **Fire**
- **Lightning**
- **Internal explosion**

• **Extended peril coverages include:**

- **Riot**
- **Explosion**
- **Vehicles**
- **Smoke**
- **Hail**
- **Civil commotion**
- **Aircraft**
- **Windstorm**
- **Volcanic eruption**
- **Vandalism and malicious mischief (V&MM)** *(exclusions include:*

- *Damage to glass parts of a building other than glass building blocks*
- *Losses by theft [does cover building damages caused by burglars]*
- *Vandalism to a building that has been vacant for more than 90 consecutive days)*

○ **Other coverages:**

- **Other Structures** *(provides that up to 10% of the Coverage A limit may be used to cover losses to other structures. You may also hear the term appurtenant structures used to describe other structures.)*
- **Debris Removal** *(pays for the expense of removing debris resulting from a loss that is covered by the policy.)*
- **Property Removed** *(covers loss to property that occurs while the property is being removed to protect it from a covered peril. [This is not the same as automatic removal, which extends personal*

Bradley Enterprises'

Property and Casualty Manual

property coverage to property moved to another residence.] In the Basic form, property removed is covered for five days.)

- **Reasonable Repairs** *(pays for the reasonable costs to make necessary repairs to protect property from further damage following a covered loss.)*
- **Improvements, Alterations and Additions** *(provides coverage for insureds who are tenants for improvements or alterations to the dwelling made at the tenant's expense. Up to 10% of the Coverage C limit is available for this coverage.)*
- **Fire Department Service Charge** *(pays up to \$500 for fire department charges incurred when the fire department is called to save or protect covered property from a peril insured against. No deductible applies to this coverage.)*
- **Worldwide Coverage** *(provides 10% of the Coverage C limit for personal property while it is located anywhere in the world. An example is clothing that the insured takes on vacation.)*
- **Rental Value** *(provides 10% of the Coverage A limit for loss of fair rental value, payable at 1/12th of the 10% limit for each month the described location is unfit for its normal use.)*

○ Exclusions:

- Losses resulting from ordinances or laws that require more elaborate or expensive reconstruction or demolition than was used in the original structure. *(Replacing a dwelling's regular glass with safety glass is covered.)*
- Losses resulting from earth movement, except for direct loss by fire or explosion resulting from earth movement.
- Water damage in general, including flooding, water backing up into a building and water leaking or seeping from below the ground.
- Losses due to power interruption that occurs away from the insured location.
- The insured's failure to save and preserve property after a loss, or to protect it from loss.
- War
- Nuclear hazard
- Losses caused by the insured or by someone else at the insured's direction.

○ Conditions:

- **Loss Settlement condition** *(states that covered property losses are valued at actual cash value, but not to exceed the amount necessary to repair or replace.)*

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Bradley Enterprises'

Property and Casualty Manual

Dwelling 89 policy *(continued)*

- **Our Option condition** *(gives the insurer the right to repair or replace damaged property with equivalent property within 30 days of receiving the insured's statement of loss.)*
- **Deductible clause** *(which is actually listed in the Declarations, states that only the amount of loss over the deductible will be paid, up to the limit of liability.)*
- **Pair Or Set condition** *(states that in the case of a loss to an item that is part of a pair or set, the insurance company is not obligated to pay the value of the entire set. The company may either repair or replace part of the set or pay the difference between the actual cash value of the property before and after the loss.)*
- **Loss Payment condition** *(states that the loss will be paid within 30 days after reaching an agreement with the insured.*
- *The Other Insurance condition states that if a loss is also covered by other insurance, the insurance company will pay only its proportion of the loss.)*
- **Recovered Property condition** *(states that if the insured or insurer recovers property on which the insurer has made loss payment, the other party must be notified. The insured may have the property returned, in which case the loss payment will be adjusted, or allow the company to have it.)*
- **Broad form** *(also known as DP-2, DP 00 02) (is a named peril policy similar to the Basic Form that lists the perils that dwellings, other structures and personal property are insured against. The Broad form automatically covers all of the standard and optional perils available on the Basic form—fire, lightning, the extended coverage perils, and vandalism and malicious mischief.)*
- **Basic Policy coverages included:**
 - **Coverage A – Dwelling** *(same as DP-1)*
 - **Coverage B – Other structures** *(same as DP-1)*
 - **Coverage C – Personal Property** *(same as DP-1)*
 - **Coverage D – Fair Market Value** *(same as DP-1)*
 - **Coverage E – Additional Living Expenses** *(unique with DP-2 and DP-3) (pays for additional living expenses the insured incurs after a covered loss, including reasonable motel, dining, laundry, and transportation. Covering the time needed to effect repairs or replacement. Limited to two weeks if civil authority prevents use of undamaged property due to damage of other near by property. Note: coverage can be added to DP-1 as an endorsement).*

Bradley Enterprises'

Property and Casualty Manual

Dwelling 89 policy (continued)

- **Trees, Shrubs, and Other Plants** (unique with DP-2 and DP-3) (pays up to 5% of the Coverage A limit for damage to trees, shrubs, plants, or lawns caused by a specified list of perils. Limited to \$500.00 maximum per tree, shrub or plant.)
- **Collapse** (pays for the collapse of the dwelling caused by a specific list of perils.)
- **Glass or Safety Glazing Materials** (unique with DP-2 and DP-3) (pays for the breakage of glass or safety glazing material and damage to covered property caused by glass breakage.)
- **Extended Property Removal Time** (unique with DP-2 and DP-3) (extends the time for property removal listed in DP-1 [5 days] to 30 days.)
- **Replacement Cost Coverage** (unique with DP-2 and DP-3) (losses of personal property are settled at actual cash value. Losses to dwelling and other structures are settled at replacement cost [no deduction for depreciation as long as insured carries insurance equal to 80% or more of the full replacement cost of the building at time of loss.] If the insured does not carry enough insurance to qualify for replacement cost coverage, they will be paid:
 - The actual cash value, or
 - A portion of the replacement cost--- whichever is larger).

- **Broad form broadens some perils covered under the Basic form and adds additional perils:**
 - Damage to covered property caused by burglars (does not apply to theft of property)
 - Weight of ice, snow or sleet
 - Falling objects
 - Freezing of plumbing, heating, air conditioning, or automatic fire protective sprinkler systems and household appliances.
 - Sudden and accidental tearing apart, cracking or burning of steam or hot water heating, air conditioning, or automatic fire protective sprinkler systems and water heaters.
 - Sudden and accidental damage from artificially generated electrical current (does not include damage to a tube, transistor or similar electrical component).
 - Accidental discharge of water or steam at the described location from within a plumbing, heating, air conditioning, or automatic fire protective sprinkler system or household appliance).

Bradley Enterprises'

Property and Casualty Manual

Dwelling 89 policy *(continued)*

- **The Broad form also expands coverage for two perils:**
 - *The vehicles peril covers damage to fences, driveways and walks when the vehicle is driven by someone who is not a resident of the insured's household. It also covers damage to other types of property when the vehicle is driven by an insured or a resident of the insured's household.*
 - *The smoke peril includes loss caused by fireplace smoke.*

- **Miscellaneous:**
 - **Ice** *(The weight of ice, snow or sleet peril does not cover damage to awnings, fences, patios, pavement, swimming pools, foundations, retaining walls, bulkheads, piers, wharves, or docks.)*
 - **Falling Objects** *(The falling objects peril does not include damage to awnings, fences, outdoor equipment, or outdoor radio and television antennas, including their lead-in wires, masts and towers. Damage to a building's interior or its contents is covered only if the falling object first damages the roof or an exterior wall.)*
 - **Discharge and Overflow** *(The accidental discharge or overflow peril does not include damage resulting from continuous or repeated leakage/seepage, or freezing/damage to the system or appliance itself.)*
 - **Burglar and Accidental Discharge** *(The burglars and accidental discharge perils are not covered if the building has been vacant for more than 30 consecutive days.)*
 - **Freezing** *(Freezing is not covered when the dwelling is vacant, unoccupied or under construction unless reasonable care was taken to maintain heat in the building or to shut off the water and drain the systems and appliances.)*

- **Special form (DP-3, DP 00 03)** *(provides open peril coverage on the dwelling and other structures, insuring against all risks of direct physical loss that are not specifically excluded in the policy. Personal property is covered on a named peril basis—the same perils listed in the DP-2.)*

• Under Coverages A and B, the Special form excludes:

- *All property, losses and perils not covered due to limitations of the general exclusions (as described earlier in relation to the Basic form) and the insuring agreement.*
- *Any loss involving collapse, other than as provided in the Other Coverages section.*
- *Freezing of a plumbing, heating, air conditioning, or automatic fire protective sprinkler system or a household appliance, or overflow due to*

Bradley Enterprises'

Property and Casualty Manual

freezing while the dwelling is vacant, unoccupied or under construction, unless reasonable care was taken to maintain heat in the building or to shut off the water supply and drain the systems and appliances.

- *Freezing, thawing, pressure, or weight of water or ice to fences, pavement, patios, swimming pools, foundations, retaining walls, bulkheads, piers, wharves, or docks.*
- *Theft in or to a dwelling or structure under construction, or theft of any property that is not part of a covered building or structure.*
- *Damage by wind, hail, ice, snow, or sleet to outdoor radio and television antennas and aerials, including their lead-in wires, masts or towers, and damage by these same perils to lawns, trees, shrubs, or plants.*
- *Vandalism, malicious mischief, theft, and attempted theft if the dwelling had been vacant for more than 30 consecutive days at the time of loss.*
- *Constant or repeated seepage or leakage of water or steam over a period of time from a plumbing, heating, air conditioning, or fire protective sprinkler system or from a household appliance.*
- *Gradual and expected losses, such as wear and tear, deterioration, inherent vice, latent defect, mechanical breakdown, smog, rust, corrosion, mold, wet or dry rot, and smoke from agricultural smudging or industrial operations.*
- *Discharge, dispersal, seepage, migration, release, or escape of pollutants, such as smoke, vapor, soot, fumes, acids, alkalis, chemicals, and waste.*
- *Settling, shrinking, bulging, or expansion, including resulting cracking of pavements, foundations, walls, floors, roofs, or ceilings.*
- *Loss caused by birds, vermin, insects, and domestic animals.*

Note 1: If a loss that is not otherwise excluded involves water damage from a plumbing/heating, air conditioning, or fire protective sprinkler system or household appliance, the policy covers the loss caused by water and the cost of tearing out and replacing any part of a building necessary to repair the system or appliance. Loss to the system or appliance itself is not covered.

Note 2: The DP-1, DP-2 and the DP-3 cover breakage of glass or safety glazing material that is part of a building, storm door or storm window that results from earth movement.

Bradley Enterprises'

Property and Casualty Manual

Dwelling 89 policy (continued)

- **Endorsements:**

- **Broad Theft coverage** (adds coverage for theft of personal property to the dwelling policy. May be written for owner-occupied dwelling or an apartment [rental property] occupied by a tenant who is the named insured. Covers theft, attempted theft, and Vandalism and Malicious Mischief [V&MM] as the result of theft or attempted theft... not covered if dwelling has been left vacant for more than 30 days prior to loss. Property is covered on or off premises with separate limits for each.... Off premises is only offered in conjunction with "on premises" policies. The following property is NOT covered:
 - Animals, birds and fish.
 - Credit cards and fund transfer cards.
 - Property while it is in the mail.
 - Aircraft and parts, other than model or hobby aircraft.
 - Property held as a sample or for sale or delivery after sale.
 - Property separately described and specifically insured by other insurance.
 - Property of tenants, roomers and boarders that are not related to an insured.
 - Business property of an insured or residence employee.
 - Property that is in the custody of a laundry, tailor or cleaner (except for loss by burglary or robbery).
 - Motor vehicles and their equipment (does not apply to vehicles used to service the location or to assist the handicapped).
- **Personal Liability and Medical Payments to Others** (may be purchased as an endorsement or separate policy.)
- **Coverage L – Personal Liability** (covers damages that the insured becomes legally obligated to pay resulting from a covered bodily injury or property damage claim).
- **Coverage M – Medical Payments to Others** (the insurer will pay all necessary medical expenses incurred within three years of an accident that causes bodily injury. This coverage applies to injuries:
 - Sustained while the injured party is on the insured location with the insured's permission; or
 - Sustained while the injured party is off the insured location if the injury arises out of a condition:
 - On the insured location
 - Caused by the activities of the insured
 - Caused by an animal in the insured's care)

Note: There is a limit of \$1,000 per person under this coverage. The insured does not have to be legally liable for coverage to apply. Coverage

Bradley Enterprises'

Property and Casualty Manual

does not apply to any injury sustained by the insured or the insured's family members.

- **Additional Coverages**
 - **Personal Liability And Medical Payments To Others** (*coverage also includes three additional coverages: **Claim Expenses, First Aid To Others and Damage To Property Of Others.***) Losses under these coverages are paid in addition to the limit of liability.

Covered claim expenses include:

- *Defense costs.*
- *Court costs charged against an insured in any suit the insurer defends.*
- *Premiums on bonds that do not exceed the Coverage L limit and that are required in a suit defended by the insurer.*
- *Reasonable expenses incurred by the insured at the insurer's request while assisting in the claim investigation or defense, including up to \$50 per day for lost earnings.*
- *Post judgment interest.*
- ***Damage to Property of Others** is limited to \$1,000 (with losses arising from hovercraft accidents specifically excluded).*

Note: Expenses for first aid to others are covered when they are incurred by the insured for bodily injury to others that is covered by the policy. If the insured causes damage to the property of others, the policy will provide replacement cost coverage of up to \$500 per occurrence.

- **Exclusions** (*Bodily injury or property damage arising out of the following are excluded under both Coverage L and Coverage M*):
 - *War*
 - *Losses that are expected or intended by the insured.*
 - *Business pursuits or the rendering of or failure to render professional services.*
 - *Transmission of a communicable disease by an insured.*
 - *Sexual molestation, corporal punishment or physical or mental abuse.*
 - *Use, sale, or possession of controlled substances, other than the legitimate use of prescription drugs.*
 - *Rental of a premises that would not be eligible for coverage under the policy.*
 - *A premises owned by or rented to the insured or rented by the insured to others that is not considered an insured location.*

Bradley Enterprises'

Property and Casualty Manual

Dwelling 89 policy *(continued)*

- *Ownership, maintenance, use, loading, or unloading of most types of watercraft, aircraft or vehicles.*

- **Additional exclusions to Coverage L** *(include liability):*
 - *For damage to property owned by an insured.*
 - *For damage to property rented to, occupied or used by, or in the care of an insured (unless the loss is caused by fire, smoke or explosion).*
 - *For losses that would be covered under a Workers Compensation or similar law.*
 - *For loss assessments charged against the insured as a member of an association, corporation or community of property owners.*
 - *Assumed under most contracts or agreements.*
 - *For injury to the insured or any relative or minor who resides in the same household.*

- **Coverage M does not apply to bodily injury:**
 - *To a residence employee that occurs off the insured location and does not arise out of or in the course of work the employee performs for the insured.*
 - *Due to any nuclear hazard.*
 - *To any person other than a residence employee who regularly resides on any part of the insured location.*

- **Other Optional Dwelling Endorsements:**
 - **Automatic Increase In Insurance:** *Provides an annual increase in the Coverage A amount of 4%, 6% or 8%.*
 - **Dwelling Under Construction:** *When the intended occupant of a dwelling under construction is the named insured, this endorsement is attached to the Dwelling policy to provide coverage. The limit of liability that applies at any given time is a percentage of the policy limit based on the value of the partially completed home. The available policy limit increases as construction of the home progresses.*

Module 8 :

Homeowners

Homeowners Policies (*multi-line or package policies – provides both Property and Liability coverage*):

- **Section I** (*property insurance*):
 - **Coverage A – Dwelling** (*same as DP-1*) (*insured for non-business purposes only, except incidental business described earlier*).
 - **Coverage B – Other structures** (*same as DP-1*)
 - **Coverage C – Personal Property** (*provides coverage for personal property owned or used by an insured while it is anywhere in the world. At the insured's request, coverage will also apply to property owned by others while in the part of the residence premises occupied by the insured or to the property of a guest or residence employee while in any residence occupied by the insured.*

Property normally kept at a residence other than the residence premises shown in the Declarations is covered for up to 10% of the Coverage C limit or \$1000, whichever is greater. However, this restriction does not apply to property being moved from the residence premises to a new principal residence or while living in a temporary residence while repairs are made to principle residence.

- **Excluded Classes of Property:**
 - *Animals, birds or fish*
 - *Motorized vehicles or aircraft, including equipment and accessories.*
 - *Property of boarders*
 - *Property in an apartment held for rental by the insured.*
 - *Paper or electronic records containing business data, except for prerecorded programs available on the retail market.*
 - *Property rented to others off the residence premises.*
 - *Credit cards*
- **Special Limits Of Liability** *Certain classes of personal property have special limits of liability that are lower than the overall policy limits that apply to personal property. These coverage restrictions are designed to encourage insureds with personal property of especially*

Bradley Enterprises'

Property and Casualty Manual

high value) or of a hard-to-value nature to insure this property on a specific basis. Personal Property with Special Limits of Liability are:

- \$200 (Money or related property, coins and precious metals [not applicable to tableware]).
- \$1,500 (Securities, manuscripts and other valuable paper property [includes the cost to research, replace or restore the information from the lost or damaged property]).
- \$1,500 (Watercraft, including trailers and equipment).
- \$1,500 (Trailers not used with watercraft).
- \$2,500 (Property on the residence premises used for business purposes).
- \$500 (Property away from the residence premises used for business purposes).
- \$1,500 (Electronic apparatus while it is in, on or away from a motor vehicle [such as a car phone or portable CD player] provided the apparatus can be operated by both the vehicle's power and other power sources).
- \$1,500 for theft of jewelry, watches, furs, and precious/semi precious stones.
- \$2,500 for theft of firearms.
- **Limits for Theft Losses Only:**
 - \$1,500 (jewelry, watches, furs, and precious/semi-precious stones).
 - \$2,500 (silver, gold, or pewterware)
 - \$2,500 (firearms)
- *Property Not Covered (Hovercraft/parts and water or steam – [water or steam are not considered property])*
- **Coverage D – Loss of use**
 - **Additional Coverages** (included in all Homeowners forms. Policy limit applies unless otherwise noted.)
 - **Debris Removal:** (Pays expenses to remove):
 - Debris from covered property if a covered peril caused the loss.
 - Ash or other particles from a volcanic eruption that caused direct loss to covered property.
 - Fallen trees provided: The tree is not otherwise covered under the policy, the tree damages a covered structure, a covered peril caused the tree to fall (an additional 5% of policy limit may be added for overall damages with a per tree limit of \$1,000.)
 - **Reasonable Repairs:** (Pays the reasonable costs incurred by the insured for repairs necessary to protect covered property from further loss after being damaged by a covered peril.)

Bradley Enterprises'

Property and Casualty Manual

- **Trees, Shrubs And Other Plants:** (Covers trees, shrubs and plants on the residence premises for loss by fire, lightning, explosion, riot, aircraft, vehicles not owned or operated by a resident, and vandalism or malicious mischief. Coverage is limited to 5% of the Coverage A limit or a maximum of \$500 for any one tree, shrub or plant. [In the HO-4 and HO-6, the limit is 10% of the Coverage C limit or a maximum of \$500 for any one tree, shrub or plant.][Coverage D's limit is \$1,000 and also covers the removal of fallen trees that block access to driveway or handicapped ramp at an insured's residence]).
- **Fire Department Service Charge:** (Pays up to \$500 when called to save or protect covered property from a covered peril. No deductible applies to this coverage. This coverage is not available for property located within the limits of the city furnishing the fire department service.)
- **Property Removed:** (Covers property against direct loss from any peril while being removed from a premise endangered by a covered peril, and for up to 30 days while removed.)
- **Credit Card, Fund Transfer Card, Forgery, And Counterfeit Money:** (Coverage does not apply to loss arising out of business use or the dishonesty of an insured.)
 - Pays up to \$500 for the insured's legal obligation to pay losses resulting from:
 - Theft or unauthorized use of these cards
 - Forgery or alteration of the insured's checks
 - The insured's acceptance in good faith of counterfeit money.
- **Loss Assessment:** (Pays up to \$1,000 for the insured's share of a loss assessment charged against the insured during the policy period by a corporation or association of property owners as a result of direct loss to the property owned by all members collectively and caused by a covered peril. For instance, this coverage might pay a condominium owner's assessment for repair of a community clubhouse that was damaged by lightning. [deductible only applies once regardless of the number of assessments in a single occurrence]).
- **Glass Or Safety Glazing Material:** (Covers the breakage of glass that is a part of a building, including windows and storm doors.)
- **Ordinance Or Law Coverage:** (This additional coverage only applies in states that have adopted the 1994 coverage revisions. It allows payment of up to 10% of the Coverage A limit for the increased cost to repair or rebuild a dwelling or other structure to conform with applicable building or land use

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Bradley Enterprises'

Property and Casualty Manual

codes. This coverage is provided as an additional amount of insurance.)

- **Additional Coverages in Selected Homeowners Forms** (The following coverages are included in the policy limit unless otherwise noted.):
 - **Collapse** (HO-2, HO-3, HO-4, HO-5, HO-6) Pays for direct physical loss to covered property involving collapse of a building caused by a covered peril or one of the additional perils listed for this Additional Coverage.
 - **Landlord's Furnishings** (HO-2, HO-3 and HO-5) Provides \$2,500 of coverage for loss to appliances, carpeting and other household furnishings in an apartment on the residence premises that is rented or held for rental by the insured.
 - **Building Additions and Alterations** (HO-4 only) Covers fixtures, installations and improvements made or acquired at the insured's expense. Coverage is limited to 10% of the Coverage C amount.
 - **Grave Markers** (HO-2, HO-3, HO-4, HO-5, HO-6) Coverage C – limited to \$5,000 for damage caused by covered perils to grave markers or mausoleums.
 - **Ordinance Or Law Coverage** (HO-2, HO-3, HO-4, HO-5, HO-6) Pays up to 10% of the Coverage A limit for increased cost to repair or rebuild a dwelling or other structure to conform with local codes.
- **Basic Perils** (Vandalism or malicious mischief losses to property are not covered if dwelling has been vacant for 60 or more consecutive days):
 - **Fire**
 - **Lighting**
 - **Windstorm or Hail** (interior damage is only covered when an opening is made in the building by peril).
 - **Explosion**
 - **Riot or Civil Commotion**
 - **Aircraft**
 - **Vehicles** (water craft and related equipment are covered only when inside of fully enclosed buildings. Vehicle damage caused by insured is not covered.)
 - **Smoke** (including Puffback) (Smoke from fireplaces or agricultural smudging or industrial operations is not covered.)
 - **Vandalism & Malicious Mischief**
 - **Theft** (or attempted theft) (Excludes: Theft by insured, dwelling under construction, rental property, water

Bradley Enterprises'

Property and Casualty Manual

craft/trailers/campers while off premises, mysterious disappearances).

- **Volcanic Eruption**

- **Broad Named Perils** (*applies to HO-2, HO-3, HO-4, and HO-6 only*)
(*no Coverage A or B with HO-4*):
 - **Falling objects** (*Note: damage to a building's interior or contents by a falling object is covered only if the falling object first damages the roof or an exterior wall.*)
 - **Weight of ice, snow or sleet** (*Excluding damage to awnings, fences, patios, pavement, swimming pools, foundations, retaining walls, bulkheads, piers, wharves, or docks.*)
 - **Accidental discharge or overflow of water or steam from within appliances or plumbing or related systems; does not include discharge or overflow of water from a sump.**
 - **Sudden and accidental rupture of a heating, air conditioning, fire protective sprinkler, or hot water heating system.**
(*Additions for HO-6: accidental discharge or overflow of water or steam peril includes coverage for the costs to tear out and replace any part of the building necessary to repair the faulty system or appliance.*)
 - **Freezing of plumbing or related systems** (*Excludes losses that occur while the residence is unoccupied unless the insured has either made an effort to maintain heat in the house or has shut off the water supply and drained the system and appliances of water.*)
 - **Sudden and accidental damage from artificially generated electrical current** (*Excluding damage to a tube, transistor, or similar electrical component.*)

- **Expanded coverages include:**
 - *The vehicles peril includes loss to a fence, driveway or walk caused by vehicle owned or operated by a person who lives in the insured household.*
 - *The smoke peril includes loss caused by fireplace smoke.*

- **Exclusions:**
 - *Enforcement of law or ordinance regulating construction, repair or demolition.*
 - *Earth movement, including earthquake and mine subsidence.*
 - *Water damage, including flooding and overflow from a sump pump.*
 - *Power interruption that takes place off the residence premises*
 - *The insured's failure to save and preserve property after a loss, or to protect it from loss.*
 - *War*

Bradley Enterprises'

Property and Casualty Manual

- Nuclear hazard.
- Losses caused intentionally by the insured or by someone else at the insured's direction.
- **Conditions:**
 - **Loss Settlement condition** (similar to the one found in the Dwelling Broad and Special forms. Losses are paid at actual cash value, but not more than the cost to repair or replace for the following:
 - Personal property.
 - Awnings, carpeting, appliances, outdoor antennas, and outdoor equipment.
 - Structures that are not buildings.
 - Losses to the dwelling and other structures are paid at replacement cost as long as the insured carries an amount of insurance equal to or greater than 80% of the building's replacement cost. If the insured carries less than 80% of replacement cost, they will be paid: the actual cash value of the loss, or; a proportion of the replacement cost, **whichever is larger** as long as the amount is within the policy limit. The formula used to determine proportional replacement cost is:

$$\text{(Insurance carried / Insurance required)} \times \text{Amount of loss} = \underline{\text{Amount of reimbursement}}$$

Replacement cost is only available if the actual repair or replacement is complete, unless the amount payable is less than a specified amount.
 - **Limits of Liability, Deductible for all forms except HO-4 and HO-6:** (Coverage A being Primary Limit) Because the Homeowners policy is a package policy, the policy requires a specific minimum limit of liability for each of the major property coverages, which is based on the primary amount of insurance selected by the insured. The following shows how these limits of liability are determined:
 - Coverage A -- Primary limit
 - Coverage B -- 10% of Coverage A limit
 - Coverage C -- 50% of Coverage A limit
 - Coverage D -- HO-2 and HO-3: 20% of Coverage A limit, and last HO-8:10% of Coverage A limit
 - **Limits of Liability, Deductible for HO-4 and HO-6:** (Coverage C being Primary Limit)

Bradley Enterprises'

Property and Casualty Manual

- Coverage A -- Not applicable (except for \$1,000 Coverage A limit in HO-6)
- Coverage B -- Not applicable
- Coverage C -- Primary limit
- Coverage D -- HO-4: 30% of Coverage C limit HO-6: -
- 50% of Coverage C limit

The Homeowners form also provides for a deductible that applies to coverage under Section I. Typical deductibles are \$100, \$250 or \$500; other deductible amounts may also be available.

- **Section I Endorsements:**
 - **Special Personal Coverage**
 - Jewelry
 - Furs and fur-trimmed garments
 - Cameras, projectors, films, and equipment
 - Musical instruments
 - Silverware
 - Golf equipment
 - Fine arts
 - Postage stamps
 - Coins
 - **Personal Property Replacement Cost endorsement**
 - **Permitted Incidental Occupancy endorsement**
 - **Earthquake endorsement**
 - **Home Day Care Coverage endorsement**
- **Section II (Direct and indirect liability and medical coverage – same coverage for all homeowner forms):**
 - **Coverage E – Personal Liability (non business liability)**
 - **Bodily injury** (bodily harm, sickness or disease, including care, loss or services and death)
 - **Property Damage** (physical injury to or destruction of tangible property, including the loss of use)
 - **Insured locations include:** (premises defined in the policy Declarations, new residence [including while under construction] , temporary residence locations, vacant land [owned or rented], and cemetery lots or vaults)
 - **Defense costs** (real or groundless -- up to policy limits)
 - **Standard policy limits** (for BI and PD is \$100,000 per occurrence)
 - **Coverage F – Medical Payments to Others (sometimes called Guest Medical -- expense covered up to 3 years after bodily injury incident – regardless of legal liability) coverage applies to:**
 - **Injuries on location with insured's permission**

Bradley Enterprises'

Property and Casualty Manual

- **Injuries off location arising out of the following conditions:**
 - **On location**
 - **Off location but near by insured's property location**
 - **Caused by insured's activities**
 - **Caused by insured's employee**
 - **Caused by insured's animal or animal under insured's care**
- **Exclusions (applies to Coverage E and Coverage F):**
 - *Liability for injury or damage that is expected or intended by the insured.*
 - *BI or PD arising out of business pursuits or the rendering of or failure to render professional service.*
 - *BI or PD arising out of the rental of any part of the premises, except for the rental of part of an insured location as a residence.*
 - *Liability arising out of ownership, maintenance, use, loading, or unloading of aircraft, watercraft and motor vehicles.*
 - *Liability arising out of war and war-like acts, such as insurrection and rebellion.*
 - *Liability arising out of the transmission of a communicable disease by an insured.*
 - *Liability arising out of sexual molestation, corporal punishment or physical or mental abuse.*
 - *Liability arising out of the use, sale, manufacture, delivery, transfer or possession of a controlled substance (does not apply to the legitimate use of prescription drugs).*
- **Additional exclusions:**
 - **for Coverage E only:**
 - *For any loss assessment charged against the insured as a member of an association, corporation or community of property owners.*
 - *Assumed under a contract or agreement, except contracts that relate directly to the insured location or contracts where the liability of others is assumed prior to an occurrence.*
 - *For property damage to property owned by, used by or in the care of the insured.*
 - *For BI or PD for which the insured is covered under a Nuclear Energy Liability policy.*
 - **for Coverage F only:**
 - *BI to a residence employee that occurs off the insured location and does not arise out of or in the course of work the employee performs for the insured.*
 - *BI due to nuclear reaction, radiation or radioactive contamination, including any consequential injuries.*

Bradley Enterprises'

Property and Casualty Manual

- **Additional Coverages:**
 - **Claim Expenses** (*Reimburses the insured for expenses... these expenses are paid in addition to the limit of liability*).
 - **Defense Costs**
 - **Premiums for Bonds** *required in a suit the insurer defends*
Post judgment interest.
 - **Reasonable Expenses** *incurred by the insured at the*
company's request, including loss of earnings of up to \$250.00
per day.
 - **First Aid Expenses** (*paid as part of policy limit – pays up to*
\$500 per occurrence regardless of liability in addition to
Section I coverages for property damaged or destroyed).
 - **Loss Assessment** (*pays up to \$500.00 for loss assessment*
covered under Section II).
 - **Maximum payable for lost time** (*\$250 a day*)
 - **Section II Endorsements:**
 - **Watercraft endorsement**
 - **Business pursuits endorsement** (*covers business activities*
away from residence premises)
 - **Personal Injury endorsement**
- **Section I and Section II Conditions:**
 - **Policy Changes**
 - **Assignment**
 - **Concealment or Fraud**
 - **Liberalization**
 - **Subrogation**
 - **Policy Period**
 - **Cancellation**

Homeowner Eligibility Requirements (*stricter definition than dwelling*):

- Named insured must be the occupant (*either owner or renter of dwelling or*
condo).
- Home can not contain more than two families or two additional borders per
family.
- Unless they are renters, they cannot purchase coverage for “personal property
only.”
- Dwelling must be used exclusively as a residence (*except for certain*
Incidental businesses, offices, professional or private schools, or studios.)
- Farms can not be covered with this policy.
- Mobile homes are only covered when the Mobile Home endorsement is
attached.
- Dwellings under construction, secondary, or seasonal residences are eligible.

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Property and Casualty Manual

- Homes being purchased on installment plans or being occupied under life estates arrangements are eligible.
- **HO-2, HO-3, HO-4, HO-5, HO-6, and HO-8** (*provides identical liability coverage and the only coverage that varies is the Property coverage based on form selected.*):

- **The HO-2** (HO 00 02) (*is the Broad form and provides broad coverage for the dwelling and personal property. The covered perils are similar to those provided by the DP-1 with the Extended Coverage perils and V&MM coverage. Breakage of glass and theft are also covered. In addition, it broadens certain perils and adds other perils.*)

- **The HO-3** (HO 00 03) (*is the Special form and provides open peril coverage for loss to the dwelling and other structures, unless specifically excluded in the policy. It provides broad named peril coverage for personal property, which is identical to the HO-2's coverage of personal property. Coverage A and B exclusions under HO-3 include:*

- Any loss involving collapse, other than as provided in the *Other Coverage* section.
- Freezing of a plumbing, heating, air conditioning, or automatic fire protective sprinkler system or a household appliance, or overflow due to freezing while the dwelling is vacant, unoccupied or under construction, unless reasonable care was taken to maintain heat in the building or to shut off the water supply and drain the systems and appliances.
- Freezing, thawing, pressure, or weight of water or ice to fences, pavement, patios, swimming pools, foundations, retaining walls, bulkheads, piers, wharves, or docks.
- Theft in or to a dwelling or structure under construction, including theft of materials and supplies used in construction.
- Vandalism and malicious mischief when the dwelling had been vacant for more than 30 consecutive days at the time of loss (does not apply to dwellings under construction).
- Gradual and expected losses, such as wear and tear, deterioration, inherent vice, latent defect, mechanical breakdown, smog, rust, corrosion, mold, wet or dry rot, and smoke from agricultural smudging or industrial operations.
- Discharge, dispersal, seepage, migration, release, or escape of pollutants, such as smoke, vapor, soot, fumes, acids, alkalis, chemicals, and waste (does not apply when caused by a peril covered under Coverage C).

Bradley Enterprises'

Property and Casualty Manual

- *Settling, shrinking, bulging, or expansion, including resulting cracking of pavement, foundations, walls, floors, roofs, or ceilings.*
- *Loss caused by birds, vermin, insects, and animals owned by the insured.*

Note: If a loss that is not otherwise excluded involves water damage from a plumbing, heating, air conditioning or fire protective sprinkler system or household appliance, the policy covers the loss caused by water and the cost of tearing out and replacing any part of a building necessary to repair the system or appliance. Loss to the system or appliance itself is not covered.

- **The HO-4** (HO 00 04) *(is the Tenants form and insures tenants personal property-broad coverage similar to HO-2 with no coverage for the dwelling.)*
- **The HO-5** (HO 00 05) *(Covers both dwelling and property on open peril basis for both Dwelling and Personal Property – covers anything not specifically excluded in the policy)*
- **The HO-6** (HO 00 06) *(is the Condominium form, provides broad coverage similar to HO-2 on the personal property of condominium owners with very limited dwelling coverage.)*
 - **Limited Coverage A:**
 - *Alterations, appliances, fixtures, and improvements that are part of the building containing the residence premises*
 - *Items of real property pertaining solely to the residence premises*
 - *Property that is the insured's responsibility under a condo association agreement*
 - *Structures other than the residence premises owned solely by the insured at the location of the residence premises*
 - *The standard Coverage A limit for the HO—6 is \$1,000.*
- **The HO-8** (HO 00 08) *(is the Modified Coverage form, is designed for older homes with replacement values that may far exceed their market values. It provides basic coverage on the dwelling and personal property that is similar to the DP-1 with the Extended Coverage perils and V&MM coverage, but also includes certain restrictions on valuation of losses. In many areas, the HO-8 is no longer available. Only insures against basic perils.)*

Bradley Enterprises'

Property and Casualty Manual

- **Overview of Homeowners forms coverages:**
 - **HO-2:** *Broad Dwelling and broad Personal Property*
 - **HO-3:** *Special Dwelling and Broad Personal Property*
 - **HO-4:** *Broad Personal Property*
 - **HO-5:** *Open peril basis for both Dwelling and Personal Property*
 - **HO-6:** *Broad Personal Property*
 - **HO-8:** *Basic Dwelling and Personal Property*

- **Overview of Perils Homeowners Policies Insures Against:**
 - **HO-2:** *fire, lighting, windstorm, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism & malicious mischief, theft, volcanic eruption, falling objects, weight of ice & snow or sleet, discharge of water or steam, freezing of plumbing & related systems, and artificially generated electric current.*
 - **HO-3: Dwelling** – *open peril (risk of loss not otherwise excluded are covered), **personal property:** fire, lighting, windstorm, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism & malicious mischief, theft, volcanic eruption, falling objects, weight of ice & snow or sleet, discharge of water or steam, freezing of plumbing & related systems, and artificially generated electric current.*
 - **HO-4:** *fire, lighting, windstorm, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism & malicious mischief, theft, volcanic eruption, falling objects, weight of ice & snow or sleet, discharge of water or steam, freezing of plumbing & related systems, and artificially generated electric current.*
 - **HO-5:** *open peril basis for both Dwelling and Personal Property.*
 - **HO-6:** *fire, lighting, windstorm, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism & malicious mischief, theft, volcanic eruption, falling objects, weight of ice & snow or sleet, discharge of water or steam (includes costs to tear out or replace area of the building to repair system or appliance), freezing of plumbing & related systems, and artificially generated electric current.*
 - **HO-8:** *fire, lighting, windstorm, explosion, riot or civil commotion, aircraft, vehicles (does not include losses to fences, driveways or walks caused by vehicles owned or operated by residents of insured household), smoke (does not*

Bradley Enterprises'

Property and Casualty Manual

include damage from fireplace smoke), vandalism & malicious mischief, theft, and volcanic eruption.

○ **Overview of Additional Coverages:**

- **HO-2:** *debris removal, reasonable repairs, trees/shrubs & other plants, fire department service charge, property removal, credit card/fund transfer card/forgery & counterfeiting money, loss assessment, glass/safety glazing material, collapse, and landlord's furnishings.*
- **HO-3:** *debris removal, reasonable repairs, trees/shrubs & other plants, fire department service charge, property removal, credit card/fund transfer card/forgery & counterfeiting money, loss assessment, glass/safety glazing material, collapse, and landlord's furnishings.*
- **HO-4:** *debris removal, reasonable repairs, trees/shrubs & other plants, fire department service charge, property removal, credit card/fund transfer card/forgery & counterfeiting money, loss assessment, glass/safety glazing material, collapse, and building additions & alterations.*
- **HO-5:** *open peril basis for both Dwelling and Personal Property.*
- **HO-6:** *debris removal, reasonable repairs, trees/shrubs & other plants, fire department service charge, property removal, credit card/fund transfer card/forgery & counterfeiting money, loss assessment, glass/safety glazing material, and collapse.*
- **HO-8:** *debris removal, reasonable repairs, trees/shrubs & other plants, fire department service charge, property removal, credit card/fund transfer card/forgery & counterfeiting money, loss assessment, and glass/safety glazing material.*

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Property and Casualty Manual

Module 9 : Auto

Personal Auto Insurance

General Types of Coverage:

- **Liability** (*damages to others property resulting from an accident while using a motor vehicle*).
- **Damages to motor vehicle** (*fire, theft, or accident*).

PAP (*Personal Auto Policy*) (*policy consists of **Declarations Page** and **Policy Form***)

Policy Forms (*each has its own insuring agreement, exclusions and conditions*).

- **Part A** (*Liability Coverages – may be written alone or with other coverages*).
- **Part B** (*Medical Payments Coverages – is optional but requires Part A coverage*).
- **Part C** (*Uninsured Motorists Coverages– is optional but requires Part A coverage and is subject to varying individual state laws*).
- **Part D** (*Collision and Other Than Collision [physical damage] -- may be written alone or with Liability coverages*).

Definitions

- **You and Yours** (*the named insured and their spouse*) – *spouse must reside in the same household as the insured. In cases where there is a legal separation; the spouse remains insured under the same policy for the lesser of:*
 - 90 days
 - The effective date of a new policy on the spouse.
 - The next effective date of the existing policy.)
- **Family Member** (*any person residing in the household who is related by blood or by law [ward, adoption, and foster children]*).
- **Bodily Injury** (*bodily harm, sickness/disease, and/or death resulting from same*).
- **Occupying** (*means: in a vehicle, on a vehicle, or getting in/on/out/off a vehicle*).
- **Property Damage** (*means: physical injury to, destruction of, and/or loss of use of tangible property*).

Bradley Enterprises'

Property and Casualty Manual

- Named Insured's **Covered Automobile** (*auto*) includes:
 - **Any vehicle listed in the Declarations** (*limited to private passenger autos [four wheel motor vehicles, pickup trucks, and vans under a certain weight and not used for business – farms and ranches are NOT considered a business] which are owned, purchased during the policy period or leased [for 6 months or more]. Replacement vehicles purchased during policy period are covered for liability, medical payments, and uninsured motorists automatically. Additional vehicles must be added to coverage within 14 days of purchase. If no physical damage coverage exists in the policy it may be added within the first 4 days after acquiring the vehicles and losses during the first four days are subject to a \$500.00 deductible*).
 - **Any trailers** owned by the named insured (*includes farm wagons and farm implements towed by vehicles listed in the Declarations*).
 - **Other autos or trailers** (*non-owned*) used as temporary substitutes for listed vehicles currently broken down, under repair, servicing, loss or destroyed.

Part A – Liability Coverage (*covers insured for bodily injury or property damages related to auto accident that are the legal responsibility of the insured*).

- **Who is the insured?**

- *Named insured and their immediate family while using any motor vehicle*
- *Anyone using an insured's car with permission (or had a reasonable belief they had permission).*
- *Other people or organizations to the extent that they share responsibility and liability with the insured.*
- ***Other people or organizations for their liability arising out of an accident involving any auto or trailer used for the benefit of other people or organization by the insured or a family member. (if the auto or trailer is owned by the other people or organization the personal policy of the insured does not provide coverage – coverage is provided by the policy owned by the other people or organization).***

- **Supplementary Payments** (*pays in addition to policy liability limit*):

- *Up to \$250 for cost of bail bonds.*
- *Premiums on appeal bonds or bonds to release attachments.*
- *Post judgment interest (per judgment is included as part of liability limit).*
- *Up to \$200.00 per day for loss of earnings (missed work time related to company requested hearings and/or trials).*
- *Other reasonable expenses incurred due to request of company.*

- **Exclusions:**

- *BI or PD caused by the insured intentionally.*
- *Damage to property owned or being transported by the insured.*
- *Damage to property rented to, used by or in the care of the insured.*

Bradley Enterprises'

Property and Casualty Manual

- BI to an insured's employees (*these losses are covered under Workers Compensation*)
- Liability arising out of an insured's ownership or operation of a vehicle used as a public or livery conveyance; such as a taxi. (*This exclusion does not apply to a share-the-expense carpool.*)
- Liability arising while the insured's auto is being used in an auto business
- Use of a vehicle without permission (*does not apply to family members using covered autos owned by the insured*)
- BI or PD for which an insured is covered under a Nuclear Energy Liability policy.
- Motorized vehicles with fewer than four wheels or designed for use off public roads (*does not apply to non-owned golf carts*).
- Vehicles other than covered autos that are owned by the named insured or furnished for the named insured's regular use.
- Vehicles other than covered autos that are owned by family members or furnished for their regular use (*does not apply to the named insured*)
- Vehicles used in prearranged racing or speed contests.

- **Limits of Liability** (*ex. 30/60/30 -- \$30,000 per person for bodily injury / \$60,000 per accident for bodily injury collectively per incident / \$30,000 per accident for property damage*).

- **Financial Responsibility Laws** (*most states require that drivers can prove they can meet a minimum financial liability resulting from an accident – this is normally accomplished through the purchase of an insurance policy*).
- **Out of State Coverage Provision** (*in the case of an out-of-state accident, provision modifies the policy to meet the minimum state financial requirements in that state*).
- **Other Insurance clause** (*Liability coverage states that the company will pay only its share of a loss that is also covered by other insurance*)

Part B – Medical Payment Coverage:

- **Who Is Insured** (*the named insured and/or family members [while occupying a motor vehicle designed for use on public roads or trailer], and passengers [any other person while occupying the named insured's covered vehicle] injured in an accident regardless who is at fault.*)
- **Coverages** (*reasonable expenses for necessary medical and funeral services incurred within 3 years of the accident.*)

Bradley Enterprises'

Property and Casualty Manual

Part B – Medical Payment Coverage (continued):

- **Exclusions:** *There is no coverage for injuries:*
 - Sustained while occupying a motor vehicle with fewer than four wheels.
 - Sustained while using a covered auto as a public or livery conveyance.
 - That would be covered under Workers Compensation.
 - Sustained while the insured is occupying a vehicle without the reasonable belief that he or she is entitled to do so (Exception: does not apply to family members using covered autos owned by the insured).
 - Sustained while occupying an uninsured auto that is owned by a family member or furnished for the family member's regular use (Exception: does not apply to the named insured).
 - Sustained while occupying an uninsured auto that is owned by the insured or furnished for his or her regular use.
 - Sustained while occupying a vehicle that is being used in the insured's business.
 - Sustained while occupying a vehicle located for use as a residence or premises.
 - Sustained during prearranged racing or speed contest.
 - Caused by war or nuclear hazard.

- **Limits of Liability** *(single limit of liability that applies to all injuries sustained by each person injured in any one accident. Typical limits are \$1,000, \$2,000, \$5,000 or \$10,000).*
- **Other Insurance Clause** *(Liability coverage states that the company will pay only its share of a loss that is also covered by other insurance).*

Part C – Uninsured Motorist (UM) Coverage *(In most states this coverage indemnifies the insured from bodily injury only resulting from an accident with an uninsured motorist. Punitive damages are excluded from this coverage. Note: some states offer property damage coverage in addition to bodily injury coverage, this is normally added through an endorsement to the policy):*

- **Uninsured Motor Vehicle defined:**
 - Has no liability coverage at the time of the accident.
 - Does not carry the minimum amount of liability coverage required by the state.
 - An insured or family member is involved in a hit and run accident where the at-fault driver can not be identified.
 - Has invalid Liability coverage at the time of the accident due to the insurer insolvency or the insurer denies coverage.

Bradley Enterprises'

Property and Casualty Manual

Part C – Uninsured Motorist (UM) Coverage *(continued)*

- **Indemnification:** *To be indemnified under Part C the following conditions must be met:*
 - *The loss must be caused by an auto accident and involve bodily injury (in most states).*
 - *The loss must be sustained by an insured.*
 - *The insured must be legally entitled to recover for BI damages.*
 - *The uninsured vehicle must meet the definition of an uninsured vehicle.*

- **Who is the insured?**
 - *Named insured and their immediate family.*
 - *Anyone occupying the named insured's covered auto.*
 - *Any person entitled to recover damages because of BI caused by an uninsured motorist to the named insured, family members or passengers in a covered auto.*

- **Exclusions** – *(losses that are not covered under Part C):*
 - *Losses for BI sustained by an insured while occupying or when struck by an auto that is owned by the insured, but not insured for Uninsured Motorists Coverage under the policy.*
 - *Losses for BI sustained by a family member while occupying or when struck by an auto owned by the named insured that has primary Uninsured Motorists Coverage under another policy.*
 - *Losses that are settled without the insurer's consent.*
 - *Losses that occur when the auto is being used as a public or livery conveyance.*
 - *Losses that occur while the insured is using an auto without the reasonable belief that he or she is entitled to do so (does not apply to family members using covered autos owned by the insured).*
 - *Claims which may result through disability policies and workmen's compensation insurance are prohibited by the policy.*

- **Limits of Liability** *(similar to Part A) and the insurance company will not:*
 - *Make duplicate payments for losses the legally responsible person or paid on their behalf*
-- Or --
 - *Pay any part of losses that could be covered under workers compensation or disability benefits law.*

- **Other Insurance** *(similar to Parts A and B) In the case where the insured has multiple policies the Payout is limited to the highest single policy limit for an uninsured motorist.*

- **Arbitration** *(similar to Arbitration condition previously discussed.)*

Bradley Enterprises'

Property and Casualty Manual

Part D – Coverage for Damage to Your Auto (commonly known as Physical Damage coverage):

- **Covered damages** include direct and accidental losses to the named insured's vehicle or any non-owned vehicle for losses resulting from Collision and Other Than Collision (sometimes referred to as **OTC** or **Comprehensive**). Does not cover property in the vehicle.
- **Collision and Other Than Collision** may be purchased separately or together and represent the amounts of Open Peril coverage to the named insured's vehicle. When an insured has more than one vehicle, coverage may vary on a vehicle-by-vehicle basis.

- **Collision** (defined as the impact of a covered auto with another object or vehicle or the upset of a vehicle).
- **Other Than Collision** (pays for any accidental loss not specifically excluded in the policy).

Covered perils include:

- Missiles or falling objects
 - Fire
 - Theft or larceny
 - Explosion or earthquake
 - Windstorm
 - Hail, water or flood
 - Malicious mischief or vandalism
 - Riot or civil commotion
 - Contact with a bird or animal
 - Breakage of glass
- **Non-owned vehicle coverage** (in the case of a named insured having multiple policies or covered vehicles; losses involving a non-owned vehicle are covered at the highest level of existing policies).
 - **Transportation Expenses** (pays \$20.00 per day to a maximum of \$600.00 for accident related loss of use of his/her own or non-owned vehicle – subject to a 48 hour waiting period in the case of theft of vehicle – for other types of losses there is a 24 hour waiting period and extends through a reasonable time to repair or replace the vehicle).

• **Exclusions:**

- Losses to an auto used for public or livery conveyance.
- Losses due to wear and tear, freezing, mechanical or electrical breakdown or road damage to tires (does not apply if damage results from theft).
- Losses due to war or nuclear perils.
- Losses to all types of audio, visual and data electronic equipment and accessories not mounted to the vehicle (does not apply to electronics required for the operation of the vehicle).

Bradley Enterprises'

Property and Casualty Manual

- *Losses due to destruction or confiscation by government or civil authorities.*
- *Losses to insured owned camper body, trailer or motor home not listed in the Declarations.*
- *Losses to non-owned auto used by the insured or family member without reasonable belief that he or she is entitled to do so.*
- *Losses to awnings, cabanas or equipment designed to create additional living space.*
- *Losses to custom furnishing or equipment in a pick-up or van (does not apply to caps, covers or bed-liners).*
- *Losses to radar or laser detection equipment.*
- *Losses to non-owned vehicles being used in any business .*
- *Losses to any auto being used in prearranged racing or speed contest.*
- *Losses to auto rented by the named insured or family member if rental agency is prohibited from loss recovery by state law or rental agreement.*

- **Other Provisions**

- **Physical damages limited to:** *actual cash value, amount needed to repair or replace property – whichever is less subject to deductibles.*
- **No Benefit to Bailee Condition:** *bailee can not benefit from insurance if loss occurs to vehicle while in their possession.*

Parts E and F – Conditions (*applies to whole policy*):

- **Part E -- Duties After an Accident or Loss** (*similar to other Property and Liability policies.*)
- **Part F – General Provisions** (*describes obligations of insured and insurer as well as establishes conditions for coverage.*)
 - *Covered losses must occur within the policy territory and policy period.*
 - **Legal Action:** *Insured may not take legal action against an insured until all policy terms have been complied with (Under Part A legal action can not be taken until the insurer agrees in writing that the insured has an obligation to pay or unless the amount of such an obligation has been established in court of law. No person or organization may take action against the insurer to determine whether or not an insured is liable for a loss).*
 - *Policy Terms may not be Changed or Waived except in writing.*
 - **Subrogation rights:** *losses caused by a person having a reasonable belief of being entitled to use the auto (included in all coverages except Physical Damage).*
 - **Termination of policy:**
 - **Insured:** *must give advanced notice in writing, send in the policy and specific date to end policy.*
 - **Insurer:** *must provide advance notice of cancellation (or renewal – requires a minimum of 20 days notice) – 10 days advanced notice*

Bradley Enterprises'

Property and Casualty Manual

Parts E and F – Conditions *(continued)*

for nonpayment during the first 60 days of a new policy --- 20 days in all other cases.

- *Cancellation (after 60 day period on new policies): only reasons a policy can be cancelled are: Nonpayment, Material misrepresentation when obtaining a policy, or a regular operator of a vehicle having a license suspended.*

Underinsured Motorist Coverage *(pays the insured the difference between the actual damages for bodily injury and the amount of the Liability coverage of the driver that is at fault within the limits of the Underinsured Motorist Coverage).*

Personal Auto Policy Endorsements:

- **Joint Ownership Coverage** *(covers two or more persons [other than husband and wife] who live in same household).*
- **Towing and Labor Costs** *(basic limit of \$25.00 for towing and labor directly related to towing – higher limits are available).*
- **Miscellaneous Type Vehicle** *(covers motorcycles, mopeds, and recreational vehicles [golf carts and motor homes]).*
- **Extended Non-owned Coverage for Named Individuals** *(expands coverage of the Personal Auto policy concerning the driving of other individuals' vehicles).*
- **Optional Limits Transportation Expense Coverage** *(allows insured to select daily and maximum limits of coverage for transportation and loss of use expenses for both scheduled and non-owned vehicles).*
- **Named Non-owned Coverage** *(covers rented or non-owned vehicles driven by the insured for up to 14 days).*

No-Fault Insurance *(under these laws the insured is reimbursed by their own insurance company for medical expenses and/or loss of wages related to an accident regardless of who caused the accident).*

Assigned Risk Plans or Automobile Insurance Plans *(voluntary agreements between insurance companies licensed in a given state. These companies agree to share the poor risks among themselves. Each company accepts its share of assigned risk drivers according to the size of the individual insurance company).*

Bradley Enterprises'

Property and Casualty Manual

Module 10 : Misc. Personal Insurance

Miscellaneous Personal Insurance:

- **Flood Insurance** (*the National Flood Insurance Program [NFIP]* was created by congress in 1968 to make Flood insurance available to eligible communities through federal subsidization. This program is operated under the **Federal Emergency Management Agency [FEMA]** and is managed by the FEMA branch: the **Federal Insurance Administration [FIA]**):*
 - **Emergency Program** (*building \$35,000 and contents \$10,000 with a \$1,000 deductible*).
 - **Regular Program** (*building \$250,000 and contents \$100,000 with \$500 deductible*).
 - *Covers permanent homes that are insured for at least 80% of value, all other losses on an actual cost basis. Includes debris removal as long as the policy limits are not exceeded.*
 - **Flood is defined as:**
 - *An overflow of inland or tidal waters.*
 - *Unusual or rapid accumulation or runoff of surface water from any source, unless general flood exist.*
 - *Mudslides caused by accumulations of water on the ground or underground.*
 - *Collapse of land as a result of excessive erosion due to flood.*
 - *See your local flood maps and zone determinations for details*
 - **Flood Policies do not cover:**
 - *Accounts, bills, currency, deeds, evidences of debt, money, securities, bullion, and manuscripts.*
 - *Lawns, trees, shrubs, plants, growing crops, and livestock.*
 - *Aircraft, self-propelled vehicles and motor vehicles.*
 - *Fences, retaining walls, outdoor swimming pools, bulkheads, wharves, piers, bridges, docks, and other open structures on or over water.*
 - *Underground structures and equipment, such as wells and septic tanks.*
 - *Newly constructed buildings that are in, on or over water.*
 - *Structures that are primarily containers, such as gas or liquid storage tanks and does not cover silos, grain storage buildings or their contents.*

Bradley Enterprises'

Property and Casualty Manual

* **Flood Insurance** (the **National Flood Insurance Program [NFIP]** was revised by the **Flood Insurance Reform Act of 2004 -- requirements include:**

Reduced Community Match with respect to any 1-year period in which assistance is made available under this section, the Director may adjust the contribution required under paragraph (1) by any State, and for the communities located in that State, to not less than 10 percent of the cost of the activities for each severe repetitive loss property for which grant amounts are provided if, for such year--

- the State has an approved State mitigation plan meeting the requirements for hazard mitigation planning under section 322 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5165) that specifies how the State intends to reduce the number of severe repetitive loss properties; and
- the Director determines, after consultation with the State, that the State has taken actions to reduce the number of such properties.

- **Write Your Own Program FIA** *set rates and limitations for private insurers to write policies—government subsidized, losses in excess of collected premiums are covered by government – excess premium is turned over to government.*
- **Application Procedures** -- *30 day waiting period for coverage with the following exceptions:*
 - *New loans – no waiting period*
 - *Coverage takes place at 12:01AM the following day after the application and premium is mailed for communities that first enters either program, if it is sent in the first 30 days of eligibility*
 - *Existing policy assignment which occurs prior to title transfer takes effect on title transfer date.*
 - *Changes to existing policies take effect at 12:01 AM on the fifth day after request (must include new premium with request).*
- **Earthquake Insurance** *(sold as an endorsement to either a Dwelling or Homeowners policy and covers structure and contents).*

• **Mobile Home Insurance:**

- **Dwelling policy** *(Basic form) is used to cover property damage for mobile homes which are permanently mounted to a foundation only.*
- **HO-4 forms** *can be used to cover contents of a mobile home, but not the mobile home itself.*
- **Alternate Insurance Methods:**
 - **Mobile Home Package Policy** *(developed by companies and rating organizations).*
 - **Mobile Home Endorsement** *(ISO has developed an endorsement for HO-2 and HO-3 to provide coverage for mobile homes).*
 - **Coverage provided includes:**
 - **Mobile home, equipment and accessories originally built into the unit.**

Bradley Enterprises'

Property and Casualty Manual

- **Equipment, additions and appurtenant structures not originally included with the unit.**
- **Additional living expenses.**

- **Personal Articles Form** –open peril coverage on blanket basis (includes pair or set condition already previously addressed) with following exclusions:

- **Insects**
- **War**
- **Nuclear hazard**
- **Vermin**
- **Wear and tear**
- **Gradual deterioration**
- **Inherent vice** (as built defect in property)

- **Personal Property Form** (coverage for 9 optional classes with automatic coverage newly acquired items identified by [A] if category is already insured: jewelry[A], furs, cameras[A], musical instruments[A], silverware, golf equipment, fine arts[A], stamps, and coins at agreed values [may include inflation guard and coverage for replacement costs]).
- **Personal Effect Form** (open peril coverage for most kinds of personal property) similar to personal property coverage under Homeowners –Coverage C.
- **Personal Property Floater** (open peril coverage designed for apartment or condo dwellers who cannot obtain coverage under HO-4 or HO-6).
- **Personal Effects Form** (open peril coverage designed to cover personal belongings while traveling, on insured's premises or while in storage) exclusions include the following: valuable papers, tickets, contact lenses, artificial limbs, and sales samples.
- **Personal Inland Marine Insurance:**

- **Personal Watercraft Insurance** (limited coverage of \$1,000 and for some perils there is no coverage at all under Homeowners policy).

- **Boat Owners, Outboard Motor and Boat Policies** (covers Property, Liability and Medical payments on open peril basis for boats under specific length or under a maximum dollar value – losses paid on an actual cash value basis).
- **Outboard Motor and Boat Insurance** (open peril - covers physical damage to boats, motors, accessories and trailers with limited coverage for damage to another vessel. Losses paid based on actual cash value basis).

- **Personal Yacht Policies** (Ocean Marine forms that provide a package of Property and Liability coverages on open peril basis – used for most inboard boats, sailboats with inboard auxiliary power and large sailboats) Coverage included are:
 - **Hull Insurance**
 - **Boat Trailer Insurance**
 - **Protection and Indemnity**

Bradley Enterprises'

Property and Casualty Manual

- **Medical Payments**
- **Federal Longshore and Harbor Workers Compensation Insurance**
- **Conditions/Exclusions:** *water skiing clause (does not cover water skiers while in water off the boat), Layup warranty provides for reduced premium for boats while in safe storage, navigational limits (defines area where yacht is permitted to operate – exceptions must be granted by insurer).*

- **Personal Umbrella Insurance** *(extended Liability coverage ranging from \$1 to \$5 million – requires an underlying basic Liability policy coverage). See page 145 for additional information.*

- *Provides additional Liability insurance over and above the basic coverage provided by other policies.*
- *Covers some losses that are specifically excluded by the underlying Liability insurance.*
- *Exclusions (intentional acts, liability covered under Workers Compensation and liability arising out of business pursuits).*
- **Self-Insured Retention (SIR)** - *That portion of pure risk an insured undertakes to handle on their own. Any deductible is a form of self-insured retention.*

- **Fair Access to Insurance Requirements Plans (FAIR Plans)** *(state developed insurance plans used to insure inner city property at reasonable rates).*

Bradley Enterprises'

Property and Casualty Manual

Module 11 : Commercial

Commercial Package Policy (CPP) (used to provide almost any commercial insurance the insured might need – all risk):

- **Common Policy Declarations:**

- Name and mailing address of the insured.
- Policy period, including the time and date coverage begins and ends.
- Description of the business covered.
- Coverage parts purchased and related premiums.
- List of forms applicable to all coverage parts.

- **Common Policy Conditions:**

- **Certain responsibilities and obligations** are assigned to the First Named Insured (First Named Insured is the only individual that can make changes to the policy with the responsibility for premium payment being the First Named Insured's— policies may have any number of individuals listed on the policy, however only one First Named Insured).
- **Cancellation** (requires a 30 day notice and any unused premium will be returned on a pro rata basis).
- **Examination of Books and Records** (insurance company may examine and audit the insured's books and records at any time and may for up to 3 years after the business closes).
- **Inspection and Surveys** (gives the insurance company the right to make inspections or surveys of the insured's business at any time).
- **Transfer of Your Rights and Duties Under This Policy** (sometimes called Assignment Clause) requires written consent to transfer, except in the case of death of the Named Insured.

- **Two or More Coverage Parts:**

- **Covered Parts** (each line has its own variety of mandatory and optional forms used to provide desired coverage).
- **Eligible Commercial Coverages includes:** Property, General Liability, Auto, Crime, Inland Marine, Boiler and Machinery, Professional Liability, Employment Practices Liability, and Farm.

Bradley Enterprises'

Property and Casualty Manual

Module 12 : Business Owners

Business Owners Policy (BOP) (*provides Property and Liability coverages for certain small businesses -- eligibility requirements are more stringent than those for CPP*).

- **Eligible Buildings**
 - **Apartment buildings** (*including residential condominium associations*)
 - *May contain offices and certain associations wholesale, mercantile, service, or processing incidental occupancies.*
 - **Office buildings** (*including office condominium associations*):
 - *No more than six stories high.*
 - *Contain no more than 100,000 square feet.*
 - *May contain apartments and certain wholesale, service or processing incidental occupancies that do not exceed 25,000 total square feet.*
 - **Other buildings** (*occupied principally for certain wholesale, mercantile, service or processing purposes*).
 - *Contain no more than 25,000 total square feet*
- **Eligible Wholesale Risk:**
 - Auto parts and supplies distributors.
 - Heating or heating and air conditioning equipment distributors.
 - Baked goods wholesalers (no baking on the premises).
 - Hobby, model maker or artists' supplies distributors.
 - Barber or beauty shop supplies distributors.
 - Household appliance distributors.
 - Bookbinding and printers' supplies wholesalers.
 - Janitorial supplies distributors.
 - Clothing or wearing apparel distributors.
 - Jewelry distributors.
 - Coin, stamp or rare book distributors.
 - Meat, fish, poultry, or seafood distributors.
 - Drug distributors.
 - Office machines or appliances distributors.
 - Fabric distributors.
 - Optical goods distributors.
 - Floor covering distributors.
 - Plumbing supplies and fixtures distributors.
 - Fruit or vegetable distributors.

Bradley Enterprises'

Property and Casualty Manual

Businessowners Policy *(continued)*

- Refrigeration equipment distributor.
- Gardening and light farming supplies wholesalers.
- Stationery or paper products distributors.
- Grocery distributors.
- Tobacco products distributors.
- Hardware and tool distributors.
- Toy distributors.
- Hearing aid distributors.
- Wholesale florists.
- **Eligible Processing or Service Businesses**
 - Commercial or household appliances and accessories installation, servicing or repair.
 - Mailing or addressing companies.
 - Bakeries with baking on the premises.
 - Photocopy services.
 - Barber shops.
 - Photoengraving
 - Beauty parlors and hair styling salons.
 - Photographers
 - Dental laboratories.
 - Printing
 - Engraving
 - Shoe repair shops.
 - Funeral homes or chapels.
 - Tailoring or dressmaking.
 - Laundries and dry-cleaning stores using petroleum or synthetic solvents and having less than three receiving stations.
 - Taxidermists
 - Laundries and dry-cleaning or dyeing receiving stations.
 - Television or radio receiving set installation or repair.
 - Lithographing.
 - Watch, clock and jewelry repair.

Restaurants (*certain fast food and limited-cooking restaurants are also eligible for the business policy*).

- **Limited-cooking restaurant** (*restaurant where food is pre-pared cold or cooked using appliances that do not emit smoke or grease-laden vapors that require an exhaust system.*) Other eligibility requirements include:
 - No more than 7,500 square feet of floor area.
 - Seating capacity of 75 or less.
 - Sales of beer or wine may represent no more than 25% of total sales, and liquor may not be sold.

Bradley Enterprises'

Property and Casualty Manual

- Catering service may not exceed 10% of total sales.
- Seasonal risks closed for more than 30 consecutive days during the year are not eligible.
- **Fast food restaurant** (*restaurant may use certain appliances that emit grease-laden vapors, such as grills, enclosed broilers and deep fat fryers, but open broiling and solid fuel [charcoal or hardwood] cooking are not permitted. Additional requirements are the same as for limited-cooking restaurants, except that fast food restaurants may have a seating capacity of 150 and they must have fire extinguishing equipment appropriate for their cooking appliances.*) Eligible limited-cooking and fast food restaurants include:
 - Cafes
 - Drugstores
 - Cafeteria-style buffets
 - Hot dog or hamburger stands
 - Coffee shops
 - Ice cream/yogurt shops
 - Concession stands
 - Oriental/ethnic restaurants
 - Delicatessens/sandwich shops
 - Pizza shops
 - Doughnut shops
 - Salad bars
 - Drive-ins
 - Take-out only restaurants
- **Certain convenience food/gasoline stores are also eligible** (*Gasoline sales may account for no more than 50% of total sales. The business may not include a restaurant, auto service or repair operations, a car wash, or tank filling operations for propane or kerosene.*)
- **Contractors** may be eligible for a Businessowners policy if certain requirements are met. The following factors make a contractor ineligible for coverages:
 - Annual payroll over \$300,000.
 - Sales unrelated to installation, service or repair exceed 25% of annual sales.
 - Subcontracted work exceeds 10% of sales.
 - Heavy construction such as building bridges, installing or rigging cranes, pipeline, construction or sandblasting.
 - Installing or dealing in hot tubs, swimming pools or wood/coal stoves.
 - Insulation work.
 - Rent or lease equipment to others.
 - Shop-only carpentry or sheet metal.
 - In compliance work.
 - Use cranes in business operations.
 - Demolition, blasting, wrecking, high pressure boiler, or liquid petroleum gas work.

Bradley Enterprises'

Property and Casualty Manual

- Waterproofing
 - Sales, service or installation of automatic opening doors or garage doors.
 - Manufacture or sale of products under the contractor's name.
 - General contracting
 - Annual sales over \$3 million
 - Repairing or painting ships.
 - Lawn chemical spraying, except for landscaping gardeners in compliance with applicable law.
 - Work at heights over three stories.
 - Tree services or removal.
 - Hazardous material or pollution abatement operations, such as asbestos, lead and radon.
 - Repair, installation or services of boilers, burglar alarm systems, automatic fire extinguishing systems, elevators, escalators, or computers.
- **Contractors** working in the following trades are eligible for a Business owners policy if none of the factors listed in the previous table apply:
 - Appliances and accessories
 - Masonry
 - Metal ceiling or wall installation
 - Carpet and furniture cleaning
 - Metal door, window or assembled millwork installation
 - Concrete construction
 - Painting
 - Decorative or artistic metal
 - Paper hanging
 - Driveway, parking area or sidewalk
 - Plastering or stucco work
 - Electrical work inside buildings
 - Plumbing (not industrial)
 - Fencing
 - Refrigeration systems
 - Floor covering installation
 - Roofing
 - Furniture or fixtures installation
 - Septic tank cleaning
 - Glass and glazing
 - Siding installation
 - Heating and/or air conditioning systems
 - Sign painting
 - Interior decorating
 - Tile or stone work (*interior*)
 - Landscaping/gardening
 - Window cleaning (*three or fewer stories high*)

Bradley Enterprises'

Property and Casualty Manual

- Lawn sprinkler installation

- **Excluded risks** which cannot be covered under the Businessowners policy are as follows:
 - Auto repair or service stations
 - Household personal property
 - Auto, motor home, mobile home, and motorcycle dealers
 - Insureds whose business operations involve one or more locations that are used for manufacturing, processing or service risks.
 - Banks, building and loan associations, savings and loan associations, credit unions, stockbrokers, and similar financial institutions.
 - One or two family dwellings
 - Bars, grills and most restaurants.
 - Parking lots or garages
 - Buildings occupied wholly or partially for manufacturing or processing unless the occupancy is an eligible processing risk
 - Places of amusement, such as theaters and arcades.
 - Wholesalers that are ineligible wholesale risks
 - Condominium associations other than office or residential condominiums.

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy *consists of:*

- **Businessowners Declarations**
- **Businessowners Common Policy Conditions form - Common Policy Conditions** are as follows (*similar to CPP Common Policy Conditions*):
 - Cancellation
 - Changes
 - Concealment, Misrepresentation Or Fraud
 - Examination Of Records
 - Inspections And Surveys
 - Insurance Under Two Or More Coverages
 - Other Insurance
 - Liberalization
 - Premiums
 - Transfer Of Rights Of Recovery Against Others To The Insurance Company
 - Transfer Of Rights And Duties Under The Policy
- **One of two available Businessowners Property forms** (*either the Standard or Special Form*).
- **Businessowners Liability form** (*very similar to the Commercial General Liability form*):
 - Liability is covered only for injury or damage that occurs during the policy period. Includes coverage for the insured's liability for:
 - bodily injury,
 - property damage and advertising
 - personal injury (*liability arising out of offenses such as libel, slander and invasion of privacy*).
 - Medical Expense coverage.
 - **Standard Liability And Medical Expenses limit of \$300,000** (*which is the most the insurer will pay for all damages as a result of BI, PD and medical expenses arising out of any one occurrence, and personal and advertising injury sustained by any one person or organization. Separate limits apply to medical expenses and fire legal liability [which applies to fire damage to premises rented to or temporarily occupied by the insured].*)
 - **Aggregate Limit** (*is applicable to all injury or damage during the policy period, except injury or damage falling within the Fire Legal Liability limit or Products-Completed Operations limit [which applies to legal liability arising out of the use of products manufactured by the insured]. This aggregate is twice the Liability and Medical Expenses limit. In addition, there is a separate Products-Completed Operations Aggregate limit.*)

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (*continued*)

- **Supplementary Payments** are (*also included in the Businessowners Liability form. Most of these are paid in addition to the policy limit.*):
 - Expenses the insurance company incurs in defending a claim or suit against the insured.
 - Up to \$250 for the cost of bail bonds related to violations that arise from vehicles to which BI Liability coverage applies.
 - Cost of bonds to release attachments.
 - Reasonable expenses the insured incurs at the insurance company's request to assist in investigating or defending a claim or suit, including up to \$100 per day for lost earnings because of time off from work.
 - Costs the insured is required to pay because of a suit.
 - Prejudgment interest the insured is required to pay. However, if the insurer makes an offer to pay the limit of insurance, it will not pay prejudgment interest for the period of time after the offer was made.
 - Interest that accrues after a judgment is made and before it is paid.
- **Exclusions** for liability losses (*BI and PD*) are as follows:
 - Arising out of expected or intentional injury.
 - The insured assumes under a contract or agreement.
 - For those in the business of manufacturing, distributing, selling, serving, or furnishing alcoholic beverages.
 - For work-related injuries covered under Workers Compensation or Employer's Liability laws.
 - For most pollution losses that result in bodily injury, property damage or clean-up costs.
 - Resulting from the maintenance, operation or use of aircraft, autos or watercraft, except as specified in the policy.
 - Arising out of the transportation of mobile equipment by auto or the use of mobile equipment in any prearranged racing or related activity, or while practicing or preparing for such an activity (*mobile equipment is specifically described as land vehicles such as bulldozers, farm machinery and forklifts*)
 - Assumed under a contract for war or warlike acts.
 - Arising out of rendering or failing to render professional services.
 - For damage to property owned, rented or occupied by the insured or in the insured's care, custody or control .
 - For damage to the insured's own product arising out of the product itself.
 - For damage to the insured's own work.

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (*continued*)

- For claims based on: defects, deficiencies, inadequacies, or dangerous conditions in the insured's products or work; and delays or failures to properly perform **contracts**. (***The exclusion for liability assumed under contract has some important exceptions.** Liability that the insured would have incurred even without assuming it under contract and liability assumed under insured, or incidental, contracts is covered. Insured contracts include leases, sidetrack agreements, easement agreements, contracts with municipalities required by ordinance, elevator maintenance agreements, and contracts relating to the insured's business under which the insured assumes another's liability.*)
- Related to recall of the insured's products or work because of a known or suspected defect.
- **Excluded losses under Personal And Advertising Injury**
 - **Personal And Advertising Injury** losses excluded include:
 - Oral or written publication of material that the insured knows is false, but publishes anyway.
 - Violation of a penal statute or ordinance.
 - Liability assumed under contract, except for liability the insured would have incurred even without assuming it under contract.
 - **Advertising Injury** specific losses excluded include:
 - Breach of contract
 - Failure of goods, products or services to conform with advertised quality or performance.
 - Incorrect price descriptions of goods, products or services.
 - Any offense committed by an insured who is involved in the business of advertising, publishing, broadcasting, or telecasting.
 - **Medical Expense Coverage** losses excluded include:
 - Losses related to Products-Completed Operations Hazard (*these losses would be paid under BI and PD Liability coverage*).
 - Losses specifically excluded under BI and PD Liability coverage.
 - Losses related to war.

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (*continued*)

- **Endorsements** (*defined: modifies the standard policy to include additional coverage*) Available endorsements for the Businessowners' policy include the following:
 - **Utility Services—Direct Damage Coverage** endorsement (*For coverage to apply, the property must be scheduled for coverage on the endorsement and the service interruption must be caused by a covered cause of loss.*) covers loss or damage to property caused by interruption in one of the following:
 - Water,
 - Communication,
 - Power supply service.
 - **Utility Services—Time Element Coverage** endorsement (*similar Direct Damage Coverage, except it covers loss of business income and extra expense that occurs due to an interruption in utility service.*)
 - **Protective Safeguards** endorsement requires the insured to maintain the protective devices or services listed on the endorsement on specified property as a condition of the policy. (*The insurer will not pay for fire damage losses if the insured failed to keep the protective safeguard in working order or did not notify the insurer that the device was not working properly. When an automatic sprinkler system is shut off due to breakage, leakage, freezing, or opening of sprinkler heads, the insurer does not have to be notified if the system can be restored within 48 hours.*) The protective safeguards are identified by the following symbols:
 - **P-1 Automatic Sprinkler System:** Any automatic fire protective system, including related supervisory services and connected sprinklers, pipes, pumps, and similar devices.
 - **P-2 Automatic Fire Alarm System:** An automatic fire alarm system that protects the entire building and is connected to a central station or reports to a public or private fire alarm station.
 - **P-3 Security Service:** A security service with a guard that makes hourly rounds of the premises while the business is closed.

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (*continued*)

- **P-4 Service Contract:** A privately owned fire department that provides fire protection service to the premises.
 - **P-9** Any other protective system described in the endorsement.
 - **Hired And Nonowned Auto Liability** endorsement provides coverage for hired or nonowned autos used by the business if the insured does not have Commercial Auto insurance.
- **Businessowners Property Forms:**
 - **Standard Forms** (*named perils*):
 - Fire
 - Smoke (*except smoke from an industrial or agricultural smudging operation*)
 - Sprinkler leakage
 - Sinkhole collapse
 - Lightning
 - Explosion
 - Windstorm or hail
 - Aircraft or vehicles
 - Riot or civil commotion
 - Vandalism and malicious mischief
 - Volcanic action
 - Transportation damage to property in transit
 - **Special Property Form** provides open peril coverage (*covers all losses that are NOT specifically excluded*).
 - **Building Coverages** (*for both Standard and Special Property forms*) includes coverages for both Building [*which includes landlord's personal property*] and Business Personal Property [*which includes property of others to the extent of the insured's liability*] Coverage includes:
 - Completed additions
 - Permanently installed machinery and equipment
 - Fixtures, including outdoor fixtures
 - Personal property owned by the insured that is used to maintain or service the building, including fire extinguishing equipment, outdoor furniture, floor coverings, and appliances used for refrigerating, ventilating, cooking, dishwashing, or laundering.
 - Personal property furnished by the insured in apartments or rooms rented to others.

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (*continued*)

The following are also usually covered if no other insurance applies:

- Additions under construction.
 - Alterations and repairs to the buildings or structures.
 - Materials, equipment, supplies, and temporary structures that are on within 100 feet of the premises and being used for additions, alterations and repairs.
- **Business Personal Property:**
- **Covered Business Property** must meet the following conditions in order to be covered:
 - In or on the building.
 - In the open or in a vehicle within 100 feet of the premises.
 - **Property Covered** includes:
 - **Furniture**
 - **Fixtures**
 - **Machinery**
 - **Equipment**
 - **Stock**
 - **Other owned personal property** used in the business
 - **The value of labor, parts or services** on the personal property of others
 - **Leased personal property** that the insured has a contractual responsibility to insure, unless it's otherwise covered.
 - **Stock** is the insured's merchandise. It includes items stored or offered for sale, raw materials for manufacturing, materials in the process of being manufactured, manufactured items, and supplies used in packaging and shipping.
 - **Improvements and betterments** are fixtures, alterations, installations or additions that are made a part of a building that the insured tenant occupies but does not own, and which are acquired by or made at the expense of the insured but cannot legally be removed by the insured.
 - **Improvements and betterments** added by the insured (*If the insured is a tenant*).

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (*continued*)

- **Personal property of others** pays for damage to property of others in the insured's care, custody or control, regardless of whether the insured is legally liable for that loss. The person who owns the property receives payment the loss.

- The **Four Classes** of Business Personal property covered are:
 - Property owned and used by the insured in the business (*such as inventory*).
 - Property of others in the insured's care, custody or control (*such as business equipment rented by the insured for use in the business*).
 - Tenant's improvements made at the tenant's expense to a building the tenant occupies but does not own, and which cannot legally be removed (*such as alterations tenants make to buildings they rent to operate their business*).
 - Leased personal property that the insured has a contractual responsibility to insure, such as photocopiers and computer equipment.

- **Exclusions:** Property not covered by the Businessowners Property forms:
 - Aircraft
 - Motor vehicles and other vehicles subject to motor vehicle registration.
 - Watercraft while afloat, including motors, and equipment.
 - Contraband and property being illegally traded or transported.
 - Land, water, growing crops, and lawns.
 - Outdoor fences, trees, shrubs, and plants.
 - Outdoor radio or television antennas, satellite dishes, and lead-in wiring, masts or towers.
 - Money, securities and bullion.
 - Outdoor signs that are not attached to buildings. (*Except as provided under coverage extensions or optional coverages*)

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy *(continued)*

- **Additional Coverages** *(Both Property forms include additional coverages that provide reimbursement for specific situations. Normally, these coverages do not provide an amount of insurance in addition to the policy limits.)* The following additional coverages are included in both the Standard and Special Property forms *(except as noted)*:
 - **Debris Removal:** Pays expenses to remove debris of covered property caused by a covered cause of loss during the policy period. (***[included in both]*** limited to 25% of amount paid for direct loss, plus deductible Additional \$10,000 available if certain conditions are met).
 - **Preservation Of Property:** Covers loss from any cause of loss to property that was removed from the insured location to protect it from damage by a covered peril. Coverage applies while the property is being moved or while it is temporarily stored at another location, but only for 30 days after the property is first moved. (***[included in both]*** included in policy limit)
 - **Fire Department Service Charge:** Pays for fire department service charges. (***[included in both]*** limited to \$1,000 in addition to the limit of insurance)
 - **Business Income:** Pays loss of income that the insured sustains due to a direct physical loss from a covered peril that forces the insured to suspend business operations. Coverage is provided until the business is repaired, rebuilt or replaced. (***[included in both]*** Included in policy limit)
 - **Extended Business Income:** Pays for loss of business income, even after operations have been resumed, until the business has been fully restored to its previous earnings level, but for no more than 30 days from the date business is resumed. (***[included in both]*** Included in policy limit)
 - **Extra Expense:** Reimburses the insured for additional costs incurred to avoid or minimize suspending business operations after a covered loss. (***[included in both]*** Included in policy limit)

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (*continued*)

- **Pollutant Cleanup And Removal:** Provides up to \$10,000 coverage for the costs to extract pollutants from land or water at the insured's premises as a result of a covered loss. (***[included in both]** limited to \$1,000*)
 - **Civil Authority:** Pays loss of income that the insured sustains due to actions of civil authorities that prohibit access to the insured premises because property other than the described premises was damaged by a covered cause of loss. Coverage begins 72 hours after the action by the civil authority and is available for up to three consecutive weeks. (***[included in both]** Included in policy limit*)
 - **Money Orders And Counterfeit Paper Currency:** Covers loss incurred when an insured accepts money orders and counterfeit paper currency in good faith in exchange for merchandise, money or services. (***[included in both]** Included in policy limit*)
 - **Forgery And Alteration:** Covers loss from forgery or alteration of checks, drafts and similar items made or drawn by or on the insured or the insured's agent. (***[included in both]** Included in policy limit*)
 - **Increased Cost Of Construction:** Pays up to \$5,000 for additional costs required to comply with ordinances or laws related to repair or replacement of damaged buildings. Applies only to buildings insured on a replacement cost basis. (***[included in both]** limited to \$5,000*)
 - **Exterior Glass:** Covers damage to exterior building glass, including lettering and ornamentation. (***[included in both]** Included in policy limit*)
- **Additional Coverages** that are only included in the Special Property form:
- **Collapse:** Covers damage to covered property caused by the collapse of an insured building if the collapse is caused by a specified peril. (***[included in Standard form only]** Included in policy limit*)
 - **Water Or Other Liquid, Powder Or Molten Materials:** Covers loss to a building that indirectly results from the escape of water or other liquid or powder or molten materials, including costs to tear out and replace any part of the building to repair damage to

Bradley Enterprises'

Property and Casualty Manual

the system from which the material escaped. (*[included in Standard form only] Included in policy limit*)

- **Coverage Extensions** (*include a separate limit of liability that is available in addition to the policy's limit of liability*) The following coverage extensions are included in both Property forms:
 - **Business Personal Property At Newly Acquired Premises:** Covers business personal property that is moved to a premises that the insured acquires during the policy term. Coverage under this extension ends as soon as any of the following occur: the policy expires, the insured reports actual values to the insurer or 30 days expire after the date the premises is acquired or construction begins. (*[included in both] limited to \$100,000 at each premise*)
 - **Business Personal Property Off Premises:** Covers business personal property while it is in transit or temporarily located at premises not owned, leased or operated by the insured. (*[included in both] limited to \$5,000*)
 - **Outdoor Property:** Extends up to \$2,500 in coverage for outdoor property such as fences, signs, trees, shrubs, plants, and radio and television antennas. (*[included in both] limited to \$2,500 overall; \$500 for any one tree, shrub or plant*)
 - **Personal Effects:** Extends up to \$2,500 in Business Personal Property coverage at each described premises for personal effects owned by the insured and his or her employees. (*[included in both] limited to \$2,500*)
 - **Valuable Papers And Records:** Pays costs to research, replace or restore information on lost or damaged valuable papers and records for which duplicates do not exist. (*[included in both] limited to \$5,000 on premises and \$2,500 off premises*)
 - **Accounts Receivable:** Reimburses the insured for money that cannot be collected from customers due to damage to the insured's accounts receivable records. (*[included in both] limited to \$5,000 on premises and \$2,500 off premises*)

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (continued)

- **Optional Coverages** are usually preprinted in the policy, but apply only if they are designated in the Declarations and normally require additional premium. They include:
 - **Outdoor Signs:** Covers damage to all outdoor signs owned by or in the care, custody or control of the insured. When this optional coverage is selected, policy limitations that apply to outdoor signs do not apply. (*[included in both] separate limits defined in Declarations*)
 - **Interior Glass:** Covers loss to glass items that are permanently attached to walls, floors or ceilings. Each item to be covered must be described in the Declarations. When this optional coverage is selected, policy limitations that apply to interior glass do not apply. (*[included in Standard form only] Included in policy limit*)
 - **Employee Dishonesty:** Covers loss to business personal property and money and securities that results from dishonest acts of employees. Losses must occur during the policy period to be covered. (*[included in both] separate limits defined in Declarations*)
 - **Mechanical Breakdown:** Covers damage to covered property caused by sudden and accidental breakdown of boiler and pressure vessels and certain types of air conditioning units. (*[included in both] Included in policy limit*)
 - **Burglary And Robbery (Standard form only):** Covers burglary and robbery to business personal property and money and securities. (*[included in Standard form only] separate limits defined for money and securities on and off premises. For business personal property, 25% of business personnel property limit*)
 - **Money And Securities (Special form only):** Covers loss of money and securities from theft, disappearance and destruction. (*[included in Special form only] separate limits defined for money and securities on and off premises*)
- **Exclusions for the Standard and Special forms** are as follows:
 - Failure of computers to recognize a particular date or time, such as the year 2000.
 - Ordinance or law.

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Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners Policy (*continued*)

- Earth movement (*does not include a fire or explosion resulting from earth movement*).
 - Government action.
 - Nuclear hazard.
 - Failure of power or other utility services occurring away from the insured's premises.
 - War and military action.
 - Water, including flood, sewer backup, mudslides, or seepage of ground water (*does not include fire, explosion or sprinkler leakage resulting from water*).
 - Artificially generated electrical current.
 - Rupture or bursting of water pipes (*other than automatic sprinklers*).
 - Leakage or discharge of water or steam resulting from breaking of water or steam system or appliance.
 - Explosion of steam boilers, pipes, engines, or turbines.
 - Mechanical breakdown.
 - Any consequential loss that causes extra expenses or increases in loss of income.
 - Loss to valuable papers and records and accounts receivable records due to the insured's dishonest or criminal acts.
- **Additional Exclusions for the Special Property form only** are as follows:
- Consequential losses caused by delay, loss of use or loss of market.
 - Wear and tear.
 - Rust, corrosion, fungus, decay, deterioration, and hidden or latent defects.
 - Smog
 - Pollution (*unless the release, discharge or dispersal is caused by a specified cause of loss*).
 - Settling, cracking, shrinking, or expansion.
 - Damage caused by insects, birds, rodents, or other animals.
 - Dishonest or criminal acts of the insured or his or her employees.
 - Voluntary parting with property if induced to do so by fraud or a trick.
 - Rain, snow, ice, or sleet damage to personal property that is not in a building.

Bradley Enterprises'

Property and Casualty Manual

ISO's Businessowners policy *(continued)*

- Loss resulting from acts or decisions, or the failure to act or decide.
- Collapse
- Faulty planning, development, design, specifications, workmanship, or repair.
- Smoke, vapor or gas.
- Frozen plumbing.
- Weather conditions that contribute to causing a loss
- **Additional Features**
 - **Replacement Cost Coverage** *(if the limit of insurance is 80% or more of the full replacement cost at the time of loss.)*
 - **Inflation Guard Coverage** provides an automatic 8% per year increase on building coverage. *(Other percentages may be selected, but must be shown in the Declarations.)* In addition, coverage on business personal property can be increased by 25% to cover seasonal variations. This has a standard deductible of \$500.00.

Commercial Package Policy And Businessowners Policy Side-By-Side Comparison

<u>Features</u>	<u>Commercial Package Policy</u>	<u>Businessowners Policy</u>
Eligibility	<ul style="list-style-type: none"> • Almost all commercial risks 	<ul style="list-style-type: none"> • Small- to medium-sized businesses in limited occupancy classes • Insurer specifies limitations on size of building and specific type of business involved
Format of Policy	<ul style="list-style-type: none"> • Common Policy Declarations • Two or more coverage parts 	<ul style="list-style-type: none"> • Businessowners Common Policy Conditions • Businessowners Liability coverage form • One of Two Businessowners Property coverage forms
Coverages	<ul style="list-style-type: none"> • All eligible coverages selected separately 	<ul style="list-style-type: none"> • Prepackaged policy containing Liability coverage and one of two Property coverage forms