

# PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

## CLASS NOTES

### Chapter 9 Homeowners insurance, Section II

#### Topics

- Personal liability insurance
- Endorsements to a Homeowners Policy
- Cost of Homeowners Insurance

#### Personal liability insurance

- Personal liability insurance protects the named insured and family members against legal liability arising out of their personal acts
  - The insurer pays amount for which the insured is found legally liable, up to the policy limits
  - The insurer also pays defense costs
  - The coverage is found in Section II of the Homeowners policy

#### Section II Coverages

- Coverage E protects the insured when a claim or suit for damages is brought because of bodily injury or property damage allegedly caused by an insured's negligence
  - The coverage is broad and based on legal liability
  - The policy contains a per-occurrence limit
- An occurrence is defined as an accident which results in bodily injury or property damage during the policy period
  - The insurer provides a legal defense, even if the suit is frivolous or fraudulent
- Coverage F is a mini-accident policy
  - Medical payments to others pays the reasonable medical expenses of another person who is accidentally injured while on an insured location, or by the activities of an insured, resident employee, or animal owned by or in the care of an insured
  - The insured is not required to be legally liable
  - Coverage does not apply to the insured or regular residents of the household, other than a residence employee
  - Coverage applies even if the injury occurs away from an insured location

#### Section II Exclusions

- Some exclusions apply to both Coverage E and Coverage F:
  - Expected or intentional injury

- Business activities, with some exceptions
- Professional services
- Liability arising out of the use of:
  - A motor vehicle, with some exceptions
  - An aircraft
  - A hovercraft
  - Certain watercraft, for certain reasons
- Some exclusions that apply to both Coverage E and Coverage F (continued):
  - Uninsured locations
  - War or other hostile military acts
  - Communicable diseases
  - Sexual molestation, corporal punishment, or physical or mental abuse
  - Controlled substances
- Several exclusions apply only to Coverage E:
  - Contractual liability
  - Property owned by the insured
  - Property in the care of the insured, with some exceptions
  - Workers compensation
  - Liability for a nuclear incident
  - Bodily injury to an insured
- Several exclusions apply only to Coverage F:
  - Injury to a resident employee off an insured location
  - Workers compensation
  - Injuries that result from nuclear energy
  - Persons regularly residing on the insured location

## Section II Additional Coverages

- The homeowners policy automatically includes several additional coverages:
  - Claims expenses (e.g., court costs, attorney fees) are covered in addition to the policy limits for liability damages
  - The insurer pays any first-aid expenses incurred for bodily injury covered under the policy
    - Includes cost of an ambulance
  - Damage to property of others pays up to \$1000 per occurrence for property damage caused by an insured
    - The purpose of the coverage is to preserve personal friendships
    - The coverage contains a number of exclusions
  - Certain loss assessments are covered up to \$1000

## Endorsements to the Homeowners Policy

- Property owners with special needs can purchase a variety of endorsements:
  - An inflation-guard endorsement provides for an annual pro rata increase in the limits of insurance in the Section I coverages
  - An earthquake coverage endorsement covers earthquakes, landslides, volcanic eruption, and earth movement
  - When a personal property replacement cost loss settlement endorsement is added to the policy, claims are paid on the basis of replacement cost with no deduction for depreciation

- When a scheduled personal property endorsement (with agreed value loss settlement) is added to the policy, the insurer agrees to pay the stated amount for a scheduled item if a total loss occurs
- A personal injury endorsement is used to extend liability coverage to legal liability arising out of personal injury, e.g., false arrest, slander
- The watercraft endorsement covers watercraft that are otherwise excluded under the policy
- A home business insurance coverage endorsement covers both business property and legal liability arising out of a home-based business
- One new endorsement provides coverage for identity theft

### Cost of Homeowners Insurance

- Major rating and underwriting factors include:
  - Type of construction
  - Location of home
  - Fire protection class
    - depends on the quality of the public fire department, accessibility to the fire department, water supply, and fire hydrants
  - Construction costs
  - Type of policy
  - Deductible amount
  - Insurance score
    - A credit-based score that is highly predictive of future claim costs
  - Insurers also use reports that reveal the prior claim history of a home
    - A Comprehensive Loss Underwriting Exchange (CLUE) report shows up to five years of information on property claims, including the date of loss, type of loss, and amounts paid
    - The use of CLUE reports is controversial

### Exhibit 9.4 Tips for Buying a Homeowners Policy



*End of Ch.7*