

Parts of the Insurance Contract

Declarations

- Name, address of insured and insurer
- Time duration of the policy [policy period]
- Full premium due

Insuring agreement

- Heart of the policy
- Insurer's promise to pay
- Insurer's consideration/premium
- Perils insured against

Conditions

- Rules of conduct for both parties
- What an insured must do to collect on a claim

Exclusions

- The perils not covered
- Extra hazardous perils, e.g. nuclear accidents, flood, earthquake, war

Definitions

- Any terms that require definition

The Principle of Indemnity

- The insured should be restored to the same financial condition he/she was in prior to the loss

The Law of Large Numbers

- The more examples with the same or similar characteristics that exist in a risk pool, the more accurate the prediction of losses will be.

Adhesion

- The insurer has most, if not all the power in drawing the insurance contract.

Aleatory

- Claims payment on an insurance contract is based upon a chance event and equal value may not be exchanged, i.e. premiums paid may far exceed the amount returned in claims, or vice versa.

Unilateral

- The insurer cannot legally force an insured to pay a premium he/she does not wish to pay, or to continue a policy he/she no longer wants.

Property

Dwelling Forms: Coverage A: Dwelling [**Primary Limit**], Coverage B: Other **Detached** Structures, Coverage C: Personal Property, Coverage D: Fair Rental Value, **Coverage E Additional Living Expenses: In DP-2 & DP-3 Only** Coverage L: Personal Liability, Coverage M: Medical Payments to Others [paid without regard to fault]

- Basic DP-1 [named peril]: Three insured perils are fire, lightning & internal explosion. Extended Coverage perils are available for an additional premium.
- Broad DP-2 [named peril]: Adds all the E/C perils, riot, explosion [external], vehicles, smoke, hail, civil commotion, aircraft, windstorm and volcanic eruption. Also makes available through endorsement vandalism & malicious mischief coverage
- Special DP-3 [open peril]: Covers all perils not specifically listed in the Exclusions.
- Other Coverages: These do not require extra premium and are paid in addition to the limit of liability. Other structures, **Trees, shrubs & plants in DP-2 & DP-3 Only**. No more than \$500 for any one tree, shrub or plant.
- Endorsements: Replacement cost coverage is available on DP-2 & DP-3 only. The insured must maintain 80% of the replacement cost in coverage to be fully reimbursed for a loss.
- The coinsurance penalty: If the insured has not complied with the 80% of replacement cost coverage requirement the claims payment is derived as follows: Insurance Carried/Insurance Required x Loss = Reimbursement, e.g. a building worth \$100,000 has a coinsurance requirement of \$80,000 and the existing coverage is \$60,000. A \$40,000 loss occurs. [$\$60,000 / \$80,000 = 6/8 = 3/4 = 75\% \times \$40,000 = \$30,000$]

Homeowner Forms: Coverages A, B, C & D Identical to the Dwelling Policy Form Coverages. Coverage A is the primary limit.

- Basic HO-8: Older homes in which the replacement cost is more than the market value. Insured perils are fire, lightning, windstorm/hail, explosion, riot, aircraft, vehicles, smoke, vandalism & malicious mischief and volcanic eruption.
- Broad HO-2: Adds falling objects, weight of ice, snow & sleet, accidental discharge of water or steam, freezing of plumbing, damage from artificially generated electrical current. Expands vehicles peril to include damage to fences, driveways and walks when operated by a resident of the household.
- HO-3 Special: Open peril coverage on A & B, broad coverage on C
- HO-5 Comprehensive: Open peril coverage on A, B & C, covers mysterious disappearance.

.....
Coverage C is the primary limit on the following:

- HO-4 Renters: No Coverage A
- HO-6: Condo Unit Owners, small amount of Coverage A to insure owner improvements, e.g. cabinets, window coverings, carpet, light fixtures, etc.

Personal Auto

Part A: Liability [There is never a deductible on liability] The only required coverage in Nevada. The Nevada minimum limits of liability coverage are: \$15,000 per person, bodily injury, \$30,000 per accident, bodily injury & \$10,000 property damage [15/30/10].

Part B: Medical Payments [Paid without regard to fault]

Part C: Uninsured/Underinsured Motorist

Part D: Damage to your vehicle [deductibles apply]

- Collision: Hitting a fixed object, another vehicle or upset.
- Comprehensive: Other than collision.
 1. Fire
 2. Theft
 3. Vandalism
 4. Glass breakage
 5. Hitting a bird or animal
 6. Flood
 7. Mudslide
 8. Missiles or falling objects

Miscellaneous: Anyone who has access to the keys and vehicles will be presumed to have permission to drive. All drivers must be rated on a vehicle. All drivers will be presumed to have access to all vehicles. All coverages transfer to temporary substitute autos, e.g. rental cars. Replacement vehicles automatically have the broadest coverage of any auto already on the policy. Liability coverage is modified to comply with other states' safety responsibility laws when a driver is traveling out of state.

Personal Inland Marine Floaters

- **Personal Property:** Analogous to property that would fall into Coverage C of a dwelling or homeowner policy.
- **Personal Articles:** The nine classes of property that would fall under scheduled personal property in a homeowner policy, e.g. Jewelry, watches, furs, sports equipment, fine arts, etc.
- **Personal Effects:** Property that people commonly take with them while traveling, e.g. cameras, computers, cell phones, tablet computers, etc.

Commercial Auto

- Analogous to personal auto coverages.
 1. Symbol 1: Any auto
 2. Symbol 7: Specifically described autos
 3. Symbol 9: Nonowned autos only, typically owned by employees and used in the business.

Commercial Package Policy

- Can be tailored to fit the insurance needs of any legal business in existence
 1. Commercial property
 2. Commercial General Liability
 3. Commercial auto
 4. Crime
 5. Professional liability, e.g. malpractice, E & O
 6. Employment practices liability

Businessowners Package Policy

- Eligibility limited to small to medium sized businesses
- Eligible occupancies cannot exceed 25,000 square feet or \$3 million in gross annual sales at each location.
- Office buildings limited to six stories in height or no more than 100,000 square feet
- Basic, broad & Special causes of loss forms

Additional Coverages

- Extra expense
- Business income from dependent properties
- Increased cost of construction
- Civil authority
- Forgery
- Counterfeit money

Optional coverages [extra premium required]

- Employee dishonesty
- Mechanical breakdown
- Money & securities
- Outdoor signs

Liability & Medical Payments

Commercial Property

- Building & personal property [business personal property includes inventory, furniture, fixtures, machinery, equipment, tenant improvements]
- Builders risk
- Condo assn.
- Condo commercial unit owners
- Business income with extra expense
- Business income without extra expense
- Extra expense
- Legal liability e.g. fire damage liability to leased office property
- Causes of loss forms:
 1. Basic
 2. Broad
 3. Special

Note: The commercial property form covers plants, trees and shrubs, but the reimbursement is \$250 for any one tree, shrub or plant, unlike the personal property forms which pay \$500.

Mobile Home

- Must offer a policy to cover the market value of the home in the event of a total loss.
- 10% of the coverage A amount is dedicated to other structures on the property

Flood

- Underwritten through the National Flood Insurance Program, a division of FEMA.
- Any single family home that is principally above ground is eligible.
- Emergency program goes into effect when a community applies to be a part of the NFIP
 1. Building: \$35,000
 2. Contents \$10,000
- Regular program:
 1. Building: \$250,000
 2. Contents: \$100,000

Personal Umbrella [excess liability]

- "Stacks" on underlying auto, homeowners, personal watercraft and rental properties
- Only covers liability that exceeds underlying policy coverage or is excluded by underlying policies.