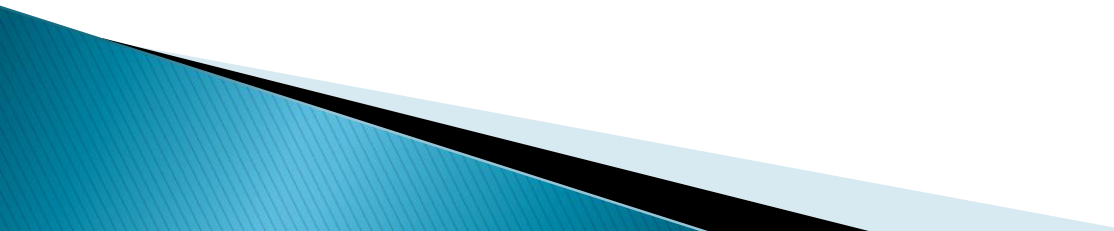


Chapter Eight

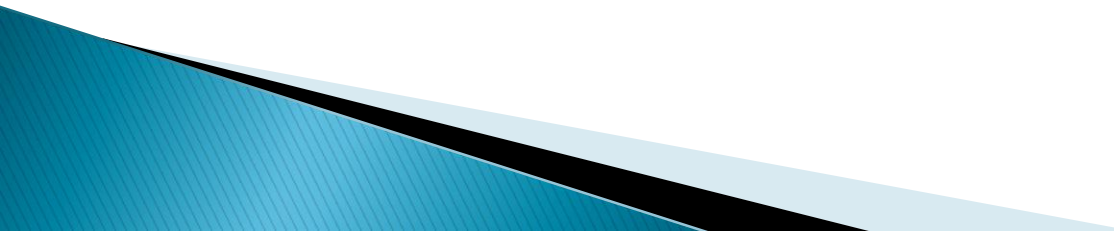
Property Loss Exposures and Policy Provisions

Objectives

After studying this chapter, you should be able to:

- ▶ List the types of property exposed to loss and the types of losses that can occur to the property
 - ▶ Discuss the basic property insurance policy provisions
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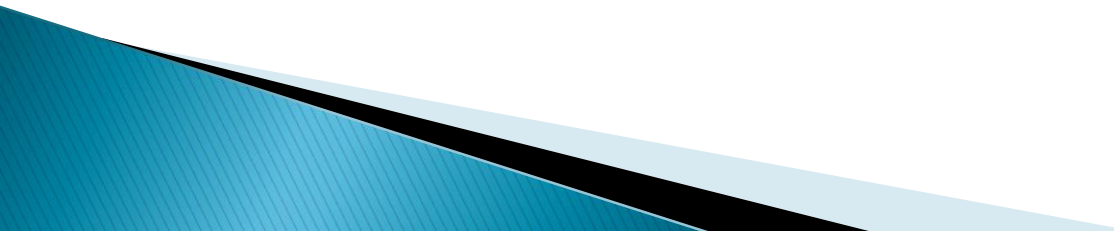
Property Loss Exposures

- ▶ Three important aspects of property loss exposures are as follows:
 - (a) **Types of property:** the types of property that may be exposed to loss, damage or destruction.
 - (b) **Causes of loss:** the causes of loss that may result in property being lost, damaged or destroyed.
 - (c) **Financial consequences:** the financial consequences that may result from a property loss.
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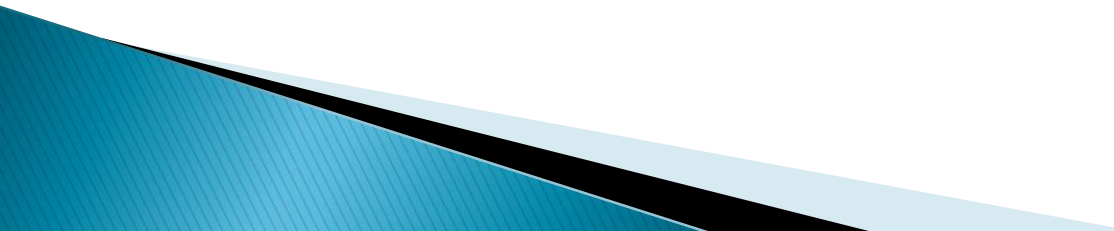
Property Loss Exposures

- ▶ These aspects are important because they create the framework for the contract. They describe (1) what is covered, (2) what causes of loss are covered, (3) how much will be paid to cover the losses.

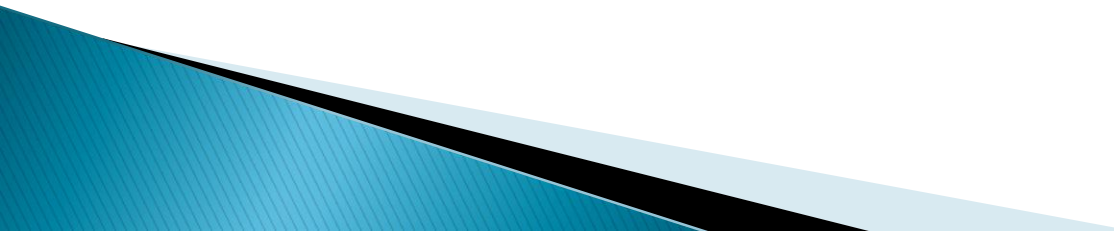
(a) Types of property

- 1) Buildings
 - 2) Personal property contained in buildings
 - 3) Money and securities
 - 4) Motor vehicles and trailers
 - 5) Property in transit
 - 6) Ships and their cargoes
 - 7) Boilers and machinery
- 

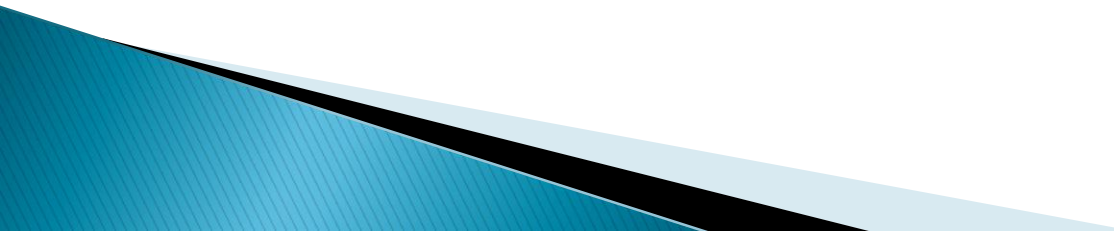
1) Buildings

- ▶ They are more than bricks.
 - ▶ Most buildings also include plumbing, wiring, heating, air conditioning equipment, elevators ...etc
 - ▶ This equipment is also considered to be part of the building under most insurance policies.
- 


2) Personal property contained in buildings

- ▶ The contents of a typical home include personal property such as furniture, clothing, electronic equipment, jewelry, paintings and other personal possessions.
 - ▶ *The contents of a commercial building may include the following:*
 - Furniture
 - Machinery and equipment
 - stock
- 

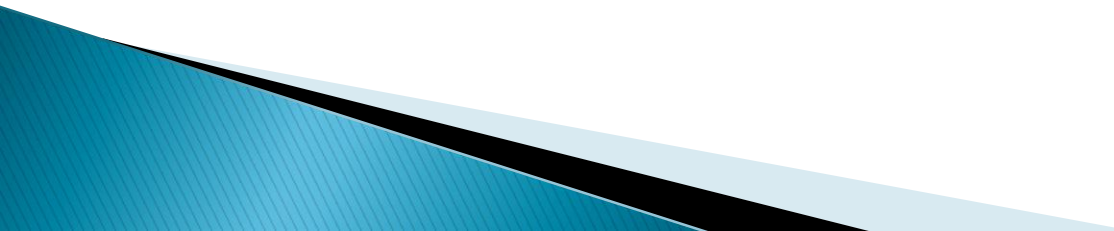
3) Money and securities

- ▶ **Money:** “ Currency, coins, bank notes and sometimes traveler’s checks, credit card slips and money orders held for sale to the public.”
 - ▶ **Securities:** “ Written instruments representing either money or other property, such as stocks and bonds.”
- 

4) Motor vehicles and trailers

- ▶ **Auto:** “ In insurance, a broad term that include cars, trucks, trailers, buses, and other motorized vehicles designed for road use.”
 - ▶ **Mobile equipment:** “ Various types of land vehicles and the equipment attached to them, such as tractors, bulldozers, forklifts and backhoes, designed primarily for off-road use.
 - ▶ **Recreational vehicles:** “ A vehicle used for sports and recreational activities, such as a dune buggy, all-terrain vehicle, or dirt bike.”
- 


5) Property in transit

- ▶ A great deal of property is transported by truck, but property is also moved in cars, buses, trains, airplanes and ships.
 - ▶ Cargo can be damaged with the vehicle or destroyed without damage to the transporting vehicle.
 - ▶ The property owner may also incur expense to move the damaged property.
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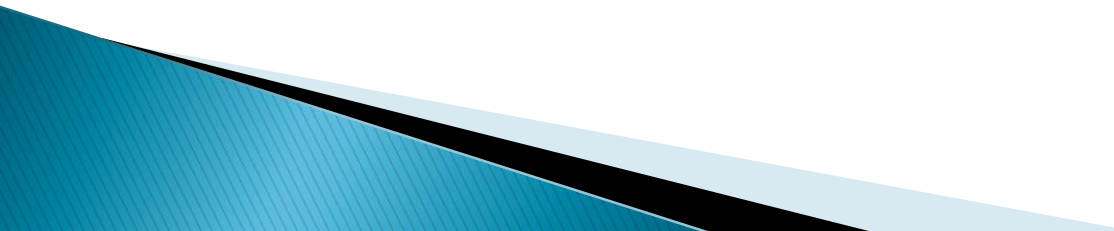
6) Ships and their cargoes

- ▶ They are exposed to special perils not encountered in other means of transit.
- ▶ Even more than other property, ocean cargoes fluctuate in value according to their location.

7) Boilers and machinery

- ▶ They include: steam boilers, unfired pressure vessels, refrigerating and air conditioning systems, mechanical equipment, production equipment and electrical equipment.
 - ▶ *They share the following characteristics:*
 1. They are susceptible to explosion or breakdown that can result in serious losses to the unit and to persons and property nearby.
 2. They are less likely to have explosions and breakdowns if they are periodically inspected and properly maintained.
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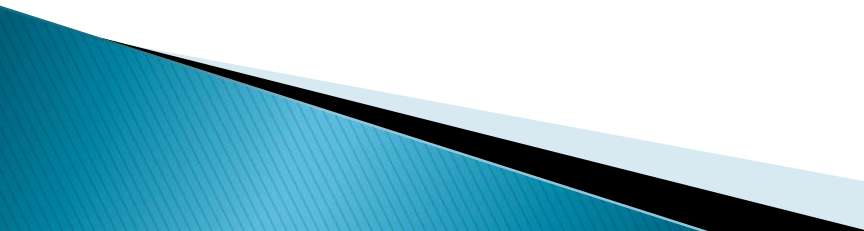
(b) Causes of loss to property

- ▶ **Cause of loss, or peril:** “ The actual means by which property is damaged or destroyed.”
 - ▶ **Named peril:** “ A specific cause of loss listed and described in an insurance policy. Also used to describe policies containing named perils.”
 - ▶ **Special form, or open perils policy:** “ A policy that provides coverage for any direct loss to property unless the loss is caused by a peril specifically excluded.”
- 

(b) Causes of loss to property

- ▶ **Burden of proof:** an important difference between named perils and special form coverage involves the burden of proof, as follows:
 - With the named perils policy, for coverage to apply, the insured must prove that the loss was caused by a covered cause of loss.
 - With a special form policy, if a loss to covered property occurs, it is initially assumed that coverage applies. However, coverage may be denied if the insurer can prove that the loss was caused by an excluded cause of loss.

(c) Financial Consequences of property losses

- ▶ Reduced Property Value: when a property loss occurs, the property is reduced in value.
 - ▶ The owner of the property faces loss in the form of the cost to repair the object, as well as a reduction in value because of the altered condition.
 - ▶ The most common valuation measures in insurance policies is the (ACV).
- 

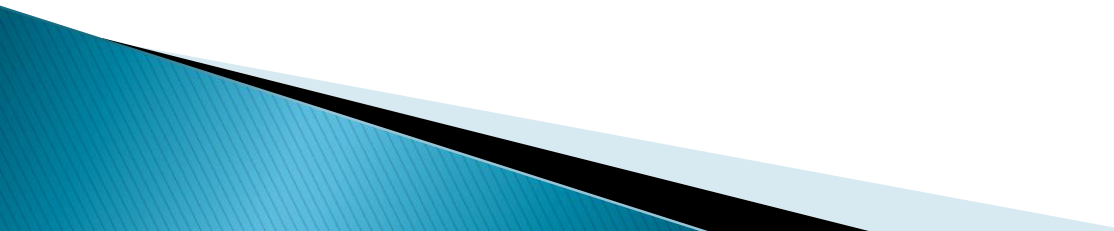
(c) Financial Consequences of property losses

- ▶ **Lost income:** when property is damaged, income be lost because the property cannot be used until it is repaired, restored or replaced.
- ▶ Determining the amount of business income that may be lost following a property loss requires estimating the future level of activity of an organization and doing a “what if” analysis. This analysis requires comparing what the business might have expected its revenue and expenses to have been compared to what they actually were after the loss.

(c) Financial Consequences of property losses

- ▶ **Extra Expenses:** when property is damaged, the property itself declines in value, and the owner or other affected party suffers a corresponding loss. In addition, the owner or other user of that property may incur extra expenses to acquire a temporary substitute or to temporarily maintain the property in usable condition.
- ▶ *For example:* when a car is damaged in a collision, the owner may rent an auto until the car's damage has been repaired.

Parties affected by property losses

1. **Property owners**
 2. **Secured lenders:** Mortgage or mortgage holder: “ A lender that loans money on a home, building or other real property. Mortgagor: “ The person or organization that borrows money from a mortgagee to finance the purchase of real property.”
 3. **Property Users**
 4. **Property Holders:** Bailee: “ A person or business that holds property entrusted to them by others.”
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Property insurance policy provisions

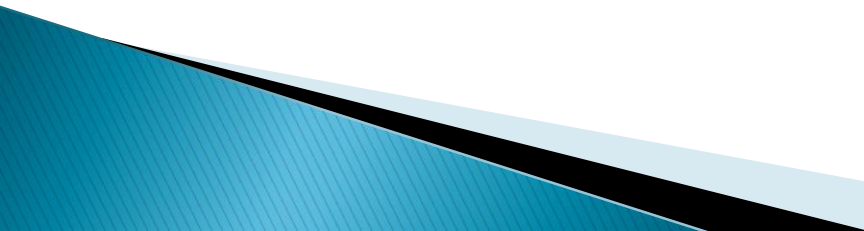
▶ *Property Insurance:*

“ Any type of insurance that indemnifies an insured who suffers a financial loss because property has been lost, stolen, damaged or destroyed.”

- ✓ This section examines common characteristics of policies that provide property insurance and focuses on explaining general features rather than describing the content of specific policies. They are:

1. Covered Property Locations

- ▶ **Floater:** “ A policy designed to cover property that floats, or moves from location to location.”
such as jewelry, furs, cameras...etc

 - ▶ ***The following types are covered property:***
 - Dwellings, Buildings and other structures
 - Personal property
 - Property other than the insured's buildings and contents
- 

2. Covered Causes of Loss

- ▶ Personal and commercial property insurance policies on buildings and personal property are available with three different levels of coverage as follows:

a) Basic Form coverage

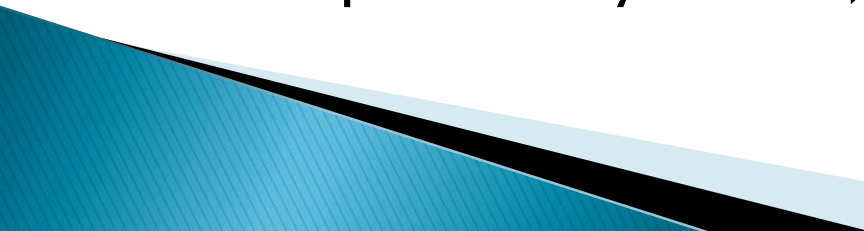
- ▶ “The lowest-cost version that provides coverage for approximately a dozen named perils.”

1 – Fire and lightning:

Friendly fire: “A fire stays in its intended place, such as a fire in a fireplace.”

Hostile fire: “A fire that leaves its intended place, such as a spark that escapes a fireplace and sets the carpet on fire.”

a) Basic Form coverage

- ▶ **Proximate cause:** “ The event that sets in motion an uninterrupted chain of events contributing to a loss.”
 - 2– **Windstorm** (include hurricanes and tornadoes)
 - 3– **Hail** (consists of ice particles created by freezing atmospheric conditions)
 - 4– **Aircraft** (occurs when all or part of an airplane or satellite strikes property on the ground.)
 - 5– **Vehicle damage:** “ Damage caused by a motor vehicle to some other kind of property.”
 - 6– **Riot and civil commotion**
 - 7– **Explosion** (is a violent expansion or bursting accompanied by noise.)
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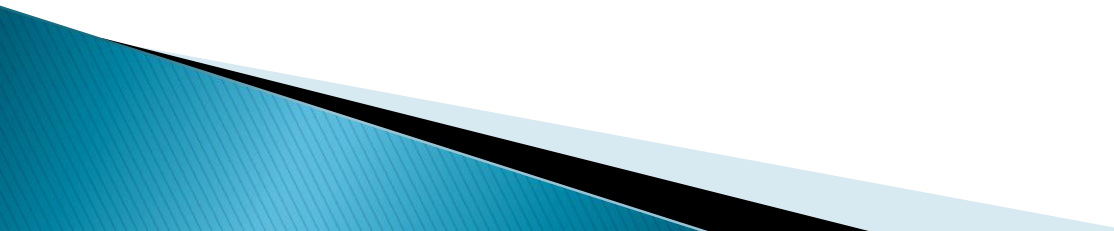
a) Basic Form coverage

8– Smoke

9– Vandalism: “ Willful and malicious damage to or destruction of property.”

10– Sprinkler Leakage: “ Accidental leakage or discharge of water or other substance from an automatic sprinkler system.”

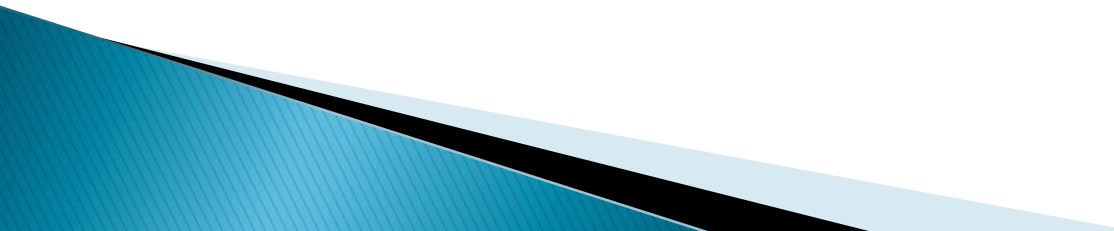
11– Sinkhole collapse: “ A cause of loss involving the sudden sinking or collapse of land into underground empty spaces created by the action of water on limestone or similar rock formations.”



a) Basic Form coverage

Mine subsidence: “ A cause of loss involving the sinking of ground surface when underground open spaces, resulting from the extraction of coal or other minerals, are gradually filled in by rock and earth from above.”

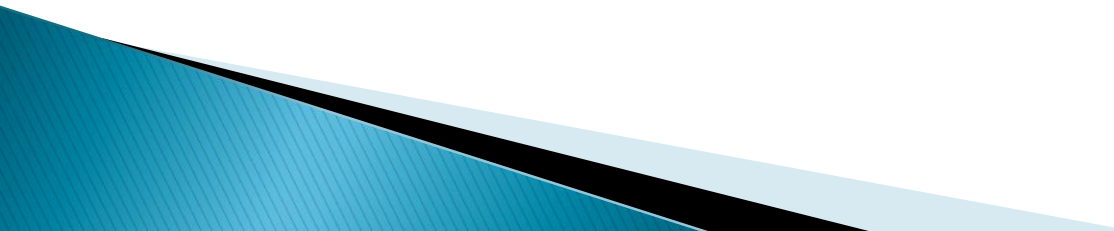
12– Volcanic action: “ A cause of loss involving lava flow, ash, dust, particulate matter, airborne volcanic blast, or airborne shock waves resulting from a volcanic eruption.”



b) Broad Form Coverage

- ▶ “ A higher-cost version of coverage that adds several perils to those covered by basic coverage.”

Covering the following additional causes of loss:

- ▶ Falling objects (trees or other objects that may fall onto a building)
 - ▶ Weight of snow, ice or sleet
 - ▶ Sudden and accidental water damage (sudden leaks)
- 

c) Special form (open perils) coverage

- ▶ “The highest-cost version that covers all causes of loss that are not specifically excluded. Special form coverage covers all the perils of broad form coverage as well as other perils.”

- ▶ ***Collapse***

- ▶ ***Crime Perils:***

Burglary: “The taking of property from inside a building by someone who unlawfully enters or exits the building.”

Robbery: “The taking of property from a person by someone who has caused or threatened to cause the person harm.”

Theft: “Any act of stealing; includes burglary and robbery.”

2. Covered Causes of Loss

▶ ***Auto Physical Damage:***

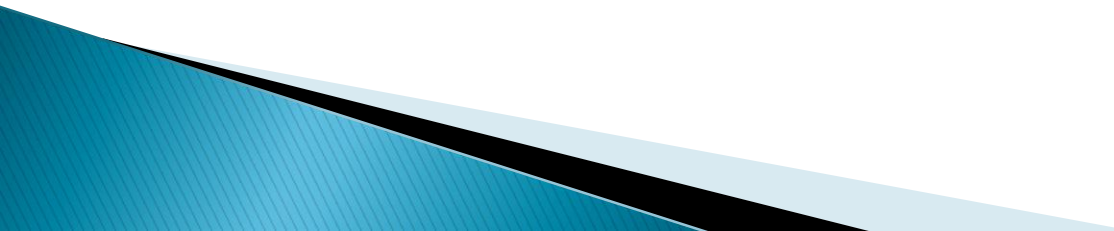
This coverage offers the following:

- ❖ *Collision:* “ Damage to a motor vehicle caused by its impact with another vehicle or object or by the vehicle’s overturn.”
- ❖ *Other than collision or comprehensive:*
“ Losses to a covered auto by fire, theft, vandalism, falling objects, flood and various other perils.”

2. Covered Causes of Loss

- ❖ *Specified causes of loss*: “ For other than collision coverage in commercial auto policies, a named perils alternative that is less expensive than comprehensive because fewer causes of loss are covered.”

3. Causes of loss often excluded

- ▶ **Catastrophe perils:** some perils that affect a great many people at the same time are generally considered to be uninsurable by insurers because the resulting losses would be widespread that the funds of the entire insurance business might be inadequate to pay all of the claims.
 - ▶ **Maintenance perils:** perils that are excluded from most policies include wear and tear, marring and scratching, rust, gradual seepage of water and damage by insects, birds or other animals.
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4. Covered financial consequences

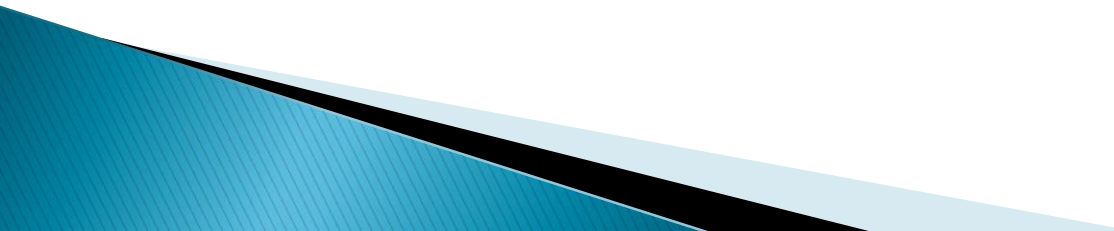
- ▶ *Reduction in property value (direct loss):*

- “ A reduction in the value of property that results directly and often immediately from damage to that property.”

- ▶ *Time element (indirect loss):*

- “ Loss of income or extra expenses resulting from direct loss to property.”

4. Covered financial consequences

- ▶ **Extra expenses:** “ Expenses that reduce the length of a business interruption or enable a business to continue some operations when the property has been damaged by a covered cause of loss.”
 - ▶ **Additional living expense:** “ A coverage in homeowners policies that indemnifies the insured for the additional expenses that are incurred following a covered property loss so that the household can maintain its normal standard of living while the dwelling is being restored.”
- 

5. Covered parties

1) **Named insured:** “ The policyholder whose name(s) appears on the declarations page of an insurance policy.”

- First named insured has rights and responsibilities more than the other insureds.

2) A party that owns and occupies a building is the named insured on a policy covering both building and personal property.

3) The tenant of a building is the named insured on a property insurance policy covering the tenant's personal property in that building.



5. Covered parties

4) A secured lender, although usually not a named insured, is listed by name in the declarations (or in an endorsement) as a mortgagee or a loss payee.

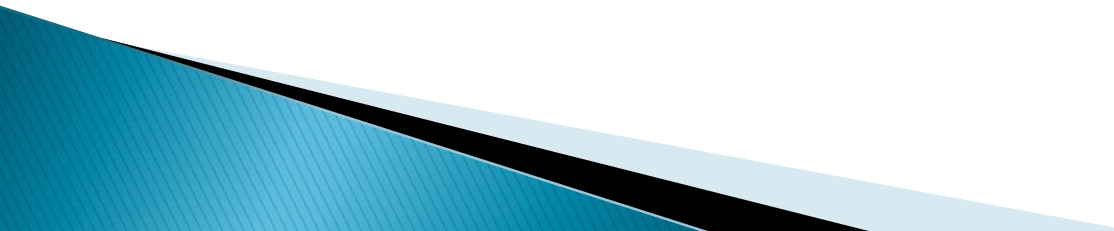
5) A bailee is the named insured on a bailee policy. The bailee policy covers property of others that is in the bailee's custody.



6. Amounts of recovery

- 1– Policy limits
- 2– Valuation provisions
- 3– Settlement options
- 4– Deductibles:

A deductible: “ A portion of a covered loss that is subtracted from the amount the insurer would otherwise be obligated to pay the insured.”



6.Amounts of recovery

5– *Insurance-to-value provisions*: “ A provision in property insurance policies that encourages insureds to purchase an amount of insurance that is equal to, or close to, the value of the covered property.”

Coinsurance: “ An insurance-to-value provision in many property insurance policies providing that if the property is under insured, the amount that an insurer will pay for a covered loss is reduced.’

6– Other insurance provisions

