Chapter 12
Other Property and Liability Insurance Coverages

Overview

This chapter examines a wide range of personal property and liability insurance coverages. It opens with a discussion of coverage for dwellings that don’t qualify for coverage under the homeowners program and for situations where less coverage than that provided by a homeowners policy is desired. Next, coverage for mobilehomes and special coverage for personal property are examined. As homeowners and dwelling forms usually exclude boats exceeding certain length and horsepower limits, coverage is needed for recreational boats. This coverage can be provided through the boatowners package form and yacht insurance.

In addition to private insurers, the federal government is involved in providing property coverages. Federal flood insurance and FAIR plans are discussed in this chapter. The chapter concludes with a discussion of title insurance and personal umbrella policies. Title insurance protects the insured from defects in clear title to property. The personal umbrella policy is designed to provide protection against catastrophic liability claims and to fill gaps in underlying liability coverages.

Learning Objectives

After studying this chapter, you should be able to:

• Describe the following Insurance Services Office (ISO) dwelling forms: Dwelling Property 1 (basic form), Dwelling Property 2 (broad form), and Dwelling Property 3 (special form)
• Explain how a mobilehome can be insured.
• Identify the types of property that can be insured under a personal articles floater.
• Explain how recreational boats can be insured.
• Explain the basic provisions of the National Flood Insurance Program.
• Describe the basic characteristics of title insurance.
• Explain the major characteristics of a personal umbrella policy.
• Define the following:
  - Boatowners package policy
  - Dwelling Property 1 (basic form)
  - Dwelling Property 2 (broad form)
  - Dwelling Property 3 (special form)
  - FAIR plans
  - Flood
  - Inland marine floater
  - Mobilehome insurance
  - National Flood Insurance Program (NFIP)
  - Personal articles floater (PAF)
  - Personal injury
  - Personal umbrella policy
  - Retained limit
  - Scheduled personal property endorsement
  - Self-insured retention
  - Title insurance
  - Yacht insurance

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 Outline

I. ISO Dwelling Program
   A. Dwelling Property 1 (Basic Form)
   B. Dwelling Property 2 (Broad Form)
   C. Dwelling Property 3 (Special Form)
   D. Endorsements to the Dwelling Program

II. Mobilehome Insurance
   A. Eligibility
   B. Coverages

III. Inland Marine Floaters
   A. Basic Characteristics of Inland Marine Floaters
   B. Personal Articles Floater
   C. Scheduled Personal Property Endorsement

IV. Watercraft Insurance
   A. Boatowners Package Policy
   B. Yacht Insurance

V. Government Property Insurance Programs
   A. National Flood Insurance Program
   B. FAIR Plans

VI. Title Insurance

VII. Personal Umbrella Policy
   A. Basic Characteristics
   B. ISO Personal Umbrella Policy

 Short Answer Questions

1. Why would someone insure his or her home through an ISO dwelling form rather than through an ISO homeowners insurance policy?
2. What are the basic characteristics of the three ISO dwelling forms?

3. What coverages are provided under mobilehome insurance?

4. What are the basic characteristics of inland marine floaters?
5. What are the classes of personal property that can be insured under the personal articles floater?

6. What coverages are provided through the boatowners package policy?

7. Why is federal government involvement needed in the market for flood insurance?
8. Why were FAIR plans created? What coverages are typically available through FAIR plans?

9. What protection is provided by title insurance? How do title insurance policies differ from other insurance contracts?

10. What are the basic characteristics of a personal umbrella policy?
Multiple Choice Questions

Circle the letter that corresponds to the BEST answer.

1. All of the following are characteristics of a personal umbrella policy EXCEPT:
   (a) The umbrella policy provides excess liability insurance over basic underlying contracts.
   (b) Coverage is broad and covers certain losses not covered under the underlying contracts.
   (c) A self-insured retention must be met for certain losses covered by the umbrella policy but not covered by underlying contracts.
   (d) The premium is expensive given the coverage provided.

2. Which of the following statements is(are) true with regard to flood insurance?
   I. Flooding caused by unusually heavy rainfall is excluded.
   II. Although private insurers service insureds, if an insurer’s losses exceed premiums and investment income, the federal government is responsible for the underwriting loss.
   (a) I only
   (b) II only
   (c) both I and II
   (d) neither I nor II

3. Mandy owns expensive furs, jewelry, and antique furniture. Her husband, Brian, owns a valuable coin collection and a gun collection. As the coverage provided under their homeowners coverage is limited with respect to this property, Brian and Mandy added a special endorsement to their policy to provide the necessary coverage. This endorsement is called a(n):
   (a) scheduled personal property endorsement
   (b) umbrella liability endorsement
   (c) protection and indemnity insurance endorsement
   (d) extended coverage endorsement

4. While piloting his yacht, Ted lost control of the vessel and smashed into a dock and another yacht at the marina. Which coverage under yacht insurance would cover the resulting claims?
   (a) property damage
   (b) medical payments coverage
   (c) liability coverage
   (d) uninsured boater coverage

5. All of the following statements about inland marine floaters are true EXCEPT:
   (a) The coverage can be tailored to meet the specific type of personal property insured.
   (b) Inland marine floaters provide named-perils physical damage coverage for non-ocean going vessels.
   (c) Most inland marine floaters cover insured property anywhere in the world.
   (d) Desired amounts of insurance can be selected.
6. Amy purchased property insurance coverage on her home. The form she purchased provided actual cash value, named-perils coverage on the dwelling. Personal property was covered on a named-perils basis and the policy did not provide personal liability coverage. What type of policy did Amy purchase?
   (a) mobilehome insurance
   (b) Dwelling Property 1
   (c) Homeowners 3 policy
   (d) Dwelling Property 3

7. Which statement is true concerning the boatowners package policy?
   I. It provides limited, named-perils physical damage coverage.
   II. It combines property, liability, and medical payments coverage in one contract.
   (a) I only
   (b) II only
   (c) both I and II
   (d) neither I nor II

8. Which of the following insurance programs is designed to make property insurance available to urban property owners who are unable to obtain affordable property coverage in the private market?
   (a) FAIR Plans
   (b) ISO Homeowners Program
   (c) ISO Dwelling Program
   (d) federal flood insurance

9. All of the following are common personal umbrella liability policy exclusions EXCEPT:
   (a) obligations under workers compensation
   (b) intentional acts
   (c) performance of professional service
   (d) personal injury

10. Which statement(s) is(are) true with regard to title insurance?
    I. The policy covers defects in title that have occurred prior to the effective date of the coverage.
    II. The policy term runs indefinitely in the future.
    (a) I only
    (b) II only
    (c) both I and II
    (d) neither I nor II
True/False

Circle the T if the statement is true, the F if the statement is false. Explain to yourself why a statement is false.

T  F   1. Some homes ineligible for coverage under a homeowners policy can be insured under a dwelling form.

T  F   2. The risk of property damage from flooding is easy for private insurance companies to insure.

T  F   3. Even though the policy term of title insurance is indefinite, the premium is paid only when the policy is issued.

T  F   4. An umbrella policy insures property from damage caused by weather-related risks.

T  F   5. Mobilehome insurance excludes coverage for personal property.

T  F   6. Under the Dwelling Property 2 form, losses to the dwelling are settled based on replacement cost.

T  F   7. The ISO Dwelling forms include coverage for personal liability and theft.

T  F   8. Inland marine floaters cover property only when it is at a fixed location.

T  F   9. Insurance for mobilehomes may be written through a mobilehome policy or provided through a homeowners policy that has been properly endorsed.

T  F   10. When written as a separate contract, the personal articles floater (PAF) provides “open perils” (all-risks) coverage on the property insured.

Case Applications

Case 1

Sal and Vicky’s home is not eligible for coverage under a homeowners policy. Their agent explained the ISO dwelling forms. Sal and Vicky would like to have “all-risk” coverage on their home, personal liability insurance, and additional coverage for some valuable personal property that has limited coverage under the dwelling forms. How can these coverages be provided through an ISO dwelling form?
Case 2

Dr. Roger Barnes, MD, is a surgeon. He owns an expensive home and two expensive autos. He purchased a homeowners policy and an auto insurance policy. To provide additional liability protection, he purchased a personal umbrella insurance policy. A number of liability claims have been filed against Dr. Barnes. Ignoring the underlying coverages (auto liability and homeowners liability), would the umbrella policy respond to these claims?

a. Dr. Barnes serves on the board of directors of a drug company. When an outside company tried to acquire the company, the board blocked the takeover. Irate shareholders, who would have earned substantial profits if the takeover had been successful, filed suit against Dr. Barnes.

b. A dog owned by Dr. Barnes attacked a guest. The guest was horribly disfigured and filed a lawsuit against Dr. Barnes.

c. Dr. Barnes is alleged to have slandered a lawyer at a medical malpractice panel discussion. The lawyer filed a lawsuit against Dr. Barnes.

d. Dr. Barnes botched a simple operation. The patient has filed a medical malpractice claim against Dr. Barnes.
Solutions to Chapter 12

Short Answer Questions

1. Some dwellings are not eligible for coverage under the homeowners policy. Some individuals do not need a homeowners policy or cannot afford the broad coverage provided under the homeowners policy. The dwelling forms are designed to meet the needs and desires of such homeowners.

2. The Dwelling Property 1 (basic) form is similar to homeowners insurance. Losses to the dwelling are settled on an actual cash value basis, unless there is a state requirement to the contrary. In addition to the dwelling, this form provides coverage for other structures, personal property, fair rental value, and additional living expenses. The basic form provides coverage for a limited number of perils. Some additional perils may be added by endorsement.

The Dwelling Property 2 (broad) form expands the coverage provided under the basic form. Losses to the dwelling and other structures are settled on a replacement cost basis. Additional perils are covered under this contract.

The Dwelling Property 3 (special) form provides “open perils” coverage on the dwelling and other structures. Personal property is covered for the same perils as the broad form.

The dwelling forms do not provide liability insurance or theft coverage as part of the standard contract. These coverages can be added to the contract through endorsements.

3. Mobilehome coverage is similar to coverage under a homeowners policy. Coverage A insures the mobilehome against physical damage. Coverage B insures other structures (e.g., a tool shed, garage, or stable). Coverage C insures unscheduled personal property and Coverage D is loss of use coverage. The Section II coverages under the homeowners policy, personal liability (Coverage E) and medical payments to others (Coverage F), are also provided under a mobilehome policy.

4. Inland marine floaters have a number of common characteristics. They are: the ability to tailor coverage to meet specific types of personal property, the desired amount of coverage can be selected, broader and more comprehensive coverage can be obtained, world-wide coverage is provided, and inland marine policies usually do not impose a deductible.

5. The classes of personal property that can be insured under the personal articles floater include: jewelry, furs, cameras, musical instruments, silverware, golfer’s equipment, fine arts, and stamp and coin collections.

6. The boatowners package policy provides a number of coverages. All-risk physical damage coverage is provided on the boat. The insured is also covered for bodily injury and property damage liability arising out of negligent ownership and operation of the boat. Medical expense coverage, similar to that found in auto insurance policies, is provided; and some boatowners package policies provide uninsured boaters coverage.

7. Government involvement is needed because the risk of flood is difficult to insure privately. The exposure units susceptible to flood are not independent and there is potential for a catastrophic loss to occur. As only those people who live in flood zones are likely to seek flood coverage, the premium for the coverage would be too high for most insureds to purchase the coverage without federal government involvement.
8. Many property owners in high crime areas are unable to obtain property insurance at affordable premiums. The basic purpose of FAIR plans is to make property insurance available to urban property owners who are unable to obtain coverage in regular insurance markets. The coverage typically provided through FAIR plans includes: fire and extended-coverage insurance, vandalism, malicious mischief, and, in a few states, crime insurance and sprinkler leakage coverage.

9. Title insurance protects the property owner or lender against unknown defects in title to the property. A defective title can result from an invalid will, an incorrect description of the property, defective probate of a will, undisclosed liens, easements, and other defects. A title may also be forged.

Distinguishing characteristics of title insurance include: protection against title defects that occurred prior to the effective date of coverage, the insurer assumes no losses will occur, the premium is paid only when the policy is issued, the policy term is indefinite, and if a loss occurs, the insured is indemnified up to the policy limit.

10. Personal umbrella policies have several common characteristics. They provide high-limit, excess liability insurance over basic underlying contracts. The coverage is broad and covers some claims not covered by underlying contracts. A self-insured retention (SIR) must be met for certain losses covered under the umbrella policy but not covered by any underlying policies. Finally, the umbrella policy is available at a reasonable cost.

Multiple Choice Questions

1. (d) Given the high limit of liability and the broad coverage provided by the umbrella policy, the premium is quite reasonable.

2. (b) Only the second statement is true. Floods caused by unusually heavy rainfall are covered. Should the losses to the private insurers servicing the coverage exceed premiums and investment income, the federal government bears the loss, not the insurers.

3. (a) A scheduled personal property endorsement was added to their policy to provide the additional coverage for their valuable personal property.

4. (c) These claims would be covered under the liability coverage of the policy. Damage to his own boat would be covered under the property damage insurance.

5. (b) Inland marine floaters are not used to provide coverage on vessels. Inland marine floaters are used to insure valuable personal property that is frequently moved from one location to another.

6. (b) Amy purchased the Dwelling Property 1 form. This form provides named-perils, actual cash value coverage on the dwelling. The dwelling forms do not provide personal liability coverage.

7. (b) Only the second statement is true. The physical damage coverage is “open perils” (all-risks) coverage rather than named perils coverage. As a package policy, the contract does provide coverage for property, liability, and medical payments coverage through one policy.

8. (a) FAIR plans were established to make property insurance available to urban property owners who are unable to obtain coverage in the regular market.

9. (d) Although homeowners policies generally exclude personal injury, usually it is covered under personal umbrella policies. The other choices are all common umbrella policy exclusions.
10. (c) Both statements are true. If there is some defect in the title that occurred prior to the effective date of coverage, the insured is protected. The coverage is not written for a specific time period and covers all title defects that occurred before the effective date of the contract.

**True/False**

1. **T**

2. **F** Flood coverage is difficult for private insurance companies to write as losses can be catastrophic, only those who face the risk are likely to buy the coverage, and premiums may not be affordable. As a result of these difficulties, the federal government is involved in providing flood coverage.

3. **T**

4. **F** The personal umbrella policy provides protection against catastrophic liability claims.

5. **F** Coverage C of mobilehome insurance provides coverage for personal property of the insured.

6. **T**

7. **F** Both of these loss exposures are excluded from coverage under the dwelling forms. They can be added, however, through endorsements.

8. **F** Inland marine floaters cover property anywhere in the world. These policies are especially valuable for travelers who take valuable personal property with them on trips.

9. **T**

10. **T**

**Case Applications**

**Case 1**

By using the appropriate dwelling form, and attaching the necessary endorsements, the desired coverage can be obtained. As Sal and Vicky want “all-risk” coverage on their home, the agent should recommend the Dwelling Property 3 form. The liability insurance they desire can be provided by attaching a personal liability supplement endorsement to the policy. Finally, to provide the desired coverage for their valuable personal property, a scheduled personal property endorsement can be added to the contract.

**Case 2**

a. Liability as a director or officer of a for-profit enterprise is excluded under the personal umbrella policy. The coverage is available through a type of liability insurance called Director’s and Officer’s Liability Insurance.

b. This claim would be covered under the umbrella policy. In this case the homeowners policy would respond first, with the umbrella policy providing excess coverage if needed.

c. Slander is a form of personal injury, excluded under the homeowners policy. This coverage is provided, however, by most personal umbrella policies.

d. Liability as a professional, in this case as a surgeon, is excluded by the personal umbrella policy. Dr. Barnes should have purchased physicians liability coverage (medical malpractice insurance) to respond to such claims.