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Training Solutions. Online, Anytime, Anywhere.™

**1310 Esplanade #317-S
Redondo Beach, CA 90277**

**www.infinityschools.com
info@infinityschools.com**

**Phone: 800-600-2550
Fax: 424-247-9050**

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CHAPTER I: RANKINGS FROM A++ TO S

INSURANCE RATINGS

It's obvious that offering a policy from a company with an A++ rating, regardless of the insurance ranking service, is a smarter move than offering your client insurance from a company ranked C-, but did you know the difference between a Best's rating of B+ and B is the difference between A.M. Best considering a company secure versus vulnerable?

To clear things up, we've compiled information about A.M. Best's ratings systems, including criteria and rating definitions to help you better determine your provider's strength.

A private insurance rating service, A.M. Best evaluates an insurer's financial strength and ability to meet ongoing obligations to policyholders. Best assigns two types of ratings: a Best's rating or a Financial Performance Rating (FPI). The Best's rating runs from A++ to F and is based on a quantitative and qualitative analysis of a company's financial strength, operating performance and market profile. The FPR rating runs from 9 to 1 and is based on a quantitative evaluation of a company's financial strength and operating performance for companies that do not meet A.M. Best's minimum size or operating experience requirements.

A.M. Best provides free company ratings and insurer profiles on its corporate Web site, www.ambest.com.

Best's Ratings

A++ and A+ (Superior)

Superior financial strength, operating performance and market profile. These companies have a very strong ability to meet their ongoing obligations to policyholders.

A and A- (Excellent)

Excellent financial strength, operating performance and market profile. These companies have a strong ability to meet their ongoing obligations to policyholders.

B++ and B+ (Very Good)

Very good financial strength, operating performance and market profile. These companies have a good ability to meet their ongoing obligations to policyholders.

Best considers companies rated A++ to B+ "secure"

B and B- (Fair)

Fair financial strength, operating performance and market profile. These companies have an ability to meet their current obligations to policyholders, but their financial strength is vulnerable to adverse changes in underwriting and economic conditions.

C++ and C+ (Marginal)

Marginal financial strength, operating performance and market profile. These companies have an ability to meet their current obligations to policyholders, but their financial strength is vulnerable to adverse changes in underwriting and economic conditions.

Best considers companies rated B to C+ "vulnerable"

C and C+ (Weak)

Weak financial strength, operating performance and market profile. These companies have an ability to meet their current obligations to policyholders, but their financial strength is very vulnerable to adverse changes in underwriting and economic conditions.

D (Poor)

Poor financial strength, operating performance and market profile. These companies do not have an ability to meet their current obligations to policyholders and their financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

E (Under Regulatory Supervision)

Companies which have been placed under supervision by an insurance regulatory agency, such as conservatorship or rehabilitation, but does not include liquidation.

F (In Liquidation)

Assigned to companies which have been placed under an order of liquidation by a court of law or whose owners have voluntarily agreed to liquidate the company.

S (Rating Suspended)

Assigned to rated companies that have experienced sudden and significant events affecting their financial position or operating performance whose rating implications cannot be evaluated due to a lack of timely or adequate information.

Financial Performance Ratings

FPR 9

Very strong financial strength, operating performance and market profile. These companies have a strong ability to meet their ongoing obligations to policyholders.

FPR 8 and 7

Strong financial strength, operating performance and market profile. These companies have a strong ability to meet their ongoing obligations to policyholders.

FPR 6 and 5

Good financial strength, operating performance and market profile. These companies have an adequate ability to meet their ongoing obligations to policyholders. **FPR 9 through 5 are considered "secured" by A.M. Best**

FPR 4

Fair financial strength, operating performance and market profile when compared to the standards established by the A.M. Best Company. These companies have an ability to meet their current obligations to policyholders, but their financial strength is vulnerable to adverse changes in underwriting and economic conditions.

FPR 3

Marginal financial strength, operating performance and market profile when compared to the standards established by the A.M. Best Company. These companies have an ability to meet their current obligations to policyholders, but their financial strength is vulnerable to adverse changes in underwriting and economic conditions.

FPR 2

Weak financial strength, operating performance and market profile. These companies have an ability to meet their current obligations to policyholders, but their financial strength is very vulnerable to adverse changes in underwriting and economic conditions.

FPR 1

Poor financial strength, operating performance and market profile. These companies may not have an ability to meet their current obligations to policyholders and their financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

FPR 4 through 1 are considered "vulnerable" by A.M. Best

CHAPTER II: P & C BASICS

BASICS OF INSURANCE

TRANSFERRING THE RISK

Insurance transfers the risk of an uncertainty of a loss from an individual to an insurer.

Loss is a factor of everyday life and most people handle small everyday losses on their own, but when there is a potential of an unmanageable loss, individuals and businesses look for other sources to be protected from financial ruin.

The insurance company fulfills this role and charges a fee or "premium" based on the risk of the loss.

The factors that come into play in insuring the risk are:

1. The certainty of the loss.
2. The management of the risk.
3. The reduction of the risk

An example of certainty might be: is a home sitting on a mountainside where landslides are an everyday occurrence, or is the home sitting in a subdivision of leveled land where there is no potential of landslide?

Another example might be: a home situated in a flood plain versus one that is not.

Loss frequency, loss reduction, and loss prevention are terms that will be heard over and over again in dealing with property and casualty insurance.

Proper training of an employee using a blowtorch or other high-risk machinery would curtail loss frequency.

Risk control techniques that diminish the loss frequency come under on the heading of loss reduction.

Installing a sprinkler system in a home, office, or factory would curtail the severity of the damage and thus serve as a risk reduction.

An insurance contract transfers the risk from an individual, a business, or a group of individuals to an insurance company in exchange for a premium.

The premiums of many individuals are 'pooled" by the insurance company to create the funds necessary to pay the insured that suffer the losses.

This method of transferring risk to the insurer is based on statistics showing how many potential losses can occur within a numerical quantity of people.

The higher the quantity of people used in establishing the statistics the more accurate the prediction will be.

These predictions are then used by the insurer in establishing premiums to be "pooled" in covering the losses.

Before an individual or an entity can be insured it must have insurable interest.

Insurable interest is defined as any actual, lawful and substantial economic interest in the safety or preservation of the subject of the insurance from loss or destruction or financial damage or impairment.

In addition to insurability, other criteria is also used in determining if insurance is can be used as a vehicle for the transference of the risk.

These other considerations include:

1. The risk of loss must be definite and difficult to fake.
2. The risk must be unexpected.
3. The risk must create a financial hardship.
4. The loss must be able to be assigned a financial value.
5. The cost must be affordable or fractional of the value.
6. The loss must be predictable by virtue of a high enough quantity of people to require the same coverage.
7. The presence of the " spread of risk" must be available
8. The risk must pure not speculative.

Spread of risk is defined as the insurer's ability to spread their insured risks over a large geographical area.

Pure risk is defined as a risk in which there is no chance of gain only loss; whereas, a speculative risk is defined as a risk that can either result in a loss or gain,

In discussing property and casualty insurance the terms peril and hazard need be defined. Peril is defined as the cause of the loss and Hazard is defined as anything that increases the potential of the loss.

There are three different types of hazards

1. A physical hazard arises from the condition, occupancy or use of the property itself.
2. A morale hazard arises through carelessness or irresponsible actions.
3. A moral hazard arises when an individual creates a loss for the purpose of collecting the insurance.

THE INSURANCE CONTRACT

The relationship between the owner of an insurance policy and the insurance company is a contractual relationship.

A contract is a legal agreement between two competent parties that promises certain performances in exchange for a certain consideration. When an insurance company agrees to pay the insured certain losses in exchange for a premium, both parties have entered into a contract.

Although a contract can be oral, insurance contracts are usually written in a format called an insurance policy. In order for a contract to be valid it must have certain elements and an insurance contract is no exception.

The elements of o contract include the following:

1. Competent parties to the transaction
2. A legal purpose
3. Agreement by the parties
4. Offer and acceptance

5. Consideration

In order for an individual to be judged competent, that individual must be of legal age, not considered insane, not under the influence of alcohol or drugs.

A contract must have a legal purpose; therefore, any contract entered into for illegal purpose is not valid.

The parties must come to a mutual agreement beneficial to both parties.

Offer and acceptance are another critical aspect of a contract. In the case of insurance, when an individual or an entity makes an application, this is considered an offer. Acceptance occurs when the insurer accepts a premium.

Consideration by the insured is exchanged when the insured pays the premium. Consideration on the part of the insurer occurs when the insurer promises to pay certain losses under certain conditions.

A special characteristic of an insurance contract is a feature called indemnification. Indemnification is a guarantee by the insurer that when a loss occurs, the insured will be restored to the approximate financial condition he or she was in before the loss.

Insurance contracts are contracts of a specific nature, and are described as:

1. Personal contracts
2. Aleatory contract
3. Adhesion contracts
4. Unilateral contracts
5. Good Faith contracts
6. Conditional contracts

The contracts are personal contracts because they insure individuals against a loss and property. In other words an individual is guaranteed the cost of the property covered in the insurance contract.

An insurance contract is aleatory because it depends on a loss occurring before the insured receives monetary compensation.

Insurance contracts are contracts of adhesion because one party draws up the contract (the insurer) and the other party (the insured) agrees to the terms and conditions.

Because of this, if a dispute arises, the courts apply a doctrine of reasonable expectations and generally rule on behalf of the insured. If a policy does not contain coverage that an average person would reasonably expect it to include, the court rules as if that coverage were there, regardless of what the policy actually provides.

An insurance contract is unilateral because one side must perform (the insurer) while the other side has the option of performing (insured).

An insurance company must pay a claim as long as the premium is paid, with the exception of, if the insured fails to comply with the conditions and duties specified in the contract, in which case the insurer can deny the claim.

On the other hand an insured can pay a premium for as long as he or she wants and the contract does not create a legal liability for the insured should the insured stop making the premium payments.

An insurance contract is a contract of good faith because both parties rely on the truthfulness and the integrity of their representations in order to perform on the contract.

An insurance contract is conditional because it relies on certain stipulations outlined in the contract that each party must perform in order to comply with the terms of the contract. Most insurance policies outline the duties, obligations, and definition of terms and roles in five separate segments.

These segments are:

1. The Declarations
2. The Insuring Agreements
3. The Conditions
4. The Exclusions
5. The Definitions

- The Declarations page includes the name of the insured, the address, the amount of coverage, a description of the property, and the cost of the policy.

- ❑ The Insuring Agreement outlines what is covered by the policy,
- ❑ The Conditions section outlines the responsibilities and obligations of both parties.
- ❑ The Exclusions section describes what losses are not covered by the policy.
- ❑ The Definitions sections spells out what different words will mean in relation to this particular policy.

Last but not least Endorsements are also part of every insurance policy.

Endorsements change and modify the original policy in some way.

TYPES OF INSURANCE COMPANIES

There are eight types of insurance organizations;

1. Stock Companies
 2. Mutual Companies
 3. Reciprocal
 4. Lloyd's Association
 5. Fraternal Benefit Societies
 6. Risk Retention Groups
 7. Private Companies
 8. Government
- ❑ Stock Companies are originally structured by the sale of stock to individuals who become stockholders in the company. The goal of the company is to make a profit and return dividends to its' stockholders. Stockholders can be either insured parties or simply investors in the venture.
 - ❑ Mutual insurance companies are owned by all the insureds and profits are returned either in the form of dividends or reduction in future premiums.
 - ❑ A Reciprocal is made up of members who agree to share the insurance responsibilities with all the other members of the unincorporated group. All members insure each other and share in the losses. A reciprocal is managed by an attorney-in-fact who handles all the business of the reciprocal.
 - ❑ Lloyd's Association is structured as a voluntary association of individuals, or groups of individuals, who agree to share in insurance contracts. Each "syndicate" or individual is individually responsible for the amounts of insurance they write.
 - ❑ Fraternal Benefit Societies are structured as incorporated societies or orders, without capital stock. They operate on a lodge system and business is conducted solely for the benefit of its members and their beneficiaries. They operate on a non-for-profit basis. Fraternal organizations offer insurance that is available only to their members.
 - ❑ Risk Retention Groups are exempt from most state laws that apply to insurance companies. A Risk Retention group is an insurance company formed by several organizations to cover those organizations' liability loss exposure.
 - ❑ Privately Owned Companies can also be formed to insure losses.
 - ❑ Government Insurance Programs are often available to provide insurance for coverage that is not normally available through private insurance companies. Both state and federal government often take a role in this are of what is known as "residual market insurance." Examples of this are flood insurance and Worker's Compensation insurance.

TYPES OF PROPERTY AND CASUALTY COVERAGES

Property insurance generally comes in the following format:

1. Dwelling Insurance
2. Homeowner's Insurance
3. Commercial Property Insurance
4. Inland Marine Insurance
5. Ocean Marine Insurance

Casualty insurance normally covers the liability risk that we all face as a result of our actions towards others. Included in this category are the following:

1. Aviation Insurance
2. Auto Insurance
3. Crime Insurance
4. Workers Compensation Insurance
5. Surety Bond Insurance

REGULATING THE PROPERTY/CASUALTY FIELD

REGULATING THE INDUSTRY

The insurance industry as a whole is either influenced or regulated by various entities. These entities are either governmental in nature or organizations with guidelines for their members. The agencies or organizations that have the most influence on the Property/Casualty industry include:

1. State Departments of Insurance
 2. Federal regulatory bodies
 3. National Association of Insurance Commissioners (NAIC)
 4. A.M. Best Company
 5. Standard and Poor
- ❑ Each state has an insurance department that is charged with regulating the insurance industry within that particular state. The administrators of their departments are called Directors, Superintendents or Commissioners of Insurance.

These administrators, on a voluntary basis, become members of a national organization called the National Association of Insurance Commissioners (NAIC). This organization meets at established intervals to exchange information. Through their recommendations and decisions the nation's insurance laws reach a certain level of uniformity. Although not binding on any state, their recommendations most often become law and are employed in individual states.

- ❑ Federal regulations of the insurance industry come in the area of Security products and Anti-trust laws.
- ❑ A.M. Best Company each year publishes ratings of insurance companies evaluating the financial position of these companies. The ratings are available to the public and rating range is from A+ to C. "A+" being the strongest financial positioning and "C" being fair.
- ❑ Standard and Poor also publishes ratings of insurance companies financial status.

REGULATING THE COMPANIES

When a state reviews the ability of a company to do business in its state, a company is authorized either as an admitted insurer or a non-admitted insurer.

An admitted insurer is fully authorized to conduct business in that state; whereas, a non non-admitted or non-authorized insurer is only permitted to do business under certain special circumstances.

Each individual state plays a vital role in the areas of:

1. Licensing of agents
2. Ratification of Forms
3. Ratification of Rates

REGULATING THE AGENT

Much of the time of state insurance departments is spent on the licensing of agents. With minor exceptions, states require that insurance agents be licensed and regulated by the state. It is illegal for an individual to sell insurance without being licensed,

Agents must complete an established amount of pre-licensing education before they can be administered an exam for their initial licensing. The successful completion of this exam and proper processing of their application will permit an agent to become licensed to sell insurance in their state.

In addition to initial licensing, most states have enacted laws that require an agent to complete a prescribed amount of continuing education hours of study in order to renew their licenses at each renewal interval.

RATIFICATION OF FORMS

Policy forms and endorsement forms used by insurers in most states must be approved by the states. Several methods are used to achieve this goal. These methods include:

1. Prior Approval
2. File and Use
3. Use and File
4. Mandatory Forms
5. Open Competition

- Prior approval states require that all forms must be submitted to the state for approval prior to the use of the forms.
- File and Use states permit a company to start using the forms as soon as they have been filed with the state, eventually they are approved or disapproved by the state.

- Use and File states permit an insurance company to use the forms and file them with the state within a specified period of initial usage.
- Mandatory states require that insurance companies use state prepared form.
- In open competition states the law allows companies to use forms that are competitive to the market place, as long as, they adequate and non-discriminatory.

RAFTIICATION OF RATES

Much like the use of forms, rates in most cases have certain controls imposed upon them before they can become official. Most common procedures are:

1. Prior Approval
2. File and Use
3. Use and File
4. Open Competition
5. Mandatory Rates
6. Insurance Service Office (ISO)

In Prior Approval states all rates must be approved by the states before an insurance company can begin using them.

In File and Use states insurance companies may begin using rates as soon as they are filed and eventually the state can either approve or disapprove the rates.

In Use and File states insurers may begin to use rates and most file those rates with the state within a specified period of time.

In Open Competition states insurance companies are free to set rates in accordance with the market place as long as they meet the requirements of adequacy and nondiscrimination.

In establishing rates by this method an insurance company must calculate rates that will be adequate to cover:

1. The cost of losses that will have to be paid
2. The cost of conducting business
3. A margin of profit

In Mandatory states the rates are set by the state and the insurance company must adhere to them.

The Insurance Service Office (ISO) is a bureau that gathers data on losses and standardizes forms for its members so that both may be filed on behalf of its member companies.

ENFORCEMENT OF INSURANCE REGULATIONS

Failure to comply with state regulations can result in:

1. Fines
2. License suspension
3. License revocation
4. Suspension of a company's authority to do business
5. Revocation of a company's authority to do business

Revocation normally requires a minimum of one-year waiting period before re-application will be considered.

THE APPLICATION FOR INSURANCE

THE APPLICATION FORM

The insured's offer of insurance is made through the application form. The accuracy of the information is critical to the acceptance of the insured. Both the agent and applicant must be totally truthful and thorough in providing the information requested.

The information provided in the application will help the underwriter determine whether to accept the risk or not accept the risk, as well as, the rate.

THE BINDER

Once the application form has been completed the agent may have the authority to issue a binder. A binder is a statement, usually in writing, that the insured has immediate protection for a specified period of time.

A binder is not a guarantee that a policy will be issued but is merely a temporary coverage until the application has been investigated and reviewed.

EVALUATING AND INVESTIGATING THE APPLICATION

The evaluating and investigating of the facts of an application are done by an underwriter.

In addition to the application, underwriters turn to other sources for information. Included in these sources are:

1. The company's own claim files
2. Previous insurers of the applicant
3. Inspection services
4. Financial information services such as A. M. Best
5. Insurance industry bureaus, Government bureaus
6. Any other source available to the underwriter

Should an applicant be denied as a result of information provided by an outside credit reporting firm, the applicant, by requirement of the Federal Credit Reporting Act, must be notified in writing and must be given the opportunity to receive a copy of the derogatory information from the reporting agency,

An underwriter has an obligation to protect the insurer against adverse selection.

Adverse selection is defined as the tendency of insured's with a greater than average risk of loss to purchase insurance.

RATING THE POLICY

There are three basic ways of rating a policy:

1. Judgment rating
2. Manual rating
3. Merit rating

The judgment method of rating is the method of rating that establishes premiums based on a careful evaluation of each individual risk, without the use of manuals or tables.

The manual rating method is a method of premium determination that uses rates based on collected statistics. The rates, which apply per unit of insurance, are published in manuals.

The merit rating method determines premiums where a manual rate is modified to reflect the risk's unique characteristics.

PROOF OF INSURANCE

Once a policy has been accepted, a method of proving that the policy exists is a document called a Certificate of Insurance. The certificate carries a general summary of the coverage of the policy.

CANCELATION OF THE POLICY

Once a policy has been issued a company can cancel a policy only under the specified conditions of the policy. Three of these conditions are:

1. Misrepresentation
2. Concealment
3. Fraud

Misrepresentation is a written or verbal misstatement of a material fact involved in the contract on which the insurer has relied in order to issue the specified coverage.

Misrepresentation can be either intentional or unintentional.

Concealment is the withholding of a material fact involved in the contract on which the insurer relies.

Fraud is a deliberate misrepresentation that causes harm. Fraud must contain the following elements to be considered fraud:

1. Deliberate misrepresentation
2. The intent of the misrepresentation is for the purpose of someone else relying on the Misrepresentation
3. Another person relies on that misrepresentation
4. Another person suffers harm as a result of relying on that misrepresentation.

VOIDING THE POLICY

Insurance policies contain warranties, which are agreed by the parties. The failure to perform on these warranties permits the insurer to void the policy.

OTHER IMPORTANT TERMS

1. Waiver
2. Estoppel
3. Policy Period
4. Unearned premium

5. Short rate basis
6. Pro rata basis
7. Flat Cancellation basis
8. Waiver is the intentional relinquishment of a known right.

Estoppel is the principle that states that if one intentionally or unintentionally creates the impression that a certain fact exists, and an innocent party relies on that impression and is injured as a result, the guilty party may be legally prohibited from asserting that the fact does not exist.

The Policy Period is the date and time specified in the Declarations for when coverage begins and ends.

Unearned premium is any premium not yet "used up" and is returned should the policy be canceled.

Short rate basis is a method of calculating a premium refund for unused premium wherein the company not only keeps the premium for insurance already used, but also keeps an allowance for expenses, such as issuing the policy.

Pro-rated basis is a way of computing a premium refund when the insurance company cancels the policy that returns all unused premiums without deduction for any costs.

Flat cancellation refers to a policy being canceled by either party on its' effective date.

FOCUS POINTS

- Insurance transfers the risk of loss from an individual to an insurer
- The factors that come into play in insuring the risk are the certainty of the loss, the management of the risk, and the reduction of the risk.
- A premium is the compensation an insurer receives in return for assuming the risk.
- Before an entity or an individual can be insured it may have an insurable interest.
- In order for a risk to be insured it must be definite and difficult to fake.
- An insurable risk must be pure and not speculative.
- An insurable risk must be able to be assigned a financial value.
- Spread o risk is the insurer's ability to spread risk over a large geographical area.
- Pure risk is defined as a risk in which there is no potential of gain, only loss.
- Peril is the cause of the loss.
- Hazard is anything that that increases the potential of the loss.
- There are three different types of hazards physical, morale, and moral.
- An insurer and insured have a contractual agreement through the insurance policy.
- In order for a contract to be valid it must have five basic elements.
- All contracts must have legal purpose.
- A contract must have mutual agreement on terms beneficial to both parties.
- Offer and acceptance are a critical part of a contract.
- An application for insurance is considered the offer.
- Accepting of a premium is considered an acceptance of contract.
- Consideration by the insured is exchanged upon payment of premium.
- Consideration by the insurer is upon the promise to pay certain losses.

- Indemnification is a special feature of an insurance contract.
- An insurance contract is unilateral because one side must perform while the other side has an option of performing.
- An insurance contract is a contract of good faith.
- An insurance contract is conditional
- The insuring agreement outlines the responsibilities and obligations of both parties.
- Endorsements change and modify the original policy in some way.
- A mutual insurance company is owned by the insured's.
- Risk retention Groups are exempt from most state laws that apply to insurance companies.
- Casualty insurance normally covers the liability we face as a result of our actions towards others.
- Regulation of the insurance industry is by both the state and federal government.
- A company may be authorized to do business in a state either as an authorized or non-authorized company.
- It is illegal in most states to sell insurance without a license.
- Most states require continuing education as part of the license renewal process.
- States play a significant role in ratifying both insurance forms and rates in their individual states.
- In establishing rates insurance companies must take three factors into account.
- The Insurance Service Office is a bureau that gathers data on losses and standardizes forms for its members.
- Failure to comply with state regulations can result in punitive actions.
- After revocation of a license there is normally a one-year waiting period prior to re-application.
- The application form helps the underwriter determine acceptability and risk.
- A Binder does not guarantee that a policy will be issued.
- In addition to the application underwriters turn to other sources for information.
- The Federal Credit Reporting Act requires that an applicant who is denied.
- The insurance must be furnished with a copy of the reason for denial and the name outside source providing the information.
- An underwriter has an obligation to protect the insurer against adverse selection.
- There are three basic ways of rating a policy.
- A Certificate of Insurance is a way of proving that insurance coverage exists.
- An insurer may cancel an insurance policy for misrepresentation, concealment or fraud.
- In order for a misrepresentation to be considered a fraud it must have four basic elements.
- Failing to perform on warranties permits the insurer to void the policy.
- A Waiver is the intentional relinquishment of a known right.

CHAPTER III: PROPERTY INSURANCE

THE HISTORY OF PROPERTY INSURANCE

The first fire insurance company in the United States was established in 1734 and was called the Friendly Society for the Mutual Insurance of Houses Against Fire. By 1740 this firm was out of business as a result of a fire in Charles Town, South Carolina that wiped out most of the town.

Originally insurance policies were written to cover a single peril.

After the disastrous fire of 1740 several other fire companies were formed. These insurers used a risk classification method basing rates on the construction materials used in the building of the dwelling. Thus a building constructed of brick would have a more favorable risk rating than one made of wood.

The early fire policies differed from company to company and from state to state. They were full of conditions and exclusions and often difficult for the average person to understand. The definition of terms varied from company to company and in general lacked uniformity.

If an insured needed additional coverage such as for wind damage or other peril, it was written as a separate policy. Often times these additional perils were not even covered by the same company.

Many consumer complaints and court decisions eventually led to the first uniform policy in this area called the 165 line New York Standard fire Policy of 1943.

This was the only insurance policy first standardized by law... This policy became the basis for all property insurance coverage and is still used as a basic form in some states.

Because the standard fire policy covers only the perils of fire, lightning, and removal of covered property from endangered premises, it is never used alone and endorsements are added to cover additional perils.

This extended coverage (EC) includes:

- ✓ Windstorm
- ✓ Hail
- ✓ Explosion
- ✓ Riot
- ✓ Air craft
- ✓ Vehicle Damage
- ✓ Smoke

When these endorsements are added a vandalism and malicious mischief endorsement may also be added.

Although the standard fire policy offered basic protection, many insurers argued that having a policy offer broader coverage would be to the benefit of both the insured and the insurer. A policy that covered both property and liability in one policy would much more serve the need of all.

Insurance companies felt that they would benefit in at least three ways:

1. Decreased adverse selection against the company.
2. Reduction in overall administrative and underwriting costs.
3. Increased policy retention.

In the late 1940's insurers were permitted by insurance regulators to combine property and casualty perils into one policy. Many formats and combinations of coverage sprung out from this deregulation

In 1976 the Insurance Service Office (ISO) developed a homeowner's program that incorporated the pertinent provisions of the 165-line policy as part of what became known as the "Homeowner's 76".

The "Homeowner 76" simplified the language of the fire contract. Made it easier to read and created a homeowner's policy with five sections:

1. Definitions
2. Coverage
3. Perils Insured Against
4. Exclusions
5. Conditions

This original policy was revised in 1982, 1984, and 1991 to arrive at the present format of the policy. Some states have approved a variation of the 1991 format, which was introduced in 1994.

Under the 1991 Homeowner's Program the basic policy covers:

1. A dwelling that is owner occupied.
2. A dwelling where no more than two families and not more than two roomers or boarders per family occupy the dwelling.
3. The owner-occupant has purchased the full homeowner's package.
4. The dwelling is used only for residential purposes.
5. A homeowner's policy cannot be written on a property to which farm forms or rates apply.
6. The policy cannot be written on a mobile home.
7. The Insurance Services Office has developed a number of homeowner's policies designated as HO-1, HO-2, HO-3, HO-4, HO-5, HO-6, and HO-8.

FOCUS POINTS

- The first insurance company in the United States was founded in 1734.
- Originally insurance policies were written to cover a single peril.
- The original risk classification method was by construction materials.
- In early policies definition of terms varied from company to company.
- Often time's additional perils were covered by different companies.
- The first uniform policy was called the 165 line New York Standard Fire Policy of 1943.
- In the late 1940's insurer were permitted by law to combine property and casualty perils into one policy.
- In 1976 the ISO developed "Homeowner's 76" to replace the 165 line policy.
- The "Homeowner's 76" was revised in 1982, 1984, and 1991 and in some states a 1994 version is in use

CHAPTER IV: LIABILITY INSURANCE

NEGLIGENCE

Liability losses are losses incurred by individuals as a result of their actions toward other people or their property.

When an individual is required to make financial restitution to another person for loss to them or their property a liability loss has occurred.

In the civil legal system, when an individual violates the rights of another that individual has committed what is known as a tort.

A tort can either be intentional or unintentional. Liability insurance provides coverage for unintentional torts.

Negligence is a key factor in determining liability. In order for a person to be liable to another, that individual must have been negligent.

Negligence is defined as the lack of reasonable care that is required to protect others from the unreasonable chance of harm.

In order to establish negligence four factors must be present:

1. There must be legal duty owed.
2. A breach of legal duty owed must occur.
3. There must be proximate Cause
4. There must be Damages,

Legal duty owed is that obligation that we all have toward another to reasonably protect their rights and property.

Within that duty there are several levels of accountability depending on the relationship and conditions.

A person invited to our home is owed the highest degree of care. An individual performing a service in our home is owed a lower degree of care. And a trespasser is owed the lowest degree of care.

Breach of legal duty occurs when it is established that standard care was not taken, and that lack of precaution caused harm to another individual or their property.

The proximate cause is the action that occurred that resulted in the harm or damage.

The action must be continuous and unbroken. If the action is broken by an intervening action, than this new action becomes the proximate cause.

The last element in establishing negligence is damage. If no harm came to an individual or their property then there was no negligence and therefore no claim.

When an individual either contributes or assumes some of the potential for harm, the ability to collect damages either is decreased or removed entirely.

Assumption of risk is a factor that enters the picture when an individual attends a concert or a sporting event and is injured. By that individuals presence at that event, that individual has assumed some of the risk involved in attending such an event.

When both parties contribute to the negligence, this is known as Contributory negligence or Comparative negligence. The degree of which each contributed is taken into account in arriving at a payment, or perhaps a non-payment, of damages.

The last factor that comes into play is a statue of limitations. A statute of limitation requires that a suit must be filed within a specified period of time in order to be valid under the law.

THE LANGUAGE OF LIABILITY INSURANCE

- Absolute Liability is a liability imposed by law on those participating in activities that are considered hazardous. Negligence is not a requirement for payment of damages.
- Damages are a monetary compensation awarded by a court to an injured party.
- Declarations are that section of an insurance contract that shows who is insured, what property or risk is covered, when and where the coverage is effective and how much coverage applies.
- Deductible is the dollar amount the insured must pay on each loss to which the deductible applies.
- Defense Costs are the legal expenses that must be paid by the insurer to defend suits brought against the insured.
- Degree of Care is the extent of legal duty owed by one person to another.
- Indemnity is the principle of insurance that provides that when al loss occurs, the insured should be restored to the proximate financial condition he or she occupied before the loss occurred.
- Occurrence is a loss that occurs over a specific time and place or over a period of time.
- Post-judgment interest is interest accruing on a judgment after an award has been made, but before payment is made by the insurance company.
- Pre-judgment interest is interest awarded to compensate a third party for interest he or she might have earned if compensation had been received at the time of injury or damage, rather than at the time of judgment.
- Proximate Cause is an action that, in a natural and continues sequence, produces a loss.
- Punitive Damages are damages intended to punish the defendant in an effort to discourage others from behaving in the same manner.
- Service Bureau is an organization that gathers, pools, and analyses statistics from its member insurance companies to establish loss costs used in determining insurance rates.
- Supplementary Payments Coverage is a coverage that provides extra coverage over and above the insured's limit of liability. Commonly included are defense costs, first aid expenses, bond premiums, and post-judgment interest.
- Third Party is the individual receiving the award in a liability case.
- Tort is a civil wrong for which monetary damages are paid.
- Vicarious Liability is liability that a person or business incurs because of the actions of others for whom they are responsible. Example would be family members and employees.

FOCUS POINTS

- Liability losses are losses incurred by individuals as a result of their actions toward others.
- A tort is a civil violation of another person's rights.
- Negligence is a key factor in determining liability.
- Negligence is defined as the lack of reasonable care required to protect others.
- Breach of legal duty occurs when it is established that standard care was not taken and harm was caused to another.
- One factor in establishing negligence is that harm must occur.
- Assumption of risk or contributory negligence are factors used in determining damages.
- Damages are a monetary compensation awarded by a court to an injured third party.
- Degree of care is the extent of duty owed by one person to another.
- Vicarious liability is liability that a person or business incurs because of the actions of others for whom they are responsible.

CHAPTER V: HOME INSURANCE BASICS

HOME INSURANCE OVERVIEW

When shopping for home insurance, there's much more for the consumer to consider than how much the coverage will cost.

They need to buy the right type of policy. They need the proper level of protection, plus special provisions for valuables such as jewelry, computer equipment and other possessions. They might also need additional coverage for such things as earthquakes or flooding.

Lending institutions usually require mortgage customers to purchase homeowner's insurance. Consumers should not rely on the coverage levels mandated by their bank or mortgage company. Those levels are designed to protect the house itself, but not necessarily their possessions. That's why it's important to do a needs analysis with the prospective insured to make sure they have adequate coverage.

In brief review there are several basic types of home insurance policies:

- HO-1
Basic homeowner's policy
Covers the house and possessions against 11 different perils.
- HO-2
Broad homeowner's policy
Covers house and contents against 17 perils, with premiums running about 5 percent to 10 percent more than an HO-1 policy.
- HO-3
Special homeowner's policy
Covers all perils except those specifically excluded by the policy. Costs 10 percent to 15 percent more than an HO-1 policy.
- HO-4
Renters Policy
Covers 17 named perils and includes liability coverage. It does not insure the dwelling itself.
- HO-5
Extensive homeowner's policy
Covers damage from practically everything except earthquakes, wars and floods.
- HO-6
For owners of co-ops or condominiums
Provides personal property coverage, liability coverage and specific coverage of improvements to the owner's unit. Insurance provided by the owner's association normally covers most of the actual structure.
- HO-8
Policy for older homes
Covers the same perils as HO-1 but pays only for repair costs or actual cash value, since replacement cost could make the policy costly.
These policies are standard except in Texas, where the state insurance board specifies three types of policies listed below.
- HO-A
Covers the home and possessions against named perils only, for actual cash value.

HO-B

Covers the dwelling for all perils unless excluded against all risks and contents against named perils. The house is covered for replacement cost up to policy limits, while contents are covered for actual cash value unless you buy additional replacement cost coverage.

HO-C

Covers house and contents against all risks not specifically excluded by the policy. Again, the house is insured for replacement cost up to policy limits, while contents are covered for actual cash value unless the insured buys additional coverage.

There are variations on these policies as well. For example, landlords can buy coverage that insures only their buildings and not the personal property (which is what a renters policy would cover). Consumers can get special policies to cover mobile homes (a.k.a. manufactured housing).

Beginning the Process

When an individual applies for homeowner's insurance, a great deal of information will be required to properly screen the applicant. The insurance company will ask about current occupation and employment history, marital status, previous addresses, date of birth and Social Security number. The insurer will check the criminal, credit, and insurance history to see if the applicant is a "good risk."

The insurance company also will look at the "loss history" to see what kinds of home insurance claims have been made in the past.

Then, the applicant will have to decide what type of homeowner's policy they want, the deductible, and how they'll pay for the coverage. The agent or insurance company will determine how much it would cost to replace the home and many of the items inside. For more expensive property, such as jewelry and computer equipment, a special coverage in addition to the basic policy might be needed.

Analyzing the Home

Many factors go into determining the premiums for a homeowner's policy. The age of the home, the materials used to build it, where it's located, the square footage, and the number of rooms all plays a role.

How the home is heated? What's the overall condition of the house? How many people live in the home? How close is the home to the nearest fire station and fire hydrant? The answers to these questions also help determine how much the applicant will pay for homeowner's policy.

Factors Adding to Premium Savings

If the home is equipped with an alarm system, smoke detectors and deadbolt locks, these factors could save money. Those items help make the home safer and more secure. If the home has an in-ground pool or a trampoline, this might cause the payment of higher premiums.

The applicant can also expect to pay more if they are located in a higher risk area, such as a coastline. The insurance company will also want to know if there are plans to use the home for any business purposes, or if there are plans to rent all or part of the house, both of which can increase liability.

Based on all this information, insurance companies can determine how much to charge for insurance, sometimes in a matter of minutes.

Policy's Dollar limits

If the home is insured for \$200,000, that is the most the insured will get if it is destroyed, even if it would cost \$300,000 or more to replace it. The Declarations Page on the front of the policy shows how much coverage is insured. Talk with your potential insured to make sure that they have the limits they need and desire.

Do not wait until you have a claim to learn that the consumer did not understand the policy's limit.

Replacement Cost For Personal Property

Before buying homeowner's insurance, the applicant needs to understand the difference between 'replacement cost' and 'actual cash value. Most homeowner policies contain replacement cost coverage on the home and actual cash value coverage on personal property.

Homeowner's policies automatically cover household contents - furniture, clothes, appliances, etc. - up to 40 percent of the amount for which the house is insured. This means if a home was insured for \$200,000, its contents are insured for up to \$80,000. A prospective insured can get more coverage by paying a higher premium. This automatic coverage pays only the actual cash value of damaged, stolen, or destroyed household goods. Actual cash value is an items replacement cost, minus depreciation.

Replacement cost policies give you more protection than actual cash value coverage. For example, if a burglar steals a three-year-old television set. With actual cash value coverage, the insured gets only what would be expected for a three-year-old television set. With replacement cost coverage, the insurance company pays to replace the TV with a new set similar to the stolen one.

Insurance companies generally want proof the item was replaced before paying the claim in full. An insurer might offer to replace the items instead of paying cash, but the choice is insured's.

Be Sure Inventory is Taken

Many people learn after a fire or storm they did not have enough personal property coverage. Taking inventory will help them decide how much insurance they need. It also will simplify claims.

The inventory should list each item, its value, and serial number. Photographs or videotapes of each room, including closets, open drawers, storage buildings, and the garage should be maintained. All of this and receipts for major items should be kept in a fireproof place.

Other Protections Provided

Homeowner's policies regularly provide other types of coverage, including off-premises theft protection and unauthorized use of credit cards. Make sure your client understands which provisions are included in the standard coverage elected and which might require supplemental premiums.

Supplemental coverage

Homeowner's policies cover specific risks. Depending on what the prospect owns and where they live, they might need to supplement the policy with special coverage.

Homeowner's policies do not cover flood damage. The National Flood Insurance Program (NFIP) offers flood coverage in many areas.

If a mortgage lender determines a home is in a special flood hazard area, the borrower might be required to purchase flood insurance.

Earthquake insurance

If the prospect is concerned about earthquakes, they can get coverage with a separate policy.

Endorsements

An individual might want more coverage for certain items than the policy provides. For an extra premium, they might be able to buy endorsements that expand or increase the coverage on these items. Some of the most common endorsements cover jewelry, fine arts, camera equipment, coin or stamp collections, computer equipment, and radio and television satellite dishes and antennas.

Personal Umbrella Liability insurance

If the client wants more liability coverage than a homeowner's policy provides, they can buy a separate umbrella policy. Because policies vary, make sure the to fully explains the coverage.

Deductibles and Premium Relationships

Deductibles allow individuals to cut the cost of the insurance, by assuming some of the risk. If there is a \$500 deductible on the homeowner's policy, the insured agrees to pay \$550 to cover any losses, before the insurance company pays the rest of the claim. By increasing that deductible to \$1,000, the insured might save 20 to 30 percent on their premiums. Each individual must decide whether lower deductibles or lower premium is right for them.

The Price of Bad Credit

Some insurance companies might charge higher premiums, if the applicant has problems with their credit history. Insurers say past experience has shown people with financial problems pose a greater risk.

It is important to differentiate between a credit score and an insurance score. An insurance score is different than a credit score because in insurance scoring an insurance company uses credit information, together with applicant insurance history to predict whether they are more or less likely to file a homeowner's claim. Insurance scoring allows insurance companies to provide insurance to more people and to offer it at a lower cost to those who qualify.

THE BASICS OF RENTERS INSURANCE

If an individual rents an apartment or owns a condominium, they need insurance to protect their belongings. While the landlord or condo association might have insurance, it only protects the building. The occupant's belongings are not covered under those policies.

Standard Policies Coverage

There are several types of residential insurance policies. The HO-4 policy is designed for renters, while the HO-6 policy is for condo owners. Both HO-4 and HO-6 cover losses to personal property from 17 types of perils:

- ✓ Fire or lightning
- ✓ Windstorm or hail
- ✓ Explosion
- ✓ Riot or civil commotion
- ✓ Aircraft
- ✓ Vehicles
- ✓ Smoke

- ✓ Vandalism or malicious mischief
- ✓ Theft
- ✓ Damage by glass or safety-glazing material that is part of a building
- ✓ Volcanic eruption
- ✓ Falling objects
- ✓ Weight of ice, snow, or sleet
- ✓ Water-related damage from home utilities
- ✓ Electrical surge damage.

Actual cash value vs. replacement cost

One thing to review with the client is whether the insurance company will offer "actual cash value" (ACV) or "replacement cost coverage" for their belongings. As the name implies, ACV coverage will pay only for what the property was worth at the time it was damaged or stolen.

Replacement cost coverage, on the other hand, will pay what it actually costs to replace the items lost.

Be sure you inquire about any particularly valuable items they might have. Jewelry, antiques, and electronics might be covered up to a certain amount. If they have some items that are unusually expensive, such as a diamond ring, they will probably want to purchase a separate rider.

Like in the homeowner's policy, take inventory is very important to ensure that the insured is compensated for any belongings they lose from a fire, storm or other catastrophe. All personal belongings should be inventoried in order to be sure to be properly compensated. Many people learn after a fire or storm that they did not have enough personal property coverage. Making an inventory will help an applicant decide how much insurance they need. It also will simplify claims.

If the apartment or condominium becomes uninhabitable due to a fire, burst pipes, or any other reason covered by the policy, the policy will cover the additional living expenses. Generally, that means paying for the insured to live somewhere else.

Liability protection is also standard with most renter's policies. This coverage has a limit of about 30 to 40 percent of the total value of the policy. So, if the individual is insured for \$150,000, the "additional living expenses" limit will be \$45,000 or \$60,000, depending on the policy terms. The insurance company will continue to pay while the home is being repaired or rebuilt, or until the insured is permanently relocated. Sometimes 12 months is the longest an insurance company will continue paying. With some policies, the insured is limited to what the insurance company considers a "reasonable length of time."

Additional benefits

Renters and condo owner's insurance policies have additional benefits. For example, a waterbed liability provision is standard in most renters and condo owner's policies. If the waterbed bursts and the water ends up in the apartment below, the insurance would cover the damage.

Liability protection is also standard with most renters and condo policies. This means if someone in the unit slips and falls, the insured is covered for any costs, up to the liability limit. If the person sues the insured, the insured is covered for what they win in a court judgment as well as all legal expenses, up to the policy's limit.

Just like any other type of homeowner's insurance policy, the premium depends on a number of factors: where the insured lives, the deductible, the insurance company, and whether any additional coverage is needed.

Homeowner's insurance can be costly, but necessary. The premiums charged for homeowner's insurance vary widely from company to company

There are ways to reduce a renters or condo owners insurance bill.

Increasing the deductible is one strategy. The insured should make sure that they can afford whatever deductible they choose. If there thinking about getting a dog, they might want to think twice. Some insurance companies are reluctant to write policies for owners of certain breeds.

Most insurers offer discounts for "protective devices," including smoke and fire detectors, burglar alarms, and fire extinguishers.

Some insurers might offer discounts to policyholders who are over age 55 and retired.

THE BASICS OF CONDO AND CO-OP INSURANCE

Some individuals think insurance for their condominium is covered by their association fees. Typically, the monthly condo fees are used to fund a building insurance policy. If the unit is robbed or damaged, the building insurance will not provide any coverage for personal possessions, nor will it offer any protection from personal liability.

To protect their belongings and themselves, Individuals need to purchase a personal home insurance policy (type HO-6), which is designed for condos and co-op apartments.

Insuring the building

Condo and co-op owners need first review their association's master insurance policy to find out what that policy covers, and what it doesn't. In most cases, that building insurance policy should cover common areas such as the hallways, roof, basement, elevator, boiler, and common walkways, for both liability and physical damage. Co-ops and condominium associations can also obtain coverage for sewer backups, seepage, floods, earthquakes, employee dishonesty, and changes in municipal rules and regulations. For older buildings, another option is liability coverage for claims resulting from exposure to lead-based paint.

In some cases, the building association's insurance policy also covers the standard fixtures in each unit. The condo owner might only be responsible for personal property inside the unit and for any additions or alterations made to the original structure, such as new carpeting. In other situations, the building policy covers only the bare walls, leaving condo owners responsible for insuring anything inside a unit such as cabinets, carpeting, and bathroom fixtures.

Insuring The Condo and Belongings

Under the general terms of HO-6 condominium owner coverage, the policy should cover the personal property from 17 perils:

- fire or lightning
- windstorm or hail
- explosion
- riot or civil commotion
- aircraft
- vehicles
- smoke
- vandalism or malicious mischief
- theft
- damage by glass or safety glazing material that is part of a building
- volcanic eruption
- falling objects
- weight of ice, snow, or sleet
- three categories of water-related damage from home utilities or appliances
- electrical-surge damage

A basic condo/co-op policy should also provide liability protection for incidents such as someone tripping and falling while in the unit. In addition, if a covered peril should make the condo or co-op uninhabitable, the policy should include a provision to cover the additional living expenses incurred when insured's have to temporarily live somewhere else.

When discussing the policy with the insured, make sure they have enough liability coverage. Unlike the other areas of coverage, personal liability has no set amounts. The insured determines how much coverage they want.

Options to Discuss

Cash or replacement value: personal possessions can be insured for either the cash value or their replacement cost. With cash value coverage, the insured receives the value of the item *minus depreciation*, while replacement value pays the current cost to replace the item.

Deductible amount: What level of deductible can the insured afford? A higher deductible can mean lower insurance premiums, but if something happens, they must be prepared to pay out that high amount.

Unit or loss assessment: If the co-op or condo building is damaged by an insured disaster or its members are sued, and the cost of that damage is not fully covered by the association's policy, this type of coverage would pay for the insured's share of an assessment charged to all unit owners.

Flood or earthquake: Most standard homeowner's policies do *not* include coverage for either floods or earthquakes. If an individual lives in an area where either might occur, consider adding coverage.

Many homeowner's, condo owners and apartment dwellers opt out of such protection. In California, where earthquake fears are a daily fact of life, only 17 percent of homeowner's, and 20 to 25 percent of people in all types of housing, have earthquake insurance.

Floater: Most policies set limits for items like jewelry, collectibles, and computers. If the prospect owns expensive items, they can pay extra premiums to have those items fully insured under what is called a floater. Without a floater, a policy will cover such items only under general categories and offer reimbursement up to a maximum of only a few thousand dollars (limits vary).

Discounts: Insurance companies offer an array of discounts. Factors that could reduce premiums include smoke detectors, alarm systems, deadbolt locks, closed-circuit television, a secured-entry system or a doorman.

Building location and amenities also play a role in setting rates. Typically, the better quality and newer the dwelling, the lower the premiums will be.

WATER DAMAGE IN THE HOME

Water damage is one of the most common reasons people make claims on their home insurance. Burst pipes, leaky appliances, and flooded basements are just a few of the ways some people discover exactly what is and is not covered by their home insurance policy.

Generally, the damage caused by water will be covered, but whatever causes the damage — say, a leaking dishwasher hose — may not be. So, although the insurer might pay to replace a carpet damaged by the dishwasher leak, the insured must pay to replace or repair the hose.

If a sudden, unforeseen problem such as a frozen pipe or hose leads to water damage, the homeowner's insurance covers both repairs to the broken pipe and to the home and furnishings.

Here are several common water-damage examples and their insurance consequences.

No. 1: *The temperature drops to below zero, causing the water pipes to freeze and burst. The floor is now covered in 10 inches of water.*

Is the insured covered? Yes, the insured is covered for water damage from burst pipes, but most policies won't cover the insured if they have left the house unoccupied and without heat. If that's the case, the claim could be denied because they have failed to perform the necessary maintenance that would prevent the accident.

No. 2: *Water leaks from the backyard pool, ruining the lawn and flooding the basement.*

Is the insured covered? The damage to the basement is covered, but only for the building itself and not for its contents. That means the wallpaper, paint, or carpeting will be replaced, but not that sofa or table that was there.

The lawn is a different story. Coverage for lawns is on a "named perils" basis, which means there is only coverage for damages that arise from certain events. Swimming pool leakage is not one of them.

Swimming pools are not covered by standard homeowner's policies, so the insured must make repairs to the pool out of their own pocket.

No. 3: *The washing machine overflows, flooding the basement.*

Is the insured covered? Yes, but again, the extent to which the insured is covered depends on the insurer's view of the problem: Did the insured fail to maintain the washer properly, or did sudden, unforeseen damage cause the flood?

"Most of the time, if an appliance breaks and water goes all over, insurance covers it. In the case of a washing machine, it might be necessary to purchase replacement parts out of the insured's own pocket because they were not maintained correctly, but the damage to the basement would be covered.

No. 4: *A sewer backs up, flooding their basement.*

Is the insured covered? Probably not. Some home insurance policies automatically include coverage for sewer and drain backups, but most do not. Special endorsements are available, at added cost, for sewers and drains.

Scenario No. 5: *Water seeps from the ground into the basement, damaging the foundation and interior.*

Is the insured covered? No. Seepage is considered a maintenance problem, not "sudden and accidental" damage, and is excluded from homeowner's insurance coverage.

No. 6: *During a heavy rainstorm, water leaks through the roof. The roof is damaged, as is furniture.*

Is the insured covered? Somewhat. While there might not be reimbursed for roof repairs, because that's a house-maintenance issue, the water damage to the home is covered. The damage to the furniture is not covered, because rainwater leakage is not one of the "named perils" for which the contents of the house are covered.

If something more drastic leads to the roof leak (the neighbor's tree falls on the roof, for example), the damage to the roof, home and belongings is covered. (In the tree example, the policy reimburses the insured up to a certain amount, usually around \$500, for the cost of removing the tree.

Scenario No. 7: *The bathtub overflows.*

Is the Insured covered? Yes. The insured is even covered, if the bathtub overflowed because they forgot to turn off the faucet.

Scenario No. 8: A nearby lake or river overflows its banks, causing a flash flood in the insured's living room.

Is the Insured covered? No. Flood damage is not covered by homeowner's insurance. An individual must purchase flood insurance from the federal government. An individual can purchase flood insurance, as long as your community participates in the National Flood Insurance Program.

Common Questions About Homeowner Insurance

Can someone own a home without homeowner's insurance?

An individual can legally own a home without homeowner's insurance. But, if they have bought their home and financed the purchase with a mortgage, the lender will most likely require them to get homeowner's insurance coverage. Lenders feel they have a need to protect their investment in the home in case the house burns down or is badly damaged by a storm, tornado or other disaster.

If individuals live in an area likely to flood, the bank will also require them to purchase flood insurance. Some financial institutions may also require earthquake coverage if the home is in a region vulnerable to earthquakes. If an individual buys a co-op or condominium, the board will probably require them to buy homeowner's insurance.

After a mortgage is paid off, no one can force an individual to buy homeowner's insurance. But it doesn't make sense for most individuals to cancel their policy and risk losing what they have invested in the home.

How much homeowner's insurance does an individual need?

An individual needs enough insurance to cover the:

- ✓ The structure of the home.
- ✓ Their personal possessions.
- ✓ The cost of additional living expenses if the home is damaged and they have to live elsewhere during repairs.
- ✓ Their liability to others.

How often should someone review their policy?

There are four events that should trigger a review of the policy:

1. When the policy comes up for renewal

Take the time to review the coverage with your client. Review the following issues:

- ✓ Has the company made any changes in coverage since last year?
- ✓ Does the policy now include a separate deductible for risks like hurricane or hail?
- ✓ Should the insured raise the deductible to save money?
- ✓ Is the client taking advantage of all available discounts?
- ✓ Does the insured need to raise the amount of coverage for liability, personal possessions or the structure?
- ✓ Does the individual need flood, earthquake or an umbrella policy?

2. When major purchases or alterations/improvements are made to the home

If they have made any major purchases, make sure that they have the proper coverage. Remind them about gifts that they might have received, such as a diamond engagement ring or expensive artwork or a computer, talk to the client about either increasing the amount of insurance they have for their personal possessions or purchasing a floater/endorsement for these items. A floater will give them higher and broader coverage for these items than they have under their homeowner's policy.

If they have made major improvements to their home, such as adding a new room, enclosing a porch or expanding a kitchen or bathroom, they risk being underinsured if they don't report the increase in square footage to the insurance company. Be sure not to forget about new structures outside of their home. If they add a new shed for your tools or installed a pool or hot tub, they need to possibly adjust their coverage.

3. If the insured has made their home safer

If they have installed a state-of-the-art fire/burglar alarm system or upgraded their heating, plumbing or electrical system, they may qualify for an additional discount.

4. Major lifestyle changes

Marriage, divorce, or adult children who move back into the family home, can all affect the homeowner's insurance. When people move in or move out, they take their belongings with them. And they may need additional coverage if there is a sizable

increase in the value of the belongings in the home.

Starting a home-based business can also trigger changes in the coverage. They will need to get additional coverage for business liability and equipment. If the business is their primary source of income, they may need Business owners Package Policy (BOP). They may also need professional liability coverage, which is excluded under in-home business and business owner's policies.

Taking a Home Inventory and Why

Would an individual be able to remember all the possessions that they have accumulated over the years if their home was destroyed by a fire? Having an up to date home inventory is critical to help resolving the claim.

Individuals should be advised to make a list of their possessions, describing each item and noting where they bought it, its make and model. They should clip to their list any sales receipts, purchase contracts, and appraisals they might have.

For clothing count the items they own and classify them by category such as pants, coats, shoes, etc.

For major appliances and electronic equipment, they should record the serial numbers that are usually found on the back or the bottom of the appliance.

- **Encourage the insured not to put off making their list!**

If they are just setting up a household, starting an inventory list can be relatively simple. If they have been living in the same house for many years, however, the task of creating a list can be challenging. It's better to have an incomplete inventory than nothing at all.

- **Big-ticket items**

Valuable items like jewelry, art work and collectibles may have increased in value since they received them. They may need to be insured separately.

- **Take a picture**

Besides the list; the insured should be encouraged to take pictures of rooms and important individual items. On the back of the photos, note what is shown and where they bought it or the make. They should not forget things that are in closets or drawers.

- **Videotape the items**

Encourage them to walk through their house or apartment videotaping and describing the contents. Or do the same thing using a tape recorder.

- **Use a personal computer**

Encourage them to use their PC to make their inventory list. Personal finance software packages often include a homeowner's room-by-room inventory program.

Storing the list, photos and tapes

Regardless of how they do it (written list, floppy disk, photos, videotape or audio tape), the inventory list must be kept, along with receipts, in their safe deposit box or at a friend's or relative's home. That way they will be sure to have something to give their insurance representative if their home is damaged. When they make a significant purchase, they should add the information to their inventory while the details are fresh in their mind.

Summarizing Home Insurance

A homeowner's insurance policy covers both property and liability. It is a total financial plan that protects the home, personal property, and personal liability. It is designed to pay for damages to the home and its contents. It can also protect the insured from financial liability if someone is injured on the property. A homeowner's insurance policy also protects the insured and their possessions when they are away from home. Basically, it extends to all the insured's possessions no matter where they are.

Although most homeowner's insurance policies are standardized throughout the United States, there are different policies sold through hundreds of insurance companies. Most policies cover damage to both the structure of your home, as well as personal property, caused by many natural disasters, including fire, lightning, hail, explosions, smoke, theft, and falling objects. Since most everything is covered in homeowner's insurance, it is more important to understand what is not covered. The only standard catastrophes that are not covered in a homeowner's insurance policy are floods and earthquake damage. Check individual policies for other specifics that are not covered.

To determine how much loss has occurred, the insurance company may use one of the following two most common methods -- actual cash value and replacement coverage. Actual cash value is the cost of replacing damaged or destroyed property with comparable new property, minus depreciation.

Replacement coverage is the cost of replacing an item with one of the same kind and quality, equivalent to the actual cash value, minus physical depreciation. The objective is to place the insured in the same financial position after a loss as prior to it. If their policy does not already include replacement coverage, they can add this to their policy for an increase in premium payments.

Homeowner's insurance only covers the structure of the home, not the land on which it stands. Therefore, the policy should be for the value of your home.

A homeowner's insurance policy is basically a contract the insured makes with an insurance company. In exchange for the premium, the insurance company will pay for financial losses related to the home or the property during the period of the contract.

The insurance company also agrees to pay for damages resulting from injuries or damage to other people for which the insured is held legally responsible. When searching for homeowner's insurance, an individual will want to shop for the type of policy that will fit their needs best, with adequate protection for their valuable possessions and supplemental coverage to protect against natural disasters that are not covered in the basic policy. For most people, the owner of the mortgage of the home will require homeowner's insurance.

Here's what a standard homeowner's policy covers:

Structural damage to the home. Pays to repair or rebuild the home if damaged by any of the disasters listed in the policy (which won't include earthquake and flood unless purchased separately). Don't base rebuilding costs on the price that was paid for the home, nor include the price of the land when estimating coverage. The insured will need an insurance amount sufficient to rebuild at the going rate of construction in your area. This amount can be estimated by multiplying the home's total square footage by the square foot cost of local construction-- numbers that can be gathered from building associations, realtors and insurance agents.

Loss of personal items. This includes up to 70% compensation for furniture, clothes and keepsakes that have been stolen or lost due to disaster. An inventory of possessions (on video if possible) should be stored in safely off-premises.

Liability. Financial protection against third party bodily injury or property damage the insured might cause. Court costs and damage awards are usually covered up to the policy limit. This coverage typically begins at about \$100,000, but most experts recommend carrying at least three times that amount. Check into umbrella policies. These provide broader liability coverage and higher compensation limits.

Additional living expenses. This coverage picks up hotel bills, restaurant tabs and other miscellaneous expenses should the insured be forced to live elsewhere while their home is rebuilt or repaired.

Homeowner policy costs are determined by many factors, such as square footage of the house, neighborhood crime rate and how prone the neighborhood is to natural disasters. The level of coverage also makes an impact.

Texas Homeowner Insurance Differences

Buying homeowner's insurance in Texas used to be simple; 96 percent of homeowner's bought the standard HO-B policy. Consumers could comparison shop based on price and insurers' service records.

Now consumers have to compare three components: price, service and the policy forms.

A variety of insurance products are being sold to homeowner's now that have differing amounts of coverage.

The old standard HO-B is not as easily available as it once was, and when it is available, it is often much more expensive. Because mold claims reached proportions unacceptable to insurers, several companies stopped selling comprehensive HO-B homeowner's policies to new customers. Some companies refused to write new homeowner's policies on homes with a water damage insurance claim in the preceding three years.

In response, the insurance commissioner modified the HO-B policy in

The modified HO-B limits mold coverage to a sudden and accidental loss from an insured peril. It eliminates coverage for high-priced procedures, such as testing, treating, containing or disposing of mold beyond that necessary to repair or replace property that is physically damaged by water.

Policyholders have the option to purchase additional coverage -- in increments of 25 percent, 50 percent and 100 percent of policy limits -- for these procedures.

Insurers selling HO-B offer applicants all levels of coverage in addition to the coverage in the basic policy. The modified HO-B requires homeowner's to report loss from water damage to their insurer within 30 days from the time it is discovered or should have been discovered if the water leak is hidden or concealed.

The state's three largest insurers, State Farm, Allstate and Farmers, were not satisfied with the modified version of the HO-B and sought alternatives.

Allstate got approval to sell a new HO-A Plus policy, which offers more coverage than the bare bones HO-A policy but less than the HO-B policy.

The company discontinued its HO-B policy. Allstate's HO-A Plus policy excludes water leaks unless they are sudden and accidental, but it does provide up to \$5,000 for mold remediation.

Farmers Insurance received approval to offer a product similar to Allstate's, called the Farmer's HO-A Choice Policy. Farmers no longer writes or renews the HO-B policy.

In February 2003, State Farm Insurance Co., the largest insurer in Texas, began selling the modified HO-B policy to renewing policyholders who had no mold remediation. Starting September 2003, State Farm started selling Texas customers an HO-W policy, which is substantially the same homeowner's policy that the company markets in other states.

This policy allows customers to opt out of certain types of coverage, such as mold and slow water leaks. State Farm agreed to reduce its rates to reflect coverage differences between its new policy and the Texas standard HO-B homeowner's policy it has sold in the past.

In 1991, a rate regulation system was adopted for homeowner's insurance that required companies to set rates within a range 30 percent above or below a benchmark rate or else obtain prior approval from the Texas Department of Insurance. However, a loophole exempted certain types of companies.

Today nearly 95 percent of homeowner's policies are sold through companies exempt from rate regulation.

Companies can sell several types of policies, each with a different level of coverage.

HO-A policies provide extremely limited actual cash value coverage of the home and its contents. Only the types of damage specifically listed in the policy are covered.

HO-A Amended policies provide more extensive coverage than the base HO-A policy, but less coverage than the HO-B. For instance, HO-A Amended policies may include replacement cost coverage of the structure and contents and coverage of damage from "sudden and accidental" water discharges. The base HO-A policy does not cover these.

HO-B policies provide replacement cost coverage for most types of damage, except those specifically excluded in the policy.

HO-C policies provide the most extensive coverage, but are more expensive than other types of policies.

Other approved policies are policies of national insurance organizations or large national companies that the Commissioner of Insurance has approved for sale in Texas. Coverage provided by these policies may differ considerably from one another and from the coverage provided in standard Texas homeowner's policies.

FOCUS POINTS

- Funding institutions usually require mortgage customers to purchase homeowner's insurance.
- Consumers should not rely on the coverage levels mandated by their bank or mortgage company. Those levels are designed to protect the house itself, but not necessarily their possessions.
- In brief review there are several basic types of home insurance policies:
- HO-1 Basic homeowner's policy. Covers the house and possessions against 11 different perils.
- HO-2 Broad homeowner's policy. Covers house and contents against 17 perils, with premiums running about 5 percent to 10 percent more than an HO-1 policy.
- HO-3 Special homeowner's policy. Covers all perils except those specifically excluded by the policy. Costs 10 percent to 15 percent more than an HO-1 policy.
- HO-4 Renters Policy. Covers 17 named perils and includes liability coverage. It does not insure the dwelling itself.
- HO-5 Extensive homeowner's policy. Covers damage from practically everything except earthquakes, wars and floods.
- HO-6 For owners of co-ops or condominiums. Provides personal property coverage, liability coverage and specific coverage of improvements to the owner's unit. Insurance provided by the owner's association normally covers most of the actual structure.

- HO-8 Policy for older homes. Covers the same perils as HO-1 but pays only for repair costs or actual cash value, since replacement cost could make the policy costly.
- In Texas the state insurance board specifies only three types of policies HO-A, HO-B, HO-C.
- When an individual applies for homeowner's insurance, The insurer will ask about current occupation and employment history, marital status, previous addresses, date of birth, Social Security number and will check the criminal, credit, and insurance history to see if the applicant is a "good risk."
- The insurance company will look at the "loss history" to see what kinds of home insurance claims have been made in the past.
- Factors that go into determining the premiums for a homeowner's policy include the age of the home, the materials used to build it, where it's located, the square footage, and the number of rooms, how the home is heated, the overall condition of the house, how many occupants and how close the home is to the nearest fire station and fire hydrant.
- If the home is equipped with an alarm system, smoke detectors and deadbolt locks, these factors could save money.
- Homeowner's policies automatically cover household contents - furniture, clothes, appliances, etc. - up to 40 percent of the amount for which the house is insured.
- Actual cash value is an items replacement cost, minus depreciation.
- Replacement cost coverage, the insurance company pays to replace the item with a new similar one to the one destroyed or stolen.
- An inventory list should itemize each item, its value, and serial number. Photographs or videotapes of each room, including closets, open drawers, storage buildings, and the garage should be maintained. All of this and receipts for major items should be kept in a fireproof place.
- Homeowner's policies cover specific risks. Depending on what the prospect owns and where they live, they might need to supplement the policy with special coverage.
- Homeowner's policies do not cover flood damage. The National Flood Insurance Program (NFIP) offers flood coverage in many areas.
- If a mortgage lender determines a home is in a special flood hazard area, the borrower might be required to purchase flood insurance.
- An individual might want more coverage for certain items than the policy provides. For an extra premium, they might be able to buy endorsements that expand or increase the coverage on these items.
- If the client wants more liability coverage than a homeowner's policy provides, they can buy a separate umbrella policy.
- Deductibles allow individuals to cut the cost of the insurance, by assuming some of the risk.
- Some insurance companies might charge higher premiums, if the applicant has problems with their credit history.
- An insurance score is different from a credit score because in insurance scoring, an insurance company uses credit information, together with applicant insurance history, to predict whether they are more or less likely to file a homeowner's claim.
- Insurance scoring allows insurance companies to provide insurance to more people and to offer it at a lower cost to those who qualify.
- If an individual rents an apartment or owns a condominium, they need insurance to protect their belongings.
- Condo association insurance, only protects the building, the occupants belongings are not covered.
- There are several types of residential insurance policies. The HO-4 policy is designed for renters, while the HO-6 policy is for condo owners. Both HO-4 and HO-6 cover losses to personal property from 17 types of perils:
- Liability protection is also standard with most renters and condo policies. This means if someone in the unit slips and falls, the insured is covered for any costs, up to the liability limit.

- *Flood or earthquake:* Most standard homeowner's policies do *not* include coverage for either floods or earthquakes. If an individual lives in an area where either might occur, consider adding coverage.
- *Floater:* Most policies set limits for items like jewelry, collectibles, and computers. If the prospect owns expensive items, they can pay extra premiums to have those items fully insured under what is called a floater. Without a floater, a policy will cover such items only under general categories and offer reimbursement up to a maximum of only a few thousand dollars (limits vary).
- *Discounts:* Insurance companies offer an array of discounts. Factors that could reduce premiums include smoke detectors, alarm systems, deadbolt locks, closed-circuit television, a secured-entry system or a doorman.
- Water damage is one of the most common reasons people make claims on their home insurance.
- Generally damage caused by water will be covered, but whatever causes the damage — say, a leaking dishwasher hose — may not be.
- If a sudden, unforeseen problem such as a frozen pipe or hose leads to water damage, the homeowner's insurance covers both repairs to the broken pipe and to the home and furnishings.
- A homeowner's insurance policy covers both property and liability. It is a total financial plan that protects the home, personal property, and personal liability.
- Homeowner's insurance is designed to pay for damages to the home and its contents.
- Homeowner's insurance protects the insured from financial liability if someone is injured on the property.
- A homeowner's insurance policy protects the insured and their possessions when they are away from home. Basically, it extends to all the insured's possessions no matter where they are.
- A homeowner's insurance policy is basically a contract the insured makes with an insurance company. In exchange for the premium, the insurance company will pay for financial losses related to the home or the property during the period of the contract.

PART VI: HOMEOWNER'S INS. POLICY

SECTION I: COVERAGE & LIMITS OF LIABILITY

The front page or the "Declaration Page" of the homeowner's policy shows exactly what is covered and for how much. The front page contains the following information:

1. Name of the Insurance Company & their address.
2. Name & address of the insured & address of the insured property.
3. The agent's & agency name & address.
4. Policy number.
5. Policy period showing the effective & expiration date & time.
6. The coverage & premium breakdown.

PROPERTY COVERAGE-SECTION I

- | | |
|-------------------------------|--------|
| a. Dwelling | Limits |
| b. Detached Structures | Limits |
| c. Personal Property | Limits |
| d. Loss of Use..... | Limits |
| 1. Section I Deductible | Amount |

LIABILITY COVERAGE-SECTION II

- | | |
|---|--------|
| e. Personal Liability, Each occurrence | Limits |
| f. Medical Payments to others, each person..... | Limits |

POLICY FORMS & ENDORSEMENTS AND CHARGES

1. Rating information.
2. Mortgagee's name & address.
3. Signature of Insurance Company Officer.

SECTION 2: TYPES OF HOMEOWNER'S POLICY FORMS AND THEIR COVERAGES

There are standard policies available and they contain a standardized numbering system throughout the United States except for Texas.

They are as follows:

- HO-1: Basic Form for Homeowner's.
- HO-2: Basic Form for Homeowner's with similar coverage available for mobile home owners.
- HO-3: Special Form for homeowner's.
- HO-4: Renters or Tenants Insurance.
- HO-5: Comprehensive Form for Homeowner's.
- HO-6: Condominium Unit owners insurance.
- (There is no HO-7 Form)
- HO-8: Market Value or Older Home Form for Homeowner's.

The "HO" stands for Homeowner's and the number following that designates the different policy packages.

HO-1 AND HO-2 POLICY

These two forms are referred to as "Named Peril Policies" and in these two forms the same perils are applied to the dwelling and the personal property coverage. HO-1 includes coverage from the following losses:

- ✓ Fire and Lightning.
- ✓ Removing damaged property.
- ✓ Explosion.
- ✓ Hail or Windstorm.
- ✓ Smoke Damage.
- ✓ Riots/Civil Commotion.
- ✓ Damage to dwelling caused by vehicles or aircraft.
- ✓ Theft.
- ✓ Breakage of Glass.
- ✓ Malicious mischief or vandalism.

HO-1 is becoming less and less popular due to the fact that each of the above losses is usually followed by a paragraph of numerous exclusions. Although the cost of HO-1 is low, the old adage still applies, "You get what you pay for".

The HO-1 Policy contains the following exclusions:

- ✓ Flood.
- ✓ Surface water.
- ✓ Waves and tidal waves from other bodies of water.
- ✓ Back up water and sewage or drains.
- ✓ Water below the surface of the ground that flows, seeps or leaks through side walls, driveways, basements, walls, foundations, through doors, windows or floors.
- ✓ Earth movement, volcanic eruption, earthquake, landslide, mudflow, earth sinking, shifting or rising.
- ✓ Damage to air conditioning, heating and plumbing systems caused by leaking or as a result of freezing.
- ✓ Wear and tear.
- ✓ Deterioration.
- ✓ Marring or scratching.
- ✓ Mechanical breakdown, inherent vice or latent defect.
- ✓ Rust.
- ✓ Wet or dry rot.
- ✓ Mold.
- ✓ Act of war.
- ✓ Smog.
- ✓ Contamination.
- ✓ Acts of Government.
- ✓ Nuclear reactions.
- ✓ Smoke from industrial operations or agricultural smudging.
- ✓ Shrinkage, cracking, settling, bolting, expansions of walls, floors, roofs, ceilings, foundations, patios, pavement.
- ✓ Domestic animals, insects, rodents, vermin, and birds.
- ✓ Continuous leakage from within a plumbing system or seepage.
- ✓ Theft to a dwelling under construction including materials and supplies, vandalism and glass breakage.
- ✓ Wind, ice, hail, snow or sleet damage to outdoor television antennas or outdoor radio antennas including towers, masts and wiring.
- ✓ Power interruption that takes place of the residence premises
- ✓ An insured's failure to save or preserve a property after loss.
- ✓ Losses caused by the insured or at the insured's direction.

HO-2 includes coverage from the following losses:

- ✓ Fire and lightning.
- ✓ Removing damaged property.
- ✓ Explosion.
- ✓ Hail and windstorm.
- ✓ Riot/civil commotion.
- ✓ Damage to dwelling caused by vehicles or aircraft.
- ✓ Damage from smoke that is sudden or accidental.
- ✓ Falling objects.

Additional over the HO-1 Coverage are the following:

- ✓ Weight of ice, sleet or snow.
- ✓ Theft.
- ✓ Breakage of glass.
- ✓ Collapse of building.
- ✓ Accidental ruptures of hot water heater or steam heater.
- ✓ Accidental overflow of water from a plumbing appliance.
- ✓ Freezing of heating, air conditioning or plumbing appliances.
- ✓ Accidental injury from electrical currents artificially generated.

The HO-2 policy expands the vehicle peril to loss of a fence, driveway or walk that is damaged by a vehicle driven by an individual that lives in a household.

The smoke peril portion of the policy expands to include loss caused by fireplace smoke

The HO-2 form gives a more "Broad form" of coverage than HO-1.

The HO-2 Policy contains the following exclusions:

- ✓ Flood.
- ✓ Surface water.
- ✓ Waves and tidal waves from other bodies of water.
- ✓ Back up water and sewage or drains.
- ✓ Water below the surface of the ground that flows, seeps or leaks through side walls, driveways, basements, walls, foundations, through doors, windows or floors.
- ✓ Earth movement, volcanic eruption, earthquake, landslide, mudflow, earth sinking, shifting or rising.
- ✓ Damage to air conditioning, heating and plumbing systems caused by leaking or as a result of freezing.
- ✓ Wear and tear.
- ✓ Deterioration.
- ✓ Marring or scratching.
- ✓ Mechanical breakdown, inherent vice or latent defect.
- ✓ Rust.
- ✓ Wet or dry rot.
- ✓ Mold.
- ✓ Act of war.
- ✓ Smog.
- ✓ Contamination.
- ✓ Acts of Government.
- ✓ Nuclear reactions.
- ✓ Smoke from industrial operations or agricultural smudging.
- ✓ Shrinkage, cracking, settling, bolting, expansions of walls, floors, roofs, ceilings, foundations, patios, pavement.
- ✓ Domestic animals, insects, rodents, vermin, and birds.
- ✓ Continuous leakage from within a plumbing system or seepage.
- ✓ Theft to a dwelling under construction including materials and supplies, vandalism and glass breakage.
- ✓ Wind, ice, hail, snow or sleet damage to outdoor television antennas or outdoor radio antennas including towers, masts and wiring.
- ✓ Power interruption that takes place of the residence premises
- ✓ An insured's failure to save or preserve a property after loss.
- ✓ Losses caused by the insured or at the insured's direction..

HO-3 POLICY

The HO-3 policy is an "open peril" policy and covers anything except what is excluded.

HO-3 policies exclude coverage from the following losses:

- ✓ Flood.
- ✓ Surface water.
- ✓ Waves and tidal waves from other bodies of water.

- ✓ Back up water and sewage or drains.
- ✓ Water below the surface of the ground that flows, seeps or leaks through side walls, driveways, basements, walls, foundations, through doors, windows or floors.
- ✓ Earth movement, volcanic eruption, earthquake, landslide, mud flow, earth sinking, shifting or rising.
- ✓ Damage to air conditioning, heating and plumbing systems caused by leaking or as a result of freezing.
- ✓ Wear and tear.
- ✓ Deterioration.
- ✓ Marring or scratching.
- ✓ Mechanical breakdown, inherent vice or latent defect.
- ✓ Rust.
- ✓ Wet or dry rot.
- ✓ Mold.
- ✓ Act of war.
- ✓ Smog.
- ✓ Contamination.
- ✓ Acts of Government.
- ✓ Nuclear reactions.
- ✓ Smoke from industrial operations or agricultural smudging.
- ✓ Shrinkage, cracking, settling, bolting, expansions of walls, floors, roofs, ceilings, foundations, patios, pavement.
- ✓ Domestic animals, insects, rodents, vermin, and birds.
- ✓ Continuous leakage from within a plumbing system or seepage.
- ✓ Theft to a dwelling under construction including materials and supplies, vandalism and glass breakage.
- ✓ Wind, ice, hail, snow or sleet damage to outdoor television antennas or outdoor radio antennas including towers, masts and wiring.
- ✓ Power interruption that takes place of the residence premises
- ✓ An insured's failure to save or preserve a property after loss.
- ✓ Losses caused by the insured or at the insured's direction..

The HO-3 policy is the one most commonly used by homeowner's. This form offers all risk coverage to the dwelling. This is a particularly valuable facet of this policy and is what really sets the HO-3 policy apart from the HO-1 and HO-2.

HO-4

The HO-4 is a tenant policy designed for people who rent houses or apartments and it also applies to owners of cooperative apartments. The policy covers this tenant's policy personal property and improvements to the residence made by the policy owner. Improvements can be cosmetic such as additions, paneling or shelves. The HO-4 affords coverage of up to 10% of the policy amount for improvements. Therefore if your personal property is insured for \$50,000 dollars, \$5,000 would cover improvements.

The 10% limit may be increased for an additional premium and by attaching the building additions and alterations increased limit endorsement.

A tenant's personal property is covered for the same broad form named perils listed in a HO-2 policy, which are:

- ✓ Fire and lightning.
- ✓ Removing damaged property.
- ✓ Explosion.
- ✓ Hail and windstorm.
- ✓ Riot/civil commotion.
- ✓ Damage to dwelling caused by vehicles or aircraft.
- ✓ Damage from smoke that is sudden or accidental.
- ✓ Falling objects.
- ✓ Weight of ice, sleet or snow.
- ✓ Theft.
- ✓ Breakage of glass.
- ✓ Collapse of building.
- ✓ Accidental rupture of hot water heater or steam heater.
- ✓ Accidental overflow of water from a plumbing appliance.
- ✓ Freezing of heating, air conditioning or plumbing appliances.
- ✓ Accidental injury from electrical currents artificially generated.

HO-5 POLICY

The HO-5 is very similar to the HO-3 policy in that again, the dwelling is covered on an all risk basis. Personal property, however, is covered under the all risk condition also in the HO-5 policy. This constitutes the major difference between the HO-3 and the HO-5. The HO-5 policy is the most comprehensive standard homeowner's policy available. However, the coverage in this policy is quite expensive. This policy is rarely used today because agents prefer to attach endorsements to the HO-3 policy.

HO-6 POLICIES

The HO-6 is a condominium owner's policy. It covers personal property and improvements to the residence made by the policy owner. Improvements can be cosmetic such as additions, paneling or shelves.

The condominium policy permits the addition of various endorsements unique to a condominium. For examples endorsements may be added that change the form to a special or open peril form. The coverage may be changed to cover the insured's share of loss to condominium common areas or other additional coverage.

Coverage could be provided for unit owners who rent to others. For unit owners other structures such as on premises, garages or sheds. Loss Assessment Coverage for any assessment fees that might be charged in the event the losses of replacement of common elements are not covered by the Association master policy.

A HO-6 policy excludes coverage from the following losses:

- ✓ Fire and lightning.
- ✓ Removal.
- ✓ Windstorm or hail.
- ✓ Explosion.
- ✓ Riot or civil commotion.
- ✓ Aircraft.
- ✓ Vehicle.
- ✓ Smoke.
- ✓ Vandalism or malicious mischief.
- ✓ Theft.
- ✓ Falling objects.
- ✓ Weight of ice, snow, or sleet.
- ✓ Collapse of building.
- ✓ Damage from hot water heating systems.
- ✓ Damage from appliances or plumbing.
- ✓ Damage from freezing of plumbing appliances.
- ✓ Damage from electrical currents artificially generated.

Payment under both HO-4 and HO-6 is based on the actual cash value and not the replacement cost.

HO-8 POLICY

A HO-8 policy is a modified Coverage Form and is similar to a HO-1 but modifies settlement to actual cash value or repair cost. This policy is designed for older homes where replacement cost exceeds the market value.

MOBILE HOMES

A mobile home is basically a trailer used as a permanent dwelling. Mobile homes are typically placed on a permanent foundation and are usually sold on one site rather than being moved from location to location. Once they are placed on a permanent foundation, mobile homes are similar to other houses from the standpoint of exposure, except that mobile homes are more susceptible to windstorm and fire damage.

A HO-2 and HO-3 policy may be used and modified by adding a mobile home endorsement.

The endorsement makes the following modifications:

Coverage A is modified by including permanently installed floor coverings, appliances, dressers and cabinets to be included as part of the residence. All carports or building additions are covered as part of the dwelling. The endorsement provides for replacement cost settlement.

Transportation coverage is covered if the home is being moved to protect it from loss by a covered peril. An MHO403 endorsement can be added for an additional premium to cover the normal moving of the home from one location to another

Condition of exterior replacement provision permits the insurer to choose to pay the reasonable cost of providing a similar or acceptable decorative effect to damaged exterior panels in lieu of matching damaged panels.

Under mortgage coverage in addition to protection for their interest in the property when it is damaged or destroyed by a covered peril, lien holder are covered for loss by the perils of collision, conversion (altering the home, and embezzlement or secretion (hiding the mobile home).

FOCUS POINTS

- The Declaration page shows exactly what is covered is covered in the policy.
- There are seven standardized form homeowner's' policies.
- HO-1 and HO-2 policies are known as "Named Peril Policies."

- In the HO-1 and HO-2 policies the same perils are applied to the dwelling and the personal coverage.
- The HO-1 policy represents the lowest cost basic homeowner's policy because of its numerous exclusions.
- The HO-2 policy is known as a Broad Form policy because it expands coverage over the HO-1 policy.
- The HO-3 policy is an "Open Peril " policy and covers anything except what is excluded.
- The HO-3 policy is the most commonly used homeowner's policy.
- The HO-4 policy is a tenant policy designed for people who rent houses or apartments.
- The HO-5 policy is the most comprehensive of all the policies and covers both dwelling and personal property on an all risk basis.
- The HO-6 policy is a condominium owner's policy.
- Payment under both an HO-4 and HO-6 is based on the actual cash value and not the replacement cost
- A HO-8 policy is designed for older homes where replacement cost exceeds the market value.
- Mobile homes can be insured under a HO-2 or HO-3 policy by adding a mobile home endorsement.
- Under a mobile home endorsement lien holders are protected for perils unique to mobile homes.

SECTION 3: PROPERTY COVERAGE-SECTION I

The Property Coverage section of the Homeowner's policy covers five basic areas. They are:

1. The dwelling.
2. Detached structures located on the property.
3. Your personal property.
4. Loss of the use of your structure.
5. Additional Coverage.

THE DWELLING

This consists of the home itself or the actual living structure and includes attached structures, which is most commonly the garage. In the policy declaration page this coverage will be shown as: Section I, Coverage A.

The major portion of your coverage in a homeowner's policy is designed to pay the cost of rebuilding the structure. A common misunderstanding in this area of coverage is that you do not insure your structure for what it is worth on the open market. This is because the land the house is built on has a value and the value of the land is not to be included in the coverage you select, only the cost of the structure.

A helpful way to determine the cost of the structure is to contact a Builder's Association to find out what the cost per square foot is in your area. If you'll take the total square footage of your house and multiply it by the local per square foot building cost, you can get a pretty good idea of what it would take to replace the structure. A standard rule of thumb is to insure the structure for at least 80% of the actual cost to rebuild the structure.

DETACHED STRUCTURES LOCATED ON THE PROPERTY

These consist of structures that are on the same parcel of land, but are not attached directly to the home itself. This could be a shed for your tools, a greenhouse in the yard, or some other structure that would be defined as a non-attached covered structure. Protection for these unattached structures is provided under Section I, Coverage B.

PERSONAL PROPERTY

A very important coverage under any residential insurance policy is personal property. The contents of a home such as furniture, stereos, televisions, appliances, clothing, and the like are considered personal property. These items are covered under Section I, Coverage C. Personal property will be covered as long as it owned and used by the insured, ANYWHERE IN THE WORLD. The loss of the personal property does not have to occur at the covered dwelling. Personal property belonging to others staying or visiting the covered property is also protected.

Personal property owned by the tenant in a rented house would not be covered by the homeowner's policy, but personal property brought by a guest visiting the policy owner would be covered. It is important to understand that personal property coverage IS NOT unlimited. The truth of the matter is, unless endorsements are purchased for specific coverage, the protection can be rather limited.

There is a limit of coverage for loss of personal property. This amount is 50% of the total amount that the home is insured for under Coverage A. For example, if your home is insured for \$100,000, the loss for personal property limits would be \$50,000.

LIMITS OF LIABILITY FOR PERSONAL PROPERTY

There are limits of liability that apply to the following items:

- Money, bank notes, bullion, gold other than gold wear, silver other than silver wear, platinum, coins, and medals. All of these have a specific maximum liability. Additional dollar coverage will cost you extra.
- Securities, Accounts, Deeds, evidence of debt, letters of credit, notes other than bank notes, manuscripts, passports, tickets, and stamps. All have a specified maximum liability. Additional dollar coverage will cost you extra.
- Watercraft, their trailers, furnishings, equipment and outboard motors have a specified maximum liability,. Since coverage is so low in this area, you may wish to purchase boat insurance.
- Trailers not used with watercraft have a specified maximum liability
- Grave markers have a specified maximum liability. Not too many of us know this one.
- Theft of jewelry, watches, furs, precious and semi-precious stones have a specified maximum liability. Many people get caught short with this coverage and need to buy endorsements to protect items worth more than \$1,000.00.
- Loss of firearms by theft carry a specified maximum liability that is usually twice the amount of the specified amount for jewelry.. It seems odd that insurance companies will pay more for firearms than jewelry.
- Theft of silverware, silver-plated ware, gold ware, gold-plated ware, and pewter ware have a specified maximum liability. Included here are flatware, hollowware, tea sets and trays, and trophies made of these metals.
- Property on the residence premises used for business purposes has a specified maximum liability. Should you have an office in your home or work out of your home and have computers, desks, and other equipment. You really need to purchase additional protection here.
- Personal property away from the residence used for business purposes carries a specified maximum liability.

EXCLUSIONS FOR PERSONAL PROPERTY

- ✓ Articles separately described and insured by endorsement. Should you have personal articles separately described and specifically insured in your policy, they will come under exclusions. If you decide to specifically cover these items by endorsement, the coverage will be determined by the language of that endorsement and will not be protected by Coverage C.
- ✓ Animals, birds, or fish. Although they may be invaluable to you, nothing will be paid for their loss under your homeowner's policy.
- ✓ Motor Vehicles and all other motorized land conveyances. Normally these items are protected under an automobile insurance policy. However, there are two exceptions to this exclusion.
- ✓ The vehicle is not subject to motor vehicle registration and is used to service an insured's residence, or, the vehicle is designed to assist the handicapped.
- ✓ Aircraft and their parts. You will need to purchase aircraft insurance.
- ✓ Property of Roomers, Boarders, and other tenants except property of Roomers related to the insured. These items are covered under Renter's insurance.
- ✓ Property in an apartment regularly rented or held for rental to others by an insured. Again, these items are covered under Renter's insurance.
- ✓ Property rented or held for rental to others off the residential premises. You need Renter's insurance.
- ✓ Books of account and drawings. Included here are records of bookkeeping that are on paper, electronic data, computer software, and other paper containing business data.
- ✓ Credit cards. The basic homeowner's policy does not protect you against the loss of credit cards or credit fraud. However, coverage can be had under the additional coverage section of a policy.

The following thefts are excluded under Coverage C:

- ✓ Anything stolen by the insured;
- ✓ Anything stolen from a part of the residence rented to another person.
- ✓ Theft to a building that is under construction.
- ✓ Items stolen from a secondary residence unless the insured is living there when the theft occurs.
- ✓ Theft of watercraft, outboard motors, trailers, or campers that occurs away from the residence premises.

LOSS OF THE USE OF YOUR STRUCTURE

A homeowner's policy provides funds to compensate for the loss of the use of the property should it be damaged by a peril covered under the policy. This coverage is provided under Section I, Coverage D. One can elect to receive compensation for loss of use one of two ways:

- ✓ Payment for additional living expenses.
- ✓ Payment for the fair retail value of the uninhabitable property.

Additional living expense

Additional living expenses usually require a higher monthly outlay than one would normally pay at home. If a home is destroyed by fire, it would be necessary to rent another residence while the home is being rebuilt. The policy will pay additional living expenses that are incurred in order to allow the household to "Maintain its normal standard of living".

Fair retail value

An individual may receive a benefit that will pay the fair retail value for a residence less any expenses that do not continue while the home is not fit to live in.

Whichever way an individual chooses to go, it must be for the shortest time required to replace or repair the damages to the property, or if one permanently relocate, the shortest time within which one can do so. There is an exception under the ability to choose how one wishes to be compensated in the event of the loss of use. This is if the property that became uninhabitable WAS NOT the principal place of residence. In this case, one would only be compensated for additional living expenses.

ADDITIONAL COVERAGES

The following additional coverages can be had under HO-3 homeowner's' policy, which is the one, most people purchase:

- ✓ **Property removed.** for example, a wind destroys your walls and you want to have this property removed, the cost to do so can be paid for under additional coverage. There is a 30-day limit for this coverage to apply.
- ✓ **Service charges of the fire department.** The policy will pay up to a specified amount for the liability for any fire department charges incurred because the fire department was called upon to save or protect the property. In most cases, the city provides this service without charge, and no payment is made by the homeowner's policy.
- ✓ **Reasonable repairs.** The policy covers reasonable costs incurred to make necessary repairs to prevent the property from further damage.
- ✓ **Debris removal.** If it is necessary to remove debris that is created by a covered loss, the homeowner's policy will pay for it. The amount available for debris removal is included in the total limit of liability. Should the removal expense exceed that amount, an additional 5% is available to complete the job. Fallen trees, as an example, come under this portion of the policy and have a specified limit total for any one claim.
- ✓ **Trees, shrubs, and plants.** Should a covered loss damage or destroy trees, shrubs, or plants, except of course, for windstorm, the policy will pay up to 5% of the limit of liability that applies to the dwelling with a maximum of \$500.00 for any one tree, shrub, or plant. Commercial growing is not covered.
- ✓ **Forgery, counterfeit money, credit card and fund transfer card.**
The HO-3 policy will pay up to a specified amount for the following:
 - A. Forgery or alteration of a check that causes a loss.
 - B. Unauthorized use or theft of an ATM card that results in a loss.
 - C. Unauthorized use of credit cards issued in your name.
 - D. Should you in good faith accept counterfeit US or Canadian paper currency.
- ✓ **Collapse.**
Any collapse of a building or collapse of part of a building that causes you a direct physical loss by one or more of the following will be covered:
 - A. Hidden insect damage.
 - B. The weight of the building's equipment, contents, people or animals.

- C. Rain that collects on the roof and the weight causes damage or collapse.
- D. Hidden decay.
- E. Defective material used in construction, renovation or remodeling providing the collapse occurs during the course of such work.

FOCUS POINTS

- The property coverage section of a Homeowner policy covers the dwelling, detached structures located on the property, the personal property, loss of use of the structure, and additional coverage.
- The dwelling consists of the actual living structure and attached structures.
- The major portion of a homeowner's policy is designed to pay the cost of rebuilding the structure.
- The land value should not be computed in the cost of replacing the structure.
- A standard rule of thumb is to insure the structure for at least 80% of the actual cost to rebuild.
- Personal property is covered as long as it is used by the insured, and is covered while being used anywhere in the world.
- Personal property owned by a tenant in a rented house would not be covered by the homeowner policy.
- Personal property coverage is very limited and endorsements should be added in order to extend the coverage.
- In the homeowner policy the loss of personal property is limited to 50% of the limits in Coverage A. There are specific maximum dollar limits of liability that apply to various categories of personal property.
- Articles covered by endorsements are not protected under Coverage C.
- Animals are exclusions under a homeowner's policy.
- Properties of Roomers that are not related to the insured are exclusions under a homeowner's policy.
- The basic homeowner's policy does not protect against the loss of credit cards or credit fraud.
- Under Coverage C theft to a building that is under construction is excluded from coverage.
- Under Coverage C items stolen from a secondary residence are excluded unless the insured is living there when the theft occurs.
- Theft of watercraft, outboard motors, trailers, or campers that occurs away from the residence is excluded under Coverage C.
- The homeowner's policy provides funds to compensate for the loss of the use of the property should it be damaged by a peril covered under the policy.
- Compensation for loss of use can be in the form of payment for additional living expenses or by payment for the fair retail value of the uninhabitable property.
- Under additional living expense coverage a policy will pay an amount that allows for a household to "Maintain its normal standard of living."
- Under a HO-3 policy there is included a property-removed coverage.
- Under a HO-3 policy there is limited coverage for fire department service charges.

SECTION 4: LIABILITY COVERAGE-SECTION II

Coverage for liability will be found under Section II, Coverage E, and PERSONAL LIABILITY. The policy states the coverage as follows:

"If a claim is made or a suit is brought against an insured for damages because of bodily injury or property damage caused by an occurrence" to which the coverage applies, your insurance company will:

Pay up to the limit of liability if the insured is legally liable.

Provide defense by counsel even if the suit is groundless, false or fraudulent.

Section II, Coverage F covers MEDICAL PAYMENTS for those who are injured while at the insured location and providing they are there with the permission of the insured. Medical expenses will be paid off of the insured location if the bodily injury:

Arises out of a condition on the insured location or the ways immediately adjoining. For example, a tree that is rooted in your yard has a branch that hangs in your neighbors yard and that branch falls and hits your neighbor, he will probably collect from your insurance company for medical costs.

Should the bodily injury be caused as a result of activities by the insured? Should you be riding a horse and injure someone or hit a golf ball and hit someone, your homeowner's policy will pay medical bills.

Should bodily injury be caused by a residence employee in the course of the employee's work. Maids, butlers and domestic help would come under this category.

Bodily injury caused by an animal owned or in the care of the insured. Dog bites are covered here.

PERSONAL LIABILITY EXCLUSIONS

The following will not be covered by the liability portion of the homeowner's policy:

- A. Bodily injury to the insured. If you get hurt at home due to your own negligence, the policy will not pay.
- B. Damages caused by failure to render professional services or by rendering professional services. If you are a carpenter and your work is defective, and your faulty work causes damages, the policy will not pay.
- C. Damages caused by motor vehicles.
- D. Damages caused by operation of an aircraft. Injuries caused by model hobby planes will be covered.
- E. Communicable diseases. If you give someone a disease, your policy does not cover you.
- F. War. Any damage that a war causes your property directly or indirectly is excluded.
- G. Workers' Compensation injuries. Should someone covered by their employer under Workers' Compensation be injured while working at your home, your homeowner's policy will not pay.
- H. Damages caused by watercraft. If while using the craft, damages result, they will not be paid by your homeowner's policy.
- I. Non-insured locations. If you own other property that is not listed on your policy, and injuries occur there, you are not covered.
- J. Intentional acts of the insured. If by malice you intend to harm someone, you will not be paid.
- K. Business activities. Should there be any damage as a result of business pursuits by the insured, protection for the same will not come from your homeowner's policy.

FOCUS POINTS

- o Liability coverage in an insurance policy is found under Section II, Coverage E.
- o Liability coverage pays up to the limit stated if the insured is legally liable.
- o Liability coverage provides defense by counsel even if the suit is groundless, false or fraudulent.
- o Medical payments are covered under Section II, Coverage F.
- o Medical payments are covered only for individuals on the premises with permission of the owner.
- o Payments are made if a situation arises out of a condition on the insured location or the ways immediately adjoining. (A tree limb hanging over onto a neighbor's yard)
- o Medical payments are made to the injured should the injury occur as a result of activities by the insured.
- o Medical payments are made to an injured should bodily injury be caused by a residence employee of the insured.

- Medical payments are made to an injured as a result of injury caused by an animal of the insured.
- Exclusions include bodily injury to the insured as a result of his or her own negligence.
- No payment is made as a result of damages caused by faulty professional work or non-performance of the work.
- Damages caused by motor vehicles, watercraft, or by the insured.
- A communicable diseases transmitted by the insured is not covered.
- Not covered are intentional acts of the insured, business activities, coverage under Workers' Compensation, or war.
- Injury at a non-insured location is not covered.

SECTION 5: THE CLAIM

There are four factors necessary in order for a loss to be covered by insurance. They are:

1. Losses must be accidental.
2. Losses must be caused by extraneous factor.
3. Losses were not caused by deliberate actions on the part of the policy owner.
4. Losses must involve covered, legal property.

LOSSES MUST BE ACCIDENTAL

The reason for this is that insurance policies insure you against "Risks". Therefore, losses must be accidental. If a loss is certain to occur, there is no risk involved. Losses resulting from deterioration are sometimes thought to be the result of a certainty, after all, everything wears out sooner or later. For this reason, should a loss be caused by deterioration, it would not be covered by your insurance.

LOSSES CAUSED BY EXTRANEOUS FACTOR

This means an external cause of damage such as wind damaging the patio furnishings. Should a loss be caused by an inherent physical condition, the loss would not be covered.

LOSSES CAUSED BY DELIBERATE ACTION ON THE PART OF THE POLICY OWNER

Any action on your part that causes a loss to any insured property is not covered. You cannot deliberately destroy property that is insured and expect the carrier to pay for it.

LOSSES MUST INVOLVE COVERED, LEGAL PROPERTY

Illegal items and contraband are not covered by insurance. If you had an illegal whiskey still in your home and it was damaged by a covered peril, that loss would not be covered. It should be noted that one of the elements of a valid claim is that you must actually sustain a loss. It's not enough to have property by insurance and to have that property damaged or destroyed by a covered peril. It is also necessary that you have a financial and insurable interest in the damaged property in order for a loss to be sustained. The insured must have some degree of ownership in the property in order to have an insurable interest in it.

When you have a claim to file, you need to keep the following in mind:

- ✓ As a policyholder, you normally have a strong and favorable position where claims are concerned.
- ✓ As a rule, the courts usually resolve questions on claims in your favor.
- ✓ The overall effect of court decisions has been to broaden the coverage of homeowner's policies.
- ✓ Although companies differ in their approach to claims, most work to give good service to their customer.
- ✓ Some companies engage in questionable practices, and it is prudent to watch out for activities that might not be proper.
- ✓ Consequential losses are not covered by homeowner's policies.
- ✓ Negotiation is not necessarily a win/lose proposition. Both parties can come out feeling like winners.

FOCUS POINTS

- The four factors that are necessary for a loss to be covered are: it must be accidental, the loss must be caused by extraneous factors, cause must not be intentional by property owner, and must involve the covered legal property.
- Losses must be accidental because insurance policies insure risk.
- Losses must be caused by outside factors and not be an inherent condition or a condition of deterioration.

- Illegal items and contraband or not covered by insurance.
- The insured must have some degree of ownership in the property in order to have an insurable interest in it.
- Consequential losses are not covered by homeowner's policies.

SECTION 6: REPLACEMENT COSTS COVERAGE

In approximately 80% of all claims, less than 10% of the property insured is affected by loss. Therefore, it could be said that you are buying insurance to only cover 10% of the property in question and coverage will be adequate 80% of the time.

All homeowner's policies contain a replacement cost provision that requires one to purchase an amount equal to 80% of the replacement cost of the dwelling. The purpose of this requirement is to make the determination of insurance rates simple and allowing premiums to be based on a fixed cost per \$100.00 worth of insurance.

Calculating replacement cost for the purpose of buying insurance is somewhat different than estimating the cost of buying a new home. There are two reasons why determining the replacement cost of a home must be determined accurately. First, one needs to be certain that coverage is adequate and that it complies with the replacement cost requirement. Second, the client must be secure in the fact that they are not being sold an excessive amount of insurance and the higher premiums that go along with it.

It must be realized that when a company considers attaching a penalty to a claim due to insufficient coverage, the homeowner's policy stipulates that payment is to be based on replacement cost less the appropriate penalty or the actual cash value of the repairs, whichever is greater. Because of the method used to calculate, the actual cash value of the repairs and the negotiable nature of this issue, it may be best to submit the claim based on the actual cash value of the repairs involved.

When claims are paid under the replacement cost coverage, the company is able to figure its obligation three ways and choose the one that works best for them. These three choices are as follows:

1. On policy limits. The most the company ever will pay is the amount of insurance that applies to the property covered.
2. On the cost of replacement. This would be based on the cost of an equivalent building at the same location.
3. On the actual amount spent in completing repairs.

Replacement cost can be defined as the cost to replace damaged property with:

1. Like kind and quality.
2. Similar in basic style.
3. Similar in basic quality.
4. Similar in basic function.

Remember, the policy provides coverage for replacement costs, not reproduction costs. Reproduction costs is defined as the cost for replacing property exactly as it was, down to the last detail. There is one interesting loophole in replacement cost coverage: The repair work done to the building **NEED NOT BE** based on replacing identical property at the same location. Believe it or not, in some states, reconstructing property at any location, including a different city or state, will qualify as a replacement cost claim.

Therefore, when studying the replacement cost coverage, keep the following in mind:

- Replacement cost coverage applies only to buildings and not all property covered under the policy.
- You need to be aware of what property is not covered under replacement cost coverage.
- Of all provisions of a homeowner policy, replacement cost is the most important.
- Take an active role in determining what is to be the replacement cost of a home.
- Be certain you know how this provision works and how penalties are attached to claims.
- The claim payment based on actual cash value is usually better than a claim payment that involves a penalty when the property involved is not properly insured.
- Since there are alternatives for the payment of replacement cost claims, be sure your clients know the difference and make a decision that works for them.

- "What constitutes replacement" can be very critical in filing a replacement cost claim.
- Understanding the meaning of "Betterment" is important to the process of filing a claim and this can be used to your benefit.

FOCUS POINTS

- In approximately 80% of all claims, less than 10% of the property insured is affected by loss.
- All homeowner's policies contain a replacement cost provision that requires you to purchase an amount equal to 80% of the replacement cost of the dwelling.
- When claims are paid under the replacement cost coverage, the company is able to figure its obligation three ways and choose the one that works best for them.
- Replacement cost can be computed on policy limits, replacement cost or actual amount of repairs.
- Policies provide coverage for replacement costs, not reproduction costs.
- Reproduction costs is defined as the cost for replacing property exactly as it was, down to the last detail.
- Replacement cost coverage applies only to buildings and not all property covered under the policy.
- Of all provisions of a homeowner policy, replacement cost is the most important.
- The claim payment based on actual cash value is usually better than a claim payment that involves a penalty when the property involved is not properly insured.

SECTION 7: CLAIMS ON DWELLING

When one has a claim for a damaged dwelling or other structures one must realize that it can be an involved and complicated process. There are four important steps to filing a claim on a dwelling. They are:

1. Determining coverages.
2. Determining the scope of repairs.
3. Determining the cost to repair.
4. Determining the amount of the claim.

DETERMINING COVERAGES

It must first be determine what is and is not covered by the policy. If there is a difference between the cost to repair and the amount of the claim, it could mean out of pocket expenses for the insured. In other words, should coverage be lacking in certain areas, it may be necessary to take measures throughout the adjustment process for the insured to cover shortages by having money available to pay for items that are not covered.

Most claims representatives do not identify the parts of a loss that are not covered in the areas where betterment applies.

DETERMINING THE SCOPE OF REPAIRS

This is the insurance company's description of work that will be included in repair estimates. It can also be referred to as:

- A. Scope of damage.
- B. Description of work.
- C. Job description.

Most scope of repairs are prepared by the claims representative. Often, there are questionable aspects in the scope of repairs. Say for example, the company representative feels the bedroom was not damaged enough by smoke to warrant painting it or the soiled carpet can be cleaned rather than replaced. The adjuster works for the insurance company and may try to get the insured to accept alterations that will lower the cost of the repair.

DETERMINING THE COST TO REPAIR

Now we need to convert the scope of repairs into an "Agreed cost of repairs. The adjuster and the insured much reach a mutually beneficial agreement in accordance with policy terms.

1. Most companies use an estimate to establish a cost to repair. The company representative could obtain a bid from a familiar contact and get a low estimate.
2. The company always retains the right to repair the property. If the insurer uses this option, the insured will have very little say so in the matter.

DETERMINING THE AMOUNT OF CLAIM

This part is relatively easy. The appropriate deductibles are subtracted from the cost to repair. Since the deductible will always apply, it must be considered. Parts of the loss that are not covered will be subtracted from the cost to repair. When all the figures are

agreed upon, which include the cost to repair, the actual cash value amount of claim, and the pending replacement cost claim, the insured will sign the papers, collect the payment in full and concentrate on repairing the damage. Finally, keep the following in mind when compiling a claim on a dwelling:

1. Always consider variations on reconstruction.
2. Profit and overhead allowances are part of the cost to repair and should be part of the claim payment.
3. Although building code requirements are a factor, a creative approach can keep them from being a problem.
4. Assertiveness on your part in dealing with contractors is usually the key to a positive outcome.
5. The construction contract must include all the work outlined in the estimate.
6. Favorable financial terms can be arranged with a contractor for payment assignments.
7. Most contractors resist using them, but penalty clauses can help avoid delays in construction.

FOCUS POINTS

- The four important steps to filing a claim on a dwelling are determining coverage, scope of repairs, cost to repair, and the amount of the claim.
- It must first be determine what is and is not covered by the policy.
- If there is a difference between the cost to repair and the amount of the claim, it could mean out of pocket expenses for the insured.
- Scope of repair is the insurance company's description of work that will be included in repair estimates.
- Most scope of repair reports are prepared by the claims representative.
- The adjuster works for the insurance company and may try to get the insured to accept alterations that will lower the cost of the repair.
- Most companies use an estimate to establish a cost to repair.
- When code requirements are a factor, a creative approach can keep them from being a problem.
- Assertiveness with contractors is usually the key to a positive outcome.
- Penalty clauses with contractors can help avoid delays in construction.

SECTION 8: CLAIMS ON PERSONAL PROPERTY

A personal property claim is very similar to a dwelling claim. First, follow the same four steps described in section seven, which are:

1. Determine coverages.
2. Determine the scope of loss.
3. Determine the replacement cost.
4. Determine the amount of the claim.

You need to determine what personal property is covered. Review the exclusions in the policy that specifically refer to personal property.

Next, establish the scope of the loss. That is, what property is going to be included in the claim? The insured should maintain an inventory on their own of the personal property covered. Often, it may be difficult to determine if damaged items can be cleaned rather than replaced. As a rule, if the company agrees to clean it and this is unsuccessful, the property will be replaced.

Next, establish the replacement cost of the property. The claims adjuster will check out the prices submitted by the insured and dispute any that may appear inconsistent with the estimated value as determined by his sources.

The final step is the actual cash value of the claim. This is necessary in most cases as the replacement cost coverage on personal property usually requires replacement of the property involved before the difference between the actual cash value and the replacement cost is collectable. This means that the insured will probably have to purchase that new chair before the company has paid the full amount of that chair.

When filing a claim for personal property, keep the following in mind:

- ✓ Compiling a personal property claim is similar to compiling a building claim.
- ✓ Depreciation is highly relevant to personal property claims, and is based on the ratio between the life expectancy and the age of the item.
- ✓ A well-prepared claim will make for a quick settlement. A good format in presenting your claim is important.
- ✓ Another important aspect is documentation. You have both rights and obligations in this area.
- ✓ Loss by mysterious disappearance and conversion are not covered under many homeowner' policies.
- ✓ An inventory of personal property by the insured will enable him or her to file a complete claim in the event of a severe loss. Photographs or videos can be helpful.

FOCUS POINTS

- Filing a personal property claim is very similar to a dwelling claim.
- Determine what personal property is covered and what is excluded.
- As a rule if the insurer agrees to clean damaged goods and the cleaning is unsuccessful, the property will be replaced.
- Depreciation is highly relevant in a personal property claim. And is based on the ratio between the life expectancy and the age of the item.
- A well-prepared claim will make for a quick settlement.
- Good documentation will expedite the settlement process.
- Mysterious disappearance and conversion are not covered by most homeowner policies.
- Maintaining of an inventory of personal property by the insured aids in the claim process.

SECTION 9: THINGS YOU NEED TO KNOW

SUBROGATION

Subrogation is the substitution of one party in place of another party in respect to a claim or a lawful right. When one's property is damaged by a party due to neglect, the individual has a right to recover for the damage. When the insurance company pays for the loss, they take over the rights of recovery that previously belonged to the individual.

Subrogation evolved in order to prevent injured parties from collecting from the insurance company and the responsible party.

If an individual has a loss, the insurance company must pay the claim on a timely basis. It cannot tell the individual to seek recovery from the responsible party. Often, a company will stand aside and allow a third party to compensate a policyholder, but this can only rightfully be done with the consent of the policyholder. After the claim is paid, The insurance company will try and obtain restitution for the damages from whomever caused them.

STATEMENTS

Insured individuals have certain rights regarding claim statements. There are two kinds of statements that they may be asked to give in regards to a claim. They are:

1. **An informal statement taken by the company representative when they inspect the loss.** This kind of statement is either handwritten or recorded on tape. They are taken to record facts, and the policyholder's story. The existence of a statement lessens the probability of a policyholder changing their story over time.
2. **A formal statement under oath.** If requested by the company, a formal statement can be required under a homeowner policy. It is usually taken by an attorney and is, in effect, sworn testimony. If the individual lies, the individual is guilty of perjury. If the individual refuses, the claim could be rendered void. Formal statements usually indicate something is suspicious about the claim.

SALVAGE

The insurance company has the right to salvage property such as fixtures, appliances and any other part of a building as long as the policyholder has been paid for a total loss. Sometimes, the salvage goods will be sold back to the policyholder; however, they are under no obligation to accept this offer. For the most part, insurance companies will seek the services of a salvage company and do

not care to directly involve themselves. After the salvage company subtracts expenses and a percentage for profit, the balance goes to the insurance company as a return on the salvage operation.

NON-WAIVER AGREEMENT

By merely investigating the facts of a case, the insurance company can sometimes lose its rights to deny a claim. There is a term known as "Estoppel" which means that in the event a company leads a policyholder to believe that a claim will be paid or implies that it will be paid in some manner, then estoppel prohibits them from denying the claim.

If the investigation uncovers facts that clearly indicate that the claim is not covered, this can still hold true. To avoid this possibility, many companies that investigate questionable claims have the insured sign a non-waiver agreement that states that the insured understands that the company is not committed to paying the claim just because the facts are being explored.

CANCELLATION

A homeowner's policy may be canceled by the company or the policyholder. If the company cancels, you are entitled to the full amount of unused premiums on a pro-rated basis. If you cancel, you will receive slightly less than the remaining unused premium. In order for a policyholder to cancel, they only need to notify the company in writing to do so. If the company cancels, they must give five days notice.

In closing, the most important thing to keep in mind about homeowner's insurance is that it does not have to be complicated, foreign or difficult. Another thing is that technical knowledge is not necessary. If you have an inquisitive attitude, use some common sense, and are willing to address questions that come up in the area of homeowner's insurance, you will find these to be more important than facts or information.

POLICY TERMONOLOGY

Like all insurance policies homeowner insurance has its own definition of terms. Because of consumer complaints and court decisions terms are defined in each policy to reflect their definition within that policy. The following are representative of terms used in homeowner's policies or otherwise relate to homeowner's policies.

Additional insured refers to an individual or company in addition to the insured, who is listed on the Declaration page. An example of this is a lien holder, most often an insurance company.

Aggregate Limit is a term that refers to the maximum liability limit covered in total for all losses occurring within the policy period.

Appurtenant structure refers to a building of lesser value that is situated on the same land as the main building that is insured by the policy

Bodily injury means any physical injury that results in bodily harm, sickness or diseases, including the pain and suffering that may result. Also included in this definition is any resulting care, loss of services or death caused by the bodily injury.

Broad theft endorsement is a dwelling endorsement that covers theft, attempted theft, vandalism and malicious mischief resulting from the theft. Property is covered while it is on or off the premises.

Burglary is defined as the taking of property by a person, unlawfully entering or leaving the premises, as evidenced by visible signs and physical damage.

Business is a term that includes any trade, profession or occupation. It applies to any type of usual or ongoing business pursuit, from a professional office in the home to weekly garage sales.

Business Pursuits Endorsement refers to a homeowner's policy endorsement that provides Liability coverage for a business conducted away from the residence.

Earthquake Endorsement is available as an add on endorsement to the Dwelling or Homeowner policy.

First Named Insured is the first named individual in the Declaration page. The first named insured may have higher degree of rights, responsibilities and duties under the policy.

Insured means the person named on the Declaration page, spouse, any relatives and persons under the age of 21 and in the care of any of the persons previously named, if they live in the insured residence. Under Section II of the policy, the definition also means persons who, with permission, are responsible for watercraft or animals owned by the insured. Coverage of the watercraft and animals are excluded if used for business purposes. The definition also applies to the insured's employees and other persons while they are operating vehicles covered under the policy on an insured location, as long as they have permission of the insured.

Insured Location includes the residence premises, any other residential premises listed in the Declaration page, any residence premises acquired after the inception date of the policy. Also included are any premises the insured does not own but where he or she temporarily reside (such as a motel or hotel). Also included is vacant land owned (excluding farmland) or rented by the insured, land on which a one

or two-family residence is being built for the insured, individual or family cemetery plots or burial vaults owned by an insured< Additionally, any premises the insured occasionally rents, such as a banquet hall, as long as the reason is not for business purposes.

CHAPTER VII: TYPES OF LIABILITY INS.

A BRIEF REVIEW

Property Insurance

Property insurance protects an owner's buildings and equipment, stock, furniture and fixtures. Some policies include equipment breakdown and business income coverage. Basic property insurance will generally cover a business for losses in the event of a fire or lightning strike and will pay the cost of removing property to protect it from further loss. Additionally, a standard small business insurance policy will usually cover losses from windstorm, hail, explosion, riot and civil commotion and damage caused by aircraft, automobiles or vandalism.

How much property insurance does a small business need?

Property insurance can be purchased on the basis of the property's actual value (the replacement cost minus depreciation); its replacement value (the cost of replacing the item without deducting for depreciation); or an agreed-upon amount.

Liability Insurance

How does liability insurance coverage protect a small business?

There are many different types of third-party liabilities to be covered for a business. Business liability insurance may protect from claims arising from someone's bodily or personal injuries. Other items that could be covered are damage to the property of others, products-completed operations, advertising, premises operations, fire, legal liability and related legal defense costs. For instance, liability insurance will not only pay the cost of covered damages but also the attorney fees and other costs associated with your defense.

What exactly does the term "bodily injury" in a liability insurance policy mean?

"Bodily injury" refers to the injury, sickness, disease, or even death, of any person that occurs during the policy period.

What does "personal and advertising injury" mean in general liability insurance coverage?

Personal and advertising injury means being responsible for libel, slander or any defamatory or disparaging material, or a publication or utterance in violation of an individual's right of privacy; wrongful entry or eviction, or other invasion of the right of private occupancy; false arrest, wrongful detention, false imprisonment, or malicious prosecution; which occurs during the policy period.

What's the difference between claims-made coverage and prior acts coverage?

While claims-made coverage applies to a claim which is made during the policy period, prior acts coverage offers protection for wrongful acts that happened before the inception date of an insurance policy...but have yet to become known. For example, a buyer of E&O insurance may want to extend coverage for a period of time prior to when the coverage becomes effective...just in case.

Umbrella Policy

How does an umbrella insurance policy work?

A policy designed to provide protection against catastrophic losses, the umbrella insurance policy is generally written over various primary liability policies, such as a general liability insurance policy, business auto policy and employers' liability coverage. Once the underlying limits of these primary policies are exhausted, the umbrella liability policy would provide further coverage beyond the limits of those policies.

What is a personal umbrella liability policy?

This is an insurance contract designed to accomplish two goals. First, it increases liability protection beyond what individuals have in their homeowner's and automobile insurance policies. Second, it aims to fill in gaps in the liability coverage since some things are simply not covered by automobile and homeowner's policies - for example, libel and slander. Together with homeowner's and automobile insurance policies, a personal umbrella policy gives the highest level of protection.

How does someone know if they need a personal umbrella liability policy?

In the past, the people who purchased personal umbrella liability policies were wealthy individuals, with sizable amounts of personal assets that would be at risk in a lawsuit. However, our society has become more litigious, and many people desire more liability insurance than what is provided under their homeowner's and automobile insurance policies. How much protection an individual wants against potential lawsuits is a choice they should make based on their personal circumstances and what they need to feel comfortably protected.

What coverage is provided in the typical personal umbrella liability insurance policy?

Before we discuss the contents of the typical personal umbrella liability (PUL) policy, it should be noted that these contracts often vary substantially from one insurance company to another. Therefore, when comparison-shopping, one should look closely at the extent of the liability protection provided under each policy to be considered. There are several common characteristics in most umbrella insurance policies. First, umbrella policies only pay liability claims when the policy limits on the underlying insurance policy are exhausted. For example, suppose an individual is found negligent in an automobile accident and the court requires them to pay damages of \$500,000. The umbrella insurance policy will only pay that portion of the \$500,000 that exceeds the policy limit in the private passenger automobile insurance policy. Second, an umbrella insurance policy is going to provide broad coverage

Workers' Compensation Insurance

What does workers' compensation insurance do?

Workers' compensation pays for the rehabilitation, recovery and medical bills of employees work-related injuries, as well as lost time when they are unable to work because of a work-related injury. Workers' compensation is not a substitute for health or medical insurance, since employees are only covered for on-the-job injuries.

When does an employer need to buy workers' compensation insurance?

In most states, workers' compensation is required when there are one or more employees. There are a few states that do not require employers to carry workers' compensation coverage.

Who provides workers' compensation ?

Almost all states are "open market", which means the coverage is underwritten by private insurers; and some states are "closed" or "monopolistic" - the coverage is underwritten by a state-sponsored fund (ND, OH, WA, WV, WY). In states that are open, rates can vary between insurance carriers depending on the type of business the carrier is attempting to attract. In an open market, the rates for workers' compensation are competitive.

How much does workers' compensation insurance cost?

Workers' compensation pricing is based upon employee payroll, the number and job classification of the employees, classification of the business and past loss experience. The employer pays for the cost of the workers' compensation.

Commercial Auto Insurance

Why should someone purchase commercial auto insurance?

Many personal auto insurance policies exclude coverage if a vehicle is used mainly for business. A commercial auto policy provides coverage for autos owned by a business if these vehicles are in an accident. The insurance pays to repair or replace the vehicle and the vehicle of the third party damaged by the employee. It also pays for the medical expenses of those injured in an accident.

Are employees' personal covered under a commercial auto policy if they are using their cars for business?

Most commercial auto insurance policies cover the liability for a business if employees use their own cars for business, provided that the business owner has purchased coverage for non-owned liability. Separate non-owned physical damage coverage is available to cover actual damage to the auto. However, the employees' personal auto policy would be the primary coverage for damage to their automobiles.

Errors & Omissions Insurance

What is errors & omissions insurance?

Errors & omissions insurance provides coverage for people who give advice, make educated recommendations, design solutions or represent the needs of others. "E&O" is also referred to as professional liability or malpractice insurance. This type of liability insurance would covers the owner and the employees in the event someone claims incorrectly performed or failing to perform the agreed upon professional duties.

Business Owners' Policy

What is a business owners' policy or a "BOP"?

A BOP is a customized policy for small businesses that combines property insurance and liability insurance in one policy, and generally includes additional coverages at little or no additional premium. So it allows one to have broad coverage at affordable premiums. Most insurance carriers have customized BOPs for particular industries and services.

Even if a business owner has a BOP, most small business owners should consider adding coverage for conditions that might not otherwise be covered. Additional coverages tailored to their industry are often available, such as temperature changes, equipment breakdown, or computer equipment failure.

Business Income Insurance

What is business income insurance?

This insurance reimburses for the net income that would have been earned if, for example, a fire or other covered causes of loss had not occurred. Losses due to down time or extra expenses needed to restore operations (such as additional property rental) also may be covered.

Employment Practice Insurance

What is employment practices liability insurance?

Employment practices liability insurance (EPLI) is designed to protect employers against claims of employee sexual harassment, discrimination, wrongful termination and other employment-related litigation. Many insurance companies offer employment practices liability insurance as part of their business owners' policy or as a stand-alone policy.

Inland Marine Insurance

What is inland marine insurance? Why does someone need it for their business?

Despite its misleading name, inland marine is a broad type of insurance, which covers articles that may be transported from place to place as well as via bridges and tunnels. Specifically, this type of insurance protects a wide range of high risk, mobile items, including: specialized contractor's tools and equipment, electronic data processing systems, from mainframe computers to laptops, fine art objects and jewelry.

Watercraft and Boat Insurance

If an individual is an avid watercraft enthusiast with some nice toys in their garage, they might want to check into watercraft insurance. Some consumers assume that their craft is covered under homeowner's insurance, and in most cases, they aren't. The first thing a consumer must do is, know their watercraft! Fully understanding all operational aspects and characteristics before heading out onto the open water is a critical element to safety. The personal watercraft is considered a powerboat, so all the rules governed for powerboats by the Coast Guard and other marine authorities must be obeyed. Local waterways sometimes have their own guidelines for use, so a consumer must get to know and understand them as well in order to promote public safety.

Who and What Is Covered?

It comes down to the policy specifics, but in most cases, the policy will cover the insured, the spouse, or any other household members that have permission to ride the craft. The policy will pay for bodily injury or other property damages caused by the craft. Various available coverage includes medical payments, physical damage, uninsured boater, and personal effects.

Medical Payments:

This extra coverage will pay for the cost of necessary medical treatment that results from an accident involving the watercraft.

Physical Damage:

This will cover the cost of repair to the watercraft if there is a collision with another craft or other object. In most cases, there will also be coverage in cases of theft, vandalism, or fire.

Uninsured Boater:

This coverage pays for medical treatment that results from an accident with another boater who does not have insurance.

Personal Effects:

This optional coverage will cover some of the various common contents kept within a watercraft. These may include cameras, binoculars, clothing, or assorted accessories.

Lowering the Premium:

Looking into taking a watercraft safety course not only will make the insured a more proficient rider, but will help him receive a premium discount from most providers. It can range anywhere from 10-15% off.

Personal Property

If an unfortunate occurrence such as a fire or theft should happen, it is best to have an accurate and detailed inventory of personal property.

Having an inventory list not only helps the insurance company give a more accurate replacement value for personal property, but the insured will be assured that they remembered everything they owned, which when it is all gone, may sometimes be hard to do. The first step is to encourage the insured to take a few minutes to list everything they own. It may be easier to start the list in categories such as furniture, clothing, personal items, jewelry, etc.

Next, there should be a notation as to the estimate of what it would cost to replace the items on the list. In making the estimate it must be kept in mind that some things appreciate in value while others depreciate. Clothing is a good example of something depreciating, and a jukebox is something that would typically appreciate.

The personal property inventory list, along with photos and/or inventory videos, should be kept in a safe place away from home such as a bank lock box.

The most used method by insurance companies to calculate the value of personal property that has depreciated is to subtract the estimated depreciation (dollar amount the property has decreased) from the current cost.

Here are a few more tips when taking an inventory of personal property:

- Keep sales receipts and attach to the personal property inventory list.
- Keep a video inventory or photographs of the personal property in addition to the inventory list.
- List any serial #'s that may be on the personal property
- A serial number should be engraved into items that are of value

Focus Points

- ❑ Property insurance protects an owner's buildings and equipment, stock, furniture and fixtures. Some policies include equipment breakdown and business income coverage.
- ❑ Basic property insurance will generally cover a business for losses in the event of a fire or lightning strike and will pay the cost of removing property to protect it from further loss.
- ❑ Business liability insurance may protect from claims arising from someone's bodily or personal injuries. Other items that could be covered are damage to the property of others, products-completed operations, advertising, premises operations, fire, legal liability and related legal defense costs. For instance, liability insurance will not only pay the cost of covered damages but also the attorney fees and other costs associated with your defense.
- ❑ "Bodily injury" refers to the injury, sickness, disease, or even death, of any person that occurs during the policy period.
- ❑ Personal and advertising injury means being responsible for libel, slander or any defamatory or disparaging material, or a publication or utterance in violation of an individual's right of privacy; wrongful entry or eviction, or other invasion of the right of private occupancy; false arrest, wrongful detention, false imprisonment, or malicious prosecution; which occurs during the policy period.
- ❑ Claims-made coverage applies to a claim, which is made during the policy period.
- ❑ Prior acts coverage offers protection for wrongful acts that happened before the inception date of an insurance policy...but have yet to become known.
- ❑ An umbrella policy is designed to provide protection against catastrophic losses. T
- ❑ The umbrella insurance policy is generally written over various primary liability policies, such as a general liability insurance policy, business auto policy and employers' liability coverage.
- ❑ A personal umbrella liability policy is an insurance contract designed to accomplish two goals. First, it increases liability protection beyond what individuals have in their homeowner's and automobile insurance policies. Second, it aims to fill in gaps in the liability coverage since some things are simply not covered by automobile and homeowner's policies - for example, libel and slander.
- ❑ Workers' compensation pays for the rehabilitation, recovery and medical bills of employee's work-related injuries, as well as lost time when they are unable to work because of a work-related injury.
- ❑ In most states, workers' compensation is required when there are one or more employees. There are a few states that do not require employers to carry workers' compensation coverage.
- ❑ Almost all states are "open market", which means the coverage is underwritten by private insurers.
- ❑ Some states are "closed" or "monopolistic" - the coverage is underwritten by a state-sponsored fund (ND, OH, WA, WV, WY)
- ❑ Workers' compensation pricing is based upon employee payroll, the number and job classification of the employees, classification of the business and past loss experience.
- ❑ Many personal auto insurance policies exclude coverage if a vehicle is used mainly for business. A commercial auto policy provides coverage for autos owned by a business if these vehicles are in an accident.

- ❑ Most commercial auto insurance policies cover the liability for a business if employees use their own cars for business, provided that the business owner has purchased coverage for non-owned liability.
- ❑ Errors & omissions insurance provides coverage for people who give advice, make educated recommendations, design solutions or represent the needs of others. "E&O" is also referred to as professional liability or malpractice insurance.
- ❑ A BOP is a customized policy for small businesses that combines property insurance and liability insurance in one policy, and generally includes additional coverages at little or no additional premium.
- ❑ Business income insurance reimburses for the net income that would have been earned if, for example, a fire or other covered causes of loss had not occurred.
- ❑ Employment practices liability insurance (EPLI) is designed to protect employers against claims of employee sexual harassment, discrimination, wrongful termination and other employment-related litigation.
- ❑ Inland marine is a broad type of insurance, which covers articles that may be transported from place to place as well as via bridges and tunnels. Specifically, this type of insurance protects a wide range of high risk, mobile items, including: specialized contractor's tools and equipment, electronic data processing systems, from mainframe computers to laptops, fine art objects and jewelry.
- ❑ A watercraft policy will cover the insured, the spouse, or any other household members that have permission to ride the craft. The policy will pay for bodily injury or other property damages caused by the craft. Various available coverage includes medical payments, physical damage, uninsured boater, and personal effects.

CHAPTER VIII: AUTO INSURANCE BASICS

An auto insurance policy is a package of different coverages. Most states require an individual purchase a minimum amount of certain kinds of coverage. But it makes sense to buy more than what's required.

Liability insurance

Liability coverage is the core of any auto insurance policy, and is required in most states. If an individual is at fault in an accident, liability insurance will pay for the bodily injury and property damage expenses caused to others in the accident, including the legal bills. Bodily-injury coverage pays for medical bills and lost wages. Property-damage coverage pays for the repair or replacement of things damaged other than the insured's own car. The other party may also decide to sue the insured to collect "pain and suffering" damages.

Forty-five states require the purchase auto liability insurance (New Hampshire, South Carolina, Tennessee, Virginia, and Wisconsin don't mandate liability coverage), The insurance maximum depends on where the insured live.

Liability coverage limits (that's for the damage that is done to others) is usually presented as a series of three numbers. For example, your agent might say that your policy carries liability limits of 20/40/10. That stands for \$20,000 in bodily injury coverage per person, \$40,000 in bodily injury coverage per accident, and \$10,000 in property-damage coverage per accident.

Minimum insurance may not cover adequately an individual in a major accident. It's a good idea to buy more than what the state requires. If an individual owns a home and other assets they should consider more liability insurance because, in most states, drivers are allowed to sue other drivers who injure them in car accidents.

Collision and comprehensive coverages

Collision coverage will pay to repair the vehicle of the insured. The insured usually can't collect any more than the actual cash value of the car, which is not the same as the car's *replacement* cost. Collision coverage is normally the most expensive component of auto insurance. By choosing a higher deductible, say \$500 or \$1,000, the insured can keep the premium costs down. However, the insured must keep in mind that they must pay the amount of the deductible before the insurance company pays in any money after an accident.

Replacement cost vs. actual cash value

Replacement cost is the amount it would takes to replace the vehicle or repair damages with materials of similar kind and quality, without deducting for depreciation.

Depreciation is the decrease in vehicle value because of age or wear and tear.

Actual cash value (ACV) is the value of the property when it is damaged or destroyed.

Claims adjusters usually figure ACV by taking the replacement cost and subtracting depreciation.

Sometimes insurance companies often will "total" the car if the repair costs exceed a certain percentage of the car's worth. The critical damage point varies from company to company, from 55 percent to 90 percent.

Comprehensive coverage will pay for damages to the insured's car that wasn't caused by an auto accident: Damages from theft, fire, vandalism, natural disasters, or hitting a deer all qualify. Comprehensive coverage also comes with a deductible and the insurer will only pay as much as the car was worth when it got wrecked.

Because insurance companies normally will not pay more than your car's book value, it's helpful to have a rough idea of this amount.

If the car is worth less than the cost for the coverage, a consumer is better off not having it.

Medical Payments

MedPay will pay for the insured and the insured's passengers' medical expenses after an accident.

These expenses can arise from accidents while the insured is driving his or her own car, someone else's car (with their permission), and injuries the insured or his or her family members incur when they are pedestrians. The coverage will pay regardless of who is at fault, but if someone else is liable, the insurer may seek to recoup the expenses from him or her.

PIP, and No-Fault coverages

Personal injury protection (PIP) and broader "no-fault" coverages are expanded forms of medical payments protection that may be required in some states. Some states have optional PIP or no-fault coverage. Expanded features include payments for lost wages and child care.

If an individual has a good health insurance plan, there might be little need to buy more than the minimum required PIP or MedPay coverages.

Uninsured/Underinsured Motorists Coverages

Uninsured motorists (UM) coverage pays for injuries if the insured is struck by a hit-and-run driver or someone who doesn't have auto insurance. It is required in many states.

Underinsured motorists (UIM) coverage will pay out if the guilty driver causes more damage than his or her liability coverage can cover. In some states, UM or UIM coverage will also pay for property damages.

An individual probably will want to have at least the minimal amount of UM/UIM because if they can't find the other driver, they will at least have some coverage for pain-and-suffering damages.

Add-on features

Several supplemental auto coverages are available, either as separate premium items or included in augmented policies.

Rental reimbursement, a common add-on, covers vehicle rentals required because the car is damaged or stolen.

Coverage for **towing and labor** charges in case of a road breakdown is also common.

Gap coverage for a new car will pay the difference between the actual cash value received for the car and the amount left on the car loan if your vehicle is totaled in an accident.

Minimum levels of required auto insurance

All 50 states have different requirements when it comes to auto insurance. In some states, motorists can't register a car without showing proof that they have liability insurance, while other states use an "honor system" that doesn't ask for proof of insurance until drivers have accidents or tickets on their records.

Only five states do not require motorists to carry liability coverage, but those that do demand that drivers purchase at least the state's minimum.

No-Fault Insurance?

Some states have "no-fault" laws, meaning the auto policy must pay medical bills for injuries suffered in an auto accident regardless of who caused the accident.

The laws were enacted in an attempt to reduce auto-injury fraud and keep insurance cost down.

State	Liability required?	PIP required?	No-fault state?	Uninsured motorist coverage required?
Alabama	Yes	No	No	No
Alaska	Yes	No	No	No
Arizona	Yes	No	No	No
Arkansas	Yes	No	No	No
California ¹	Yes	No	No	No
Colorado	Yes	Yes	Yes	No

Connecticut	Yes	No	No	Yes
Delaware	Yes	Yes	No	No
Florida ²	Yes	Yes	Yes	No
Georgia	Yes	No	No	No
Hawaii	Yes	Yes	Yes	No
Idaho	Yes	No	No	No
Illinois	Yes	No	No	Yes
Indiana	Yes	No	No	No
Iowa	Yes	No	No	No
Kansas	Yes	Yes	Yes	Yes
Kentucky	Yes	Yes	Yes	No
Louisiana	Yes	No	No	No
Maine	Yes	No	No	Yes
Maryland	Yes	Yes	No	Yes
Massachusetts	Yes	Yes	Yes	Yes
Michigan	Yes	Yes	Yes	No
Minnesota	Yes	Yes	Yes	Yes
Mississippi	Yes	No	No	No
Missouri	Yes	No	No	Yes
Montana	Yes	No	No	No
Nebraska	Yes	No	No	No
Nevada	Yes	No	No	No
New Hampshire	No	No	No	Yes
New Jersey ³	Yes	Yes	Yes	Yes
New Mexico	Yes	No	No	No
New York ⁴	Yes	Yes	Yes	Yes
North Carolina	Yes	No	No	No
North Dakota	Yes	Yes	Yes	Yes
Ohio	Yes	No	No	No
Oklahoma	Yes	No	No	No
Oregon	Yes	Yes	No	Yes
Pennsylvania	Yes	No	Yes	No
Rhode Island	Yes	No	No	Yes
South Carolina	No	No	No	Yes
South Dakota	Yes	No	No	Yes
Tennessee	Yes	No	No	No
Texas		No	No	No
Utah	Yes	Yes	Yes	No
Vermont	Yes	No	No	Yes
Virginia	No	No	No	Yes
Washington	Yes	No	No	No
Washington D.C.	Yes	No	No	Yes
West Virginia	Yes	No	No	Yes
Wisconsin	No	No	No	Yes
Wyoming	Yes	No	No	No

Ways to save on auto insurance premiums

1. Higher Deductibles.

Higher deductibles mean lower premiums. For example, increasing the deductible from \$200 to \$500 on collision coverage could reduce your premium by as much as 30 percent — potentially saving the insured hundreds of dollars.

2. No collision and/or comprehensive coverages on older cars.

If the insured owns a car that's worth less than \$1,800, they would probably pay more for the coverage than they would ever collect on a claim.

3. Buy a "low-profile" car.

Cars that are expensive to repair or that have a high theft rate generally have higher insurance costs.

4. Low-mileage discounts.

Some insurance companies offer discounts to drivers who put fewer than a predetermined number of miles on their vehicles each year.

5. Discounts for safety features.

Most policies give discounts for air bags.

6. Antilock brake discounts.

Florida and New York, require insurers to give discounts for cars equipped with antilock brakes. Some insurance companies give the discount no matter what state the insured lives in.

7. Other discounts.

Some companies offer discounts for insuring more than one car, insuring a car and home with them (multiline discount), having no accidents in three years, being a driver over age 50, taking driver training courses, and having anti-theft devices. Plus, remember good-student discounts when you are insuring a student who drives.

Leased Cars & Insurance

If an individual finances or leases a car, because the lien holder still has an investment in the car, they can require an individual to have low deductibles which in turn means a higher premium.

They can also require an individual to carry collision insurance in addition to liability to make sure the car is repaired after an accident.

Finance companies and dealers don't want an individual to end up defaulting on their lease because they don't have enough insurance to cover repairs and have to pay out of pocket, and they don't want to get a damaged vehicle returned to them at the end of the lease.

Graduated Drivers Licensing Programs

The Insurance Institute for Highway Safety (IIHS) reports statistics show vehicular crashes killed 5,648 teenage drivers in 2000. Drivers between the ages of 16 and 19 have the highest crash rates relative to other age groups. The risk of a crash per mile driven among teens is four times higher than for older drivers says Pete Moraga, a spokesman for the Insurance Information Network of California.

States, seeking to curb the high death rate among teenage motorists, have adopted at least one of three components of a graduated drivers licensing (GDL) system. GDL programs allow teenagers to receive full driving privileges in stages. IIHS defines the graduated drivers licensing system (GDL) as a program that phases "in young beginners to full driving privileges as they mature and develop driving skills." Versions of GDL are found throughout the United States, as well as in Canada, Australia and New Zealand.

More than 40 states have implemented GDL programs since the mid-1990s. A three-pronged system is applied in 34 states, but program guidelines vary widely from one state to the next.

Sound GDL programs have three "distinct phases" to a full graduated system. Beginners must stay in each of the first two phases for a minimum amount of time, with the restrictions lasting until the driver turns 17.

The three steps are a "supervised learner's period," an "intermediate license" which allows the teen to drive unsupervised with certain limitations, and licensing with full privileges after completion of the first two phases.

Florida, which in 1996 became the first state to adopt GDL, has experienced a 21 percent drop in teen driver fatalities since the program got started. In South Carolina, the percentage of teenagers involved in crashes declined to 13 percent in 1999 from 14.5 percent in 1998, the year that state's GDL law took effect.

Teens and Drinking

Underage drinking remains an element in teenage highway fatalities, although not as much as before GDL programs got under way. Among drivers 16 to 20 years of age, 22 percent who died in traffic accidents had a blood alcohol level at or above .10 percent. This is a sharp decrease from 49 percent in 1980. In some states, a blood alcohol level of .10 percent is the legal limit. In other states, .10 is well above the level where drivers are considered legally drunk.

When A Car Is Totaled

What happens when a traffic accident totally devastates an insured's auto? It's not a scenario most drivers want to think about.

When an automobile is substantially damaged, the insurance company has the right to decide that a car isn't worth fixing. The decision to total is a function of the car's worth. Minor damage to a 10-year-old Chevy might result in totaling the car, while major damage to a brand-new Mercedes might not. Auto insurance claims adjusters usually determine a car's actual cash value by using their company's proprietary database of prices.

Some companies total vehicles at 51 percent of its actual worth; some total at 80 percent. The insurance company will the car's actual cash value, minus any deductible on the coverage.

Once a car is totaled the car goes to a salvage yard, where it's auctioned off to the highest bidder and usually chopped up for parts. The insurance company keeps whatever money it got for the car in salvage.

But what if an insured doesn't agree with the insurance company's assessment of the damages? What if the insured really loves their car and they don't want them to take it away? Do they have any recourse?

When a consumer buys an auto policy, they sign a contract with their insurance company. They cannot force the insurer to pay out more than the car is worth. That is a part of the contract.

But on the other hand, the insured was supposed to be "made whole" by the insurer, meaning they should be put back into relatively the same spot that they were before the accident.

If the car is a total loss but the insured wants to have it repaired anyway, they should be able to retain it. The insurer still has to pay the car's actual cash value, minus the deductible and minus what the company would have gotten for it at the salvage yard.

If it is the decision of the insured to keep the car, the claims adjuster should know up front that they want to keep the car. The insured then will have to pay for the repairs themselves.

If the car is a newer model and its parts would get a lot on the auction block, the insurance company may decide to send it to salvage despite the insured's protests.

In most states, the car is gone for good once it goes to auction. Regulations vary, but in many places the insured won't even be able to attend the auction without a special license for auto salvagers or auto dealers.

Not Satisfied with The Buyout

People who complain about their total loss settlements generally don't want their old, crashed cars back. Instead, they complain that their insurer didn't give them enough money to buy a similar car.

However, the insurance company's estimate of what a comparable car will cost may differ from the realities of the marketplace. There are many variables that determine the value of the car, such as miles driven, pre-accident condition, special equipment installed, and local market conditions for the vehicle.

If an insured disagrees with the insurance company's assessment of the vehicle, they can hire an independent appraiser at their own expense to perform an inspection of the vehicle.

If the insurance company refuses to give them more money, they have two options: arbitration and litigation.

Arbitration is a process in which they and the insurance company present the facts to a third-party arbitrator. Arbitration can be binding (which means the arbitrator decision is final) or non-binding (meaning the insured can still take the insurer to court if they are unsatisfied).

Focus Points

- An auto insurance policy is a package of different coverages.
- Most states require an individual purchase a minimum amount of certain kinds of coverage.
- Liability coverage is the core of any auto insurance policy, and is required in most states.
- Liability insurance will pay for the bodily injury and property damage expenses caused to others in the accident, including the legal bills.
- Bodily-injury coverage pays for medical bills and lost wages.
- Property-damage coverage pays for the repair or replacement of things damaged other than the insured's own car.
- Forty-five states require the purchase auto liability insurance.
- Minimum insurance may not cover adequately an individual in a major accident.

- ❑ Collision coverage will pay to repair the vehicle of the insured.
- ❑ Collision coverage is normally the most expensive component of auto insurance.
- ❑ By choosing a higher deductible the insured can keep the premium costs down.
- ❑ Replacement cost is the amount it would take to replace the vehicle or repair damages with materials of similar kind and quality, without deducting for depreciation.
- ❑ Depreciation is the decrease in vehicle value because of age or wear and tear.
- ❑ Actual cash value (ACV) is the value of the property when it is damaged or destroyed.
- ❑ Claims adjusters usually figure ACV by taking the replacement cost and subtracting depreciation.
- ❑ Comprehensive coverage will pay for damages to the insured's car that wasn't caused by an auto accident: Damages from theft, fire, vandalism, natural disasters, or hitting a deer all qualify
- ❑ MedPay will pay for the insured and the insured's passengers' medical expenses after an accident.
- ❑ MedPay coverage will pay regardless of who is at fault, but if someone else is liable, the insurer may seek to recoup the expenses from him or her.
- ❑ Personal injury protection (PIP) and broader "no-fault" coverages are expanded forms of medical payments protection that may be required in some states.
- ❑ if an individual has a good health insurance plan, there might be little need to buy more than the minimum required PIP or MedPay coverages.
- ❑ Uninsured motorists (UM) coverage pays for injuries if the insured is struck by a hit-and-run driver or someone who doesn't have auto insurance. It is required in many states.
- ❑ Underinsured motorists (UIM) coverage will pay out if the guilty driver causes more damage than his or her liability coverage can cover.
- ❑ Gap coverage on a new car will pay the difference between the actual cash value received for the car and the amount left on the car loan if the vehicle is totaled in an accident.
- ❑ Only five states do not require motorists to carry liability coverage, but those that do demand that drivers purchase at least the state's minimum.
- ❑ Some states have "no-fault" laws, meaning the auto policy must pay medical bills for injuries suffered in an auto accident regardless of who caused the accident.
- ❑ Higher deductibles mean lower premiums.
- ❑ Cars that are expensive to repair or that have a high theft rate generally have higher insurance costs.
- ❑ Some insurance companies offer discounts to drivers who put fewer than a predetermined number of miles on their vehicles each year.
- ❑ Most policies give discounts for air bags.
- ❑ Florida and New York require insurers to give discounts for cars equipped with antilock brakes. Some insurance companies give the discount no matter what state the insured lives in.
- ❑ If an individual finances or leases a car, because the lien holder still has an investment in the car, they can require an individual to have low deductibles which in turn means a higher premium.
- ❑ Leased car require an individual to carry collision insurance in addition to liability to make sure the car is repaired after an accident.
- ❑ Drivers between the ages of 16 and 19 have the highest crash rates relative to other age groups.
- ❑ More than 40 states have implemented GDL programs since the mid-1990s.

- ❑ The three GDL program steps are a “supervised learner's period,” an “intermediate license” which allows the teen to drive unsupervised with certain limitations, and licensing with full privileges after completion of the first two phases.

Florida, which in 1996 became the first state to adopt GDL, has experienced a 21 percent drop in teen driver fatalities since the program got started.

- ❑ In South Carolina, the percentage of teenagers involved in crashes declined to 13 percent in 1999 from 14.5 percent in 1998, the year that state's GDL law took effect.
- ❑ When an automobile is substantially damaged, the insurance company has the right to decide that a car isn't worth fixing. The decision to total is a function of the car's worth.
- ❑ Once a car is totaled the car goes to a salvage yard, where it's auctioned off to the highest bidder and usually chopped up for parts.
- ❑ If an insured disagrees with the insurance company's assessment of the vehicle, they can hire an independent appraiser at their own expense to perform an inspection of the vehicle.
- ❑ If the insurance company refuses to give them more money, they have two options: arbitration and litigation.

CHAPTER IX: AUTO INSURANCE IN DEPTH

SECTION I: THE NEED FOR AUTO INSURANCE

Americans have always had a love affair with their automobiles. Sometimes **the** price it is estimated that there are between 40,000 & 50,000 deaths each year due to automobile accidents. Then there are over 5 million additional injuries. These two statistics stem from more than 30 million auto accidents each year.

This puts auto insurance in the number one position as the largest form of Property & Casualty coverage. It is amazing that a client will spend more money insuring their automobile than they will spend to insure themselves or their retirement.

The cost of auto insurance has become an essential item in ones budget. An auto accident can cost an individual any amount from a mere inconvenience to a major financial catastrophe. All states now require that individuals carry a minimum amount of automobile liability insurance. Every state now has a law that can take away driving privileges for failure to provide proof of financial responsibility after being involved in an accident.

Other interesting laws are as follows:

1. Comparative Negligence. This limits the amount one may recover for injuries in a lawsuit to the percentage of negligence caused by the other party involved. Actually this percentage is in direct proportion too the attributed negligence.
2. Then there is the law that states that if you are injured in an accident you may recover damages only if YOUR negligence was NO GREATER that the negligence of the person that you are suing.

MOTOR VEHICLES AND CHILD SAFETY

Motor vehicle crashes are a leading cause of injury and death for children in the United States. At particular risk are infants and other children who ride unrestrained, or are too close to the instrument panel during a collision. When used correctly child restraints and safety belts, according to the American Medical Association, are 50% to 70 % effective in preventing fatalities and reducing serious injuries. Unfortunately, despite the existence of laws in all 50 states, requiring the use of child restraints, many young children still ride unrestrained in motor vehicles.

Tragic reports of children being seriously injured or killed by air bags have c raised public awareness and concern about our ability to adequately protect children who ride in motor vehicles. Air bags can seriously injure or kill occupants, especially those who are not properly restrained in the front seat.

Studies show that when combined with safety belts, air bags are effective in reducing injury and preventing death in adults. But neither safety belts nor air bags are designed to protect infants and other young children, who need protection of appropriate restraints.

Drivers have a responsibility to ensure that all passengers, including infants and children, are properly restrained in the vehicle.

All infants should be secured in a child restraint that is appropriate for their age and size.

A rear seat is the safer place for all children to be secured. If a toddler or older child must ride in the front seat, the vehicle seat should be adjusted as far back as possible. During the trip, the child's restraint must be properly sitting up against the seat back, and not leaning forward.

SAFETY PRECAUTIONS

Parents should read and follow the vehicle owner's manual and the instructions provided with the child restraint system for proper usage. It is important that the restraint selected fits securely in the vehicle before the child is transported in it.

If necessary to use an infant car bed, be sure it is secured properly with the infant's head resting toward the center of the vehicle.

A rear-facing infant restraint should never be placed in the front seat of a vehicle having a passenger side air bag, unless the vehicle has an air bag cutoff switch and the air bag is turned off.

A booster seat should be used until the child outgrows it, at which time the child can use an adult safety belt. Shoulder belts should never be placed behind a child's back or under the arm.

CHILD RESTRAINT RECOMMENDATIONS

The American Medical Association recommends that the proper restraint be used in accordance with the appropriate age and size of the child.

With premature and low birth weight infants an infant car bed should be used.

With children of normal weight from birth to one year old who do not exceed 20 to 30 pounds (depending on the restraint used) a rear-facing infant restraint should be used.

With children one to four years old of 20 to 40 pounds and 26 to 40 inches tall, a forward facing child restraint should be used.

And, finally, with children four to eight years old and of 40 to 80 pounds a booster seat should be used.

SUMMARIZING CHILD SAFETY

The following points should be remembered in summarizing child safety.

All infants and young children should be secured correctly in appropriate child restraints.

A rear seat is the safer place for all children to be secured. A rear facing infant restraint should never be placed in the front seat of a vehicle having a passenger side air bag unless the air bag is turned off. If a toddler or older child must ride in the front seat, it is important that the child is restrained properly and the vehicle seat is adjusted as far back as possible.

Air bags do not replace the need for all motor vehicle occupants to be properly restrained. Unrestrained occupants of any age are at increased risk of being injured or killed in a collision. Unrestrained occupants in the front seat are especially at risk of possible injury or death from an inflating air bag.

The use of child restraints and safety belts is a learned habit. Parents getting in the habit of using an appropriate restraint device the day their baby leaves the hospital and everyday thereafter that they transport their child in a motor vehicle, are establishing reflexive habits that will last for a lifetime.

Informing your clients and customers of these safety tips when not only help them but also the companies you represent. By preventive measures both the insurer and insured will benefit from reduced claims.

FOCUS POINTS

- There are more than 30 million auto accidents each year.
- Auto insurance is the number one Property & Casualty coverage in the nation.
- Almost all States require a minimum of amount of automobile liability insurance.
- Failing to provide financial responsibility after an accident can result in the loss of driving privileges.
- Motor vehicle crashes are a leading cause of injury and death for children in the United States.
- At particular risk are infants and other children who ride unrestrained.
- Safety belts, according to the American Medical Association, are 50% to 70 % effective in preventing fatalities and reducing serious injuries.

- Children being seriously injured or killed by air bags have c raised public awareness and concern.
- Studies show safety belts combined with air bags are reducing injury and prevent death in adults.
- Neither safety belts nor air bags are designed to protect infants and other young children.
- All infants should be secured in a child restraint that is appropriate for their age and size.
- A rear seat is the safer place for all children to be secured.
- A rear-facing infant restraint should never be placed in the front seat of a vehicle having a passenger side air bag, unless the vehicle has an air bag is turn off.
- A booster seat should be used until the child outgrows it, at which time the child can use an adult safety belt.
- The proper restraint should be used in accordance with the appropriate age and size of the child.

SECTION 2: THE AUTO INSURANCE POLICY

An automobile policy is really a combination of several different coverages put into one package. Some coverages in this package protect policy owner and some protect third parties. Some coverage is mandatory and some is optional. The coverages are priced separately and added together to come up with a total premium. The basic components of an automobile insurance policy are as follows:

1. Liability
 - a. Bodily injury.
 - b. Property damage.
2. Uninsured motorist.
 - a. Bodily injury.
3. Medical payments.
4. Comprehensive coverage.
 - a. Fire.
 - b. Theft.
 - c. Malicious mischief.
5. Collision.
6. Emergency road service/towing.
7. Car rental/travel expense.
8. Discounts.
 - a. Multi car.
 - b. Multi policy.
 - c. Driver education.
 - d. Anti theft.
 - e. Passenger restraints.
 - f. Good driver.
 - g. Good student.
 - h. Standard risk.
 - i. Anti-lock brakes.
 - j. Air bags.

Each of the above has coverage limits and premiums. Typically, a declaration page may look as follows:

<input type="checkbox"/> Liability: Bodily injury \$100,000/300,000. Property damage \$50,000.....	\$146.02
<input type="checkbox"/> Uninsured motorist: Bodily injury \$100,000/300,000	\$107.60
<input type="checkbox"/> Medical Pay: \$5,000	\$25.00
<input type="checkbox"/> \$250 deductible Comprehensive	\$ 23.66
<input type="checkbox"/> \$250 deductible Collision	\$ 90.30
<input type="checkbox"/> Emergency road service/towing	\$ 3.10
<input type="checkbox"/> Car rental/travel expense	\$ 13.00
<input type="checkbox"/> Total Six Month Premium	\$443.68
<input type="checkbox"/> Discounts already applied to the above	
<input type="checkbox"/> a. Anti-lock brakes.	\$ 14.28
<input type="checkbox"/> b. Multi car	\$ 42.14
<input type="checkbox"/> c. Automatic seat belts	\$ 6.58
<input type="checkbox"/> d. Standard risk	\$126.42

Let's look at the basic components of coverage and discuss them individually.

LIABILITY COVERAGE

The most expensive and controversial of the automobile coverages is liability. Basically, liability insurance protects an individual against the cost of being sued should his or her negligence, while driving, cause injury to someone else. Negligence can be defined as driving outside the standard of care" required while operating an automobile.

In order to be held liable, there must be actual harm, often referred to as. For example, an individual could improperly pass a car on a hill or curve without incident and the individual would not be subject to liability from anyone. Liability addresses three separate aspects:

- A. Bodily injury.
- B. Uninsured motorist.
- C. Property damage.

BODILY INJURY

Should an individual driving cause injury or death of another, that individual would be responsible for monetary damages as a result of this accident, which would include:

- ✓ Medical payments.
- ✓ Lost wages.
- ✓ Pain and suffering.
- ✓ Loss of consortium.

When individuals buy liability insurance he or she chooses the amount of protection that they wish to purchase. The insurance may be purchased in one of two ways:

- ✓ Single limit.
- ✓ Split limit.

SINGLE LIMIT

Single limit means that one limit will apply to all claims for bodily injury and property damage arising from a single accident. Single limit liability is usually offered in the following amounts:

- ✓ \$30,000.
- ✓ \$50,000.
- ✓ \$100,000.
- ✓ \$300,000.
- ✓ \$500,000.

SPLIT LIMIT

Split limit means that three separate limits apply:

- ✓ One for each person injured.
- ✓ One for the claims for all persons injured in one accident.
- ✓ One for all property damage in one accident.

The choices for split limit coverages are as follows:

- ✓ \$10,000, \$20,000 and \$10,000, which is usually expressed as 10/20/10.
- ✓ \$15,000, \$30,000 and \$25,000.
- ✓ \$25,000, \$50,000 and \$100,000.
- ✓ \$50,000, \$100,000 and \$50,000.
- ✓ \$100,000, \$300,000 and \$100,000.
- ✓ \$250,000, \$500,000 and \$250,000.
- ✓ \$500,000, \$1,000,000 and \$500,000.

The first two numbers are for bodily injury, the first number representing per person and the second number per accident. The third number is for property damage. For example, if your limits of liability were 100/300/50, this would mean that you are protected for \$100,000 of personal injury per person, \$300,000 of personal injury per accident and \$50,000 total for property damage. In comparing the relative values of single and split limits, compare the following: \$30,000 single limit vs. 10/20/10.

In this example, the yield would be the same for all injuries and damages in a single accident. If, however, the insured were liable only for one person's bodily injuries, the single limit form could pay \$30,000, but the split limits could pay only \$10,000.

In comparing the single limit of \$30,000 against a higher split limit of 15/30/10, the basis of greater worth would depend upon the circumstances of the accident or claim. In this case the split limit could pay a total of \$40,000 for multiple injured persons and property damage compared to the \$30,000 available from a single limit. On the other hand, if the liability is for only one injured person, under the single limit the full \$30,000 is available and under the split limit, only \$15,000 is available for bodily injury and \$10,000 for property damage.

It is important to remember that claims are covered only so long as coverage exists and providing the policy limits have not been exhausted. If under a single limit, an individual carries \$50,000 of liability coverage and this entire amount was paid to one injured party, and later another person injured in that same accident made a claim, there would be no money left to provide a defense. Also note that coverage is self-reinstating for each accident.

PROPERTY DAMAGE

This portion of the automobile policy pays for damages to someone else's property caused by negligent driving. In most cases, the damage is to another vehicle but it doesn't have to be a vehicle. One could hit a guardrail, someone's picket fence, or a utility company's telephone pole and you would be responsible for the cost of repairs to these items. Of course, the individual would transfer this responsibility to his or her auto insurance company under the property damage portion of the policy. Property damage, like coverage for personal injury, does have a maximum benefit, say \$50,000. Like personal injury, coverage for property damage is based on negligence. Since the extent of risk for property damage is less than personal injury, the cost is also less.

A recent survey noted that over 50% of all insurance payouts are made for property damage and not for personal injuries. If claims or lawsuits are brought against you, property damage liability insurance provides protection in the form of legal defense and payment for damages that you are legally liable for, up to the limits of the policy.

UNINSURED MOTORIST

Far more people than one can believe are driving around without auto insurance and are causing serious injuries and even death. There are incidents of those who cause an accident and then run from the scene. These are a few reasons why uninsured motorist coverage on an automobile insurance policy is so important. This coverage not only insures against the "Uninsured motorist" but also protects policy owners against the "Under insured motorist".

Uninsured motorist coverage is optional. It is recommended that it be added to a policy in the best interest of the client. It is important to remember that uninsured motorist protection has absolutely nothing to do with property damage. It is for losses for bodily injury only. Here are some important points about uninsured motorist:

- ✓ It is based on fault. Therefore, if an individual causes the accident, and the other driver was not insured, there are no benefits. It pays only what one would have been entitled to had the other driver been properly insured. Therefore, the other driver, the uninsured driver, must have been liable in order for one to collect.
- ✓ It pays for pain and suffering. When it comes to court measuring damages in legal proceedings, the measure is the same in uninsured motorist cases as it is under normal liability cases. Medical bills, lost wages, pain and suffering, loss of consortium are all included in determining what you may receive.
- ✓ There are three groups that can be covered under the uninsured motorist provision.
- ✓ The insured.
- ✓ Members of his or her household.
- ✓ Any other person entitled to recover damages.

This coverage also applies to injuries sustained while an individual or members of his or her household are injured as pedestrians by an insured motorist.

- ✓ It is not necessary to go to court should there be a dispute with the insurance company. Unlike other disputes that make it necessary to go to court, should an individual and the company not be able to come to terms with a fair compensation for damages caused by an underinsured motorist, an arbitrator can be engaged. In this setting there is usually one arbitrator that is chosen and the insured and the company pay mutually or there may be three arbitrators. One selected and paid for by the insured. One by the company. One by both for whom the parties pay equally.
- ✓ The declaration page will show the limits of liability. The limits for uninsured motorist coverage are shown on the front or declaration page of your policy, just as it is in the liability portion of your policy. If it says \$100,000/\$300,000 for uninsured motorist, this means the maximum coverage is \$100,000 per individual and \$300,000 per covered accident.
- ✓ Some companies can provide UNDERINSURED motorist coverage. This protection provides that if an individual is in an accident and the at fault person is underinsured to pay the total damages, that protection will pay the amount not covered by the other driver's insurance to the maximum of the individual's policy.

MEDICAL PAYMENTS

This coverage under the liability portion of an automobile insurance policy is designed to pay some of the medical consequences that may result from an accident. While the liability portion of the auto policy has fault attached to it, medical payments has no relationship to fault, but in fact, will pay benefits to eligible beneficiaries for the cost of medical bills and/or funeral expenses to the policy limits. There are two types of people that are entitled to receive benefits under the medical pay portion of the policy.

- ✓ The insured and his or her family members living in the same household.

- ✓ Any passenger injured while riding in the covered vehicle.

Most people do not select large amounts of medical payments since they are usually covered by health insurance either at work or through private purchase and this could cause duplicate coverage.

It is important to note however, that medical payments will provide coverage in one area that health insurance will not and that is funeral expenses. Medical payment coverage is relatively inexpensive and it is always a good idea to carry at least a few thousand dollars. Medical payments do have exclusions. There is no coverage for injuries:

- ✓ While in a motorized vehicle with less than four wheels.
- ✓ While using your covered auto to carry persons or property for a fee.
- ✓ If Workers' Compensation benefits are payable.
- ✓ While occupying an auto other than your auto, which is owned by, furnished, or available for the regular use of the named insured or a family member.
- ✓ While occupying a vehicle without reasonable leave or permission.
- ✓ While occupying an auto for business purposes, other than a private passenger auto, owned pick-up or van, or trailer used with one of these.

COMPREHENSIVE AND COLLISION COVERAGE

This part of an automobile insurance policy protects the vehicle. Comprehensive coverage provides for protection against the following:

- A. Fire.
- B. Theft.
- C. Malicious mischief
- D. Windstorm.
- E. Flying objects.
- F. Hail.
- G. Hitting an animal.
- H. Broken windows.

If the damage is considered from a cause "Other than collision" it is more than likely going to be covered under the comprehensive portion of the insurance policy. Comprehensive coverage is often sold with a deductible ranging from \$200 to \$1000 dollars. Comprehensive coverage can be issued alone without including collision coverage, but collision coverage will not be issued unless comprehensive coverage is included.

There are exclusions under comprehensive coverage and some of the more common ones are as follows:

1. Electronic equipment not permanently installed. This may include but is not limited to radios, stereos, tape decks, and compact disc players.
2. Other electronic equipment included but not limited to CB radios, telephones, two-way mobile radios, scanning monitor receivers, television monitors, receivers, videocassette recorders, audiocassette recorders, and personal computers.
3. Tapes, records, disk, or other medial used in conjunction with the equipment described in 1 and 2 above.
4. If the covered auto or non-owned auto is destroyed or confiscated by governmental or civil authorities because you or a family member were engaged in illegal activities.
5. A camper body or trailer that is not shown on the declaration page of your policy.
6. Awnings, cabanas, or equipment designed to create additional living facilities.
7. Radar detectors.
8. Custom furnishings or equipment in a pick up or van such as special carpeting, furniture, bars, sleeping and cooking facilities, height extending roofs, custom murals, paintings, decals, or graphics.

COLLISION

The collision portion of the auto insurance policy constitutes about one third of its total cost. Collision is defined as "The upset of the auto covered or its impact with another vehicle or object". In other words, there has to be a physical contact between the auto covered and another car, truck, or object, which then causes physical damage to your auto. The collision portion of your policy is subject to a deductible. The deductible is the amount the policy owner must pay before insurance benefits begin paying. Collision deductibles can range from 0 dollars to \$1,000. Remember, the higher the deductible, the lower the collision premium.

Should the car be damaged or stolen the company has the right to choose which of the two following ways it will pay the claim:

1. They may give the policy owner an amount that is necessary to repair the automobile or replace the property that was lost.
2. The actual cash value of the damaged property or stolen item. Sometimes people are upset with this method, because the company can deduct for depreciation and adjust for a deteriorated physical condition of your vehicle.

Totaling" the vehicle is a term used when the insurance company decides not to repair the vehicle but to pay for its value instead. Unfortunately, when the company totals a car an individual usually receives what the vehicle is worth on the open market. Usually this amount is less than what it will cost to actually repair the car.

It should be noted that collision is not mandatory coverage. One does not have to buy this portion of the policy and those with older vehicles usually do not. If it's simply not worth the money if the company is likely to total the vehicle rather than repair it, than purchasing collision is not practical. Should a car be financed, that institution will require that an individual carry comprehensive and collision coverage until the vehicle is paid for and that institution will want to be listed as the "Loss payee". This means the institution is the first in line to be paid in the event of a loss.

Collision coverage is not dependent on fault. Regardless of who caused the accident, the policy owner is entitled to collision benefits. Collision benefits can be paid on vehicles the insured does not own. Should an individual be driving a car he or she does not own, and are involved in an accident, or the car is stolen while in his or her possession, benefits will be paid. If the policy owner is covered for auto theft, there may be a transportation benefit. If the individual's car is stolen, he or she can be entitled to reimbursement for some of the transportation costs that are incurred. Benefits are usually \$15.00 per day or so and there will be a maximum benefit.

EMERGENCY ROAD SERVICE

Emergency towing is intended to remove a disabled vehicle to a place of safety or repair. It is not intended to provide towing to a dealer or auto salvage.

Emergency road service is often provided by independent contractors who are part of a membership group such as AAA Motor Club or other national organization.

Service normally applies to all properly licensed four wheeled vehicles of the passenger, pleasure, or recreational-type vans, campers and motor home.

Emergency road service can include on the road repair to a vehicle that won't start as a result of a deficient battery or simple mechanical adjustments if they can be made in a safe and effective manner where the breakdown occurs.

Roadside tire repair is also provided under this coverage. A flat tire will be changed if the insured has an inflated spare. If for some reason due to safety or if for any reason the inflated spare is not usable or the lug nuts cannot be removed from the flat tire on the vehicle, or if the vehicle has two flat tires and one usable spare, towing is provided in accordance with towing provisions. Towing will also be provided in lieu of a tire change if the tire cannot be safely changed.

EMERGENCY ROAD TOWING

If a vehicle cannot be made to operate safely under its own power, towing from the point of disablement will be provided. Towing provisions usually provide towing for towing to a repair facility within a prescribed distance of the disablement. If the insured wishes to have the vehicle towed outside of the prescribed area usually an additional mileage charge will apply.

For towing to a destination other than the towing company garage, the insured must first make arrangements for acceptance of the vehicle at the destination. It is recommended to ensure proper handling of the vehicle that the insured accompany their vehicle while it is being towed. If an insured cannot accompany their vehicle the insured is usually asked to sign a Vehicle Release Form. By signing the form the insured acknowledges that the towing contractor cannot guarantee the safe arrival or acceptance of the vehicle at the repair shop.

If the insured wants the vehicle towed to a closed garage, the insured must sign a disclaimer of liability for the towing company. The disclaimer releases the towing company from responsibility for the vehicle when it has reached the "closed facility."

Local ordinances may prohibit the towing company from carrying more than one passenger to accompany the vehicle to its delivery location.

Flatbed service is available to the insured and may require an additional charge.

Towing service is sometimes delayed as a result of weather conditions, call volume, or equipment availability.

Vehicles involved in an accident will be towed provided a police release has been obtained.

EMERGENCY ROAD SERVICE ORGANIZATIONS

Emergency road service organizations such as the AAA Motor club also provide services beyond general towing of a disabled vehicle and such services are outlined below.

EXTRICATING OR WINCHING SERVICE

A service that is normally provided if the insured's vehicle is stuck in a ditch, mud, sand, or other similar situation. The vehicle must be accessible from a normally traveled roadway and require no more than one man, one truck at the scene. Any additional manpower and equipment is usually at the insured's expense.

FUEL DELIVERY

A limited supply of fuel is delivered to the disabled vehicle to enable the driver to reach the nearest open service station. The insured must pay for the fuel at the current pump price and the service only applies when government regulations permit it and supplies are available.

LOCKOUT AND LOCKSMITH SERVICE

This service is provided when a driver loses or locks the vehicle's keys in the passenger compartment or trunk. In some instances the insurance company pays a maximum fee and the balance must be paid by the insured.

EXCESSIVE USE OF SERVICES

That kicks in for excessive use of service. This provision normally kick Most "Club" type organizations have a provision s in after 5 service calls within a 12 months period and subjects the insured to the possibility of cancellation.

REIMBURSEMENT FOR INDEPENDENT SERVICE

When Club type organizations are used, should a member call other than a prescribed contractor, reimbursement is limited to the amount the Club would have paid the nearest member contract station. When service is requested and is unavailable, reimbursement is based on the prevailing commercial rate for the region where the vehicle was disabled and is subject to the benefits of the membership.

CAR RENTAL/TRAVEL EXPENSE

This provision of the auto policy entitles reimbursement for the expense of renting an automobile while the car is being repaired. It may have a daily expense maximum as well as a total per accident benefit. Some policies also pay benefits for travel expense following an accident that may include food and lodging providing the insured is more than a certain number of miles from home when the accident occurs.

FOCUS POINTS

- An automobile policy is a combination of several different coverages put into one package.
- The most expensive and controversial of the automobile coverages is liability.
- Liability insurance protects individuals against the cost of being sued, for injury to others, due to their negligence while driving.
- Negligence is defined "as driving outside the standard of care" required while operating your automobile.
- Liability addresses the aspects of bodily injury, uninsured motorist and property damage.
- Bodily injury addresses the issues medical payments, lost wages, pain and suffering, and loss of consortium.
- Single limit coverage means that one limit will apply to all claims for bodily injury and property damage arising from a single coverage.
- Split limit coverage involves separately applied limits for each person, all persons in the same accident, all property damage in the same accident.
- Property damage coverage pays claims for damages to someone else's property.
- Statistics show that over 50% of all insurance claims are made for property damage and not personal injury.
- Uninsured motorist coverage insures against someone not insured as well as some one who is under insured.
- Uninsured motorist coverage is optional and based on fault.
- Uninsured motorist coverage applies to bodily injury claims only.

- Uninsured motorist coverage pays for pain and suffering.
- Three groups are covered under the uninsured motorist provision: The insured, members of his or her household, any other person entitled to recover damages.
- Should an individual and the company not be able to come to terms with a fair compensation for damages caused by an underinsured motorist, an arbitrator can be engaged.
- Medical coverage under the liability portion of an automobile insurance policy is designed to pay some of the medical consequences that may result from an accident.
- Medical payments coverage will provide coverage for funeral expenses.
- Medical coverage does not pay if using the covered auto to carry persons or property for a fee.
- Comprehensive coverage provides for protection against the following: Fire. Theft. Malicious mischief, Windstorm. Flying objects. Hail. Hitting an animal. Broken windows.
- If the damage is considered from a cause "Other than collision" it is more than likely going to be covered under the comprehensive portion of the insurance policy.
- Comprehensive coverage is often sold with a deductible
- Under comprehensive coverage some of the more common exclusions are Electronic equipment not permanently installed. And custom furnishings or equipment in a pick up or van.
- The collision portion of the auto insurance policy constitutes about one third of its total cost.
- Collision is defined as "The upset of the auto covered or its impact with another vehicle or object.
- Should the car be damaged or stolen the company has the right to choose one of two ways to pay the claim.
- The two ways an insurer can settle an insurance claim are: They may give the policy owner an amount that is necessary to repair the automobile or replace the property that was lost or the actual cash value of the damaged property or stolen item.
- "Totaling" the vehicle is a term used when the insurance company decides not to repair the vehicle but to pay for its value instead.
- Should a car be financed, that institution will require that an individual carry comprehensive and collision coverage until the vehicle is paid for.
- Collision coverage is not dependent on fault. Regardless of who caused the accident, the policy owner is entitled to collision benefits.
- Collision benefits can be paid on vehicles the insured does not own.
- Emergency towing is intended to remove a disabled vehicle to a place of safety or repair.
- Emergency road service is often provided by independent contractors who are part of a membership group such as AAA Motor Club or other national organization.
- Towing provisions usually provide towing for towing to a repair facility within a prescribed distance of the disablement.
- If the insured wishes to have the vehicle towed outside of the prescribed area usually an additional mileage charge will apply.
- For towing to a destination other than the towing company garage, the insured must first make arrangements for acceptance of the vehicle at the destination.
- A disclaimer releases the towing company from responsibility for the vehicle when it has reached the "closed facility."
- Local ordinances may prohibit the towing company from carrying more than one passenger to accompany the vehicle to its delivery location.
- Most "Club" type organizations have a provision that kicks in for excessive use of service.

- When Club type organizations are used, should a member call other than a prescribed contractor, reimbursement is limited to the amount the Club would have paid the nearest member contract station.
- When service is requested and is unavailable, reimbursement is based on the prevailing commercial rate for the region where the vehicle was disabled and is subject to the benefits of the membership.

SECTION 3: AUT POLICY ENDORSEMENTS

Individuals may purchase extra protection under their automobile insurance policy for an extra premium. These are called "Endorsements".

The following represent a few that are available:

1. **Tapes coverage.**
Should audio or disc tapes be lost or stolen, or should you have a valuable or extended collection of such items in your vehicle, you may obtain coverage for them via this endorsement.
2. **Sound receiving/transmitting components or equipment.**
Coverage for your car phone and CB can be acquired under this endorsement.
3. **Stated amount.**
Should you own a classic, unusual or unique vehicle and you are able to agree with the insurance company what this vehicle is worth should a claim be made, then you can purchase a stated amount endorsement.
4. **Custom equipment.**
Vans and pick up trucks which have been altered or customized to include refrigerators, special carpet, cooking or sleeping facilities can be protected by adding this endorsement.
5. **Non-owner coverage.**
Should you know in advance that someone who does not own your car or is not a covered family member is going to be driving your car, then you need to add this person's name as a covered driver through this endorsement.
6. **Miscellaneous vehicle.**
This endorsement provides coverage for vehicles that are normally excluded, such as motor homes, recreational vehicles and motorcycles.

SECTION 4: EXCLUSIONS

Exclusions are used by the insurance carrier to tell you exactly and specifically what will not be covered. Simply stated, if there is an exclusion there is no protection afforded by the policy for that item or items. Often exclusions are considered unfavorable because people feel the insurance company gives us protection with one hand and then takes it away with the other hand through exclusions. In reality, exclusions were designed to prevent coverage that would be better sought in other types of insurance. Exclusions are also a method by which the insurance industry can eliminate exposures that could not be covered without charging an unbearable premium.

Exclusions are divided into two parts. They are:

1. Persons not protected.
2. Vehicles to which coverage does not apply.

Typically, liability coverage is not provided to any person:

1. Who intentionally causes injury or damage.
2. For damage to property owned or being transported by that person.
3. Damage to property rented to, used by or in care of that person.
4. Injury during the course of employment by an employee.
5. For liability arising from the use of the vehicle as a public or livery conveyance.
6. That is employed in a business of repairing, storing, parking or servicing vehicles.
7. That uses a vehicle without permission.

Typically, liability coverage is not provided or afforded to vehicles to include the following:

1. Motorized vehicles with less than four wheels.
2. A vehicle furnished, available for the regular use of the person insured other than the covered auto.
3. A vehicle furnished or available for the regular use of a family member other than the covered auto.

SECTION 5: THE COST OF AUTO INSURANCE

Several factors are used in determining the cost of auto insurance. They are:

1. Territorial rating. (Where an individual lives)
2. Personal statistics

- a. Age
- b. Gender
- c. Marital status

Other factors

1. Use of car
2. The type of car driven
3. Driving record
4. The amount of insurance desired

TERRITORIAL RATING

The neighborhood where an individual resides is the largest factor in determining what the automobile insurance rate will be. It is called "Territorial rating". Insurance companies take each state and within that state, they break down the various location into what are known as "Territories". They may do this in one of the following four methods:

1. Zip code.
2. Neighborhood.
3. City you live in.
4. County you live in.

Whatever method is used, companies will resort to their statistical gathering ability to determine what claims they can expect in any particular territory. Since most accidents occur within a few miles of where the vehicle is kept, the insurance industry uses this fact for their reasoning in the pricing mechanism.

Thus, the underwriter can then determine from these statistics the risk of loss for cars kept in each territory. Once this has been done, then a BASE RATE can be determined for each territory. This becomes the starting point upon which the premium is based.

PERSONAL STATISTICS

Here three factors are taken into consideration. They are age, gender and marital status.

AGE

Since it's known that younger drivers tend to be more accident prone, drivers under the age of 25 are going to pay more for their auto insurance than that age 25 to 64. It is also known that drivers over the age of 65 have more accidents than younger drivers and they usually have higher premiums established for them.

GENDER

Past experience of claims and statistics prove there is a definite gender difference in the rate of automobile accidents. Statistically speaking young, unmarried males are the worst. Therefore, they will pay more in premiums than females in the same age group. All other factors being equal, of course.

MARITAL STATUS

For the most part, a married driver will probably have fewer accidents than a single driver. Add children to the married driver and it's found that they become more cautious and concerned and have even fewer accidents.

USE OF CARS

What an individual does with their car when they use it is also an important factor in what it will cost to insure it. The following are commonly used to determine the rate for how you use your car.

1. Pleasure only.
2. To and from work under five miles one way.
3. To and from work five to ten miles one-way.
4. To and from work more than ten miles one-way.
5. Business use.
6. Farm use.

The most expensive of these is business use that typically carries a 50% higher premium over pleasure only

THE TYPE OF MOTOR VEHICLE

Basically, insurance companies rate the kind of car an individual drives using the following factors:

1. The make.
2. The model.
3. The size of its engine.
4. Hardtop or convertible.
5. Car's age.
6. Original cost.
7. Ease of repair.
8. Popularity for theft.

THE DRIVING RECORD

From the time you first got your driver's license your parents kept telling you how important a good driving record was. Tickets cost money not only for the fine but in increased automobile insurance rates. The fact of the matter is, if you have a bad driving record, your chances for an accident are higher than for a person with a good driving record.

Convictions for moving violations and the type of violation are factors that generate higher insurance premiums. For example, speeding tickets will get an underwriter's attention quicker than an illegal left turn. Then of course, drunk driving and running red lights rank up there at the top also.

THE AMOUNT OF INSURANCE DESIRED

The higher the limits of liability, the higher the cost of automobile insurance. The higher the comprehensive and collision deductible, the lower the cost of automobile insurance.

SECTION 6: DISCOUNTS AVAILABLE

Depending on the insurance company, there are many discounts available. A few are:

- A. Multi-car.
- B. Multi-policy.
- C. Driver education.
- D. Anti theft.
- E. Passenger restraints.
- F. Good driver.
- G. Good student.
- H. Standard risk.
- I. Anti-lock brakes.
- J. Air bags.

MULTI-CAR

Should an individual insure more than one car with the same company, that individual will probably receive a discount for doing so.

MULTI-POLICY

It's always a good idea for individuals to purchase as many of their insurance products as possible from the same company so that they can enjoy this discount. For example, putting a homeowner's and automobile policy with the same company affords a definite advantage.

DRIVER EDUCATION

Here discounts are given to drivers who have taken and successfully completed a drivers education course. These are typically offered at local high schools.

ANTI-THEFT

If an individual spends the money to install an alarm, anti-theft device or a steering wheel locking mechanism, most companies will be willing to give those individuals a discount on the comprehensive premium portion of your policy.

PASSENGER RESTRAINTS

More and more states have now passed laws requiring the use of seat belts. Whether or not the injured person was wearing a seat belt is always a very important consideration given in the processing of claims for injury. Claims adjusters do not look favorably in the amount that they award to those who were not wearing a passenger restraint at the time of the accident. Statistics have proven it is more advantageous to wear a passenger restraint than not.

GOOD DRIVER

Many states now have a space on your driver's license to insert the words "Safe driver" or "Good driver". This designation is given to those who have not been convicted of a moving violation or have not been involved in an automobile accident during the last three to five years.

GOOD STUDENT

Any student who maintains an average grade of B, or above can receive a discount of up to \$25% of their insurance premium.

STANDARD RISK

This discount is given to those that meet certain criteria to qualify for it. Factors that are considered in determining a standard risk discount are as follows:

1. No tickets within a certain time period.
2. No accidents within a certain time period.
3. No drivers under the age of 25.
4. No drivers over the age of 65.
5. No high performance vehicles.

ANTI-LOCK BRAKES

The anti-lock brake is probably most responsible for reducing the numbers of serious accidents than any other factor other than seat belts and air bags. The anti-lock brake is a computer system that stops a vehicle more quickly and prevents the loss of control through skidding. This reduces accidents and produces discounts.

AIR BAGS

Before the turn of the century, all automobiles on the road will be required to have air bags for both driver and passengers alike. A great deterrent to serious injury to passengers, the air bag produces big discounts in your automobile insurance coverage.

SECTION 7: ACCIDENTS

When an individual is involved in an accident, he or she is responsible to follow specific guidelines given by the carrier as to what to do and what to not do. Naturally, the assumption must be made that the individual is conscious and physically capable of doing these things. Included in these guidelines are some of the following:

1. Notification.
2. How it occurred?
3. Who was involved?
4. Witnesses.
5. The police.
6. Cooperation with investigation.
7. Submitting to examinations.
8. Access to relevant personal records.

NOTIFICATION

A major misunderstanding regarding notification is that regardless of who the individual thinks may be at fault, the carrier must be notified promptly. The company needs to be given the opportunity to conduct an investigation if they so desire before too much time passes.

HOW IT OCCURRED

It is important for an individual; to make notes of exactly how the accident occurred while it is still fresh in his or her mind. Some things an individual may wish to jot down that will be helpful for future reference may be the following:

1. Time of day.
2. Weather conditions.
3. Location.
4. Road conditions such as construction barricades or heavy traffic.
5. Contributing factors such as curves, hills, railroad crossings, or traffic control devices.

WHO WAS INVOLVED

It is important to obtain the name, address, home and work phone numbers, name of the other driver's insurance company and the policy number as well as the make, model and license number of any other vehicles involved. Also, know what injuries were sustained, who was injured, how they were injured, by whom they were transported for treatment and where. For the most part, the police officer will have this information contained in their accident report, a copy of which is usually available within a day or two of the accident.

WITNESSES

You've heard the phrase there are three sides to every story? Well, witnesses are the ones who tell the third side and usually the correct one. It is very common for those involved in an auto accident to give different versions often self-serving ones on exactly what happened. Therefore, it is vital that you obtain the names and addresses of witnesses who can assist in determining what happened. Determining fault is a vital issue in exactly what the company may or may not pay in a lawsuit.

THE POLICE

Each state has laws regarding when the police must be notified. Most base it on the amount of damage. However, the policy probably will require that you report the incident to the police no matter what the circumstances. Bottom line is that it is always best under all circumstances to have the police present to take a report.

COOPERATION WITH INVESTIGATION

The parties may be called upon to either meet with investigators from the company, lawyers of the company or claims adjusters concerning the accident and other areas of concern. Full cooperation is required to insure a proper evaluation.

SUBMITTING TO EXAMINATIONS

If individuals have been injured in an automobile accident, the insurance company may ask the individuals to be examined at their expense by a physician that they choose. They also may wish to examine what happened in what is called a "Deposition". Usually the parties will receive a subpoena to take a deposition under oath.

ACCESS TO RELEVANT PERSONAL RECORDS

Often, individuals may have to produce past medical records or information regarding previous accidents. The company may ask the individuals to sign authorizations for release of this information. The parties effected must do this unless they feel that they have valid grounds for denying their request.

SECTION 8: CANCELLATION

Sometimes it seems that the first time an individual submits a claim, the company either raises the rates or cancels the policy. How many agents have had the experience of having had a client with a company 10, 15, or 20 years without a claim, they have always paid the premium on time. All of a sudden, they have an accident, the claim is paid, and then they are canceled. How can they do

this? First, the language of the contract permits them to do it. And second, for the most part, the state insurance departments have inadequate enforcement to stop companies from engaging in this unfair practice.

Cancellation can occur one of two ways:

1. Canceling an existing policy while it is in effect.
2. Refusing to renew a policy at its expiration.

CANCELING AN EXISTING POLICY WHILE IT IS IN EFFECT

Cancellation can occur while the policy is in effect. Although rare, it can happen for the following reasons:

1. If an individual doesn't pay their premiums in a timely fashion, the company can cancel with a 10 days or so written notice.
2. A policy is subject to cancellation upon reasonable notice, often 10 days, for any reason during the first 60 days it is in effect. This type of cancellation usually occurs because the insured misrepresented facts or circumstances regarding the issuance of the policy.
3. Should an individual's driver's license be canceled or revoked, the company may follow suit by doing the same to the insurance coverage.
4. Should the individual, or a member of the covered family, be convicted of a drunk driving charge, the insurance company will more than likely cancel the policy.
5. If an individual submits a fraudulent claim or misrepresent information to the company in an attempt to obtain benefits to which the individual is not entitled, and get caught, the policy will probably be canceled.

REFUSING TO RENEW A POLICY AT ITS EXPIRATION

The real fear in the cancellation arena is the fear that the company will refuse to renew a policy at the end of the coverage period. Auto insurance companies do not issue policies that are guaranteed to be renewable. A company can refuse to renew a policy or raise rates for the following terms and conditions:

1. The company has informed the insured at least 30 days prior to the end of the policy period that they will not renew the policy. This is done so that an individual is able to make other arrangements. However, individuals must realize that if they have been non-renewed by one company, other companies may not want to take them and this could force the individual into the Assigned Risk Pool.
2. Any refusal to renew must be in writing.
3. Although most states allow a company to refuse to renew a policy for just about any reason, some do not allow it if it is based on age, race, sex or occupation.

SECTION 9: NON-STANDARD MARKET

When a risk is particularly had to place non-standard and insurance needs cannot be satisfied through the standard market and when people have bad accident or driving records or have high-powered or sports cars, they may be forced to be placed with an assigned risk facility. Non-standard companies offer a market usually at a higher than normal price for such persons as well as for others who are acceptable to the assigned risk plans but who want more than the limited amount of coverage some of those plans offer.

Each auto insurance company doing business in a state must write insurance for those who cannot obtain it in a standard market. The insurance company must write the same percentage equal to its percentage share of that state's auto insurance market. Therefore, if an automobile insurance company issues 20% of the auto insurance in a particular state, then it will have to provide insurance for 20% of those in the non-standard market.

There is an association known as the "JUA" or the Joint Underwriter's Association. This is a form of pooling association that sells insurance to the otherwise uninsurable. All companies writing insurance in a particular state share in the profit and loss of the insurance business written by the JUA. Usually, a re-insurance facility, which is an organization that issues insurance to insurance companies, will allow companies to transfer percentage of their policies to the re-insurance facilities so that no one can be refused a policy.

SECTION 10: TEEN DRIVERS

The age of an individual has a lot to do with how an insurance company rates the individual as a risk. Teenagers are very high risk, Individuals improve over time to become a better risk between the ages of 45 and 65 and by the time they are 70, and they are again a high risk. This is based on statistical experience. It's a fact that teenage drivers have more auto accidents than middle age drivers. First, they drive more often, and second, they don't tend to be as careful as they should be.

Statistics show that drivers between the ages of 45 and 65 constitute 26% of all drivers in the country and only 15% of all accidents. Only 12 out of every 100 in the age group of 45 to 65 are involved yearly in accidents. Looking at drivers under age 20, 37 out of every

100 are involved in an accident. While teenagers represented 9% of the drivers in the country, they represent 16% of the drivers involved in accidents and 14% of all fatal accidents.

Parents often wonder when they are to add a teenager to their policy. The answer is, as soon as the teenager obtains a driver's license. Many of us have faced the dilemma of trying to avoid the additional cost of adding a teenager to the policy. While it's true that coverage is in effect no matter who is driving the car with your permission, if information is deliberately concealed, it could invalidate the coverage and be grounds for cancellation.

The insurance carrier is not going to give teenagers free coverage any more than the auto dealer is going to give him a free car.

It's usually cheaper to put a teenager on an existing policy rather than on a separate policy. Should the teen attend school more than 100 miles from home, the company may lower the premium while he or she is away from home because they won't be using your car. Often, a student with a B average can qualify for a discount of up to 25% with some companies.

SECTION 11: SENIOR DRIVERS AND SAFETY

Now, going to the other side of the coin, seniors. While it's true that people of 55 years of age or more are less likely to drive fast or aggressively, they are prone to hearing impairments, slower reflexes and using prescription drugs. Not to mention generally having poorer eyesight.

Then there is the problem of the senior driver who hasn't owned a car for some time. Perhaps he lived in a big city and used cabs or public transportation to avoid the hassles of parking his car. Upon retirement, he moves to Florida and decides he wants to now get a car. The carrier finds that it has been 20 years since the senior had bought auto insurance. The senior now finds that the insurance company is reluctant to accept him because they consider him to be an inexperienced driver.

EXPERTS URGE TRANSPORTATION ALTERNATIVES

Taking the license to drive from an elderly person can rob the driver of independence, but it also may save the person's life and the lives of others, statistics show.

The 86-year-old man who drove his car through a crowded farmers' market in California, killing 10 people and injuring scores of others, is part of a broad age group that generally is considered safe behind the wheel, experts said.

While older drivers do have higher-than-average rates of accidents when measured by collisions that cause injury or deaths per million miles driven, that is mitigated by the fact that they drive far fewer miles than most people.

Drivers age 70 and older also tend to regulate their own driving by restricting when and where they drive.

According to Dan Foley, an epidemiologist with the National Institute on Aging. "Older drivers are a fairly safe group."

For drivers up to age 69, fatal accident rates are far lower on average than for people in their 20s, according to federal highway statistics. After age 70, the rates gradually increase, and drivers 85 and older are involved in fatal crashes at a time comparable only to 16-years-olds, the next-highest category.

Although many people think older drivers should undergo vision testing when their licenses are renewed, experts say vision is not the main problem that older drivers face; it's their basic ability to drive safely.

"When you put your foot on the gas instead of the brake, that is not vision, it's cognition," Foley said.

The regulation of older drivers differs from state to state. In Illinois and New Hampshire, for example, rules are more strict: Drivers 75 and older have to take a road test when renewing their licenses. In Nevada, drivers age 70 and older must submit a medical report when renewing their licenses by mail. Missouri allows people to file confidential reports that an older driver is no longer safe on the road. The state then can require the targeted person to pass a driving skills test or physical examination.

No state formally tests for cognitive impairment among drivers of any age.

"The problem is that not everybody ages at the same rate," said Gerald McGwin, an associate professor of ophthalmology at the University of Alabama Birmingham.

The American Association of Motor Vehicles Administrators, a non-profit group that coordinates policies among the nation's departments of motor vehicles, opposes testing on the basis of age.

"We don't believe that there should be age-based testing," said Jason King, a spokesman for the association. "That's because it does not work."

Experts on aging agreed. AARP, the advocacy group for people 50 and older, and the auto club AAA both argue that people should be allowed to drive as long as they can do it safely and effectively. But how to determine that is a problem.

“When do we start testing?” asked Joe Coughlin, the director of the Age Lab at the Massachusetts Institute of Technology. “Who should we test? And we don’t have an adequate test to start with.”

Diminished capacities at issue

The problems facing older drivers are manifold, according to Martin Gorbien, director of geriatric medicine at Chicago’s Rush-Presbyterian-St. Luke’s Medical Center.

He said diseases such as arthritis, diabetes, Parkinson’s, eye and ear ailments, and various forms of dementia such as Alzheimer’s disease can combine to greatly diminish the capacity of older drivers. Gorbien said that even if each problem is not severe, the cumulative effect of several ailments could be serious.

“I’ve just described 5 million people,” he said of people with such combined ailments. “Instead of focusing on age and disease states, we need to focus on function.”

And as Baby Boomers grow older, the problem will increase, King said. There were 19.1 million licensed U.S. drivers age 70 and older in 2001; King said that by 2020 that number will increase to 30.7 million.

He said people need to start thinking about how they will get around once they are no longer able to drive.

“We want people to think about their driving future the same way they plan for retirement with 401K and regular visits to the doctor,” King said.

Indeed the loss of mobility that comes with losing access to driving an automobile means profound life changes and severely limits freedom.

“Driving is like electricity,” said Coughlin of MIT. “When you pull the plug, everything goes out.”

He and others said local, state and federal leaders need to address ways of dealing with the problem, particularly as the nation’s population ages.

“The real policy debate is not the testing or the aging,” Coughlin said. “The real issue is that the nation has failed to provide a lifetime mobility plan.”

The motor vehicle administrators’ group and AARP and other groups offer classes for aging drivers to help them identify problems that occur, as people grow older and guidelines for doctors and family members on how to counsel elderly people on the judicious use of their cars.

“We want to keep people in their cars as long as it is safe, because there are so few alternatives,” said King of the administrators’ group.

Gorbien said doctors have not been trained in how to determine whether a patient age 70 or older should stop driving.

“We need more means of evaluating older drivers,” he said, adding that when he met with multiple generations of the same family and discussed whether to stop the eldest member from driving, he used a simple question to focus the middle generation’s thoughts.

“I asked if they would let their 3-year-old ride with Grandpa,” Gorbien said. “I see a lot of people shaking their heads.”

Statistics from the Insurance Institute for Highway Safety indicate older drivers generally are as safe as other age groups until they reach 75, after which they tend to have more accidents.

Drivers 85 and older are about as likely to be involved in a fatal crash as those ages 16 to 19, but they’re more likely to die than others in car accidents because their bodies are frailer.

Two years ago, the University of Connecticut’s Center on Aging studied the signs that older drivers we’re losing their capacity to operate a vehicle safely.

Among them were the inability to locate familiar places, failing to observe traffic signals, making slow or poor decisions, driving at inappropriate speeds, and becoming angry or confused while driving.

A family’s responsibility

The Web site that the administrators’ group operates on aging drivers, granddriver.info, offers guidelines on how to talk with an older person or relative about giving up his or her car.

“This is a huge responsibility for the family members,” King said.

FOCUS POINTS

- Endorsements permit Individuals to purchase extra protection under their automobile insurance policy for an extra premium.
- Endorsements cover such things as discs, tapes, players and sound receiving or transmitting equipment,
- Stated amount endorsements cover unusual or unique vehicles up to a pre-agreed amount.
- Custom Vehicle endorsements cover Vans and pick up trucks, which have been altered or customized to include refrigerators, special carpet, cooking or sleeping facilities.
- Miscellaneous vehicle endorsement provides coverage for vehicles that are normally excluded, such as motor homes, recreational vehicles and motorcycles.
- Exclusions are used to state exactly and specifically what will not be covered by the policy.
- Exclusions were designed to prevent coverage that would be better sought in other types of insurance.
- Exclusions are a method by which the insurance industry can eliminate exposures that could not be covered without charging an unbearable premium.
- Exclusions are divided into Persons not protected and Vehicles to which coverage does not apply.
- Typically, liability coverage is not provided to any person: Who intentionally causes injury or damage to property owned, being transported, rented to, or in the care of that person.
- Standard liability coverage does not cover Injury during the course of employment to an employee arising from the use of the vehicle as a public or livery vehicle or in a business of repairing, storing, parking or servicing vehicles.
- Typically, liability coverage is not provided to motorized vehicles with less than four wheels, or a vehicle furnished, available for the regular use of the person insured other than the covered auto, and for a vehicle furnished or available for the regular use of a family member other than the covered auto.
- The factors used in determining the cost of auto insurance are Territorial rating and Personal statistics such as age, gender, marital status, use of vehicle. Type of car, driving record. And amount of insurance desired.
- The neighborhood where an individual resides is the largest factor in determining what the automobile insurance rate will be and is called a "Territorial rating".
- Insurance companies take each state and within that state, they break down the various locations into city, county, neighborhood, and zip code.
- Companies will resort to their statistical gathering ability to determine what claims they can expect in any particular territory.
- Most accidents occur within a few miles of where the vehicle is kept, therefore the insurance industry uses this fact for their reasoning in the pricing mechanism.
- In using personal statistics, the three factors that are taken into consideration are age, gender and marital status.
- Since it's known that younger drivers tend to be more accident prone, drivers under the age of 25 are going to pay more for their auto insurance than age 25 to 64.
- It is also known that drivers over the age of 65 have more accidents than younger drivers and they usually have higher premiums established for them.
- Statistically speaking young, unmarried males are the worst risk.
- A married driver will probably have fewer accidents than a single driver.
- What an individual does with their car when they use it plays an important factor in what it will cost to insure it. The factors used include business or pleasure usage and distance from work.
- Business use typically carries a 50% higher premium over pleasure only.
- Insurance companies rate the kind of car an individual drives by make, model, size of engine, hard top or convertible, age of vehicle, original cost, ease of repair, and popularity for theft.

- Convictions for moving violations and the type of violation are factors that generate higher insurance premiums.
- The higher the limits of liability, the higher the cost of automobile insurance.
- The higher the comprehensive and collision deductible, the lower the cost of automobile insurance.
- Depending on the insurance company, many discounts are available such as multi-car, multi policy, driver education, anti theft devices, passenger restraints, good driver, good student, standard risk, anti-lock brakes, and air bags.
- When an individual is involved in an accident, he or she is responsible to follow specific guidelines given by the carrier as to what to do and what to not do.
- Guidelines following an accident include notification of carrier, how accident occurred, who was involved, witnesses, police report, cooperation with the investigation, submitting to examinations, and access to relevant records.
- Cancellation can occur by canceling an existing policy while it is in effect or refusing to renew a policy at its expiration.
- Cancellation can occur while the policy is in effect for non payment of premium, the policy is subject to cancellation upon reasonable notice, an individual's driver's license be canceled or revoked, conviction for drunken driving, or submission of a fraudulent claim.
- A company can refuse to renew a policy or raise rates by a written notice 30 days prior to the end of the policy period.
- Most states allow a company to refuse to renew a policy for just about any reason, some do not allow it if it is based on age, sex or race.
- Non-standard companies offer a market usually at a higher than normal price for individuals who are acceptable to the assigned risk plans but who want more than the limited amount of coverage some of those plans offer.
- Each auto insurance company doing business in a state must write insurance for those who cannot obtain it in a standard market. The insurance company must write the same percentage equal to its percentage share of that state's auto insurance market. Therefore, if an automobile insurance company issues 20% of the auto insurance in a particular state, then it will have to provide insurance for 20% of those in the non-standard market.
- The age of an individual has a lot to do with how an insurance company rates the individual as a risk.
- Teenagers are very high risk, Individuals improve over time to become a better risk between the ages of 45 and 65 and by the time they are 70, they are again a high risk.
- Statistics show that drivers between the ages of 45 and 65 constitute 26% of all drivers in the country and only 15% of all accidents.
- Only 12 out of every 100 in the age group of 45 to 65 are involved yearly in accidents.
- While teenagers represented 9% of the drivers in the country, they represent 16% of the drivers involved in accidents and 14% of all fatal accidents.
- Taking the license to drive from an elderly person can rob the driver of independence.
- Older drivers have higher-than-average rates of accidents when measured by collisions that cause injury or deaths per million miles driven that is mitigated by the fact that they drive far fewer miles than most people.
- Drivers age 70 and older also tend to regulate their own driving by restricting when and where they drive.
- According to federal highway statistics drivers up to age 69, fatal accident rates are far lower on average than for people in their 20s.
- After age 70, accident rates gradually increase, and drivers 85 and older are involved in fatal crashes comparable only to 16-years-olds, the next-highest category.
- Experts say vision is not the main problem that older drivers face; it's their basic ability to drive safely.
- The regulation of older drivers differs from state to state.
- No state formally tests for cognitive impairment among drivers of any age.

- The American Association of Motor Vehicles Administrators, a non-profit group that coordinates policies among the nation's departments of motor vehicles, opposes testing on the basis of age.
- AARP, the advocacy group for people 50 and older, and the auto club AAA both argue that people should be allowed to drive as long as they can do it safely and effectively.
- Diseases such as arthritis, diabetes, Parkinson's, eye and ear ailments, and various forms of dementia such as Alzheimer's disease can combine to greatly diminish the capacity of older drivers.
- There were 19.1 million licensed U.S. drivers age 70 and older in 2001; That by 2020 that number will increase to 30.7 million.
- The motor vehicle administrators' group and AARP and other groups offer classes for aging drivers to help them identify problems that occur, as people grow older.
- Statistics from the Insurance Institute for Highway Safety indicate older drivers generally are as safe as other age groups until they reach 75, after which they tend to have more accidents.
- Drivers 85 and older are about as likely to be involved in a fatal crash as those ages 16 to 19, but they're more likely to die than others in car accidents because their bodies are frailer.

CHAPTER X: UNDERWRITING REVIEW

Government regulation of underwriting practices was virtually unknown until the 1970s. Rates, rating plans and contracts were regulated, but the actual selection process, the heart of underwriting, escaped regulation for many years.

Both state legislatures and departments of insurance began presenting challenges on the grounds that present practices were unfair to specified groups of consumers.

These challenges to underwriting practices came from different sources. Individual persons began some actions. Some consumer activism groups addressed issues, which included insurance underwriting. These groups and individuals challenged the business practices of many industries, and the property-casualty insurance industry was no exception.

The activities of these groups have had an impact on many business operations. Hiring practices, employee benefit plans, investment programs, advertising and other aspects of management have been affected. Insurance companies have felt these pressures since they share most of these operations along with other business ventures.

Underwriting has received its share of changes. Some of these changes are similar to those, which affect all businesses. Others are unique because of the special character of insurance underwriting.

These changes often prohibit the use of judgment based on experience as it is applied to specific factors.

The new requirement is that statistical proof must be established before certain factors may be used by underwriters, and this proof is not available in some cases.

Government agencies generally began imposing these rules on underwriting during the last half of the 1970s. The pace at which the laws and directives are introduced has since quickened, causing underwriters to wonder if they will be allowed to use any judgment in their decision-making process. Some wonder if rating systems will not completely replace underwriting.

Even with the loss of many of the usual underwriting factors, true underwriting can still be accomplished. Underwriting remains a vital function of insurance companies. In some ways, informed, knowledgeable underwriters are now more important than ever before. Prejudices, half-truths and insinuations can no longer affect the underwriter's judgment or be a part of the underwriting process. Underwriters must use facts and use them intelligently.

The following sections explain how underwriting can be done. The first section reviews traditional practices because the reasons for the old rules must be understood before the new rules can be used to obtain approximately the same net results.

Traditional Underwriting Practices

During most of insurance history, underwriting was an art, which was passed down from one underwriter to another. In the process, a body of traditional practices developed based on experiences with claims.

Losses of a certain type, even though infrequent, indicated patterns, which needed careful attention. As an example, over the years, the underwriter might notice accidents in automobiles, which were caused by drivers with physical impairments. Perhaps they were driving cars without proper equipment to compensate for their impairments, or perhaps they were not trained to use the equipment, which was installed. As another example, the underwriter might become aware that several losses were magnified because the policyholder could not be located to defend his or her actions in an accident.

From the insured's occupation, the underwriter might have realized that this instability was not unexpected, as movement to another job in another city was commonplace in persons of that occupation.

From experiences such as these, the underwriter gradually developed guides to types of risks, which presented more problems than normal. When a class of risks was identified through long experience as being somewhat of a problem, it was natural for the underwriter to place the class on an unacceptable list.

Underwriters recognized that there probably were acceptable risks within each class, but they felt that the efforts required to identify those risks were not justified by the few additional policies, which could be written. Investigation, which would be needed to find the acceptable risks, was expensive and there were pressures on the expense ratio. More importantly, underwriters were unsure how to identify the few desirable risks. It seemed more logical to refuse to write all members of the class than to spend money trying to find the few who might qualify.

Exceptions were made, but they were relatively rare, and usually based on strong recommendations of the producer.

This is the way that class underwriting developed. Based largely on the accumulated experience of underwriters, class underwriting was supported by the few statistics, which became available, such as those, which showed that past accidents and citations were predictors of future accident involvement.

Underwriters then prepared lists for the guidance of producers and new underwriters, showing the classes, which were not desirable. Various names were used for these guide lists, such as prohibited list, nonbinder list, restrictive list and ineligible list. (The latter was used before the development of the current distinction between "ineligible," meaning a risk which cannot be written under the company's filings, and "unacceptable," meaning a risk which the underwriter cannot find a way to write even though it is eligible. Today there are both ineligible and unacceptable lists, but the term "ineligible" formerly included both of them.)

The following pages list the more common of the unacceptable classes and explain why they were used.

Loss History

Underwriters considered the history of past losses to be the best predictor of future losses. A basic and very important part of underwriting is the estimation of an applicant's future loss potential. The record of past losses was secured whenever possible, and the losses were analyzed carefully.

For vehicle insurance, the accident record was used. For other liability and property exposures, the record of past paid losses was the best source. In all cases, the underwriter analyzed both frequency and types of losses.

From these studies of past losses, many underwriters prepared rules or guides on the maximum number of losses, which were permitted in order for a risk to be acceptable.

Accident Record

The accident record of the driver was the most important. It affected the underwriting of many personal and commercial risks. Several statistical studies have verified what underwriters had asserted for a long time: that a driver who has had accidents is more likely to have a future accident than a driver who has not had an accident. Furthermore, the more accidents a driver has had, the more likely it is that he or she will have future accidents.

The most recent three-year period was ordinarily used in statistical studies, as well as in underwriting. However, an underwriter was interested in trends and patterns and would give some consideration to a longer period of time if the information was available.

Accident Rates by Number of Accidents in a Prior Period

Statistics demonstrate that, as a group, drivers having accidents during one time period are substantially more likely to have accidents in a future period. Underwriters, unable to determine precisely which drivers would have accidents, tended not to accept those who had shown, as a class, that they would have more accidents in the future. Accordingly, the practice was to reject a driver who had incurred prior accidents.

The actual number of past accidents that were permitted depended on the rate structure and market orientation of the company. Whatever the number, underwriters tended to make a first screening by the accident record.

Fault

One refinement sometimes used was whether the applicant had been at fault in the accident. Studies of accidents, such as those conducted by the California Department of Motor Vehicles, include all losses, so there is no distinction between at-fault and other accidents. Actually, some people who study these factors feel that most accidents could be avoided by proper defensive driving, leading to the conclusion that even those drivers not charged with responsibility for an accident could have avoided it in many cases.

The next time, they may be held to be partly at fault, or the other driver may be uninsured, so a bodily injury payment must be made under Uninsured Motorists coverage, regardless of fault.

Finally, since the Motor Vehicle Reports (MVR) do not show fault, there is no means of determining the facts, short of getting a copy of the police report, which is time consuming. The only alternative is to accept without question the statement of the applicant, who is naturally biased and ordinarily unwilling to admit to fault. For these reasons, many underwriters did not consider the question of fault in an accident.

The number of past accidents over a period, such as two years, has been a fundamental guide to automobile underwriters. Often, the number of accidents was counted without regard to such refinements as severity or type because those factors did not appear to be as important a fact as accident involvement.

The MVR is the primary source of information concerning past accidents. Some information is received from questions on the application, but this was generally felt to be unreliable because people forget dates and circumstances and are inclined to minimize their own past errors.

An inherent weakness of the MVR is the fact that it reveals only accidents, which are reported to the department of motor vehicles. Many accidents are never reported. An accident, which results in no bodily injury and only minimal property damage, does not need to be reported. Even excessive losses might not be reported if the parties so agree and no law enforcement officer is involved.

An accident, which occurs on private property, does not need to be reported. An accident, which occurred in another state, may not appear on the MVR, although all states are supposed to exchange such information. Finally, some state recording of accidents is so slow or of such poor quality that the MVR reports are of questionable accuracy.

Thus, the MVR does not give all of the factual information about accidents. The underwriter, knowing the importance of complete information and predictability of future accidents based on past accidents, would try other sources. The previous insurer should have all accident data on file, so arrangements can be made to exchange such factual material. Neighbors of the applicant usually are aware of accidents, and inspection reports may elicit information from them.

Traditional underwriting practices, therefore, used all available sources to learn about past accident involvement of all drivers in order to avoid the writing of those risks which had incurred more than the allotted number of accidents during the past specified period.

Traffic Violations

The traffic violation record of drivers was almost as universally used as the record of accidents. In some instances, violations were even more important, especially for commercial risks.

Statistical evidence again supports the suspicions of underwriters that a driver who has had violations is more likely to have future accidents than a driver with no violations. The number of occurrences, as with accidents, indicates the likelihood of accidents in the future.

Two terms are used somewhat interchangeably by underwriters. "Citation" means that a law enforcement officer for an alleged infraction has cited a motorist.

"Conviction" means that a court has found the motorist guilty or that the motorist has forfeited bail, which is tantamount to pleading guilty. Both of these terms could be called "traffic violations." The difference is that some people who receive citations may be found not guilty and thus receive no conviction. To the extent that this occurs, underwriters should not use citations because some of them may not result in convictions, which would imply that the person involved was not at fault in the violation.

As a matter of practice, underwriters tended to use whatever was available. If both citations and convictions could be determined, the latter were used. If only citations were available, ordinarily they were used, without the expensive process of learning if an actual conviction resulted. The daily conversation of underwriters may have used either term, without implying that one or the other was more likely to be used in underwriting.

Types of Traffic Violations

Traffic violations come in varying degrees, from very serious to harmless. Underwriters, in an effort to develop a workable arrangement, tend to divide violations into the following three groups:

- 1) Major. These are the most serious. Drunk driving is the most common. It is customarily called DWI (driving while intoxicated) or DUI (driving under the influence of intoxicating beverages). Also included are such violations as reckless driving, hit-and-run, involuntary manslaughter, driving while a license is suspended or revoked and engaging in a speed contest on public roads.
- 2) Other Moving Violations. The bulk of the remaining violations are in this group. Included among them are speeding, improper turns, improper lane changes, tailgating, failure to yield and failure to stop for a traffic control device.

3) Equipment Violations. These are citations issued for defective lights, improper equipment, no inspection sticker and similar violations.

Underwriters would look at the kind of violations, the frequency and the time period. For example, one major violation might have been permitted during the past five years, but none in the past three years. Not more than two other moving violations may have been permitted during the past three years.

Equipment violations seldom were included in rules, but they do give an underwriter a clue to the maintenance of the vehicle and the responsibility demonstrated by the owner.

Law enforcement activity varies among the states. Some state patrol departments are more active, and more inclined to give citations, than others. An underwriter tried to learn of the practices in those states which his or her office handled, and to take this into account when judging the weight to be given to citations.

However, any frequency of citations was a cause for underwriting concern. If some states give few citations, and most drivers seldom are cited for their infractions, it was even more serious when an applicant showed a long string of citations. Some underwriters considered citations to be more important than accidents because an accident can be subject to such outside influences as weather and road conditions, while citations are issued only if the driver violates a law.

There is seldom any means of discovering a traffic violation record other than with an MVR. However, tendencies toward speeding, reckless driving, neighbors usually know "jackrabbit starts" and other unsafe practices. The traditional underwriter sometimes ordered an investigation report, requesting specific information on such practices from neighborhood informants. A tendency toward unsafe driving, whether demonstrated by citations or not, is cause for concern to the underwriter, and it is considered to be good underwriting to use the complete driving record in the selection process.

Nonverifiable Record

One problem with the driving record remained. The underwriter was sometimes unable to acquire the driving record, either because it was unavailable or because the driver was newly-licensed. Judgment had to be used in these cases.

A driver who recently moved into the state should have had a record available from the previous state. The former driver's license number was usually requested, so that an MVR could be ordered from that state. But what about a driver whose record could not be secured? For instance, picture an applicant who had just returned from a three-year stay in Saudi Arabia, where he worked in the oil refineries. He said that he had no accidents or citations, but how could the underwriter verify this? Was it proper to write such a risk at the preferred rate?

Consider another applicant, one who had only recently been licensed (usually this was a youth, but sometimes older people do not learn to drive until later in life). With no record, could the underwriter assume that the record would be clean during the coming year? In cases like this, underwriters often applied a surcharge as a means of protection against the unknown exposure or used this as one factor in the selection process. Both non-verifiable driving records and newly licensed drivers were considered to be factors of concern to underwriters.

Property Losses

The record of past losses of the types for which coverage was requested was important to property underwriters. For example, on homeowner's policies, information was desired on past fires, windstorm damage, thefts, vandalism and other perils, if included in the policy.

Unfortunately, the somewhat accurate information, which can be secured, on accidents incurred by automobile risks is not available to underwriters for other lines. There are no studies by government bodies, which indicate the average loss expectancy of dwellings and commercial risks. Also, no government body collects or disseminates information about past losses.

The claims files of an insurer could be used by an underwriter in an attempt to determine expected loss frequency and the effect of past losses on future claims. Underwriters did make such studies, although the results were seldom conclusive. The best conclusions seemed to be that a condition, which caused past losses would, if not corrected, cause future losses. Inadequate wiring, a worn roof and a pattern of burglaries in the neighborhood would be cause for concern as to future loss expectancy.

The problem of how to find out about past losses still remained. An underwriter could use the company's claim records on policies, which had been on the books for a period of time. On new business, there was no equivalent to an automobile insurance risk MVR. Most applicants were asked about past losses, but underwriters considered their answers unreliable.

The only solution was to secure the actual loss information from the previous insurer, and a practice developed of exchanging such information. This practice was similar to that used by automobile underwriters to secure information on losses which were not reported to a department of motor vehicles. By reciprocal arrangements, underwriters could exchange facts about losses on policyholders.

Property underwriters seldom established rules as to the number of losses, which were permitted. Rather, they weighed the numbers and types of losses against other factors.

The type of loss was particularly significant. A fire from inadequate wiring probably would be repeated unless the wiring problem was corrected. A small loss from negligence, such as from a cigarette in a sofa, or from a grease fire in the kitchen, might well have been a large loss under less fortunate circumstances, and the next one might be a total loss.

On the other hand, a series of unrelated or relatively uncontrollable claims might not be a cause for concern; an example is a theft of a bicycle from the yard, a hailstorm which marred the paint on one side of the house and water from a stopped-up sink, all which occurred within a period of three years.

Commercial property underwriters followed similar practices. They secured information on past losses from any available source and weighed the factors without establishing firm guide rules.

Liability Losses

Personal or commercial liability losses were handled in the same way as property losses. Again, no government source was available for analysis or as a source of information. Facts about past losses were often secured from prior insurers. The frequency and types of losses were analyzed, and a decision was made, using no specific rules.

On personal lines, the degree of control and the steps taken to correct the situation were the most important. A vicious dog, an unfenced swimming pool and a broken step on the front porch are examples of hazardous conditions, which an underwriter might have used as reasons to reject a risk, if uncorrected.

On commercial lines, different occupancies caused more varied hazards, but they were handled the same way as personal lines. An underwriter would be concerned about slip-and-fall claims in a market, loose carpeting in a restaurant and blind intersections in a shopping center. As with other types of losses, the aim was to find the previous loss pattern, analyze the causes, determine the corrective steps taken and compare this information with other factors before arriving at a decision.

Lines of Insurance

The above discussion concerning driving records was concerned primarily with private passenger automobiles, because the picture can most easily be visualized there and because that is where the largest volume lies. However, the same principles apply to other lines.

COMMERCIAL LINES

The driving record was considered to be as important on commercial as on personal vehicles. A truck driver who had several accidents or received several citations would not be considered as good a risk as one whose record was clean. The most common rebuttal was that many truck drivers drove many more miles than the ordinary person and were more likely to have accidents or receive citations. This argument was refuted by the existence of many drivers with excellent driving records.

Not only did underwriters use the commercial driving record in reviewing commercial risks, they also used commercial accidents and citations in personal underwriting and vice versa. A driver who had problems while driving a truck would most likely have the same problems with a personal automobile. Similarly, the type of driving which would cause accidents in a personal car would also cause accidents in a commercial vehicle. Many state MVRs did not show the type of vehicle, so all underwriters tended to use the complete driving record.

Boats

The driving record on a vehicle tended to demonstrate the attitude of the operator toward safety and the rights of others, underwriters felt. Thus, the operation of a boat would be subject to the same personality traits that affected the operation of an automobile. For this reason, the automobile driving record, as shown by the MVR and other sources, was used by boat underwriters. The more powerful the boat, the more the concern that was given to the driving record.

Dwellings

The link between the driving record and the maintenance of a home was less direct. However, underwriters felt that the attitude of a person toward owned property was demonstrated by the driving record. A person who drove with reckless abandon would tend to maintain a home in the same manner. Since maintenance of the home was an important factor in the underwriting of residential fire insurance, the driving record was one consideration used in some cases.

Condition of Property

Although the attitudes and habits of the insured were of primary importance for the underwriting of most insurance lines, the condition of property was not far behind. Almost all types of insurance involve property in one way or another, whether it is a vehicle, a building or personal property. Underwriters were concerned when the property was not maintained in good condition because this not only led to more losses on the property; it also indicated that a person lacked responsibility.

Condition of Automobile

A vehicle, which was in poor condition, perhaps with un-repaired damage, was usually unacceptable to most underwriters. Physical damage coverages could not be written because of the difficulty of determining whether new or old damage needed repair after a loss. But liability coverages were also refused in many cases on the grounds that the poor maintenance showed that the owner was not interested in presenting a good appearance, which could give an unfavorable impression to a jury in case of a lawsuit. Furthermore, an owner who was not interested in the appearance of the vehicle was probably not interested in its mechanical maintenance, which could lead to accidents because of faulty brakes or steering.

The opposite of poor maintenance was also a concern to underwriters of vehicles. These were the cases when owners would paint or otherwise alter the vehicle in a manner, which would either make it a show-off car, a high performance car or both.

Many types of alterations were used: decals, mag wheels, wide tires, raised rear ends and many more. Sports cars were the earliest and most often involved, but vans and pickup trucks were soon altered in similar fashion.

The problem, to an underwriter, was that these people exhibited strong show-off tendencies, which could lead to taking unnecessary chances and careless driving. Underwriters also felt that if the power of an engine were increased, it would be used.

Condition of Buildings

A building, which was poorly maintained, was unacceptable in many cases. The appearance of a building gives a good indication of the attitude of its owner or occupant. A lack of concern is indicated if a dwelling needs paint, has broken windows or has a yard littered with old tires or abandoned cars. It was felt that such an occupant would not properly maintain the electrical or heating systems, and this neglect could lead to losses. The same feeling applied to commercial buildings.

"Pride of ownership" was a phrase used by underwriters to indicate a desirable situation. It indicated that the occupant or owner desired to maintain the appearance and condition of the building. Where "pride of ownership" was present, the risk was usually acceptable for fire insurance.

Even automobile insurance was affected by the condition of the building. Underwriters reasoned that the same attitude, which caused a person not to care about the appearance or condition of a dwelling, would be reflected in driving habits.

A person who was not concerned about the effects on other people of poorly maintained property would not be concerned about their rights on the highway. Safe driving is largely a matter of attitude, so underwriters tended to not accept automobile applicants who demonstrated a poor attitude toward their property and neighborhood. Some automobile insurance was rejected because of the poor maintenance of the dwelling in which the applicant lived.

Age of Buildings

The age of a building is an important factor in its condition. After a few years, buildings can present problems from worn-out and obsolete systems. Electrical circuits deteriorate, and the addition of much new equipment such as appliances in a home can result in an overload. Heating systems wear out and controls can fail, which could lead to losses. Plumbing systems deteriorate and can cause losses under policies, which insure water damage. Unless the electrical, heating and plumbing systems had been modernized, underwriters would not accept older buildings.

"White elephant" is the term used to describe a building designed for occupancy, which is no longer efficient or practical. Such a building is relatively old, having seen the area around it change. One example is a dwelling in an area, which is now so completely commercial or industrial that it is not suited for residential occupancy.

Another example is an old commercial building, which has not been remodeled to handle current technology and really cannot be so adapted economically. Every large city has examples of old manufacturing plants which cannot meet today's air pollution or energy-efficient standards, and which would cost more to adapt than to build a new plant.

Underwriters were cautious in handling such risks because an extreme moral hazard could be created when a building is worthless as it stands. The owner may actually be better off financially if the property is destroyed rather than maintained. This situation created a classic moral hazard, which might have made the risk unacceptable.

The age limit used by underwriters depended somewhat on the territory. As a general rule, dwellings over 25 years of age were written cautiously, and those over 50 years were handled with extreme care. Commercial buildings were given more latitude, but the same concerns were present.

Inspection reports were ordered frequently on older buildings in order to secure information about condition and upkeep. Photographs were also common, either in conjunction with an inspection report or with the application on all buildings over a specific age. The ordinary inspection reports and photographs gave information on the general condition of buildings, but did not answer the critical questions about electrical, plumbing and heating. Only a complete engineering type of report gave good data on those items, and such a report was too expensive to use on dwellings and small commercial buildings.

For the above stated reasons, underwriting guides usually contained a specific age beyond which risks would not be written. Experience had taught underwriters that older buildings often presented abnormal hazards, and it was too expensive to secure reliable reports, which would indicate if the conditions actually existed in specific risks. Most older buildings would not be acceptable, so the class was placed on an unacceptable list. Exceptions would be made only in extreme cases.

Value of Buildings

The value of a building depends upon its size, age, location and type of construction. Values can be quite low where there is a combination of great age, small size and substandard construction. On dwellings, any one of these factors can result in very low market value and actual cash value.

A good clue to the desirability of a building is its valuation. A low value may indicate an old structure with the inherent problems described above. A small amount of insurance may reveal that the size of the building is small, which increases the likelihood of total loss. Also, low value may be caused by construction, which does not comply with current code requirements, or by the use of substandard materials.

On dwelling and homeowner's policies, the replacement cost provision is included in almost all forms. A requirement of this provision is that the dwelling be insured at least 80 percent to replacement cost. An older structure usually has a substantially lower actual cash value than replacement cost. For example, a 35 year-old house may have a replacement cost of \$100,000, but an actual cash value of \$50,000. Even at 80 percent, the minimum to replacement cost is \$80,000, which is \$30,000 more than the insured might expect to receive in a sale.

Such over-insurance was felt to create an invitation for arson, and the moral hazard was considered to be too great. For this reason, underwriters would not write these policies on dwellings where the disparity between replacement cost and actual cash value was too great. Sometimes the rule took the form of a blanket prohibition on homes over a certain age, as a simple means of achieving the desired result.

Valued policy laws created special problems on valuation. In states where they apply, they raise the spectre of over-insurance because they require payment of the policy's face amount in case of a total loss. A moral hazard is thus created in some instances because a property owner can actually collect more than the value of the property by purchasing insurance for a higher amount. In those states, underwriters were careful about the amount of insurance, and sometimes refused to write coverage where they suspected that over-insurance might be present.

Occupancy of Buildings

The type of occupancy had a substantial effect on the desirability of a building, as underwriters saw it. The occupancy could substantially increase the chance of loss, so certain occupancies were on the unacceptable list.

On dwellings, owner-occupied homes were considered to be preferable. Tenant-occupied homes were underwritten very cautiously, and vacant structures were on most lists of undesirable risks. Business occupancies in a home were not accepted in many companies, and underwriters even rejected any dwelling where the hazard was increased by such hobbies as picture-frame making, furniture refinishing and antique collecting.

On commercial risks, the occupancy is obviously an important factor of desirability. Even in this class, however, underwriters often tended to list many occupancies as unacceptable, without considering that the risk could be reduced substantially by the use of firewalls, segregated operations, automatic fire extinguishers and other protective measures. Protective devices can be used to improve almost any building. Fire alarms and burglar alarms are effective in all structures. Smoke alarms are helpful in dwellings. Burglar alarms, dead bolts, barred windows and similar measures can help to prevent theft losses in both commercial and dwelling buildings. Fences and walls can help liability exposures where there are such hazards as swimming pools.

Underwriters used inspection reports to obtain information on occupancy and protective devices. Full inspection reports were used, with information secured from neighborhood informants or from the insured. Producers were asked to secure data, and photographs were required in some cases. Even drive-by inspection reports gave some information on occupancy and other important factors.

Effect of the Neighborhood

Even though the condition of property was faultless, a risk might be undesirable because of the neighborhood in which it was located or garaged. Thefts, fires and vandalism can cause damage to property, no matter how well it is maintained. The environmental hazard is important in almost every line of insurance.

A stable or improving neighborhood was desired by underwriters. A deteriorating neighborhood pointed toward so many problems that acceptability lists often specified them, either by a general description or a specific delineation of a territory.

"High-crime" and "urban core" areas were other terms used to describe deteriorating neighborhoods. In such areas, automobile theft and vandalism is high, particularly if the vehicle is not kept in a garage at night. Thefts from dwellings, vandalism to homes and even fires in residential property can be caused by the conditions in the neighborhood, regardless of the maintenance and housekeeping of the dwelling itself. Robberies in such commercial occupancies as liquor stores and gas stations generally are more common in these areas, and theft from warehouses and other occupancies is greater.

A neighborhood can be a hazard to property, even if it is not of such a nature that it could be called "deteriorating." A dwelling in a commercial neighborhood is more likely to be damaged by fire from an explosion in a nearby chemical factory or a fire in a neighboring lumberyard. If the neighborhood is a forest or brush area, a building can be exposed to serious fire losses.

These increased hazards were recognized by underwriters. Experience with risks, which were exposed to such chances of loss, were enough to convince an underwriter that the rate did not contemplate such exposures. Rules were adopted that prohibited the writing of risks, which were garaged or located in hazardous areas. These rules applied to automobile, dwellings and commercial risks, and for most types of policies.

Automobile and commercial vehicle insurance is affected by the age of drivers. Even homeowner's insurance may show different loss patterns by the age of occupants.

Youthful Drivers

Youthful drivers are involved in a substantially higher rate of accidents than are all drivers. Drivers under age 30 comprise 33.9 percent of the motoring population in the United States but are involved in 51.1 percent of all accidents.

Traffic fatalities also are considerably higher for youthful drivers than for the average, according to data compiled by the National Highway Traffic Safety Administration and the Department of Health, Education and Welfare. The Highway Users Federation analyzed the data and stated:

"...In applying U.S. Census Bureau projections...the traffic fatality rate per 100,000 population was 53.3 for 18 year olds, more than two and one-half times the national average of 21.1 for all ages. The only other age with a fatality rate greater than 50 was 19 year olds, with 51.7 per 100,000..."

Elderly Drivers

Elderly drivers have also presented problems. As a person's reflexes slow, the ability to react is reduced. Thus, as muscular flexibility drops, the ability to see behind when changing lanes or backing out of a parking space is reduced. Probably every driver will someday be a problem, unless death intervenes before that time or the person stops driving.

One of the conclusions of the UCLA-DMV Driver Vision Research Project, was that:

"...mileage is a factor related to accidents. When miles driven...adjust the accidents we find that older drivers have high accident rates per exposure unit. The adjustment of accident rates by mileage results in the younger and older drivers having the highest accident rates, where the middle-age drivers have the lowest."

Furthermore, the director of the California Department of Motor Vehicles was quoted as saying that:

"Notwithstanding that older motorists drive less, and compensate for their handicaps by greater caution, the accident involvement of drivers over 75 is almost as great as that of drivers under 20. Insurance companies know this. Their reluctance to renew the auto insurance of the elderly accounts, as much as anything, for older people giving up driving."

According to the above article, the four principal handicaps of older drivers, are "diminishing vision, hearing, reaction time and reduced ability to understand complex traffic situations."

Another research project on elderly drivers, which concluded: "All groups in the automobile insurance industry are in agreement that senior drivers present a serious problem today. There is every indication that the problem will increase sharply, if for no other reason than the increase in the number of potential senior drivers."

While senior citizens must be defined in terms of the commonly used chronological age bracket of 65 years or over, it is apparent that functional age would be a more accurate criterion in evaluating the physical abilities of a senior citizen. It is true that gradual deterioration of body functions begins at birth and gradually becomes more pronounced in differing degrees for each individual. At present, there is no suitable method of measuring gradual physical body breakdown. Thus, it is necessary arbitrarily to categorize the senior citizens as being 65 years of age or older."

Faced with conclusions like these, underwriters naturally tightened up the acceptability rules for senior drivers. At the same time, surcharges were imposed for operators over age 65, sometimes in steps as the age progressed.

Most automobile insurance rating plans have reduced rates for lower annual mileages. Since most elderly people drive fewer miles, they got the lower rates. However, as indicated previously, their accident rate is high when compared with mileage. Thus, the results were poorer for this age group.

Age Restrictions

Underwriters used age restrictions as a means of controlling the problems caused by age. Rate was considered inadequate to handle the exposures. Youthful driver rate classes were unprofitable for many years. Elderly drivers were eventually surcharged to compensate for the added exposure, but these surcharges were later removed under pressure.

Underwriting rules were common, as they referred to the age of the drivers. Those under age 25, sometimes-even age 30 were not written alone. If the insurer handled the family's business, a youth's car may be written but not otherwise. This was particularly true for unmarried youths. The rule often excluded drivers over age 65, 68 or 70, unless the risk had been insured with the company for a period of time prior to arriving at that age.

Commercial vehicle insurance was subject to the same factors and often used the same rules. Inexperienced, immature, youthful drivers could be a real hazard when driving the many miles required of most commercial operators and the large trucks often used. A truck fleet, which hired such youthful operators, was underwritten with extreme care. Some underwriters preferred to exclude all drivers under age 25. Elderly drivers were usually removed by mandatory retirement plans, but where they did continue to drive, cautious underwriting was used.

Even dwelling fire insurance was affected by the age of the insured. Elderly residents often were unable to maintain the premises properly because of lack of income and loss of mechanical ability. The property often tended to be older. Also, there was little

possibility of desirable related business, such as automobile or life insurance. While age rules were seldom published as such, underwriters used caution in writing residential fire or homeowner's insurance on elderly people.

Youthful occupants of a home or apartment were more likely to have low values in personal property, and less stability, than middle-aged persons. Minimum value rules sometimes excluded this class. Age rules alone were seldom used, but other factors were significant. The most important of these other factors were sex and marital status.

GENDER

Underwriters have long recognized that there are differences between the sexes from an insurance standpoint.

Automobile accident involvement differs considerably by the sex of the driver. Males have a higher percentage of accident involvement at every age bracket. Males have 1.7 times as many accidents as females.

Another report showed a different automobile insurance problem. The Traffic Injury Research Council of Canada related a study of the driving habits of Canadians and gave the findings in its annual conference report. It revealed that "during a random sampling of motorists over a period of months, the percentage of males discovered drinking while driving was twice that of females."

Based on such studies, plus experience, underwriters often refused to write youthful male drivers as a class, particularly when they were not married.

MARITAL STATUS

Underwriters preferred married persons living with their spouses and with one or more children. It was felt that this group had stability and predictability, avoiding the increased hazards and uncertainties of other types of living arrangements.

Mingles

The term "mingles" refers to those people of opposite sexes who live together as though they were married, but who actually are single.

This type of living arrangement is not new. It probably has existed during most of history. It has been called by different terms, such as "cohabitation." In many states, the continuation of this arrangement can lead to common law marriage, which can have the same impact on insurance underwriting as the more traditional type of marriage.

The problem with mingles from an insurance standpoint is the instability and lack of certainty about the future. An automobile underwriter likes to know who will be driving the car, and with the temporary arrangement of mingles, this cannot be known. A homeowner's underwriter wants to know who owns and who will be using the property, and again the mingles situation makes this uncertain.

The difficulty is that one who mingles may change living partners with ease. If an automobile policyholder is a young woman, her present mingling partner may be acceptable as an occasional driver, but what if he leaves and another man takes his place?

The underwriter would not know of his driving record, if indeed any notice was given of his presence in the "home." Or, worse, the other partner might have a poor driving record, but has his own car, so it is alleged that he will never drive her car. Underwriters would not accept that allegation, believing that if her car was blocking his in the driveway, or his car was in the garage for repairs, he would use her car to run down to the market.

In many states, permissive users cannot be excluded, and in others, they can be excluded only by name. Therefore, it is not a viable alternative in many cases to cover one partner and not the other. The problem remains even if the present partner is acceptable and provision is made for notification of any change of partners, since the cancellation laws could restrict an underwriting action on an existing policy if a new partner was unacceptable.

Homeowner's policies generally cover personal property "owned or used by the insured." Suppose that a policy is issued to a young woman living alone. Then a young man moves in with her under a mingling arrangement. Serious questions arise as to the extent to which her policy insures his property. If he supplies a television set and other furniture, could it be said that she does not "use" them? At best, the risk is almost certainly not insured to value. At worst, his property or his living habits might not be acceptable, but his presence may not be revealed to the underwriter. Even if it were revealed, it would be costly to investigate him, and again the law might prohibit underwriting action.

For these reasons, underwriters did not want to write insurance for people who were in this type of living arrangement. The guides to unacceptable risks often included such items as "unmarried persons living together."

Such guides did not say that unmarried persons living together were prohibited. There were situations, which were acceptable. If the arrangement was quite stable, the underwriter could conclude that the inherent instability of this lifestyle was not present in this case.

At some point in time, a common law marriage was assumed by the laws of many states, or the underwriter could assume that a similar result had been attained. When the arrangement between two people had continued for five or more years, or some such period, many underwriters would accept the risk, if other factors were satisfactory.

Single, Separated, Widowed and Divorced

Builders of homes have adopted the abbreviation "SSWDs" to refer to the "single, separated, widowed and divorced" people who are buying homes in increased numbers. Members of this group have caused concern to underwriters for many years, both in homeowner's insurance and automobile insurance.

The basic problem with SSWDs is instability. In many cases, the present is filled with turmoil and the future is uncertain.

Singles of any age are generally less stable than married persons. This is reflected in their driving of automobiles. Single drivers for both sexes have more than one and one-half times as many accidents as married drivers. This problem also carries into property insurance, because these persons tend to travel more and may live with different persons of the same or the opposite sex.

Separated persons offer a special problem with instability. Being neither married-living-with-spouse nor divorced, their future is unknown. Emotional problems often exist, which can adversely affect the driving. If the insured on a homeowner's policy is separated, there may be inadequate arrangements for the maintenance of the property.

Widows and widowers are the best of this group. There is more likely to be an emotional adjustment after a period of time which can be traumatic. Both associates and future living conditions may be uncertain. Many of the people in this category have adjusted well, but some have not, and underwriters needed to determine the group to which an individual applicant belonged.

Divorced persons present insurance problems, particularly during the early stages of the divorce. Emotional turmoil is common, often having an adverse effect on driving patterns. Problems arise concerning the division of property, as well as its care and future location. Some divorced persons go through a period of extreme social activity, which can affect all aspects of their lives.

All unmarried persons presented potential difficulties to underwriters. Not every individual was a problem, but it was not easy to separate them. The type of investigation, which could reveal the facts, was not always available or practical. Therefore, underwriters often listed unmarried applicants on caution lists, to be written only if the potential instability and emotional problems were not present.

OCCUPATION

The occupation of an applicant has long been considered to be a good indication of the chance for future losses. Occupation was felt to show the type of exposures, which could be expected, as well as the inherent hazards of some occupations.

Travel

Certain occupations seem to offer increased chances that a loss will occur because of excessive travel. Some automobiles are driven far more than the average because of the requirements of the job. Sales people who use their cars in their work are a prime example. They may drive considerable distances every day. In addition, their minds may be more on the sales approach, which they will use with the next prospect than with the road conditions around them. The increased mileage and possible inattention were believed to present greater potential for loss than the average driver.

These same travelers also caused concern to the underwriters of homeowner's and theft policies. In this case, all occupations, which involved a considerable amount of travel, were suspect, even though the travel was by air. Persons who travel overnight must take clothes, toiletries and incidentals, and these are usually packed in luggage, which is fairly compact. The ease of transporting the luggage makes it easy for thefts. Many occupations involving travel will require an above-average wardrobe, whether to impress a sales prospect, to give a neat appearance before fellow employees in other branches or to look impressive when speaking before a group or meeting.

The luggage may also contain samples, valuable articles, cameras and other targets for thieves. There have been actual cases where a diamond merchant was robbed of the display stock, which he or she was taking to a sales exhibit, with the loss in the hundreds of thousands of dollars.

Coupled with this propensity for transporting expensive articles in compact containers is the fact that the property often is left unattended in exposed places. Airline terminals and hotel lobbies are places where luggage often is left for periods, which are long enough for thefts. Luggage is left in motel and hotel rooms, and many employees of a transient nature have keys, which can provide easy access into rooms. A person who travels by car may leave both personal and business property in the car, unattended, while in a restaurant, a gas station or while checking into a hotel or motel. A traveling salesperson, conscious of his or her appearance, may have a number of expensive suits or other clothing inside the car—a tempting target for a thief.

For all of these reasons, underwriters used rules, which attempted to exclude from acceptance those people who traveled extensively. Automobile underwriters used a rule like "persons who travel more than 25,000 miles in a year."

Homeowner's underwriters used such rules as "applicants who travel extensively in their work" or "applicants who are away from home on business more than 15 weeks a year." Commercial crime underwriters specified protective measures for high-valued property, which might be carried in the course of business, and refused those who did not comply. The measure of actual increase in exposure, in all cases, was difficult, so underwriters tended to refuse those applicants whose travel exposure appeared to be above average, using cut-off points which had been determined by experience with past losses.

Transients

Some occupations are of the transient type. Requiring little training in most cases and offering few benefits by longevity, these jobs attract the "floater." Many of these people prefer to move around frequently. They do not want to be tied down to one job or to one location for a long time.

Some of these occupations are relatively unskilled, and neither requires nor encourages remaining on one job for an extended period. Examples are restaurant and cocktail bar employees (dishwashers, waiters, cooks, etc.), car washers, bowling alley employees, hotel employees (maids, bellhops, desk clerks, etc.), pool hall employees, service station attendants, janitors and domestic employees.

Other occupations of the transient type may require more skill, but the nature of the work seems to encourage drifting. Examples of these are barbers, beauticians, merchant seamen, oil field and mine workers, house painters, dockworkers, bartenders, commercial fishermen and taxi drivers.

Still other occupations require movement in order to follow the seasonal patterns inherent in these jobs. Some examples are circus and carnival employees, construction workers, farm laborers and race track employees.

Certain other occupations that require a transient type of living can pay large salaries, which increases exposure to drugs, alcohol and theft. This category includes professional musicians, actors and actresses, dancers, other entertainers and professional athletes. Among other hazards is the increased exposure to suit because of the prominence and income of many of these people.

All of these groups were underwritten with great care. The lack of stability was believed to increase the chance of loss on a automobile and homeowner's lines. Being transients, policyholders might be difficult to locate if testimony were needed for a court defense, or if a signature on an endorsement were required. Premium collection might be more difficult. Occupations of these types were listed by underwriters on caution or unacceptable lists.

Other Types

Certain other occupations presented unique situations, which concerned underwriters. Some of these might be unexpected, while others are logical even to a person not trained in underwriting. These occupations appeared on many underwriting lists and were handled with care by personal lines underwriters.

Military risks often combine many of the undesirable features of automobile insurance: youthful drivers, unidentified permissive users and frequent transfer to new locations. For years, many underwriters refused to write military risks because of these problems. Later, some exceptions were made in the rules for older members of the armed forces (over 30 years of age, for instance), for those in the higher pay grades and for commissioned officers.

Sometimes exceptions were made for those who lived with spouses off base. These exceptions were made with care because of the inherent problems associated with this group.

Students were excluded for many of the same reasons as military risks. Inexperience, lack of control over driving and a tendency toward long weekend trips were areas of concern to underwriters. Again, students who were married and living with spouses were often accepted. Otherwise, the group was rejected, unless the company also insured the family of the student.

Illegal activities were the mark of a number of occupations, all of which were excluded as completely as possible by underwriters. Drug smuggling, importation of illegal aliens and similar activities were those intended to be kept out by the general classification of "those engaged in illegal activities." Aside from the ethical questions involved in furnishing insurance to such persons, there were the increased hazards of night driving, possible shootings and unfavorable impressions as witnesses. Any occupations, which appeared to fall within these categories, were excluded from acceptance.

STABILITY

A thread running through many of the foregoing factors is the stability of the applicant. However, stability itself can be a requirement for all lines of insurance.

In personal lines, underwriters requested information on a number of areas, in order to determine the degree of stability. How long has the applicant been on the present job? How many jobs has he or she held in the past few years (specified number of years)? How long at the present living location? How many addresses in the past five (or so) years? Rules often were established to determine acceptability based on these items.

The types of residence and address also were considered. An automobile applicant who lived in a hotel or motel was not accepted by many underwriters, because such living quarters ordinarily indicated a transient, unstable type of person. Likewise, if the mailing address was a post office box, the application was declined. Underwriters were concerned with possible difficulties in locating the insured in case of suit and the ability to collect premium.

Tenants, as a class, were known to change their living addresses more often than owners of homes. Every move changes the exposure to loss—on automobile because of neighborhood crime patterns and unfamiliar traffic, and on property because of physical characteristics of the property and environmental hazards. Many times, a tenant will move and not notify the insurer, thereby causing coverage questions. The loss ratio on tenant homeowner's policies was almost always higher than on other forms, which appeared to

substantiate the fears of underwriters. For these reasons, tenants were less preferred than homeowner's, and underwriting rules often reflected this feeling.

Many of the questions asked by underwriters on applications were designed to show the stability of the applicant. Combinations indicating instability were cause for rejection, along with specific rules concerning the number of jobs, the number of moves and how long one resided at the present address.

In commercial lines, stability was indicated by the length of time the applicant had been in business. Small retail stores and service establishments were particularly subject to bankruptcy after only a short time in business. Various studies have shown that only a small percentage of business ventures survive the first few years. One writer on the subject put it this way:

About 600,000 new businesses open their doors in the United States each year. Almost an equal number quit and go out of business. Only about one in five new businesses lasts as long as 10 years—some go bankrupt and others close up shop after paying off their creditors.

For a new business, a reputation is not yet established, inexperience is common and under-capitalization is not unusual. If a business fails, the insurer may have difficulty in collecting premiums due. The moral hazard is increased if the owner sees the business starting to fail. Maintenance of equipment also suffers because of the lack of funds.

Commercial underwriters often used rules to attempt to screen those risks, which have not demonstrated their stability. A common requirement was that the applicant must have been engaged in the business for at least one year.

SOCIAL MALADJUSTMENT

People who have difficulty coping with today's economic system exhibit a type of instability. Those who are on welfare or who have trouble with credit collection agencies are underwritten cautiously.

ATTITUDE

The attitude of the applicant is a major part of the concern of underwriters in personal lines. Maturity and responsibility are critical in driving a car and in maintaining property. Attitudes toward the rights of others and one's relationships with others demonstrate the type of person who is applying for insurance.

The importance of attitude is expressed in the following comments from an article on underwriting:

"As part of the 'Fatal Driver Profile' compiled by the U.S. Department of Transportation, investigators conducted a separate psychological evaluation of more than 200 fatally injured drivers who were found most responsible for fatal accidents in the Baltimore area over the past five years. To determine the attitudinal characteristics of these drivers, family, friends and colleagues were interviewed. It was found that these drivers were significantly different from the norm, displaying more belligerence, negativism, verbal expansiveness and general psychopathology, regardless of their age or alcohol involvement. Analysis of the Baltimore data indicated a slight correlation with alcohol usage, but not with age, prompting investigators to conclude that psychological factors might be more important than either age or alcohol use in causing fatal accidents."

Faced with this type of information, underwriters attempted to determine the psychological make-up of applicants. A risk was declined if the "attitudinal characteristics" were not normal.

CRIMINAL RECORD

Sizable shares of all crimes are committed by persons with a prior record of criminal activity, according to many reports.

A person who had been convicted of a crime was considered by underwriters to be more likely to commit another crime than a person who had no police record. Furthermore, the associates of a person with a criminal record were believed to be less trustworthy than average. Automobile underwriters were concerned with driving attitudes, particularly as they involved the rights of others. The possible use of the automobile in a crime or its use by unsavory associates also was considered. Court appearance in case of suit was still another factor.

Homeowner's underwriters were aware of the impact on maintenance of property if the insured had no sense of personal responsibility. Parties attended by other criminal elements might cause damage to the premises. Both moral and morale problems were felt to exist.

Commercial underwriters had special problems, because employees of many firms handle money, drive expensive equipment or work on loading docks with valuable products. The opportunities for committing a crime are legion in most commercial establishments. Underwriters were uneasy if employees in such situations had criminal records. An extreme situation was presented to bond underwriters, where the honesty of the employee was the subject of the protection.

Every line of insurance was adversely affected if the insured, an associate or an employee was more interested in causing a loss than preventing it. A past record of crime convictions was felt to be a fairly reliable indicator that such a person might cause a future crime. For these reasons, most underwriters listed persons with a criminal record as unacceptable.

MENTAL INCOMPETENCY

A lack of mental competency can create all kinds of problems for insurers. Such a person can cause direct damage to persons or property. Inattention and lack of proper care of property can lead to serious consequences. Defense in a court suit is greatly hampered by evidence of mental incompetency. The very uncertainty caused by this condition may be the greatest difficulty because the entire structure of insurance is built upon the ability to predict the future from past events.

There are many degrees of mental incompetency, of course. Some such people can operate very well in society, with few associates ever learning of the impairment. Others are generally harmless but can change quickly. Some of these people are docile while others tend to be violent. When the condition gets too severe, forcible detention in an institution is needed, although under modern treatment it is often preferable to release the patient to family members if possible. Some people have been hospitalized for treatment of mental or nervous conditions. Whether this means that the person is "mentally impaired" is a matter of judgment. There are so many factors to consider that definition is difficult.

An underwriter cannot be expected to distinguish the problem cases from the harmless. The increased chance of loss from those who might be violent or irresponsible is so great that underwriters felt that they did not dare to take a chance, trying to accept those who appeared to be "safe." Accordingly, it was common practice to exclude all persons who had given evidence of mental incompetency.

PHYSICAL IMPAIRMENTS

Insurance underwriters were taught that selection; classification and rating were based on the Law of Large Numbers, which operated only with a large number of relatively homogeneous risks. Individual applicants who did not fit within that pattern were a matter of concern to underwriters.

Persons with physical impairments were one of the most obvious of the groups who did not fit the normal pattern. Usually the impairment is visually observed by others, but this is not true in all cases. Allowances for the handicap may be made in some aspects of society, but the impairment may not be tolerated in other areas.

All physical impairments have the potential for difficulties to insurers. Special adaptations often are needed, which can increase the value of property in some cases and reduce it in others. Jury members who are sympathetic as individuals may be critical as jurors, tending to give the benefit of the doubt to the non-handicapped.

Many types and degrees of physical impairments exist, and underwriters try to separate them into groups to facilitate their handling.

Loss of Limb

Probably the largest group includes those with such physical handicaps as the loss of a body member or the inability to use a member. There are few difficulties on lines other than automobiles, although adaptations of a home to accommodate the handicap may affect the value for others.

Automobile underwriters are greatly concerned with these physical, or motor, impairments. Modern traffic is difficult enough for a person with full physical capabilities, as is demonstrated by the millions of accidents each year. When an arm or a leg is missing or cannot be used, new problems exist. Great strides have been made in adapting automobiles to handicaps and in training impaired persons to use these adaptations. Special equipment can be secured, often at government expense, which will permit a reasonable degree of vehicle control, given proper training. The difficulty is that underwriters cannot determine, with the sources available, which of these persons are capable of operating with these adaptations and which are not. The existence of special equipment and training in its use does not guarantee that the person will then be a good driver.

The department of motor vehicles of one large state studied its program of taking action on the licenses of "P&M" (physically and mentally impaired) drivers and concluded:

"To a great extent, these programs are justified from a purely traffic safety perspective. Statistics show that the accident rate of P&M drivers is substantially inflated over the population rate, even when adjustments are made for extraneous factors, and that some of the increased risk is caused by the disability. Prior to their hearings, P&M drivers were found to have two to five times as many accidents as other drivers. For the lapse, physical and mental groups, the accident involvement rate was approximately two and a half times the population rate, and for the drug, alcohol and lack of skill groups, it was substantially higher...The proportion of P&M subjects' prior accidents that involved a single motor vehicle striking a fixed object was 2.4 times greater than those for drivers without known disabilities....Virtually all medical authorities agree that certain medical and physical conditions cause increased risk...There is also a considerable body of epidemiological evidence that some P&M conditions increase the probability of accident involvement."

In order to compensate for the uncertainty, automobile underwriters tended to reject all applicants who were physically handicapped with motor disabilities.

Seizures

A completely different type of physical impairment is the "seizure." It includes diabetics, epileptics, spastics and persons with heart ailments. Again, the principal concern is with the operation of automobiles, although fire and other property losses could be caused by a seizure.

Automobile underwriters are concerned with an impairment, which might interfere with the safe operation of the vehicle. A sudden seizure or blackout has been known to cause serious accidents. Injections and oral drugs can control many of these difficulties, but

results are not guaranteed. Relapses or changed conditions may occur. The patient may fail to take the medication as prescribed for any one of many reasons. Even where control has been attained, this fact is hard to verify.

The usual sources of information are of little help in this area. Neighborhood informants may confirm that problems have existed, but they cannot give factual data on the degree of control attained. A doctor's statement often is the only good source available. Even this is of little help in many cases, because the statement may be couched in medical terms, obscure to an underwriter or may be inconclusive as to the effect of the control on the patient's ability to drive. An underwriter can take little comfort from a statement, which says that the impairment is capable of control with (named but unfamiliar) drugs, which may enable the subject to live a reasonably stable life. The underwriter needs to know if the ability to drive a car has been impaired.

Faced with these uncertainties, automobile underwriters usually listed as unacceptable all applicants who have been subject to any type of seizures or blackouts.

Hearing Impairments

A person with impaired hearing may possess the skills, which permit the operation of a vehicle and may be able to converse with other trained people by signing. These abilities may be offset by an inability to know about emergency vehicles or other traffic problems, and to hear barking dogs or other evidences of danger to property. The latter problems can cause some difficulty when underwriting a policy, but this seldom is considered to be a problem. The major concern is with the operation of an automobile.

Persons with hearing impairments usually can use hearing aids of one type or another. While these vary in their ability to compensate for the loss, they can give warning of adverse traffic conditions, such as emergency vehicles or honking horns. Other persons with severe hearing impairments cannot be helped in this way, and are greatly limited in their ability to respond to sounds. It is the latter group, which is usually called "deaf" by laypersons, generally implying a hearing impairment so great that they are unable to carry out normal functions such as conversation.

Since the operation of an automobile in modern traffic requires knowledge of surrounding conditions, severe hearing impairments caused concern to underwriters. The inability of persons with relatively impaired hearing to correct their hearing problems has caused automobile underwriters to automatically reject them. "Deaf persons" or "persons with severe hearing impairments" were on the lists of unacceptable risks for most companies, in one form or another.

ALCOHOL AND DRUGS

People who use alcohol and drugs are less able than others to control their driving ability and maintain their property. This may not be true at all times, but the occasions when this occurs are unpredictable.

Alcohol

People have used alcohol as a method of changing their attitudes toward circumstances since the dawn of history. Today, most people who drink are called "social drinkers." Seldom are they a problem to underwriters. However, such people may, on special occasions, drink too much. This can cause accidents while driving automobiles or commercial vehicles, can result in fires from carelessly discarded cigarettes or can cause industrial accidents.

Underwriters who encounter these social drinkers who have had losses are understandably cautious. It is often difficult to draw the line between "social drinkers" and "problem drinkers." Therefore, a person who had incurred a loss while drinking was often rejected for insurance. At the very least, a substantial surcharge in rates was used to compensate for the increased hazard that could exist.

Many studies have confirmed the fears of underwriters concerning the impact of drinking upon the ability to drive. The United States Department of Transportation conducted a series of Alcohol Safety Action Projects in four American cities, starting in 1983. As an example of the findings, the Boston study "indicated that 39 percent of fatal accidents examined involved alcohol directly, a combination of alcohol and other drugs, or other drugs alone."

The ongoing studies of the California Department of Motor Vehicles emphasize the role of drunk drivers. These strong conclusions were drawn from the latest studies.

"The drunk drivers are one of the major causes of serious accidents on the highways... drunk drivers are involved in 35.4 percent of the fatal accidents and 13.3 percent of the injury accidents. These figures apply to drivers who had been drinking any amount. These figures may be underestimates because not every instance of drinking is discovered by the investigating officer...the percentage of fatal accidents caused by drinking is estimated to be between 30 to 50 percent."

The Western Insurance Information Service analyzed the problem of underage drinking. The article contained the following conclusion:

"Drinking is another factor that impairs driving ability. Drivers under 18 have the worst collision involvement without alcohol; with alcohol, their collision involvement multiplies three-fold. On an even broader scope, drinking and driving is the biggest killer of people under 25. In addition, arrests for intoxication of those under the age of 19 have almost tripled in ten years."

After reading the results of such studies, it is not surprising to find that both personal lines and commercial lines underwriters are extremely careful when considering any applicant where alcohol is involved. It was difficult to separate occasional drinkers from problem drinkers, so most underwriting guides simply listed "excessive users of alcohol," or similar wording, to show unacceptable risks. The point at which drinking became "excessive" was typically a matter of judgment.

Drugs

People have used drugs for centuries; however, they have only recently become a problem for underwriters.

Definitions are difficult. Alcohol may be called a drug, but ordinarily it is handled separately. Most drugs, which are used, are beneficial, such as in many types of medicine. It is true that some medicines may cause insurance problems; an example is the drowsiness encountered by some people after taking medication. Obviously, extreme drowsiness could reduce reaction time and increase the chance of a traffic or industrial accident.

The term "drugs," as it is used in the news media and the insurance industry, refers to such mind-changing drugs as marijuana, heroin, cocaine and the like. These are not taken for medicinal reasons. Rather, they are used to alter one's behavior.

Various studies have shown that a majority of high school students have smoked marijuana at least once. Obviously, a one-time trial "on a dare" or "just to see what it is like" will not concern an underwriter. Beyond that point, problems can arise.

The line between an occasional drug user and a heavy drug user or addict is difficult to determine. The habit is relatively recent when compared with alcohol. The extent of continued use, and the degree to which users attempt to lead normal lives, is still unknown. A heavy drug user or addict probably is totally uninterested in buying insurance, so the underwriter has no reason to be concerned. Others, however, may own homes, drive cars and work with vehicles or machinery. The degree to which the drugs affect the judgment and abilities of the user is of great concern to the underwriter in these latter cases.

Studies have not been conducted on the effects of drug use to the extent that they have on the effects of drinking. Some studies refer to "alcohol and other drugs," such as the Boston study referred to earlier. Even the official data often fail to separate drugs from other causes of accidents.

Underwriters feel that people who use artificial means to alter their behavior can be a problem. This is particularly true if the alteration results in loss of muscular control or hallucinations. Habitual drug users, therefore, are considered unacceptable to most underwriters, both personal and commercial. The wording in the rules referred to "habitual users of drugs" or "excessive use of drugs."

FOREIGN BORN

A particularly difficult group for underwriters to handle is composed of those who were born in foreign countries or raised in a non-English environment. Some of these people have no difficulty in handling the English language, so there are no selection problems. Others, however, cannot handle the language, and these people can be a cause for concern, particularly in automobile insurance.

Persons who cannot read English, or cannot read it well, will naturally find it difficult to operate in our high-powered, communication oriented society. Many highways and expressways operate at fast speeds with signs flashing by the driver. Off-ramp signs, road repair warnings and lane instructions appear quite suddenly in many cases. A driver who cannot read these signs, or who needs time to understand them, can be in serious trouble. Accidents could result.

Another problem with such people is their difficulty in understanding messages sent by the insurer. It is not uncommon for insurance companies to mail to the policyholders such items as premium notices, amendments to the contract at renewal and questionnaires, which request information. Sometimes the latter must be answered, such as a selection of coverage options desired when an amendment is made to a No-Fault Law. Policyholders who cannot read these messages may cause repeated follow-ups, misclassifications or even termination of coverage.

In most lines of insurance, the policyholder may need to appear in court as a defendant. A person who cannot read or speak English well is placed at a disadvantage and usually will adversely affect the jurors.

Many of these foreign-born people do not become citizens of the United States. Most underwriters took these factors into account. When selection guides were published, they often contained such items as "persons unable to speak English well," "persons unable to speak or read English," or "non-citizens of the United States."

RELATED BUSINESS

Some classes of business, as well as individual risks in any class, are borderline for acceptance. Underwriters often included, in their analysis, any other policies insured in the company.

One reason for requiring related business was the economy of investigation that could result. A small tenant homeowner's policy supplied too little premium to be able to afford much investigation, but the underwriter might have wanted to know more about the applicant. If an automobile or two were also insured for that applicant, much of the desired information usually was secured under that coverage. Stability, occupation, attitude, drug addiction and other factors are the same for all lines.

Similarly, a small boat policy could be underwritten better if the facts about the driving record, as well as the stability and responsibility, could be obtained from automobile policies.

Some lines of insurance were more profitable than others. An underwriter who was asked to accept a less profitable line might want to "sweeten the pot," by requiring one of the more profitable lines. Thus, applications for automobile insurance on a youthful driver often

would be more acceptable if the parent's cars were also insured with the same company. The addition of a homeowner's policy on the family could make the risk even more palatable.

A degree of overlapping exists between some types of policies as regards the settlement of claims. For example, a burglary of a home might involve both a personal articles floater and the unscheduled portion of contents on a homeowner's policy. If these two coverages were written in different companies, each of them would need to conduct an investigation into the loss.

It would be more efficient to have both coverages in one company. Another example is a theft of an automobile, which might also involve scheduled or unscheduled property, which was in the car. Still another example is an umbrella policy, where the claims handling on liability cases is tremendously complicated by having two or more companies involved in the loss. Thus, there are advantages from a claims standpoint to writing all coverages in one company.

Coverage advantages were achieved by account underwriting because gaps could be avoided if all policies were in the same company. Competitive advantages also were gained by keeping other producers from having close contact with the insured.

"Account underwriting" is a concept practiced by many underwriters. One test book describes it in this way:

"Account underwriting refers to the concept that the profitability of a particular insured's business should be determined on an overall basis. All other things being equal, business handled as an account may receive better treatment than a single policy. A request for additional coverage or unusual coverage might be met with little resistance if the files indicate that the insured has been loyal (and profitable) over a period of years. A request for a personal umbrella, for example, might be processed without hesitation for a known account, whereas an unknown applicant would be investigated quite thoroughly before the policy was issued."

For these reasons, underwriters not only desired the related business, but sometimes required it. The acceptability rule for a youthful driver as the principal operator of an automobile might have read "Acceptable only if all cars in the household are insured in the company." An unmarried applicant for a tenant homeowner's policy might have been accepted "only if the automobiles are insured in the company."

PRIOR INSURANCE

Underwriters usually requested the name of the previous insurer. With this information, a better picture of the risk could be obtained.

Past losses could be determined from the prior carrier. Automobile losses, which were below the financial responsibility reporting requirements seldom, appeared on the MVR. No central agency existed which furnished past losses on other lines. It was naive to expect the applicant to report, accurately and completely, the past losses on a voluntary basis. Investigation reports seldom developed this information. The only reliable source was the previous insurer. Obviously, the name of that insurer was needed before a request for the loss history could be requested. The importance of securing this type of information was stated this way:

"The actual record of a policyholder is much more reliable as an indicator of future performance than most other items. Underwriters depend heavily upon the principle of predicting the future by an analysis of the past. The problem, when an underwriter is considering a new applicant, is that he does not have the previous experience. It may not be available to him through any other source; even the application may contain errors or misrepresentations as to facts of previous losses.... The books of the previous insurer are sometimes made available to the underwriter, giving him access to this valuable information...the most important information which can be received from previous insurers is that concerning losses...These facts can probably be secured elsewhere but it is quicker and easier to obtain them from the previous insurer...This information can be helpful to an underwriter in determining the facts about the applicant."

Another item of interest to underwriters was the type of insurer with whom the previous insurance was carried. Many insurance companies specialize in one type of risk: preferred, standard or substandard. An underwriter looking at an application for preferred rates would be concerned if the prior insurer were a substandard company. Why was the applicant insured in such a company before? Had the risk improved so much that it was now properly assigned to a preferred category? The fact that prior insurance was with a substandard insurer did not make the risk unacceptable for preferred rates, but it did raise questions. The only way the potential difficulty could be identified was to get the name of the previous insurer.

What happened if the prior insurer was shown on the application as "none" or "unknown?" This indicated either that the applicant did not previously carry insurance or that the name of the prior insurer was being withheld for some reason. Absence of liability insurance appeared to indicate a lack of responsibility on the part of the applicant. Absence of property insurance raised the question as to why the person now has decided to secure insurance. Was there some thought of arson?

Of course, there could be a logical explanation, such as the purchase of a new car to replace an old one, or a person who had just learned to drive, or an effective sales effort on the part of the producer. Certainly, the situation raised questions in the mind of the underwriter and further information or explanation was needed. If there was a prior carrier indicated but the name was not given, the obvious reaction was to wonder what the applicant was hiding. Was it, in fact, a case of no insurance? Or did the applicant not want the underwriter to be able to verify the loss history? The underwriter would want satisfactory answers before accepting such an applicant.

A common underwriting requirement was the name of the previous insurer of the type of insurance being applied for and perhaps the policy number and expiration date. If this was not furnished, a rule was invoked which might read "unacceptable: applicants with no prior insurance during the past six months," or one year or two years, etc.

PRIOR CANCELLATION

Underwriters reviewing an application for insurance often would ask, "Where did it come from and why?" The first part of this question was discussed previously. The second part, the "Why?" was even more critical.

The producer may have sold the applicant on the advantages of changing the insurance to this underwriter's company. The applicant may have sought out the company because of advertising, word of mouth or other reasons. No underwriting problems were presented by these reasons for changing insurers. However, some applicants were looking for insurance because they had been rejected, canceled or non-renewed by a previous insurer. These are the cases, which raise warning flags for underwriters.

All insurance companies want to write business. Without it, companies cannot grow or prosper. When an insurer therefore refuses to write a policy or to continue one, there has to be a reason. Some of the reasons may be perfectly harmless as far as the succeeding underwriter is concerned. Perhaps the previous insurer is retiring from a class of business or from a territory. Perhaps it is non-renewing all of the business of a particular producer. Few, if any, of these actions would be taken if the books were profitable, but many good risks could be terminated along with the less desirable ones.

The usual reason for cancellation or non-renewal is the discovery of factors, which make the risk unacceptable. The driving record is the most common, but any of the other factors used by underwriters could be the reason. In these cases, the next underwriter may not want the risk either. This conclusion is not always correct, because different companies have different requirements and aim at different segments of the market. As a general rule, it is a cause for extreme caution on the part of the next underwriter.

The trouble is that it is difficult to find out the true reason for termination in many cases. Underwriters are reluctant to share subjective information, such as an uncooperative policyholder during the settlement of a loss. To avoid possible challenges, even allegations of libel or slander, underwriters often would not share such information, even over the telephone. The result was that the next underwriter really did not know why the policy was cancelled or non-renewed.

One study emphasized the problem this way:

"...a cancellation or refusal to renew issued by an insurer, for whatever reason, has constituted a virtual condemnation to the residual market. The reason for this lies in the fact that when, after such cancellation or non-renewal, the individual applies to another insurer among the first questions on the application for insurance will be whether he has been rejected, cancelled or refused renewal by any other automobile insurer. When the answer is affirmative, the second insurer is unlikely to incur the trouble and expense of analyzing the reason and will simply reject the application."

The concern of the person who wrote the above comment was that these risks then land in the involuntary market. While this is to be regretted, it does confirm the standard practice used by underwriters for many years. Since it was difficult to find out why the other insurer rejected, cancelled or non-renewed the risk, and since the reason might also make the risk unacceptable in the next company, underwriters often rejected these risks automatically. A common rule in the non-acceptable list was something like "risks, which have been rejected, cancelled or non-renewed within the past three years."

CHAPTER 11: WORKPLACE ETHICS

No matter what line of business we are in the subject of ethics is important to both management and agents.

It is especially critical to those handling insurance products that in some facet deal with the financial, stocks and bonds industry. It is critical that we keep in mind what is right and what is wrong.

A recent survey of a cross section of 650 adults revealed that rank-in-file workers hold the same opinions on what is right or wrong as the executives polled.

The survey demonstrates that both labor and management believe that conducting business ethically is the right thing to do, as well as, agreeing on how to do it.

Both senior management and workers closely agree that unethical behavior, although not illegal, is grounds for termination.

Behaviors considered serious ethics violations by management included:

1. Supervisor access to employee health records
2. Using resumes to discriminate
3. Personal credit checks on employees
4. Making misleading promises to employees or contractors

Behaviors considered serious ethics violations by employees included:

1. Using E-mail to harass co-workers
2. Use of drugs at work
3. Use of alcohol at work
4. Circulating pornography by E-mail
5. Falsifying experience on a resume
6. Revealing confidential information
7. Making misleading statements or promises to customers and clients

Because insurance companies and agents are in a position of trust ethical behavior is paramount to perpetuating the industry and profession of each agent.

Both the insurer and the agent have an obligation to each other to be truthful and honest with each other through their agency relationship. In some cases the agency relationship continues and a level of honesty and proper representation is required with the client.

State laws further enforce this requirement of honesty and proper representation through the various state Departments of Insurance.

What is legal is not always ethical and what is unethical is not always a violation of state or federal laws.

The insurance industry is a business of trust and although most consumers feel they trust their agent, another survey, shows that the average consumer does not have the same concept of other agents or the industry as a whole.

Paramount in the survey was the fact that more than 50% of the consumers rated put trust and ethics at the top of the list in needs and professional qualification at the bottom of the list of the 9 topics surveyed.

The survey revealed the following order:

- Trust and ethics
- Advice and results
- Expertise
- Performance history of agent
- Availability of the agent
- Acquaintance or relative
- Experience
- Reputation
- Professional qualification

Over the years the insurance industry has earned the trust of the consumer and perhaps more information and public exposure of the history of the industry would serve well to strengthen the publics' perception of the industry.

During the great depression and the years that followed although many individuals lost savings as bank and savings and loans closed their doors, the insurance industry remained solvent and in many cases became a source of funds for individuals.

Through the built up assets of life insurance policies individuals were able to borrow money to carry them through these very difficult times.

Because the industry is made up in a great percentage by independent agents workplace ethics is critical to creating sound ethical behavior by agents as they deal with customers and clients. These behaviors must come from within the agent and must be reflexive in nature in order to avoid a dereliction of this responsibility when faced with everyday work demands.

Having to meet either employer work quotas, personally set quotas, or to satisfy a personal need to be the "best" must never stand in the way of meeting the clients needs and the need to paint an impeccable image of the insurance profession.

Although individuals in every profession are there to serve the needs of supporting themselves or their families, because insurance agents are licensed, and through this, put in a position of trust. Their needs of self preservation must be put aside, and the interest of the client must always be put first.

Ethical conduct can easily be violated, by selling someone more insurance than they need, in order to earn more commission. Or perhaps sell someone a higher commissioned product, even though another policy would serve their needs better. Although not necessarily illegal both these actions would be unethical, not consistent with meeting the clients needs and perhaps to a knowledgeable observer be a source of mistrust of the insurance professional and the industry.

Because insurance is a product that requires a most skilled individual to interpret its benefits, an agent's knowledge and recommendations are held to a high level of accountability.

The average consumer has, neither, the skill or ability to interpret the information in a policy accurately or realize the additional options that may be available to him or her in order to properly meet the needs of their situation. An insurance agent plays a vital role in the decision making process and this trust should never be violated.

Selling insurance must be a “win, win” situation for all parties involved in the transaction.

An agent can look at a situation as a one-time sale and try to maximize his or her gain from that transaction without regard for the client’s needs or look at it from the point of view that it is the beginning of a long lasting professional relationship. And from that point of view will earn the agent many more transactions, future referrals and commissions. The later can only be accomplished through professional conduct and ethical behavior.

ETHICAL PRINCIPLES TO MOLD OUR LIVES

Ethical standards outlined by various groups and insurance associations set the standard for ethical behavior within the industry. In many cases these organizations were in place before even state licensing bodies and as such actually set the pace for legislation that now govern the industry in many states.

Organizations that have such ethical standards in place include:

1. The National Association of Life Underwriters
2. National Association of Fraternal Insurance Counselors (NAFIC)
3. Code of Ethics of the Million Dollar Round Table (MDRT)
4. The American College
5. The American Society of Chartered Life Underwriters(CLU)
6. The American Society of Chartered Financial Consultants(CHFU)
7. General Agents and Management Association (GAMA)
8. Independent Insurance Agents of America
9. American Institute for Chartered Property and Casualty Underwriters

The National Association of Life Underwriters prescribes to a belief that all members have a combination of professional duty to the client and company and to maintain a balance between these two as to avoid conflict that might be injuries to either. As a result of this belief they subscribe to a commitment of responsibility that requires:

- To hold the insurance profession in high esteem and strive to enhance its prestige
- To fulfill the needs of their clients to the best of their ability
- To maintain the confidence of their clients
- To render exemplary service to their clients and beneficiaries
- To adhere to professional standards of conduct in helping their clients
- To protect their insurable obligations and attain their financial security objectives
- To present accurately and honestly all facts essential to their client’s decisions.
- To perfect their skills and increase their knowledge through continuing education
- To conduct business in such a way that by example will help to raise the standards of life underwriters
- To keep informed with respect to applicable laws and regulations and observe them in the practice of their profession
- To cooperate with others whose services are constructively related to meeting the needs of their clients.

The National Association of Fraternal Insurance Counselors requires that its sales personnel adhere to a position of utmost professional standards to their clients and at the same time maintain a position of trust and loyalty to their society. The highest ethical standards are required of all its members.

Its members must:

1. Hold the life insurance profession in high esteem and constantly strive to advance the prestige of legal reserve Fraternal Life Insurance.
2. Improve their ability and improve their knowledge through regular study and encourage other underwriters to do likewise.

3. Respect their clients' confidence and hold in trust any personal information.
4. Present accurately and completely all of the facts essential to have their client's make informed decisions and to always place his or her interests and welfare above any personal consideration.
5. Refuse any person or persons any part of their commissions or earnings as an inducement to purchase life insurance.
6. Submit complete and accurate applications for memberships and insurance on only those persons whom are believed to have the proper moral and medical requirements that conform to the Society's underwriting rules.
7. Cooperate with all fellow associates in all insurance organizations in furthering the best interests of the Institution of Life Insurance.

The MDRT, head-quartered in Park Ridge, Illinois, represents an organization whose members are comprised of individuals who must reach a certain production and persistency objectives.

Its members must:

- Always place the best interests of their clients above their own direct or indirect interests.
- Maintain the highest standards of professional competence and give the best possible advice to clients by seeking to maintain and improve professional knowledge, skills, and competence.
- Hold in the strictest confidence, and consider as privileged, all business and personal information pertaining to their clients' affairs.
- Make full and adequate disclosure of all facts necessary to enable their clients to make informed decisions.
- Maintain personal conduct which will reflect favorably on the life insurance industry and the MDRT
- Determine that any replacement of a life insurance or financial product must be beneficial for the client.
- Abide by and conform to all provisions of the laws and regulations in the jurisdictions in which they do business.

The American College, a fully accredited institution of higher learning, offers courses to life insurance agents across the country. These courses lead to the coveted designations of Chartered Life Underwriters (CLU) and Chartered Financial Consultants (ChFC). The American College Code of Ethics is made up of a professional pledge and eight Canons.

The Eight Canons consist of the following paraphrased promises:

1. Honor and dignity in the conduct of business
2. Avoid practices that would bring dishonor to the profession
3. Publicize accomplishments only in manners that enhance the integrity of the profession
4. Maintain professional competence through continuing education
5. Strive toward a career of distinguished professional service
6. Support the institution and organization that strive for professionalism within the industry
7. Assist others in the industry striving for professionalism
8. Comply with all laws and regulations

Let us now review the CLU and ChFC imperatives, their comments and our observations.

COMPETENTLY ADVISE AND SERVE THE CLIENT

Both organizations require that their members provide both advice and service, which are in the best interest of the client.

Because insurance agents, real estate agents and other professionals have a knowledge about their product which is above the knowledge of their average

Client, these professionals must take care to avoid using this knowledge to the detriment of their client. In other words they are in a position of trust that cannot be violated in order to serve their own interest.

In a conflict of interest situation the client's needs must be met ahead of an agent's own needs.

The agent must make a full and concentrated effort to both explore and ascertain through that information the needs of the client.

Consideration and courtesy must be undertaken in referring to other professionals who might also be serving the client. In other words don't knock the competition whether it be to get the sale or discredit them.

An agent must give due regard the principal and agent relationship that exists between himself or herself and the companies they represent.

AGENT TO CLIENT CONFIDENTIAL RELATIONSHIP

The relationship between the client and agent is that of a confidential nature and all such information should be kept within that scope.

Because, in order to properly serve the client, the agent, must sometimes inquire into areas that might require the strictest of confidence, the agent must keep this information confidential and use it only for the purpose it was intended, unless released of this obligation by the client.

CONTINUING EDUCATION REQUIREMENT

Members of these organizations must maintain and enhance their professional skills and knowledge.

This enhancement can be formal or informal and must, not only include personal education, but also include knowledge of changing laws and legislation to properly inform clients.

ENHANCEMENT OF PUBLIC REGARD FOR PROFESSIONAL DESIGNATIONS

A member must obey all laws governing his or her business or professional activities. Business activities are defined as non-personal activities carried on outside the life insurance community. Professional activities are defined as non-personal activities carried on within the life insurance community.

Through the placement of the guide within the Code, an ethical obligation is created for a member to obey all laws applicable the agent's business or professional activities.

A member must avoid activity that detracts from the integrity and professionalism of the CLU and ChFC designation or other professional designations.

Personal, business and professional activities are encompassed within the scope of the Guide.

Things or actions that might be interpreted of a violation of the Guide include:

- Failure to obey a law unrelated to the member's business or professional activity
- A member harming the reputation of another practitioner
- A member unfairly competing with another practitioner
- A member performing activity that might discredit his or her own reputation
- A member discrediting life underwriting as a profession, the institution of life insurance, or the American Society of CLU & ChFC
- A member advertising the designations of the CLU or ChFC or American Society in an undignified manner or in a manner prohibited by the ByLaws

Members of the organization are encouraged to encourage others to obtain the designation.

Members cannot use the CLU & ChFC designation in a false or misleading manner. That is, members alone can use the designations and no advertising shall promote an entire organization as having the designation when in reality the designation is individually bestowed.

The General Agents and Managers Association (GAMA) of The National Association of Life Underwriters codifies the ethical principles that general agents and agency managers should strive to maintain.

The organization encourages its members to practice the "Golden Rule" by:

1. Using the best available techniques to select and place under contract only agents and managers that will enhance the professionalism of the profession
2. Creating a sales organization made up of full time agents.
3. Providing adequate training and supervision to render proper service and advice to their clients.
4. Encourage all associates to pursue additional and continuous education.
5. Encouraging all agents and contractors to participate and support the activities of the local Association of Life Underwriters.
6. Presenting fairly and honestly all facts regarding the agency to prospective agents or managers.
7. Encouraging any prospective agent or manager to discuss their situation with their present manager before making a decision.
8. Taking a leadership role in the advocacy of the Life products as the best benefit to its policy owners.

INDEPENDENT INSURANCE AGENTS OF AMERICA is the nation's oldest and largest independent agent association. It is a highly regarded consumer advocacy organization and a powerful force within the insurance industry. The Independent Insurance Agents of

America makes its presence known both with the media and on Capitol Hill. The association was founded in 1896 by a small group of local fire agents and now has grown to represent over 300,000 agents and their employees.

As it now confronts its second century of existence, the Independent Insurance Agents of America has expanded its activities to address the many challenges and opportunities that agents today have to face. Through its federation of 51 state associations, as well as its headquarters and Capital Hill offices, the association provides advocacy, business tools and media visibility to its members.

The Independent Insurance Agents of America represents more than half of all the independent insurance agencies in the country. Its members range from small rural agencies selling personal lines to large commercial brokers handling major national accounts

Independent Insurance Agents of America strive to serve the public by promises to:

- Serve the public through the honorable occupation of insurance
- Provide the full measure of service required of an independent agent
- Recommend the best coverage to meet the needs of the client
- Provide the public with a better understanding of insurance
- Work with national, state and local authorities to heighten safety and reduce loss in a community
- Recognize civic, charitable, and philanthropic movements, which contribute to the public good of the community

Independent Insurance Agents of American strive to serve the companies they serve by:

1. Respecting the authority vested in them by the companies they serve
2. Using care in the selection of risks submitted
3. Expecting the same from the companies served as is rendered to them

To fellow members, Independent Insurance Agents of America pledge:

1. Friendly relations with other agencies, fair and honorable competition
2. Strict observance of insurance laws
3. Betterment of the insurance business
4. Encourage others to subscribe to the same high standards

The American Institute for Chartered Property and Casualty Underwriters (CPCU) is an independent, nonprofit organization offering educational programs and professional certifications to people in all segments of the property and liability insurance business. To help them provide professional service to the public, the organization responds to the educational needs of people in insurance and risk management.

The American Institute for Chartered Property and Casualty Underwriters offers an online counseling system to help individuals inventory their personal background and interests and makes suggestions for appropriate programs of study.

The American Institute for Chartered Property and Casualty Underwriters makes available online classes for the busy insurance professional who cannot find time for traditional classes.

The American Institute for CPCU, through its Canons and rules endeavors to maintain a high degree of professionalism and ethical conduct for its membership.

1. CPCU members should at all times place the public interest over their own and should encourage non member agents to do the same
2. Members should maintain and improve their knowledge, skills and competence
3. Members should obey all laws and regulations and avoid conduct that would cause unjust harm to others
4. Should be diligent in performing their occupational duties
5. Should assist in maintaining and raising professional standards
6. Should strive to maintain dignified and honorable relationships with others
7. Should strive in assisting to improve the public understanding of insurance and risk management
8. Honor the integrity and respect the limitations placed upon the designation
9. Always assist in maintaining the integrity of the Code of Professional Ethics

Although summarized in the above narratives, the specific codes, canons and preambles may be obtained through each individual organization.

These organizations can be contacted at their headquarters:

The National Association of Life Underwriters (NALU) is located in Washington D.C.

The National Association of Fraternal Organizations (NAFIC) is headquartered in Sheboygan, Wisconsin.

The Million Dollar Round Table (MDRT) is located in Park Ridge, Illinois.

The American College, The American Society of Chartered Life Underwriters (CLU) and The American Society of Chartered Financial Consultants (ChFC) are located in Bryn Mawr, Pennsylvania.

The General Agents And Managers Association (GAMA) is located in Washington D.C.

Independent Insurance Agents of America is located in Alexandria, Virginia.

American Institute for Chartered Property and Casualty Underwriters (CPCU)
Is located in Malvern, Pennsylvania.

EXPAND YOUR ETHICAL KNOWLEDGE

ADMINISTRATIVE ACTION results when a legal or ethical violation (of an unlawful nature) occurs and a Commissioner or Director takes an action against a practitioner of a regulated profession over whom the official has jurisdiction. Such actions include investigations, hearings, censures, cease-and-desists orders, suspensions, revocations, monetary restitution, fines and referral to other agencies for criminal prosecution.

An **AGENT** is different than a salesperson in that an agent is regulated by a licensing body, assumes the responsibility of representing someone else, called a Principal, and in such representation must put the principal's needs ahead of her or his own need.

ASSUMPTIONS are factors used to illustrate values in insurance policies. It is important to understand the assumptions, understand that they are not always guaranteed to re-occur, and must be presented within a realistic scope in order to avoid ethical misrepresentation.

AUTHORITY is the power granted an agent to perform acts on behalf of the principle such as in the case of an agent's ability to bind a policy or other power granted by either the insurer or the insured in an agency relationship.

BAITH-AND-SWITCH is the unethical, deceptive, and illegal act of inducing a consumer to a service or product which the salesperson has no intention or does not have the ability to deliver. The inducement is a method to get the consumer in the door in order to sell him or her another product.

BUYER'S GUIDE is a standardized disclosure to help the consumer understand the product. Various professions are regulated to give these guides as a consumer protection action. In the insurance field many states require agents provide Buyer's Guide at some point during the sales process, especially in the areas of life or annuity products. Many insurers provide their agents with standardized Buyer's Guides to be used with their clients as an effective method of disclosure even-though not required by law in their state.

CHURNING is the unethical practice of inducing a client to replace an existing policy for a new policy even though the additional change is not to the benefit of the client. Churning is often motivated to earn commissions or obtain quotas.

CIVIL LIABILITY is the liability for monetary damages as a result of a lawsuit brought by a private party in a civil court. Insurance is often used; Individuals and corporations often use insurance to cover such exposure. Civil liability include actual damages to restore the injured party and sometimes punitive damages designed to set an example for others who might be tempted to repeat such behavior. Court costs and attorney's fees are also often part of the award.

CODE OF ETHICS is a formal set of rules or statements of policy set by professional organizations that are made part of the standards for acceptance of membership. Because ethical standards set by organizations often existed before state licensing, often these standards have been used by state regulators as guides to set the pace for legislation for a profession.

COGNOSCEAT EMPTOR is the opposite of buyer be-ware. Today's consumer oriented protectionism requires that proper disclosure be made to consumers so that they are "fully informed" before making a decision. An insurance agent is both ethically and legally obligated to provide both adequate and full disclosure.

COMMISSION takes on a different meaning when dealing with a profession. Although in its original interpretation, commission refers to money paid as compensation for the sale of a product or service. Under an agency relationship, such as the one that occurs in the sale of real estate and insurance, commission is also paid for advice; and therefore, can never be put ahead of the needs of the client.

CONFLICT OF INTEREST arises when an individual's self interest competes with the interest of a client or principal. Because under certain situations both in the real estate and insurance professions, as well as, other professions, situations arise within that profession that cause inherent conflict, than the practitioner must put aside her or his self interest and act strictly to the benefit of the client.

CONTINUING EDUCATION is a mandatory requirement of most states for license renewal and membership requirements of some professional organizations. Continuing Education is a means of maintaining up to date knowledge of legal and product changes in order to best serve clients and maintain professionalism within an industry.

CRIMINAL PENALTIES include public service, fines and jail term. Criminal penalties are imposed upon successful prosecution for an offense in a criminal court trial.

DEGREE OF CARE is the extent of legal duty owed by one person to another. In the case of an insurance agent this degree of care is maximized through the agency relation with the client or principle.

DOCTRINE OF REASONABLE EXPECTATION is a legal concept that basically states that an insurance policy will be treated as if it includes certain coverage, if an average person would reasonably expect it to include such coverage, regardless of what the policy provides.

DUAL AGENCY is a situation created when an agent represents two clients in the same transaction who have competing interests. Dual Agency is legal in most states under outlined procedures and full disclosure to all parties.

EMPLOYEE DISHONESTY COVERAGE FORM is a coverage that is excluded under standard crime form but can be covered under a Commercial Crime form.

ERRORS AND OMISSIONS INSURANCE is professional liability insurance for insurance agents and real estate agents covering liability for mistakes an agent makes in the practice of his or her profession. Errors and Omissions insurance does not cover fraudulent acts on the part of the agent.

ESTOPPEL is the principle that if one intentionally or unintentionally creates the impression that a certain fact exists, and an innocent party relies on that impression and is injured as a result, the guilty party may be legally prohibited from asserting that the fact does not exist.

EXCLUSIVE AGENT is one that is contractually obligated to a single insurer, often times referred to as a captive agent. Violation of this contractual agreement is both an ethical and legal violation.

EXCLUSIVE REPRESENTATION is the provision of an agency contract that requires an agent to give a specific company a right of first refusal on any business submitted.

FIDUCIARY is a term used to describe an individual who is entrusted with certain responsibilities of trust. In an agency relationship an agent has certain fiduciary responsibilities to his or her client. Among those responsibilities include the handling of client funds and the maintaining of confidential information.

FIELD UNDERWRITER is the role an agent plays as a representative of the insurance company in gathering complete and accurate information regarding the risk and accurately transmitting that information to the company.

FRAUD occurs when an individual intentionally uses deception in order to induce another party to part with something of value or to give up a legal right to their detriment.

MISREPRESENTATION is an inaccurate statement of fact or an omission of a material fact. Misrepresentations are either unintentional or intentional. Unintentional misrepresentations usually result in administrative and civil penalties. Intentional misrepresentations can result in criminal prosecution as fraud.

MORAL HAZARD is a loss situation created by an individual for the purpose of collecting the insurance. The collaboration by an insurance agent in either eliminating or altering information at minimum would be considered unethical and most likely a fraud.

MORALE HAZARD is the tendency of an individual to contribute to loss through his or her own irresponsible actions.

MULTIPLE COMPANY REPRESENTATION is a contractual arrangement that permits an agent to represent more than one company at the same time and choose which company will receive his or her policies at any given time. Multiple company representation can result in ethical issues if an agent in choosing which company to place business with does not take into account the best interest of the client.

NEEDS SELLING is a basic requirement in determining the amount and type of insurance required of a client in order for that product to be of benefit to an insured.

NEGLIGENCE is not taking the reasonable proper steps to protect others from unreasonable chances of harm.

PRINCIPAL is that individual or entity on whose behalf an agent must act. A Principal to Agent relationship is the core of an agency relationship.

PUNITIVE DAMAGES are awards made to plaintiffs in excess of damages for the purpose of setting an example to others.

REBATING is the practice of paying a party to the transaction part of an agent's commission as an inducement to purchase the insurance policy. Rebating is illegal in most states or strictly regulated with proper disclosure in the States that permits such activity.

REPLACEMENT is the practice involving the use of funds from one policy either from an existing policy or the termination of a policy in order to purchase other insurance. Ethical issues arise, only if, the use of funds to purchase the new policy is not in the best interest of the client, or is motivated strictly by the agent's need for commission.

STATUTE OF LIMITATION is a provision in the law that requires that certain types of suits be brought to action within a specified period of time from the occurrence.

TWISTING is the illegal practice of convincing a client to switch policies with no benefit or to the detriment of the client. It is a violation of the agency relationship with the client that requires that the needs of the client be primary to the needs of the agent. Twisting occurs either to meet an agent's self-imposed or company established production goals or for reasons of commission.

UNFAIR DISCRIMINATION is the practice of applying different standards to insured's that have the same risk loss. The practice is both unethical and illegal.

VICARIOUS LIABILITY is incurred by either a business or an individual as the result of the actions of others for whom they are responsible, such as family members or employees.

Many of these key words and concepts apply to the area of ethics. A thorough comprehension of these words and concepts will help you reach a better understanding of the ethical issues that face us each day in the exercising of the insurance profession.

FOCUS POINTS

- Ethics is an important issue for both agents and management.
- Ethic is an especially important issue to agents dealing in financial products.
- In a recent poll shows that rank-in-file workers and executives hold the same opinion of what is right or wrong.
- Management and workers agree that unethical behavior is grounds for dismissal.
- Behaviors considered ethics violations by management include unauthorized access by supervisors to employee health records, and personal credit reports; using resumes to discriminate and misleading or false promises by employers.
- Behaviors considered ethical violations by employees include the use of e-mail to harass co-workers or to access pornography, use of drugs or alcohol, falsifying a resume, revealing confidential information, making misleading statements to customers and clients.
- Being in a position of trust mandates that companies and agents act ethically for the benefit of the perpetuation of the industry.
- The agency relationship requires that an agent be truthful and honest to both insurers and clients.
- Departments of Insurance enforce unethical behavior that violates state law.
- What is legal is not always ethical and what is unethical is not always illegal.
- Surveys show that most clients trust their agents but do not trust agents as a whole.
- In a recent survey trust and ethics were number one on the list of consumers.
- In the same survey professional qualification was number nine on the list (lowest ranking).
- More information and public exposure of the insurance industry will serve to strengthen the public's perception of the industry.
- During the depression of 1929 the insurance industry remained solvent and was a source of funds for individuals.
- Ethical behaviors must become reflexive within an agent to avoid dereliction when faced with everyday work demands.
- Having to meet everyday work quotas can cause an individual to be pressured into unethical behavior.
- Licensing and the agency relationship require that an agent put the client's need ahead of the agent's personal needs.

- Because insurance is a product requiring skilled interpretation by an agent, an agent's knowledge and recommendations are held to a high level of accountability.
- The average consumer has, neither, the skill or ability to interpret the information in a policy, therefore the agent plays a vital role in the decision making process.
- Selling insurance must be a win-win situation for all involved in the transaction.
- Referrals come only through professional and ethical conduct.
- Ethical standards outlined by various industry organizations and associations set the standards for ethical behaviors.
- Industry associations and organizations set the pace for ethical conduct even before state licensing bodies were created.
- The National Association of Life Underwriters prescribes to a belief that all members have a combination of professional duty to the client and company.
- The National Association of Fraternal Insurance Counselors requires its sales personnel to adhere to a position of utmost professional standards to their clients and maintain a position of loyalty and trust to their society.
- The Million Dollar Round Table (MDRT) requires that agents put the interest of their clients first by professional competence, confidentiality, disclosure, ethical conduct, and adherence to the laws of their jurisdictions.
- The American College of CLU and ChFC prescribes in its cannon that agents work with honor, dignity, integrity, competence, service, professionalism, and in compliance with applicable laws.
- Don't knock the competition, comment only on your company and your products.
- Professional designations must not be used if not earned or in a misleading way.
- The General Agents and Managers Association (GAMA) codifies the ethical principles that general agents and agency managers should strive to maintain.
- GAMA encourages its members to practice the "Golden Rule" by placing under contract managers that will enhance professionalism, employ full time agents, provide training, encourage continuing education, be honest with prospective agents, and take an advocacy role in relation to their products.
- Independent Insurance Agents of America is the nation's oldest and largest independent agent association.
- The Independent Insurance Agents of America was founded in 1896 and represents over 300,000 agents and their employees.
- The Independent Insurance Agents of America provides advocacy, business tools, and media visibility to its members.
- The Independent Insurance Agents of America represents more than half of all the independent insurance agencies in the country.
- The Independent Insurance agents of America strive to serve the public by being a part of the insurance profession, provide full service to the public, recommend the best product for the client, provide the public with a better understanding of insurance, work with state and local authorities to reduce loss in a community, and recognize organizations that contribute to the good of the community.
- The Independent Insurance Agents of America serve their companies by respecting the authority vested in them, careful selection of risks submitted, expecting the same from the companies they serve.
- Independent Insurance Agents of America pledge to fellow members friendly and honorable relations, observance of insurance laws, betterment of the insurance business, and encourage high standards from all.

END OF COURSE