Dwelling Insurance

Chapter Objectives

The student should be able to differentiate between the three different dwelling coverage forms. An understanding of the definition of the perils is also very important. In most cases the definition of the perils will be the same for the Dwelling Policy, the Homeowner Policy, as well as the Commercial Property Policy. Features of the Dwelling Policy as to the dwelling, other structures, personal property, and loss of use and rental value are also very important to know and understand. The exclusions section is also important because the exclusions are very basic and apply to most property policies.

Introduction to Dwelling Insurance

New York Standard Fire Policy - In most states, dwelling insurance was previously written using the 165-line 1943 New York Standard Fire Policy. This form provided protection against direct loss from fire, lightning and removal which covers property being removed from the premises to protect it from further damage from the perils insured against. The dwelling forms as well as forms used to cover commercial property risks were attached to the standard fire form. Today the dwelling forms, for the most part, are stand alone forms that incorporate many of the provisions of the 1943 New York Standard Fire Policy. They are designed for individually-owned structures which are occupied as residences. A complete review of the New York Standard Fire Policy is included in the law section of this course if it appears on your testing outline.

Dwelling Policy vs. Homeowner Policy - The Dwelling Policy should not be confused with Homeowner Policy. They are two different policies. Dwelling insurance does not require the risk to be owner occupied. Nor does the Dwelling Policy automatically contain the peril of theft or personal liability coverages. These coverages must be added by endorsement. The Homeowner Policy requires that at least one of the family units must be occupied by the named insured. The Homeowner Policy automatically covers theft and includes personal liability coverages, without endorsements. The Dwelling Policy is usually used to cover risks that may not qualify for the Homeowner Policy. This could consist of rental property, older homes, hunting cabins in rural areas, etc.

Cause of Loss Forms - With property insurance we need to remember the three cause of loss form concepts. These are the basic, broad and special cause of loss forms. Each form includes additional perils and a slightly higher premium is charged for the broadened coverage. In dwelling insurance the Basic Form is the DP-1, the Broad Form is the DP-2 and the Special Form is the DP-3. Note that the DP-1 and the DP-2 are named peril forms. The DP-3 provides open peril coverage (unnamed) for the dwelling and other structures and the broad form perils for contents. These perils are discussed in this section.

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I. Eligibility and Forms

Eligibility

Eligibility for residential/incidental businesses under the Dwelling Property Program:

- Single family homes
- 1 - 4 family houses
- Duplexes, triplexes
- Maximum 5 roomers or boarders
- Dwellings under construction
- Permanently installed mobile homes (usually the DP-1 only)
- Only incidental business risks (eligibility varies by insurer)

NOTE: Farm dwellings or other farm property are not eligible for the dwelling program. There are specific forms for farm and ranch exposures discussed later in this course.

Dwelling Property Forms

For the most part, all DP forms cover the same types of property and contain the same General Exclusions and Conditions. The perils insured against, however, vary significantly from form to form. The following charts are an easy way to remember the perils provided by the dwelling forms.

Dwelling Property Perils At-A-Glance

<table>
<thead>
<tr>
<th>DP-1 (Basic)</th>
<th>OPTIONAL FOR DP-1 ONLY</th>
<th>DP-2 (Broad)</th>
<th>DP-3 (Special)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Dwelling, Other Structures &amp; Personal Property)</td>
<td>Extended Coverage (EC) Perils (listed below)</td>
<td>Automatically includes all of the DP-1 perils, the EC perils and VMM</td>
<td>Open Perils (Dwelling &amp; Other Structures)</td>
</tr>
<tr>
<td>Fire</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Lightning</td>
<td>Vandalism &amp; Malicious Mischief (VMM) an endorsement</td>
<td>Plus the Broad Perils (listed below)</td>
<td>Provides broad form perils for personal property</td>
</tr>
<tr>
<td>Internal Explosion</td>
<td></td>
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<td></td>
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</tbody>
</table>
### EC Perils

<table>
<thead>
<tr>
<th>EC Perils</th>
<th>Broad Perils</th>
</tr>
</thead>
<tbody>
<tr>
<td>W – Windstorm</td>
<td>B – Burglary Damage</td>
</tr>
<tr>
<td>C – Civil Commotion</td>
<td>I – Ice and Snow Weight</td>
</tr>
<tr>
<td>S – Smoke</td>
<td>G – Glass Breakage</td>
</tr>
<tr>
<td>H – Hail</td>
<td>A – Accidental Discharge or overflow of water or steam</td>
</tr>
<tr>
<td>A – Aircraft</td>
<td>F – Falling Objects</td>
</tr>
<tr>
<td>V – Vehicles</td>
<td>F – Freezing of Pipes</td>
</tr>
<tr>
<td>V – Volcanic Eruption</td>
<td>E – Electrical Damage</td>
</tr>
<tr>
<td>E – Explosion</td>
<td>C – Collapse (An additional coverage peril)</td>
</tr>
<tr>
<td>R – Riot</td>
<td>T – Tearing Apart, Cracking, Burning or Bulging</td>
</tr>
</tbody>
</table>

The Extended Coverage (EC) perils can be easily remembered with the words “WC Shavver”.

The Broad Form perils can be easily remembered with the words “BIG AFFECT”.

The EC perils and vandalism are available on all DP forms.

The broad perils are only available on the DP-2 and DP-3 forms.

### II. Dwelling Property Forms – Perils Insured Against

DP policies have a simple format: Coverages, Perils Insured Against, General Exclusions and Conditions. The Coverages, General Exclusions and Conditions will be reviewed later in this section.

#### 1. The DP-1 Basic Form

The DP-1 Basic form provides coverage for direct physical loss caused by:

1. **Fire** - A rapid oxidation, accompanied by a flame, spark, or glow. It must also be sudden and unexpected, not a long-term, predictable process such as scorching.
   
   a. A fire must be **hostile - not friendly**. A friendly fire is one that is contained in the place intended for it.
   
   b. A hostile fire is one that has spread beyond its intended place.
   
   c. Only direct damage caused by hostile fire (including smoke from a hostile fire) is covered by the fire peril.

2. **Lightning** - Electricity atmospherically produced by nature. It is not an artificial electrical current.
3. **Internal Explosion** – Meaning an internal explosion that occurs in a covered building or in a building containing covered personal property. Typical losses covered would include the explosion of a furnace, stove, or hot water heater. Under DP-1 explosion does not mean:

   a. Electric Arcing;
   b. Breakage of water pipes;
   c. Breakage or operation of pressure relief devices; or
   d. Explosions of steam boilers or steam pipes owned, leased or operated by the named insured.

**Extended Coverage Perils** - The DP-1 provides the basic perils listed above. When a premium for Extended Coverage perils and Vandalism or Malicious Mischief is shown in the Declarations page, these coverages become part of the perils insured against:

1. **Windstorm or Hail** - Including high winds, cyclones, tornadoes and hurricanes. Interior damage covered only if wind or hail causes an opening to the structure. There must be damage to the outside of the insured dwelling. The following property is excluded from windstorm or hail coverage if located outside of the dwelling:

   a. Awnings
   b. Signs
   c. Radio or television antennas
   d. Rowboats
   e. Canoes

   (Note: If wind knocks out power and food in the freezer is lost, the claim is covered since wind is the proximate cause. This is sometimes called a consequential loss.)

2. **Explosion** - This peril does not exclude steam boilers or steam pipes but is slightly broader than "internal" explosion, because the explosion does not have to occur in the dwelling or structure.

3. **Riot or Civil Commotion** – Covers damage to insured property caused by an uprising or disturbance of a large number of people.

4. **Aircraft** - Covers damage to insured property from contact with an aircraft, including contact with objects falling from the aircraft.

5. **Vehicles** - Excludes damage to fences, driveways and walks when caused by a vehicle owned or operated by an insured or resident, and does not exclude such damage when caused by a nonresident. Damage caused by objects thrown by vehicles (such as stones) is covered.

6. **Smoke** - Covers sudden and accidental damage to covered property except smoke from:

   a. Agricultural smudging
   b. Industrial operation
The smoke peril also covers damages caused by puffback, the release of soot, smoke, vapor or fumes from a furnace, boiler or similar equipment.

7. **Volcanic Eruption** – Excludes loss caused by earthquakes, land shock waves or tremors. Covers damage caused by the eruption of a volcano, including the ensuing lava flow and airborne particles. One or more volcanic eruptions that occur within a 72-hour period will be considered as one eruption.

**Vandalism & Malicious Mischief (V&MM)** – V&MM is optional coverage which applies only if a premium is shown on the Declarations page of the policy. It covers loss caused by intentional and malicious damage to insured property. Vandalism or malicious mischief does not include loss by pilferage, theft, burglary or larceny. All dwelling forms state there is no coverage for vandalism or malicious mischief if the dwelling has been vacant for more than 60 consecutive days. However, a dwelling under construction is not considered vacant. “Vacant” means no contents and no regular occupants.

2. **The DP-2 Broad Form**

The DP-2 Broad Form is a named peril policy that provides coverage for the structure or contents for direct physical loss caused by fire, lightning and internal explosion plus it automatically includes the Extended Coverage (EC) Perils and the V&MM coverage. The DP-2 Broad Form also provides coverage for the following broad form perils:

1. **Damage by Burglars** - Provides protection for property damage caused by burglars. However, the theft of property is not covered unless added by endorsement. Coverage is also excluded if the dwelling has been vacant for more than 60 or more consecutive days immediately before the loss.

2. **Weight of Ice, Snow or Sleet** - Covers damage to the insured building and/or contents due to the weight of ice, snow or sleet excluding loss to an awning, fence, patio, pavement, swimming pool, foundation, retaining wall, bulkhead, pier, wharf or dock.

3. **Accidental Discharge** - Provides coverage for loss caused by the accidental discharge of water or steam from a plumbing, heating or air-conditioning system, from a fire protective sprinkler system or from within a household appliance. Coverage includes the cost of tearing out and repairing the damage caused by the accidental discharge, but not the part that caused the damage. Damage caused by a sump, sump pump or related equipment is not covered. Note that roof drains, gutters, downspouts, and similar fixtures or equipment are not considered plumbing systems or household appliances. This peril does not provide coverage:
   a. For loss to a building caused by constant or repeated seepage over a period of time
   b. If the dwelling has been vacant for more than 60 consecutive days immediately before the loss
   c. For the system or appliance from which the water or steam escaped
4. **Falling Objects** - Provides coverage for damage caused by falling objects to the exterior premises. Damage to the inside of a building is not covered unless there is damage to the outside first. Excludes coverage for the following:

   a. Outdoor radio and television antennas and aerials including their lead-in wiring, masts and towers, outdoor equipment, awnings and fences
   b. Damage to the falling object itself

5. **Freezing** - Provides coverage for freezing of plumbing, heating or air conditioning systems, and automatic fire protective sprinkler systems and household appliances. If property is vacant or unoccupied, and insured must use reasonable care to:

   a. Maintain heat in the building
   b. Shut off the water supply and drain all systems and appliances of water

However, for automatic fire protective sprinkler systems, the insured must continue the water supply and maintain heat in order for coverage to apply. This peril does not include a sump, sump pump, or related equipment or a roof drain, gutter, downspout or similar fixture or equipment.

6. **Artificially Generated Electrical Current** - This peril does not include loss to tubes, transistors, electronic components or circuitry that are a part of appliances, fixtures, computers, home entertainment units, or other types of electronic apparatus. However, a fire cause by artificially generated electrical current would be covered.

7. **Sudden and Accidental Tearing Apart, Cracking, Burning or Bulging** - Provides coverage for sudden and accidental tearing apart, cracking, burning, or bulging of steam or hot water heating systems, air conditioning systems, automatic fire protective sprinkler systems, or appliances for heating water.

3. **The DP-3 Special Form**

   The last dwelling form is the DP-3 Special Form. The DP-3 provides:

   1. Open perils coverage on the **dwelling or other structures**. (Note: Under an open peril form the burden of proof is with the insurance company to prove that a peril is not covered.)

   2. Named perils coverage on the **personal property contents**. The covered perils are the same as those provided on the DP-2 Broad Form - fire, lightning, internal explosion, the EC perils, vandalism and malicious mischief and the broad form perils. (Note: Under a named peril form the burden of proof is on the insured to prove that a named peril caused the loss.)
DP-3 Exclusions - Open perils means the form will cover all direct property losses except the exclusions listed below:

1. Losses excluded by the general exclusions (war, nuclear hazard, flood, etc.)

2. Gradual and expected losses such as:
   a. Wear and tear, marring, deterioration, rust, mold, rot and contamination;
   b. Inherent vice (a characteristic of a given piece of property that causes it to depreciate, spoil, break, disintegrate, etc.) and latent defect;
   c. Smoke from agricultural smudging or industrial operations;
   d. Smog; and
   e. Mechanical breakdown.

3. Settling, cracking, shrinking, bulging or expansion of pavements, patios, foundations, walls, floors, roofs or ceilings

4. Loss caused by birds, vermin, rodents, insects or domestic animals

5. Wind, hail, ice, snow or sleet damage to antennas, lawns, plants, shrubs and trees

6. Freezing, thawing or damage caused by the weight of ice, snow or sleet to awnings, fences, pavements, patios, swimming pools, foundations, retaining walls, bulkheads, piers, wharves and docks. The exclusion also applies to footings and other structures or devices that support all or part of a building or other structure. It also applies to retaining walls and bulkheads that do not support all or part of a building or other structure.

7. Theft of property not actually part of the insured dwelling nor to a dwelling under construction

8. Vandalism and malicious mischief, burglary damage and glass breakage if the dwelling has been vacant for more than 60 consecutive days

9. Any loss involving collapse, other than as provided under "other coverages" which will be discussed later in this section.

10. Discharge, dispersal, seepage, migration release or escape of pollutants, meaning any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste

Remember the DP-3 Special Form provides "named perils" coverage on the personal property. Therefore, the same exclusions that apply to DP-2 will also apply to the DP-3 personal property.
III. Dwelling Form Coverages

Direct Loss Coverages

Coverages A, Coverage B and Coverage C are direct loss coverages which include the following:

1. **Coverage A – Dwelling Building:** Coverage is provided on the dwelling as described in the Declarations section of the Dwelling Property policy as well as any structure attached to this dwelling (such as a garage). The insured sets the amount of coverage based on the replacement cost of the house. (The DP-I, however, pays all losses on an actual cash value basis.) Coverage on the dwelling also includes coverage on:

   a. Materials and supplies located on or next to the described location used to construct, alter or repair the dwelling or other structures on the described location; and
   b. Building equipment and outdoor equipment used for the service of the insured premises.

Coverage A does not apply to land because the land would be unharmed in case of a loss to the property.

2. **Coverage B – Other Structures:** 10% of the Coverage A amount which is an additional amount of insurance under the DP-2 and DP-3. However in the DP-I, if the insured has a detached structure the 10% is included in the dwelling limit and is not an additional separate coverage limit. This coverage pertains to structures detached (detached also includes structures that are connected to the dwelling by a fence, utility line or similar connection) from the main dwelling, such as:

   a. Detached garages; and
   b. Any other outbuilding on the premises that is used for incidental purposes in regards to the maintenance of the main dwelling.

Coverage B **does not apply** to any structure:

   a. Used for business or farming purposes;
   b. Rented or held for rental to any person who is not a tenant of the dwelling, unless it is used solely as a private garage;
   c. Structures that contain commercial, manufacturing or farming property that is owned by the insured or a tenant of the dwelling are covered as long as the structure is not used to store gaseous or liquid fuel (does not apply to fuel in a permanently installed fuel tank of a vehicle or craft parked or stored in the structure);
   d. Gravemarkers, including mausoleums, are not covered.

3. **Coverage C – Personal Property:** In order to have coverage for the insured's personal property, a limit must be shown on the Declarations page and a premium must be paid. The insured sets the limit based on the actual cash value of the personal property.
Coverage C gives protection to personal property only at the insured location owned by the insured or members of his/her family residing with the insured and usual to the occupancy of the dwelling. The personal property of guests or servants may be covered while located on the insured premises, if the insured so desires.

The policy will provide 10% of the Coverage C limit for personal property off the premises on a worldwide basis. However, this extension does not apply to the property of guests or servants or to rowboats and canoes.

If an insured purchases a new principle residence, coverage will automatically apply at the new location for 30 days immediately after the insured begins to move his property. This time period will not extend beyond the termination of the policy. In case of a loss, the insurer's limit of liability is limited to the proportion of the limit of liability that the value at each residence bears to the total value of all personal property covered by the policy. For example, if you have $20,000 of personal property covered by the policy and half of your covered property is destroyed by a covered peril when moved to a newly acquired principal residence, $10,000 in Coverage C will apply at this new location.

The following types of personal property are excluded under Coverage C:

a. Accounts, bank notes, bills, bullion, coins, currency, deeds, evidences of debt, gold other than goldware, letters of credit, manuscripts, medals, money, notes other than bank notes, passports, personal records, platinum, securities, silver other than silverware, tickets and stamps, script, stored value cards and smart cards;

b. Animals, birds and fish;

c. Aircraft (except model or hobby aircraft not used or designed to carry people) are not covered;

d. Boats (other than rowboats and canoes);

e. Data, including data stored in: books of account, drawings or other papers of record, electronic data processing, tapes, wires, records, discs or other software media, data stored in computers or related equipment;

f. Credit cards or fund transfer cards;

g. Motor vehicles or other motorized land conveyances not required to be registered for use on public roads or property are not covered except those which are:

   ▪ Used solely to service the described location; or
   ▪ Designed to assist the handicapped;

h. Hovercraft and parts (hovercraft refers to self-propelled motorized ground effect vehicles, such as air cushion vehicles and flarecraft);

i. Water or steam (under the earlier forms, it could be argued that water became the insured's personal property after it passed through the insured's water meter; this exclusion makes the intent of the policy clear);

j. Gravemarkers, including mausoleums.
Indirect Loss Coverages

Coverage D and Coverage E are indirect loss coverages. They come into play when property covered by Coverage A, Coverage B or Coverage C has been damaged by a covered peril. In other words, an indirect loss cannot be sustained without having first sustained a direct loss.

1. **Coverage D – Fair Rental Value:** The insurer will pay the fair rental value of that part of the described location rented to others or held for rental at the time of damage. “Fair rental value” means the rental value minus expenses which do not continue while the property is unfit for use.

   Payment will be for the shortest time required to repair or replace that part of the described location rented or held for rental.

   If a civil authority will not permit the insured to use his covered property due to direct damage to a neighboring location by a peril insured against in the insured’s policy, there is coverage for the fair rental value loss for two weeks.

   The fair rental value limit under the DP-1 is 20% of Coverage A. This is not additional coverage under the DP-1, but is included in the Coverage A limit. This coverage (20% of Coverage A) is an additional amount of coverage under the DP-2 and DP-3.

2. **Coverage E – Additional Living Expense:** The Additional Living Expense feature of the dwelling form will pay additional living expenses incurred by the insured while the property is unfit for use. “Additional living expenses” means any necessary increase in living expenses (such as rent for alternative housing, meals out, laundry, etc.) incurred so that the household can maintain its normal standard of living. The DP-1 form does not automatically provide for additional living expense. Coverage must be purchased separately for the DP-1. Forms DP-2 and DP-3 combine the fair rental value and additional living expense coverage for up to 20% of the Coverage A limit without additional charge. The insurance may use up to 20% of the Coverage A limit of liability for loss of both fair rental value and additional living expense.

Other Coverages in the Dwelling Policy

The following are “other coverages” that are included in all forms of the Dwelling Policy except as noted.

1. **Debris Removal** - The insurer will pay the insured’s reasonable expense for the removal of:

   a. Debris of covered property if a peril insured against causes the loss; or
   b. Ash, dust or particles from a volcanic eruption that has caused direct loss to a building or property contained in a building.

   Debris removal expense is included in the limit of liability applying to the damaged property; it is not additional insurance.
2. **Improvements, Alterations, and Additions** - If the insured is a tenant of the described location, he or she may use up to 10% of the Coverage C limit of liability for loss by a peril insured against to improvements, alterations and additions, made or acquired at his or her expense, to that part of the described location used only by the insured. This coverage is additional insurance.

3. **World-Wide Coverage** - The insured may use up to 10% of the Coverage C limit of liability for loss by a peril insured against to property covered under Coverage C (except rowboats and canoes) while anywhere in the world. Use of this coverage reduces the Coverage C limit of liability for the same loss.

4. **Reasonable Repairs** - In the event that covered property is damaged by an insured peril, the insurer will pay the reasonable cost incurred by the insured for necessary measures taken solely to protect against further damage. If the measures taken involve repair to other damaged property, the insurer will pay for those measures only if that property is covered under the policy and the damage to that property is caused by a covered peril. This coverage:
   a. Does not increase the limit of liability that applies to the covered property.
   b. Does not relieve the insured of his/her duties, in case of a loss to covered property, which would require the insured to protect the property from further damage. In addition, the insured is required to make reasonable and necessary repairs to protect the property and to keep an accurate record of repair expenses.

5. **Property Removed** - The form covers personal property against direct loss from any cause while being removed from the premises endangered by a peril insured against for no more than 30 days while removed (only 5 days under DP-1). This coverage does not change the limit of liability that applies to the property being removed.

6. **Trees, Shrubs and Other Plants** - The policy covers trees, shrubs, plants or lawns, on the covered premises if the loss is caused by the following perils:
   - Fire or lightning;
   - Explosion;
   - Riot or civil commotion;
   - Aircraft;
   - Vehicles not owned or operated by the insured or a resident of the covered premises; or
   - Vandalism or malicious mischief, including damage during a burglary or attempted burglary, but not theft of property.

   The limit for this coverage will not be more than 5% of the Coverage A limit or more than $500 for any one tree, shrub or plant. This coverage is considered additional insurance.

7. **Fire Department Service Charge** - The policy will provide $500 to pay for fire department charges incurred when the fire department is called to save or protect covered
8. **Collapse** – Collapse is included in the DP-2 and the DP-3 only. It is not included in the DP-1. “Collapse” covers physical loss to covered property involving **abrupt falling down or caving in** of a building or any part of it caused by:

a. Perils insured against in the policy;
b. Hidden decay;
c. Hidden vermin or insect damage;
d. Weight of contents (equipment, animals or people);
e. Weight of rain collected on a roof;
f. Use of defective materials/methods when the collapse occurs during construction or remodeling.

This coverage does not increase the limit of liability that applies to the damaged covered property.

9. **Glass or Safety Glazing Material** - Glass breakage provides coverage for all building glass, including windows and doors, damaged by a covered peril as long as the insured premises has not been vacant for 60 or more consecutive days before a loss. There is very limited coverage for glass under the DP-1. Damage must be the result of a covered peril such as wind or hail. However, the breakage of glass from any cause, unless excluded, is covered under the DP-2 and DP-3. This coverage does not increase the limit of liability that applies to the damaged covered property.

10. **Ordinance or Law** - Ordinance or law is covered in the DP-2 and DP-3 only. For an insured who owns an insured location, up to 10% of the Coverage A limit may be used to cover increased costs of repair/rebuilding after a covered loss occurs due to the enforcement of any ordinance or law regulating construction, demolition, remodeling, etc. This 10% limit is additional insurance.

**IV. Dwelling Policy General Exclusions**

1. **War**;

2. **Nuclear Hazard**;

3. **Water Damage** - This includes:

   a. Flood, surface water, waves, tidal waves and overflow of streams and other bodies of water;
   b. Water backed up from sewers or drains; and
   c. Water below the surface of the ground, including seepage of leaks through sidewalks, walls, basements, floors or windows. (Direct loss by fire or explosion resulting from water damage is covered.)
The water damage exclusion has been modified to exclude water-borne material. It also excludes water or water-borne material that is discharged from a sump pump or related equipment. The perils listed under this exclusion apply when caused by or resulting from humans, animals or any act of nature.

4. **Earth Movement** - Which means:
   
   a. Earthquakes including land shock, waves or tremors, before, during or after a volcanic eruption;
   b. Landslide, mudslide or mudflow;
   c. Subsidence or sinkhole; or
   d. Any other earth movement including earth sinking, rising or shifting caused by or resulting from human or animal forces or any act of nature unless direct loss by fire or explosion ensues and then payment will be made only for the ensuing loss.

5. **Ordinance or Law** – Meaning any ordinance or law requiring or regulating the construction, demolition, remodeling, renovation or repair of property, including removal of any resulting debris. However, this exclusion does not apply to the 10% of Coverage A limit that may be provided under “Other Coverages.” Excludes ordinances or laws whose requirements result in a loss in value to the property and ordinances or laws that require the insured to test for, monitor, clean up, or otherwise respond to pollutants. The exclusion applies regardless of whether the property has been physically damaged.

6. **Governmental Action** – Meaning the destruction, confiscation or seizure of property by the government or a public authority. However, this exclusion does not apply to such acts ordered by any governmental or public authority that are taken at the time of a fire to prevent its spread if the loss caused by fire would be covered under the policy.

7. **Power Failure** - Meaning the failure of power or other utility service if the failure takes place off the described premises.

8. **Neglect** - Meaning the insured's unwillingness to use all reasonable means available to save property at and after the time of loss.

9. **Intentional Loss** - Meaning any loss arising out of any act committed:
   
   a. By or at the direction of the named insured or any person or organization named as an additional insured; and
   b. With the intent to cause a loss.

**V. Dwelling Policy Conditions**

1. **Policy Period** - All covered losses must occur during the policy period. All policies are effective at 12:01 a.m. However, in a few states the policy begins and ends at noon. Check the state law section in this course for the policy period in your state.
2. **Mortgage Clause** - If a mortgagee is named in a Dwelling Property policy, any loss payable under Coverage A or B will be paid to the mortgagee and the named insured, as interests appear. If more than one mortgagee is named, the order of payment will be the same as the order of precedence of the mortgages. The mortgagee clause acknowledges the insurable interest of the mortgagee by agreeing to notify the mortgagee **10 days before** cancellation or non-renewal takes effect. If the insurer denies the insured’s claim, this denial will not apply to a valid claim of the mortgagee, if the mortgagee:

   a. Notifies the insurer of any change in ownership, occupancy or substantial change in risk of which the mortgagee is aware;
   b. Pays any premium due under this policy on demand if the insured has neglected to pay the premium; and
   c. Submits a signed, sworn proof of loss within 60 days after receiving notice from the insurer of the insured’s failure to do so. Policy conditions relating to appraisal, suit against the insurer and loss payment apply to the mortgagee.

3. **Liberalization Clause** - If the insurer makes a change that broadens coverage under an existing policy without additional premium charge, that change will automatically apply to an insured’s policy as of the date the insurer implements the change. The implementation date under the dwelling forms must fall within 60 days prior to, or during, the policy period stated in the Declarations.

4. **Concealment or Fraud** - The entire policy will be void if, whether before or after a loss, the insured has committed any of the following:

   a. Intentionally concealed or misrepresented any material fact or circumstance;
   b. Engaged in fraudulent conduct; or
   c. Made false statements.

5. **Recovered Property** - If the insurer or insured recovers any property for which the insurer has made payment under the policy, the recovering party must notify the other of the recovery. At the insured’s option, the property can be returned to or retained by the insured. In addition, the loss payment will be adjusted based on the amount the insured received from the insurer for the recovered property.

6. **Duties After Loss** - The insured must give the insurer prompt notice, protect the property from further loss, keep accurate records when making reasonable repairs, cooperate with the insurer, show damaged property, and **send proof of loss within 60 days**. The insured must cooperate with the insurer in a claim investigation. It also states that the insurer has no duty to provide coverage under the policy if the insured's failure to comply with these duties is prejudicial to the insurer.

7. **Loss Settlement** - All DP policies **settle losses to personal property at actual cash value**. Losses to dwelling and other structures however, are paid on a replacement cost basis (except the DP-1), with no deduction for depreciation as long as the insured carries insurance equal to **80% or more** of the full replacement cost of the building at the time of

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the loss. The **DP-1 form pays for both building and contents losses on an actual cash value basis only.** Under the Loss Settlement condition of the DP-2 and DP-3, the insured does not have to rebuild at the same premises to qualify for replacement cost coverage; however, payment is limited to the amount it would cost to rebuild at the original premises. Replacement cost is based on the cost to use material of like kind and quality. The insurer will pay no more than actual cash value until repair or replacement is complete; after that, the loss may be settled on a replacement cost basis. If the cost to repair or replace the damage is less than 5% of the limit of coverage on the building and less than $2,500, the insurer will pay on a replacement cost basis regardless of whether repair or replacement is complete.

8. Other Insurance and Service Agreement - If there is other insurance covering the property the insurer will only pay its percentage of the loss as their limit bears to the total amount of insurance. Example: Company A has $40,000 on the dwelling and Company B provides $60,000 on the dwelling. There is a $30,000 covered loss. How much will Company A pay? Company A has 40% of the total amount of coverage and will pay 40% of the $30,000 loss or $12,000. If the personal property is covered by a service agreement, the dwelling coverage provided is **excess.**

9. Loss Payable Clause - Provides that if a loss payee is listed in the Declarations for insured personal property, the loss payee is considered an insured with respect to that property and will be notified in writing if the insurer cancels or nonrenews the policy.

10. Legal Action Against Insurer – No action can be brought against the insurer unless there has been full compliance with all terms of the policy and the action is started within two years after the date of loss.

VI. Dwelling Policy Coverage Endorsements

The following is a list of some of the most common endorsements that can be added to the dwelling forms.

1. **Theft Coverage** - The Dwelling Policies provide no theft coverage unless added by endorsement for an additional premium. The following are two types of theft coverage that can be added by endorsement:
   a. **Broad Theft Coverage** - Will provide theft coverage for personal property both on and off the covered premises;
   b. **Limited Theft Coverage** - Will only provide theft coverage for theft on the covered premises.

2. **Personal Liability Coverage** - There are two major areas of liability exposure that can be covered under the Dwelling form:
   a. Personal;
   b. Business - For specified permitted occupancies and operations.
3. **Automatic Increase in Insurance (Inflation Guard)** - Provides an annual increase in the Coverage A amount of 4%, 6% or 8%.

4. **Dwelling Under Construction Endorsement** - 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. The company must be advised when the dwelling is completed. Occupancy of the dwelling is permitted for 30 days after construction has been completed.
Review Questions

1. An insured carries a DP-2 with $10,000 contents coverage. He owns a canoe and stores it at a lake in a private non-owned garage. Fire destroys the garage and the boat. How much coverage will his policy provide?

   A. Up to $1,000.
   B. Up to $500.
   C. Nothing
   D. $1,500

2. An insured’s home is covered by the DP-3 form. The policy provides $20,000 in coverage on a home that would cost $50,000 to replace. When high winds destroy the roof, it is determined that it will cost $2,000 to replace it. Assuming the actual cash value of the roof is $750, how much will the insured collect for this loss?

   A. $2,000
   B. $1,600
   C. $1,000
   D. $1,750

3. Mr. Simpson owns a dwelling in a rural area close to a small wooded area. He is covered under a DP-3 form. A deer sees it’s reflection in a picture window and jumps through and enters the dwelling causing significant wall and floor damage. Some of the furniture is damaged and must be replaced. He is covered for $100,000 on the dwelling and $50,000 on the contents. Which of the following would apply to this loss?

   A. The entire loss would be denied.
   B. Pay replacement cost on the dwelling and ACV for the contents loss.
   C. Pay replacement cost on the dwelling and the contents.
   D. Deny the contents claim and pay the dwelling loss on a replacement cost basis.

4. The insured is covered under a DP-1 Dwelling Policy with coverage on the dwelling in the amount of $100,000. He has a detached garage valued at $10,000. Both structures are destroyed by a fire. What is the total amount recoverable under the policy?

   A. $110,000
   B. $100,000
   C. $95,000
   D. $105,000
5. An insured lived close to Mount St. Helens and carried a DP-2 policy. When the volcano erupted, the movement of the earth caused his home to collapse. He reported the claim as a volcanic eruption loss. What do you feel would be the result of this claim?

A. The claim would be covered under the peril of volcanic eruption  
B. A portion of the claim based on a deductible percentage would be paid.  
C. The claim would be denied.  
D. The claim would be paid for ACV only under these circumstances.

6. A water pipe has burst and the insured has suffered floor and ceiling damage in his two-story home. He is covered under a DP-2 form with dwelling and contents coverage. The building codes now require that special piping installation is needed at an additional cost of $500 over and above the normal cost to repair. His dwelling limit is $100,000. What will the policy pay if the normal cost to repair is $400?

A. The policy will pay a total of $400.  
B. The policy will pay a total of $900.  
C. The policy will pay $500.  
D. The policy will pay $700.

7. Mr. Jones purchased a policy on the dwelling in the amount of $40,000. His wife also purchased a policy in the amount of $20,000 unbeknown to her husband from another company. In case of a $15,000 loss, what will her company pay on the loss?

A. $5,000  
B. $15,000  
C. $10,000  
D. $7,500

8. The insured has purchased a DP-3 form to cover his dwelling that is valued at a replacement cost of $100,000. He insures it for $60,000 and has a $30,000 fire loss. What can he expect to be paid?

A. $30,000  
B. $25,000  
C. $22,500  
D. $15,000
9. The insured has forgotten to close an upstairs window. A strong storm blows through and wind and water severely damage the contents and floors of the dwelling. The insured carries a DP-2 dwelling form. What will be the outcome of this loss?

A. The loss will be paid under the peril of wind.
B. The loss will be paid on an actual cash value for the contents damage.
C. The claim will be denied
D. The dwelling damage is covered on a replacement cost basis if the insured carried 80% to value and the contents loss will be paid on an ACV basis.

10. The insured is covered under a DP-3 with contents coverage. He has a hunting rifle stolen by forcible entry into the dwelling. The front door is severely damaged and must be replaced. Which of the following is a true statement regarding this loss?

A. The entire claim will be denied.
B. Only the damage caused by the burglars will be paid
C. The theft of the gun is covered under personal property
D. Both the damage to the door and the theft of the gun will be covered.
Review Answers

1. C. The answer is the policy will pay nothing. The extension of coverage that applies to personal property off the premises of 10% does not extend to cover rowboats and canoes.

2. C. In order to receive replacement cost coverage under the DP-3 form for structures, an insured must carry at least 80% of the dwelling replacement value. The value of the dwelling is $50,000 so the insured should have carried at least $40,000. Since this insured carried only $20,000, he is 50% underinsured. The policy will pay 50% of the $2,000 loss or $1,000.

3. D. Since the DP-3 is an open peril form as regards the dwelling, this type of loss is not excluded, the dwelling damage is covered. The contents coverage is provided on a broad named peril basis. This type of loss would not be covered for the contents damage as it is not a listed peril.

4. B. Under the DP-1 form the 10% of Coverage A for other detached structures is NOT additional coverage. It is part of the dwelling limit. The policy cannot pay more than the total dwelling limit of $100,000.

5. C. Earth movement is not covered under the volcanic eruption peril. The insured would need earthquake coverage.

6. B. The policy provides 10% of coverage A for an increase in building costs as a result of building codes under the Ordinance or Law coverage provided by the other coverages of the policy. Therefore the entire loss would be covered assuming no deductibles apply.

7. A. The other insurance clause deals with this issue. Her company has one third of the total coverage. Therefore, her company will pay $5,000 or one third of the claim.

8. C. An insured has not complied with the 80% requirement for replacement cost coverage. He is underinsured by 25%. He should have carried $80,000 and instead carried only $60,000. The policy will pay 75% of the $30,000 or $22,500. The company can also pay the ACV of the loss.

9. C. The claim will be denied because the peril of wind did not create an opening in the structure. The insured was negligent in leaving the window open.

10. B. Only the damage to the door will be covered under the burglar damage peril. Theft is not a covered peril under the dwelling program unless endorsed on the policy.