- Quick Notes -
Property Insurance

Key Terminology

Co-Insurance – A clause in the policy that states if the insured does not maintain at least 80% of value coverage, the insured will share in any losses to the extent that they are under-insured

Condition – A limitation in coverage. In health insurance it is common to limit coverage for a "pre-existing condition"

Endorsement – Additional coverage that is added to the insurance policy. Also known as a rider

Exclusion – Anything not specifically covered by the insurance policy

Flood Insurance – Coverage against flood that is required by Federally related lenders when mortgaging property located in a Federal Emergency Management Agency (FEMA) designated flood area

Insurable Interest – A financial interest in the insured

Insured – The person covered by the insurance policy

Insurer – The company that provides the insurance coverage

Liability Insurance - Provides insurance coverage against the claims of others against insured

Package Policy – A "package" offering of both property and liability insurance coverage

Peril – An insured hazard or risk (i.e. the peril of fire, smoke, theft, etc.)

Property Insurance – Coverage that provides against loss to improvements

Rider – Also known as endorsement. See above

Unoccupied Building Exclusion – An exclusion that states if the building is vacant or unoccupied for a specified number of days the coverage is either excluded or limited.

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Basic Types of Coverage

HO-1 – Basic Form: Minimum Coverage, not popular

HO-2 – Broad form
*Note: both HO-1 and HO-2 are named peril policies. They only cover losses that are specifically named in the policy

HO-3 – All risk. Named exclusion policy. Covers all losses except those excluded. The most popular type of homeowners insurance. Only real property is all risk-named exclusion. Personal property is named peril as in HO-2.

HO-4 – Tenants or renters policy: Essentially the named peril portion of HO-2 that is applied to personal property.

HO-6 – Homeowners policy typically provided to the condominium owner.

Key Math Example:

Ralph has purchased a property that has a value of $200,000 for the house and lot. In order to save money on his insurance premium he purchases $120,000 in coverage. He now suffers a loss of $100,000. How much will the insurance company reimburse him for his loss?

(A) $60,000
(B) $75,000
(C) $90,000
(D) $100,000

Solution:

$200,000 x 80% = $160,000	min. coverage without co-insurance
$120,000 ÷ $160,000 = 75%	% of coverage because of co-insurance
$100,000 x 75% = $75,000	paid by insurance for loss

Answer is (B)

Note: Remember that there must be at least 80% coverage to avoid co-insurance. This question has intentionally left out all references to 80%. Always remember to utilize the 80% rule on all insurance questions dealing with co-insurance.

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