Grace Global Alliance

An Independent Association of Christian Churches & Ministers

Property & Casualty Insurance Overview Tax Year 2017

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Personal Property and Casualty Insurance

Protecting What You Own

Property and casualty (P&C) is the term commonly used to describe insurance designed to protect an individual from loss or damage to the physical assets he or she owns. For example, a fire may seriously damage or completely destroy a home. Without adequate homeowner's insurance to provide the funds to repair or rebuild, such a loss could be a financial disaster. Homeowner's policies can also provide protection for the home's contents, such as furniture, appliances, and other personal belongings.

Many P&C policies also provide liability protection. For example, the owner of an automobile who causes an accident may be required by a court (be found "liable") to pay others for repair of property damage, medical expenses, lost wages, or pain and suffering. The dollar amounts of such court decisions can be enormous.

Types of Policies

There is a wide variety of property and casualty policies. A number of additional coverages (endorsements) can be added to a basic policy to provide protection against risks found only in certain geographical areas, to protect specific types of property, or to cover a temporary situation. Some of the most common types of policies and endorsements include:

- **Automobile insurance:** Auto policies typically cover repair of physical damage, payments for medical expenses, and liability protection. A separate policy is often used to cover recreational vehicles such as motor homes, golf carts, snowmobiles, trailers, ATVs, or campers.

- **Homeowner's insurance:** A homeowner's policy can provide protection for both the home and its contents, against a wide range of perils, as well as provide very broad personal liability coverage.

- **Condo unit owner's insurance:** Similar to the homeowner's policy, the condo unit owner's policy differs primarily in that coverage is provided primarily for the contents.
- **Renter's insurance:** Renter's policies provide coverage for the personal property of an individual renting a home, condo, or apartment. A renter's policy can also include personal liability coverage similar to that found in a homeowner's or condo unit owner's policy.
- **Earthquake insurance:** Earthquake insurance is normally offered as an endorsement to a homeowner's, condo unit owner's policy, or renter's policy to provide protection against loss caused by earthquake. It can also be a stand-alone policy.
- **Flood insurance:** Flood insurance is provided through a separate policy. The federal government stands as the ultimate guarantor for flood policies.
- **Watercraft insurance:** Watercraft policies cover loss and liability for the personal use of small watercraft such as boats or jet skis or for larger craft such as ocean-going yachts.
- **Umbrella liability:** Acts as excess or catastrophic protection to the basic liability protection offered with most other P&C policies. The liability coverage offered by an "umbrella" policy begins where the coverage in a basic policy ends and, in some instances, offers broader protection.

Uniform Policy Forms

The Insurance Services Office (ISO) and the American Association of Insurance Services (AAIS) are industry service organizations that provide actuarial and loss information to P&C insurers. These service organizations also provide standardized, uniform policy agreements, called "forms," which are used by many insurers.[1] Such standardized policy forms make it easier for a consumer to understand the terms of the policy and to compare policies offered by different insurance firms.

[1] Some insurers have their own forms, which may differ from the standard contracts developed by ISO or AAIS.

Understand the Contract

An insurance policy is a written contract between the insured and the insurance company. The protection provided by P&C policies of all types typically represents a significant part of an individual's overall risk management program. Thus, it's important for an insured individual to read and understand key policy provisions, such as:

- **What perils (or risks) are covered in the policy?** Two basic approaches are involved. In the "named-peril" form, the policy will specify only those perils that are covered. In the "all-risk" form, the policy will list only those perils that are not covered and provide protection for all others.
- **What perils are not covered?** In many cases, perils that are excluded can be covered by endorsement and payment of an additional premium.
- **What are the policy limits?** What is the maximum benefit/coverage payable by the insurance company in the event of a loss? Is a home that would cost $200,000 to rebuild insured for $100,000?
- **What are the deductible amounts?** A policy deductible is the "self-insurance" element in an insurance policy; the term refers to the part of the loss the policy buyer must pay before the insurance company pays its portion. The deductible can be a flat amount or a percentage of the insured value at the time of a loss.
- **Impact of inflation:** A home built 20 years ago can be rebuilt, but at a much higher cost. Most policy forms provide for replacement cost of a home and contents, along with an annual inflation guard of between 2% and 6%.
- **In the event of a loss, what are the duties of the insured?** Each policy will specify certain actions that an insured must take in the event of a loss.

Seek Professional Guidance

Insurance agents and brokers, insurance counselors, and other trained financial consultants can help provide detailed answers to questions about a particular policy. These professionals are also helpful in selecting the right policy and the appropriate amount of coverage.

Automobile Insurance

Why Automobile Insurance?

For most Americans, the automobile is a beneficial and essential part of modern life. Owning or operating a car, however, can also be a source of serious financial risk. Personal liability arising from losses suffered by others, or the cost of repairing or replacing a damaged or stolen vehicle, can be very high.

Also, most states have compulsory auto liability insurance laws, requiring auto owners to maintain liability insurance as a condition of licensing or use on public roadways. Other states require auto owners to show proof of financial responsibility before and after an accident.

Coverage Under the Policy

Automobile insurance usually covers a number of risks in one package policy. The most frequently used policy is the personal automobile policy (PAP).[1] The PAP is designed primarily for private passenger automobiles, but protection can be extended to cover other types of vehicles. Typical coverage includes the following:

- **Liability insurance:** This coverage protects the owner against losses from legal liability arising from bodily injury or property damage caused by an automobile accident. The coverage can be a single limit ($100,000 for each accident) or split limits such as $50,000 / $100,000 / $25,000 (per person / per accident for bodily injury / property damage).
- **Medical payments coverage:** This provision pays medical or funeral expenses because of bodily injury. The coverage is generally in increments of $1,000 to $5,000 up to $25,000 per person per accident.
- **Physical damage coverage:** This section of the policy is designed to cover physical damage to the insured auto. Collision covers, as the name implies, collision losses. Comprehensive (also known as other-than-collision) insurance covers losses from non-collision incidents, such as theft, fire, or storm damage. Losses for physical damage are generally based on the cost to repair or replace the damaged or stolen vehicle.

[1] The specific coverage and terms of a policy can vary from company to company, and from state to state.

- **Uninsured/underinsured motorist:** Even though many states have enacted financial responsibility laws, not all automobile owners comply. Uninsured motorist coverage pays for injuries[1] sustained in an accident with an uninsured (or a hit-and-run) driver. Underinsured motorist insurance covers the difference between actual losses sustained, and what an insured individual can collect from an at-fault uninsured or underinsured driver, up to policy limits.

Adding Additional Coverage

There are a number of additional coverages that can be added (by endorsement) to a basic policy to provide insurance for unusual situations or to protect other types of vehicles. Two of the most common endorsements include:

- **Extended liability:** Used to cover automobiles that are not legally owned by the insured, such as an auto furnished by an employer for the regular use of the insured and/or the family. Extends the policy coverage to situations involving non-owned vehicles, which standard policy provisions would otherwise exclude.
- **Miscellaneous type vehicle endorsements:** Allows the insured to cover vehicles such as snowmobiles, motorcycles, motor scooters, go-carts, golf carts, antique and classic cars, motor homes, and campers. In some states, a separate policy is used to cover these vehicles.

Understand the Policy

An insurance policy is a written contract between the insured and the insurance company. The protection provided by the policy typically represents a significant part of an individual's overall risk management program. Thus, it is important for an insured individual to read and understand key policy provisions such as:

- **What perils are covered in the policy?** A basic policy may not provide as much protection as is necessary.
- **What perils are not covered?** For an additional premium, coverage for excluded perils or situations can often be added to a policy.
- **What are the limits of coverage?** The maximum dollar amount the insurance company will pay in the event of a covered loss.

[1] In some states, uninsured motorist property damage is also included.

- **What are the deductible amounts?** A deductible is a dollar amount the insured must pay before the insurance company pays its portion.
- **In the event of a loss, what are the duties of the insured?** A policy will usually list the steps that must be taken in the event of a loss.

Seek Professional Guidance

Insurance agents and brokers, insurance counselors, and other trained financial consultants can help provide answers to detailed questions about a particular policy. These professionals are also helpful in selecting the right policy and the appropriate amount of coverage.

Renter's Insurance

Why Renter's Insurance?

Many people who rent their home do not consider insurance, usually because they are not making an investment in real property. However, the contents of a home, in the form of furniture, appliances, clothing, family heirlooms and other movable personal belongings, often represent a substantial investment. The unprotected loss (or partial loss) of a renter's personal property to theft, fire, windstorm or some other incident could be financially devastating.

Further, each individual, whether a renter or homeowner, faces the risk of personal liability. For example, a visitor to the residence could slip and fall. Such accidents can result in court decisions awarding large sums to the injured party for medical expenses and "pain and suffering."

Coverage Under the Policy

Most renter's policies available today are closely related in design to policies created for homeowners, and combine protection against a number of the perils of modern life in a single package policy. The primary difference is that a renter's policy does not provide protection for the building structure. A typical[1] renter's policy can provide insurance protection for the following:

- **Personal property:** Covers the contents of the home, such as furniture, appliances, or clothing. Coverage is generally provided on a named-peril basis. Perils that are not named are excluded from coverage. Certain types of property[2] may have specific dollar limits.

- **Loss of use or additional living expenses:** If a rented home is damaged by a covered peril, loss-of-use coverage helps meet the costs of hotel bills, apartment or rental home, eating out, and other living expenses, while the home is being repaired.

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[1] The specific coverage and terms of a policy can vary from company to company, and from state to state.

[2] Jewelry, silverware, securities, cash, and collectibles are examples of personal property subject to these "internal" policy limits.

- **Personal liability:** Provides protection against legal liability for bodily injury or property damage if a third party is accidentally injured.
- **Medical payments:** Also known as guest medical payments, this section provides coverage if a third party is accidentally injured and needs medical treatment.
- **Building additions and alterations:** Covers improvements, fixtures or alterations made by a tenant, such as paint, wallpaper, carpets, drapes, and blinds.

Policy Exclusions

A standard renter's policy specifically excludes a number of perils from coverage. Policy coverage of these excluded perils can generally be added through an endorsement and payment of an additional premium. Typical policy exclusions include the following:

- **Earth movement:** Losses caused by earthquake, volcanic eruption, or landslide.
- **Water damage:** Refers to damage from water that backs up from sewers or drains, or water seeping through walls. Many policies contain dollar limits for water damage due to such things as a broken pipe.
- **Flood damage:** Refers to damage from rising water, mudslide, or wave action.
- **Mold exclusion:** Due to high claims activity for losses caused by mold, many insurance companies are excluding coverage for mold damage.
- **Other exclusions:** Such as wear and tear, war, nuclear hazard, neglect, and intentional loss.

Other Issues

- **Personal property (contents):** A standard renter's policy will insure a home's contents for actual cash value, e.g., replacement cost less an allowance for depreciation or wear and tear. For an additional premium, the policy can usually be endorsed to protect covered personal property on a replacement-cost basis (the cost to buy the item new today), without considering depreciation.

- **Inflation guard rider:** The standard policy can usually be endorsed to provide for automatic, periodic increases in policy limits. These automatic increases in policy coverage help avoid being underinsured because items cost more due to inflation.

Understand the Policy

An insurance policy is a written contract between the insured and the insurance company. The protection provided by the policy typically represents a significant part of an individual’s overall risk-management program. Thus, it’s important for an insured individual to read and understand key policy provisions such as the following:

- **What perils are covered in the policy?** A basic policy may not provide as much protection as is necessary.
- **What perils are not covered?** For an additional premium, excluded perils or situations can often be added to a policy.
- **What are the limits of coverage?** This refers to the maximum dollar amount the insurance company will pay in the event of a covered loss.
- **What are the deductible amounts?** A deductible is a dollar amount or percentage the insured must pay before the insurance company pays its portion of the loss.
- **In the event of a loss, what are the duties of the insured?** A policy will usually list the steps that must be taken in the event of a loss.

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Insurance agents and brokers, insurance counselors, and other trained financial consultants can help provide answers to detailed questions about a particular policy. These professionals are also helpful in selecting the right policy and the appropriate amount of coverage.

Homeowner's Insurance

Why Homeowner's Insurance?

A home is the single biggest investment most individuals will ever make; it is typically the largest asset on the family "balance sheet." Also, the contents of a typical home, in the form of furniture, appliances, clothing, family heirlooms, and other movable personal belongings, represent a substantial additional investment. The unprotected loss (or partial loss) of a home and its contents to theft, fire, windstorm, or some other disaster, could be financially devastating.[1]

Further, everyone faces the risk of personal liability. For example, a visitor to the residence could slip and fall. Such accidents can result in court decisions awarding large sums to the injured party for medical expenses, and "pain and suffering."

Coverage Under the Policy

Originally, a standard homeowner's policy covered only the risk of fire. Today's homeowner's policies provide protection against a number of the "perils" of modern life, in one "package" policy. A typical[2] homeowner's policy can provide insurance protection for the following:

- **Home:** The physical dwelling structure and other structures attached to it.
- **Other structures:** For example, a detached garage, pool house, guesthouse, green house, or tool shed.
- **Personal property:** This covers the contents of the home, such as furniture, appliances or clothing. Certain types of property[3] may have specific dollar limits.
- **Loss of use or additional living expense:** If a home is damaged by a covered peril, loss-of-use coverage helps meet the costs of hotel bills, apartment or rental home, eating out, and other living expenses while the home is being repaired. This policy section can also reimburse a homeowner for lost income if a room in the home were rented out. This is sometimes insured on an actual-loss-sustained basis.

[1] Many mortgage lenders require homeowner's insurance, to protect the dwelling, as a condition of granting the mortgage.
[2] The specific coverage and terms of a policy can vary from company to company, and from state to state.
[3] Jewelry, silverware, securities, cash, and collectibles are examples of personal property subject to these "internal" policy limits.

- **Personal liability:** Provides protection against legal liability for bodily injury or property damage if a third party is accidentally injured.
- **Medical payments:** Also known as guest-medical payments, this section provides coverage if a third party is accidentally injured and needs medical treatment.

Policy Forms

There are several organizations that work with insurance companies to provide standardized homeowner's policies. While the details of a particular policy can vary, these standardized policies, or "forms" are generally very similar.[1] Some of the most commonly found homeowner's insurance forms include:

- **Broad form package policy (HO 02):** This contract covers liability exposures and property damage on a named-peril basis. There are 16 named perils, and only these named perils are covered.
- **Special form package policy (HO 03):** The principal difference between the HO 02 and the HO 03 is that the HO 03 is written on an "all-risk" basis. This means that damage from any peril is covered, unless specifically excluded. This is the most widely used policy form for most insurance companies.
- **Modified form coverage (HO 08):** This policy is designed to cover homes where the cost to rebuild exceeds the market value of the property. If a home is destroyed, the insurance will restore the home on a "functionally equivalent" basis using modern construction techniques.

Policy Exclusions

The standard homeowner's policies specifically exclude a number of perils from coverage. Policy coverage of these excluded perils can generally be added through an endorsement and payment of an additional premium. Typical policy exclusions might include the following:

- **Ordinance or law:** Many homeowner's policies do not cover losses, or have limitations, due to a law or ordinance of the community in which the home is located. For example, if a home is damaged or destroyed, changes in building codes could

[1] The specific coverage and terms of a policy can vary from company to company and from state to state.

result in additional, uncovered expense when the home is repaired or rebuilt. Ordinance or law coverage is included in some package policies, often as a percentage of the dwelling coverage (10%, 25%, 50%, etc.). This coverage is required in some states.

- **Earth movement:** Excludes loss caused by events such as earthquake, volcanic eruption, or landslide.
- **Water damage:** Refers to damage from water that backs up from sewers or drains, or water seeping through walls. Many policies contain dollar limits for water damage due to such things as a broken pipe.
- **Flood damage:** Refers to damage from rising water, mudslide, or wave action.
- **Mold Exclusion:** Due to high claims activity for losses caused by mold, many insurance companies are excluding coverage for mold damage.
- **Other exclusions:** Other specific exclusions include war, nuclear hazard, neglect, and intentional loss.

Other Issues

- **Replacement cost condition:** Dwelling and other structures: If a home is damaged or totally destroyed, a homeowner's policy will generally pay (within policy limits) to rebuild or repair on an "actual-cash-value" basis. In simple terms, actual cash value means replacement cost, less a deduction for depreciation or for wear and tear. Reimbursement on this basis could leave a homeowner short of the total funds needed to restore the home.

  Through an endorsement and payment of an additional premium, reimbursement can be on a "replacement-cost" basis. Replacement cost means, simply, restoring the home to its previous condition, using materials and workmanship of similar quality. In some policies, the availability of this feature requires the homeowner to maintain coverage on the home equal to at least 80% of the cost to rebuild or repair. If insurance coverage were not maintained at the 80% level, any loss would be reimbursed at a lesser amount, or on an actual-cash-value or depreciated basis.

- **Replacement cost:** Personal property (contents): Coverage is normally on an actual-cash-value basis. For an additional premium, the policy can usually be endorsed to protect covered personal property on a replacement-cost basis (the cost to buy the item new today) without considering depreciation.

- **Inflation guard rider:** The standard policy forms can usually be endorsed to provide for automatic, periodic increases in policy limits. These increases in policy coverage generally apply to both the dwelling and contents, and help avoid being underinsured due to inflation. Such an endorsement also helps meet the 80%-of-replacement-cost condition to qualify for replacement cost on the home.

Understand the Policy

An insurance policy is a written contract between the insured and the insurance company. The protection provided by the policy typically represents a significant part of an individual's overall risk management program. Thus, it's important for an insured individual to read and understand key policy provisions such as the following.

- **What perils are covered in the policy?** A basic policy may not provide as much protection as is necessary.

- **What perils are not covered?** For an additional premium, perils or situations not covered can often be added to a policy.

- **What are the limits of coverage?** This refers to the maximum dollar amount the insurance company will pay, in the event of a covered loss.

- **What are the deductible amounts?** A deductible is a dollar amount or percentage the insured must pay before the insurance company pays its portion of the loss.

- **In the event of a loss, what are the duties of the insured?** A policy will usually list the steps that must be taken in the event of a loss.

Seek Professional Guidance

Insurance agents and brokers, insurance counselors, and other trained financial consultants can help provide answers to detailed questions about a particular policy. These professionals are also helpful in selecting the right policy and the appropriate amount of coverage.

Condominium Unit Owner's Insurance

Why Condo Unit Owner's Insurance?

A home, be it a single-family dwelling or a condominium unit, is usually the biggest investment that most individuals will ever make; it is typically the largest asset on the family balance sheet. Also, the contents of a typical home, in the form of furniture, appliances, clothing, family heirlooms, and other movable personal belongings, represent a substantial additional investment. The unprotected loss (or partial loss) of a home and its contents, to theft, fire, windstorm, or some other disaster, could be financially devastating.

Further, everyone faces the risk of personal liability. For example, a visitor to the residence could slip and fall. Such accidents can result in court decisions awarding large sums to the injured party for medical expenses, and "pain and suffering."

Condominium Ownership

A condominium is a building divided into separate living spaces (units), owned by individuals, and the common areas, owned jointly by all of the individual unit owners. Overall management of the complex is carried out by a homeowner's or condo unit owner's association. This association makes policy decisions for the community and is responsible for maintaining and insuring the building structure and common areas of the condominium complex. The individual condo unit owner is responsible for the interior of his or her own unit.

Coverage Under the Policy

Most condo unit owner's policies available today are closely related in design to policies created for single-family homeowners, and provide protection against a number of the perils of modern life in a single package policy.

Condominium Unit Owner's Insurance

The protection available under a condo unit owner's policy differs from a typical homeowner's policy primarily in the type of coverage provided for the dwelling. A typical[1] condo unit owner's policy can provide coverage for the following:

- **Condo unit:** This section provides protection for the unit owner's real property, also known as "unit owner's additions and alterations."[2] The items included here will vary with state law, but can include such interior furnishings as wallpaper, paneling, kitchen and bathroom cabinets, carpeting or wet bar. Coverage is generally provided on a named-peril basis. Perils that are not named are excluded. This can be endorsed on an all-risk basis for an additional premium.

- **Other structures:** These might include a detached garage or tool shed, if owned solely by the insured.

- **Personal property:** Covers the contents of the unit, such as furniture, appliances or clothing. Certain types of property[3] may have specific dollar limits.

- **Loss of use or additional living expenses:** If a condo unit is damaged by a covered peril, loss-of-use coverage helps meet the costs of hotel bills, apartment or rental home, eating out, and other living expenses while the home is being repaired.

- **Personal liability:** Provides protection against legal liability for bodily injury or property damage if a third party is accidentally injured.

- **Medical payments:** Also known as guest medical payments, this section provides coverage if a third party is accidentally injured and needs medical treatment.

- **Loss assessment:** If the homeowner's association suffers a loss,[4] it may assess each owner to pay a portion of the loss. If the loss were the result of a covered peril, this policy provision would pay the insured's portion of the assessment, up to the limit specified in the endorsement.

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[1] The specific coverage and terms of a policy can vary from company to company and from state to state.

[2] In common practice, this has also been described as "from the bare wall in."

[3] Jewelry, silverware, securities, cash, and collectibles are examples of personal property subject to these internal policy limits.

[4] For example, from deductible liability or major, uncovered property damage.

Policy Exclusions

A standard policy specifically excludes a number of perils from coverage. Policy coverage of these excluded perils can generally be added through an endorsement and payment of an additional premium. Typical policy exclusions include the following:

- **Earth movement:** Losses caused by earthquake, volcanic eruption, or landslide.
- **Water damage:** Refers to damage from water that backs up from sewers or drains, or water seeping through walls. Many policies contain dollar limits for water damage due to such things as a broken pipe.
- **Flood damage:** Refers to damage from rising water, mudslide or wave action.
- **Mold exclusion:** Due to high claims activity for losses caused by mold, many insurance companies are excluding coverage for mold damage.
- **Other exclusions:** Such as wear and tear, war, nuclear hazard, neglect and intentional loss.

Other Issues

- **Personal property (contents):** A standard policy will insure a condominium unit for actual cash value, e.g., replacement cost less an allowance for depreciation or wear and tear. For an additional premium, the policy can usually be endorsed to protect covered property on a replacement cost basis (the cost to buy the item new today), without considering depreciation.
- **Inflation guard rider:** The standard policy can usually be endorsed to provide for automatic, periodic increases in policy limits. These increases in policy coverage generally apply to both the dwelling and contents, and help avoid being underinsured due to inflation.

Understand the Policy

An insurance policy is a written contract between the insured and the insurance company. The protection provided by the policy typically represents a significant part of an individual's overall risk-management program. Thus, it's important for an insured individual to read and understand key policy provisions such as the following:

- **What perils are covered in the policy?** A basic policy may not provide as much protection as is necessary.
- **What perils are not covered?** For an additional premium, excluded perils or situations can often be added to a policy.
- **What are the limits of coverage?** This refers to the maximum dollar amount the insurance company will pay in the event of a covered loss.
- **What are the deductible amounts?** A deductible is a dollar amount or percentage the insured must pay before the insurance company pays its portion of the loss.
- **In the event of a loss, what are the duties of the insured?** A policy will usually list the steps that must be taken in the event of a loss.

Seek Professional Guidance

Insurance agents and brokers, insurance counselors, and other trained financial consultants can help provide answers to detailed questions about a particular policy. These professionals are also helpful in selecting the right policy and the appropriate amount of coverage.

Flood Insurance

Why Flood Insurance?

A moderate flood can do a great deal of damage to a home and its personal belongings. A severe flood can completely destroy a home and its contents. Such a loss, if uninsured, could financially devastate most individuals and their families.

In addition to the risk of severe financial loss, individuals purchasing or constructing property in areas subject to severe flooding (a special flood hazard area) may be required to obtain flood insurance as a condition of obtaining a mortgage. Further, the owner of property in a special flood hazard area may be denied federal disaster relief after a flood, unless the owner had previously purchased flood insurance.

Excluded from Standard Policies

In virtually all homeowner's, renter's and condominium unit owner's policies, there is a specific exclusion for loss caused by flood. To cover this peril, a separate flood insurance policy must be purchased.

The term "flood" is generally defined as, "A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is your property) from: overflow of inland or tidal waters; or the unusual and rapid accumulation or runoff of surface waters from any source; mudflow; or the collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above."

The National Flood Insurance Program

Because of the catastrophic nature of property losses suffered in floods, flood insurance was, for many years, generally unavailable. In response to this need, the federal government, in 1968, established the National Flood Insurance Program (NFIP). Under this program, managed by the Federal Emergency Management Agency (FEMA), the federal government stands as an insurer of last resort for flood insurance. In exchange for this guarantee, the government requires participating communities to adopt and enforce land use measures that direct future development away from flood prone areas.

The availability of flood insurance under the NFIP is conditioned on a community agreeing to follow federal flood planning requirements. The amount of insurance available and the type of structures covered, will vary depending on how far along a community is in meeting all federal conditions:

- **Emergency program:** Basic coverage under the emergency program (EP) is available when a community agrees to adopt federal standards. For example, coverage under the EP for a single-family residence would be limited to $35,000 on the dwelling and $10,000 on personal property.[1]
- **Regular program:** When a community has completed certain federal requirements, it enters the regular program (RP). Under the RP, additional coverage becomes available. For example, coverage under the RP for a single-family residence can be as much as $250,000 on the dwelling and $100,000 for personal property. Excess flood insurance for higher limits outside the program is available.

Purchasing Flood Insurance

Flood insurance can be purchased from either the federal government or private insurers and is sold by insurance agents and brokers. The insurance agents receive a commission for policies sold.

With limited exceptions, there is a 30-day waiting period between the time an insured applies for coverage and pays the premium, before the coverage is in effect.

Coverage Under the Policy

A typical residential flood policy provides coverage for "direct physical loss by or from flood," for the following:

- **Dwelling:** Covers damage or loss to the building.
- **Personal property:** Refers to the contents of a home, such as furniture, appliances or clothing. Certain types of property may be excluded or have a specific dollar limit.[2]
- **Debris removal:** Covers debris removal of or on an insured property after a flood.

[1] Under the Emergency Program, higher limits of building coverage are available in Alaska, Hawaii, the U.S. Virgin Islands, and Guam.

[2] Money, securities, and animals are examples of property usually excluded. Specific dollar limits may apply to items such as paintings, jewelry or furs.

Policy Exclusions

The standard flood policy specifically excludes a number of perils from coverage. Policy coverage of these excluded perils can generally be added through an endorsement and payment of an additional premium. Typical policy exclusions include the following:

- **Ordinance or law:** Many flood policies do not cover losses due to a law or ordinance of the community in which a building is located. For example, if a home is damaged or destroyed, changes in building codes could result in additional, uncovered expense when the home is repaired or rebuilt. Ordinance or law coverage is included in some package policies, often as a percentage of the dwelling coverage (10%, 25%, 50%, etc.).
- **Earth movement:** Excludes loss caused by events such as earthquake, volcanic eruption or landslide.
- **Other exclusions:** Other specific exclusions include war, nuclear hazard, neglect, intentional loss, fire, windstorm and explosion.

Other Issues

- **Replacement cost condition:** Dwelling: If a home is damaged or totally destroyed, a flood policy will generally pay (within policy limits) to rebuild or repair on an actual-cash-value basis. In simple terms, actual cash value means replacement cost, less a deduction for depreciation or wear and tear. Reimbursement on this basis could leave a homeowner short of the total funds needed to restore the home.
  If coverage under the policy is high enough, however, reimbursement can be on a replacement-cost basis. Replacement cost means, simply, restoring the home to its previous condition using materials and workmanship of similar quality. To qualify for replacement cost coverage, three conditions must be met: (1) the building must be a single-family dwelling; (2) it must be the homeowner's principal residence; and (3) building coverage must be at least 80% of the full replacement cost of the building or is the maximum available for the property under the NFIP.

Understand the Policy

An insurance policy is a written contract between the insured and the insurance company. The protection provided by the policy typically represents a significant part of an individual's overall risk management program. Thus, it is important for an insured individual to read and understand key policy provisions such as the following:

- **What perils are covered in the policy?** A basic policy may not provide as much protection as is necessary.
- **What perils are not covered?** For an additional premium, perils or situations not covered can often be added to a policy.
- **What are the limits of coverage?** This refers to the maximum dollar amount the insurance company will pay, in the event of a covered loss.
- **What are the deductible amounts?** A deductible is a dollar amount or percentage the insured must pay before the insurance company pays its portion of the loss.
- **In the event of a loss, what are the duties of the insured?** A policy will usually list the steps that must be taken in the event of a loss.

Seek Professional Guidance

Insurance agents and brokers, insurance counselors, and other trained financial consultants can help provide answers to detailed questions about a particular policy. These professionals are also helpful in selecting the right policy and the appropriate amount of coverage.

Earthquake Insurance

Why Earthquake Insurance?

Earthquakes can do a great deal of damage to a home and the personal possessions in it. A severe earthquake can completely destroy a home and its contents. Such a loss, if uninsured, could devastate most individuals and their families.

Excluded from Standard Policies

In most homeowner's, renter's, and condominium unit owner's policies there is a specific exclusion for loss caused by "earth movement," a term that includes earthquakes. To cover this, a basic policy must be endorsed to include earth movement, for which the insured pays an additional premium. As an alternative, a separate earthquake policy may be purchased.

Earth movement is generally defined as "earthquake, including land shockwaves or tremors before, during or after a volcanic eruption; landslide; mine subsidence, mudflow, earth sinking, rising or shifting." The term earthquake generally means a "vibration generating rupture event caused by displacement within the earth's crust through release of strain associated with tectonic processes and includes effects such as ground shaking, liquefaction, seismically-induced land sliding and damaging amplification of ground motion."

Adding Other Coverage

In many locations, an insured can add an earth movement endorsement to a basic policy. The endorsement usually covers only structures and/or personal property, and does not cover damage to the land itself. It usually excludes flood or tidal waves generated by earth movement.

The earth movement endorsement is subject to a percentage deductible (generally 10% to 25% of the value of the property insured), compared with the usual flat dollar deductible amount. To understand this different type of deductible, suppose a person's home is insured for $200,000 and its contents insured for $60,000. If there is a total loss from an earthquake and the policy has a 10% deductible, the individual would face a deductible of $20,000 on the value of the home and $6,000 on the value of the contents.

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Watercraft Insurance

Why Watercraft Insurance?

A large and increasing number of individuals enjoy the benefits of owning and using a personal watercraft such as a sailboat or motorboat. Owning or operating such watercraft, however, can also be a potential source of serious financial risk. Personal liability arising from losses suffered by others, or the cost of repairing or replacing a damaged, destroyed, or stolen watercraft can be very high.

Further, some states, yacht clubs, marinas, and lake associations have mandatory watercraft liability requirements, compelling owners to maintain liability insurance as a condition of licensing or use of facilities and recreation areas.

Sources of Watercraft Insurance

There are a number of sources of insurance coverage for watercraft owners.

- **Homeowner's insurance:** A limited amount of liability coverage for certain types of small watercraft is provided in many homeowner's[1] policies.
- **Endorsement of a homeowner's policy:** Some homeowner's policies may provide for coverage for watercraft through endorsement and payment of an additional premium.
- **Comprehensive watercraft insurance:** Such policies can provide a boat owner with higher levels of coverage, as well as protection against a broader spectrum of perils, than does a homeowner's policy. Coverage can also be provided for situations unique to watercraft ownership and use.

Watercraft Insurance - Coverage Under the Policy

In many respects, the protection provided by a comprehensive watercraft insurance policy (also known as a boat owner's policy) is similar to the coverage offered in many automobile

[1] Policy forms for renter's and condo owners may also provide such coverage.

insurance policies; protection is provided against a number of perils in one package. Typical coverage[1] includes the following:

- **Physical damage:** Also known as hull coverage, this coverage protects the insured against damage or loss to a covered watercraft, including trailers,[2] outboard motors, equipment, and furnishings. Insurance is typically provided on an all-risk basis, subject to certain standard exclusions. Reimbursement is generally based on actual cash value, although some insurers may offer policies using either an agreed value (face amount of insurance) or a replacement cost option.

- **Liability coverage:** This coverage is sometimes called protection and indemnity (P&I) coverage. It protects the owner against losses from legal liability arising from bodily injury or property damage caused by a watercraft accident. Coverage is normally provided up to a specific dollar amount.

- **Medical payments:** This policy provision pays medical expenses because of an injury sustained during an accident involving the insured watercraft. Coverage is usually provided up to a specific dollar amount.

- **Uninsured boater:** This coverage pays for bodily injury sustained in an incident caused by an uninsured boater. The provision usually pays up to a specified dollar limit and is normally offered as an optional coverage.

Common Policy Exclusions

A standard, comprehensive watercraft policy will specifically exclude a number of perils from coverage. In some situations, policy coverage for these excluded perils can be added through an endorsement and the payment of an additional premium. In other situations, a separate policy may be required to provide coverage. Typical policy exclusions might include the following:

- **High-risk watercraft:** Many policies exclude certain types of high-risk watercraft such as waverunners and jet skis. Special policies are available to cover such craft.

- **Nonstandard watercraft:** These include submersible or air-propelled (hovercraft) watercraft.

[1] The specific coverage and terms of a policy can vary from company to company and from state to state.

[2] In some policies, coverage on the trailer is optional.

- **Yachts:** Generally refers to larger vessels capable of navigating on the high seas. Such craft are normally covered under yacht policies.
- **Watercraft used for charter:** The term "charter" refers to using the insured watercraft for hire, rent, or lease.
- **High-risk activities:** Excluded high-risk activities include powerboat racing in an official race or speed contest, as well as towing individuals paragliding or parasailing. Some policies exclude water skiers towed by the insured craft from medical payments coverage.

Other Issues

While property damage and liability are coverages common to many types of property insurance, the ownership and use of watercraft present some unique situations, some of which may be covered in a comprehensive watercraft policy.

- **Wreck removal:** Coverage to pay for the removal of a wreck. For example, the Coast Guard or Army Corps of Engineers may deem a partially sunken vessel to be a hazard to navigation and order it to be removed or destroyed.
- **Salvage charges:** Refers to reasonable and necessary expenses incurred to protect a covered watercraft from a dangerous situation where loss or destruction is possible. May also cover a reward to the salvor.
- **Towing:** Some policies may provide coverage for towing a watercraft (on land or in the water) to the nearest repair site, if the craft is damaged by a covered peril.
- **Longshoremen's and harbor workers' compensation:** Provides coverage for an insured's liability, under the Federal Longshoremen's and Harbor Workers' Compensation Act, for injury to dockside workers. Coverage is statutory, with the terms of coverage prescribed by federal law. It is usually included as a part of the liability coverage in those states that require it.
- **Jones Act:** Protects the owner of the vessel from liability arising from the death of, or injury to, the captain or crew while on the water.

Understand the Policy

An insurance policy is a written contract between the insured and the insurance company. The protection provided by the policy typically represents a significant part of an individual's overall risk management program. Thus, it's important for an insured individual to read and understand key policy provisions such as the following:

- **What perils are covered in the policy?** A basic policy may not provide as much protection as is necessary.
- **What perils are not covered?** For an additional premium, coverage for excluded perils can often be added to a policy.
- **What are the limits of coverage?** The maximum dollar amount the insurance company will pay in the event of a covered loss.
- **What are the deductible amounts?** A deductible is a dollar amount or percentage the insured must pay before the insurance company pays its portion of the loss.
- **In the event of a loss, what are the duties of the insured?** A policy will usually list the steps that must be taken in the event of a loss.

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Individual Liability Insurance

Why Individual Liability Insurance?

The risk of legal liability is a fact of modern life. It is perhaps the largest financial risk most individuals face. Common incidents, such as an automobile accident, or a neighbor's child slipping on a kitchen floor, can result in lawsuits, with damage awards of enormous size. Without liability insurance, most individuals and families could be faced with a financial disaster.

Further, state law may require liability insurance. For example, some states have compulsory auto liability insurance laws, requiring auto owners to maintain automobile liability insurance as a condition of licensing or use on public roadways. Other states require auto owners to show financial responsibility after an accident.

Sources of Individual Liability Insurance

Liability insurance is designed to cover an insured for acts of negligence that create a legal obligation to a third party. Such liability can have its source in any part of an individual's life. For many individuals, liability insurance is acquired as part of the package policies purchased to protect major assets such as a home, automobile, or watercraft. Typical[1] policies provide the following liability coverage.

- **Homeowner's[2] insurance:** Liability coverage under a homeowner's policy is provided in one of three sections:
  - **Personal liability:** These are payments the insured is legally obligated to make because of bodily injury or property damage.
  - **Medical payments to others:** These are medical expenses of injured third parties.
  - **Additional coverages:** These cover certain expenses incurred by the insured in the event of bodily injury or property damage.

[1] The specific coverage and terms of a policy will vary from company to company and from state to state.

[2] The liability coverage usually provided under a renter's or a condominium unit owner's policy is similar to that provided in a homeowner's policy.

- **Automobile insurance:** Liability coverage under an automobile policy is provided in one of two sections:
    - **Automobile liability:** These are payments the insured is legally obligated to make because of bodily injury or property damage due to an auto accident.
    - **Medical payments:** These are medical or funeral expenses payable because of bodily injury.
- **Watercraft liability insurance:** Liability protection under a watercraft policy is typically provided in the protection and indemnity (P&I) section. P&I includes coverage for the following:
    - **Bodily injury:** These are payments the insured is required to make for pain and suffering, disfigurement, loss of mobility, or actual medical costs.
    - **Property damage:** Covers damage or destruction of someone else's property, including loss of use. Depending on the policy, additional coverage may be available for excess medical payments, longshoremen's and harbor worker's compensation, Jones Act and damage to wharfs and piers.

A standalone, comprehensive personal liability (CPL) policy can be purchased by individuals who do not have homeowner's insurance. Liability coverage under the CPL parallels that provided in a typical homeowner's package.

Policy Exclusions

Standard policies specifically exclude liability arising from a number of activities or situations. Such exclusions limit the range of risks covered in a standard policy, allowing an insurer to provide the protection most commonly needed, at a reasonable cost. Policy coverage for these excluded risks can generally be added through an endorsement and payment of an additional premium or the purchase of a separate policy. Typical liability policy exclusions include the following:

- **Business and professional activities:** Coverage can be added for certain occupations.
- **Watercraft**: There are certain exceptions. A separate watercraft policy should be considered.

- **Aircraft**: A separate aircraft policy should be considered.
- **Other:** Excludes, among others, liability for bodily injury or property damage arising from war, communicable disease, sexual molestation or abuse, controlled substances, and workers compensation.

Personal Umbrella Excess Liability Insurance

Personal umbrella excess liability insurance is designed to provide liability coverage for situations where potential liability could exceed the limits of the protection provided in a typical homeowner's, automobile, or watercraft policy. Those who have acquired wealth, and individuals practicing certain professions, often face such risks, simply because they are seen as having the ability to pay. To meet such needs, an individual may want to consider an umbrella excess liability policy.

The term "umbrella" derives from the fact that such policies require an insured to have a base amount of liability coverage, often in the form of specified policies. In the event of a covered loss, reimbursement comes first from the base policies. Liability in excess of the limits of the base policies is then covered by the umbrella or excess policy, up to its policy limits.

Coverage under an umbrella excess liability policy has two primary goals:

- To provide larger amounts of protection than are available under other policies.
- To broaden the protection, filling in coverage gaps that may exist. Umbrella liability policies generally have fewer exclusions than other policies.

Understand the Policy

An insurance policy is a written contract between the insured and the insurance company. The protection provided by the policy typically represents a significant part of an individual's overall risk management program. Thus, it is important for an insured individual to read and understand key policy provisions such as the following.

- **What losses are covered in the policy?** A basic policy may not provide as much protection as is necessary.
- **What losses are not covered?** For an additional premium, perils or situations not covered can often be added to a policy.

- **What are the limits of coverage?** This refers to the maximum dollar amount the insurance company will pay in the event of a covered loss.
- **What are the retention amounts?** A retention is a dollar amount or percentage the insured must pay before the insurance company pays its portion of the loss.
- **In the event of a loss, what are the duties of the insured?** A policy will usually list the steps that must be taken in the event of a loss.

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