Chapter-6:

PROPERTY AND LIABILITY INSURANCE:

General or Non-Life Insurance

General insurance or non-life insurance policies, including automobile and homeowners policies, provide payments depending on the loss from a particular financial event. General insurance typically comprises any insurance that is not determined to be life insurance.

Property Insurance

Property insurance provides protection against most risks to property, such as fire, theft and some weather damage. This includes specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance or boiler insurance. Property insurance covers a business's building and its contents -- money and securities, accounts-receivable records, inventory, furniture, machinery, supplies and even intangible assets such as trademarks -- when damage, theft or loss occurs.

Property is insured in two main ways - open perils and named perils. Open perils cover all the causes of loss not specifically excluded in the policy. Common exclusions on open peril policies include damage resulting from earthquakes, floods, nuclear incidents, acts of terrorism and war. Named perils require the actual cause of loss to be listed in the policy for insurance to be provided. The more common named perils include such damage-causing events as fire, lightning, explosion and theft.

Some insurance companies offer property insurance by named peril, such as fire and theft. Others offer policies that cover multiple perils. Most basic multiple-peril policies include losses caused by fire and theft, but business owners can purchase additional types of coverage if they need it. For example, a business in the Midwest or on the East Coast may want to purchase coverage for snow, ice or sleet damage, while businesses on the West Coast may consider an earthquake-insurance policy.

Businesses with good loss-control measures and claim histories often pay lower insurance premiums than companies with risky procedures and poor claims histories. Taking steps to prevent loss — hiring security personnel to prevent shoplifting, installing a sprinkler system to contain fires or using an alarm system to protect against theft — can help control the cost of property insurance.

Types of Coverage (Property Insurance):

Many businesses purchase property insurance through a business-owner's policy (BOP), which bundles property and liability insurance into one policy; however, since the amount of coverage available in a BOP is generally lower than in a standard property-insurance policy, companies that require a lot of coverage usually stick with a separate policy.

Some BOPs also include business-interruption insurance and extra-expense insurance -- two types of optional coverage in a property insurance policy that protect a business after a loss occurs.

Business-interruption insurance provides payments for expenses such as salaries, taxes and debts, as well as any loss of profit due to the interruption of business.

Extra-expense insurance pays the costs of temporarily relocating a business when a covered peril occurs. For example, if a fire destroys a clothing store, extra-expense

insurance will pay for a business to resume operations and cover such expenses as buying or leasing equipment, getting new merchandise and notifying customers about changes that have occurred.

Fire Insurance

There are three types of insurance coverage. Replacement cost pays the cost of replacing your property regardless of depreciation or appreciation. Extended replacement cost will pay over the coverage limit if the costs for construction have increased. This generally will not exceed 20% of the limit. Actual Cash Value provides replacement minus depreciation. When you obtain an insurance policy, the coverage limit established is the maximum amount the insurance company will pay out in case of loss of property. This amount will need to fluctuate if homes in your neighborhood are rising; the amount needs to be in step with the actual value of your home. In case of a fire, household content replacement is tabulated as a percentage of the value of the home. In case of high value items, the insurance company may ask to specifically cover these items separate from the other household contents. One last coverage option is to have alternative living arrangements included in a policy. If a fire leaves your home uninhabitable, the policy can help pay for a hotel or other living arrangements.

Auto insurance

Auto insurance protects you against financial loss if you have an accident. It is a contract between you and the insurance company. You agree to pay the premium and the insurance company agrees to pay your losses as defined in your policy. Auto insurance provides property, liability and medical coverage:

1. Property coverage pays for damage to or theft of your car.
2. Liability coverage pays for your legal responsibility to others for bodily injury or property damage.
3. Medical coverage pays for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses.

An auto insurance policy comprises six kinds of coverage. Most countries require you to buy some, but not all, of this coverage. If you're financing a car, your lender may also have requirements. Most auto policies are for six months to a year.

In the United States, your insurance company should notify you by mail when it’s time to renew the policy and to pay your premium.

Automobile insurance, known in the UK as *motor insurance*, is probably the most common form of insurance and may cover both legal liability claims against the driver and loss of or damage to the insured's vehicle itself. Throughout the United States an auto insurance policy is required to legally operate a motor vehicle on public roads. In some jurisdictions, bodily injury compensation for automobile accident victims has been changed to a no-fault system, which reduces or eliminates the ability to sue for compensation but provides automatic eligibility for benefits. Credit card companies insure against damage on rented cars.

Driving School Insurance provides cover for any authorized driver whilst undergoing tuition; cover also unlike other motor policies provides cover for instructor liability where both the pupil and driving instructor are equally liable in the event of a claim.

Homeowners' Insurance

Home insurance, also commonly called **hazard insurance** or **homeowners insurance** (often abbreviated in the real estate industry as **HOI**), is the type of property insurance that covers private homes. It is an insurance policy that combines various personal insurance protections, which can include losses occurring to one's home, its contents, loss of its use (additional living expenses), or loss of other personal possessions of the homeowner, as well as liability insurance for accidents that may happen at the home. It requires that at least one of the named insured occupies the home. The dwelling policy (DP) is similar, but used for residences which don't qualify for various reasons, such as vacancy/non-occupancy, seasonal/secondary residence, or age. It is a multiple line insurance, meaning that it includes both property and liability coverage, with an indivisible premium, meaning that a single premium is paid for all risks. The insurance policy itself is a lengthy contract, and names what will and what will not be paid in the case of various events. Typically, claims due to floods, or war (whose definition typically includes a nuclear explosion from any source) are excluded. Special insurance can be purchased for these possibilities, including flood insurance. Insurance must be updated to the present and existing value at whatever inflation up or down, and an appraisal paid by the insurance company will be added on to the policy premium. Fire insurance will require a special premium charge, plus the addition of smoke detectors and on site fire suppression systems to qualify.

The home insurance policy is usually a term contract a contract that is in effect for a fixed period of time. The payment the insured makes to the insurer is called the premium. The insured must pay the insurer the premium each term. Most insurers charge a lower premium if it appears less likely the home will be damaged or destroyed: for example, if the house is situated next to a fire station, if the house is equipped with fire sprinklers and fire alarms. Perpetual insurance, which is a type of home insurance without a fixed term, can also be obtained in certain areas.

Property Insurance Types:

Property insurance provides protection against risks to property, such as fire, theft or weather damage. This includes specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance or boiler insurance.

- ✓ ***Aviation insurance*** insures against hull, spares, deductibles, hull wear and liability risks.
- ✓ ***Boiler insurance*** (also known as boiler and machinery insurance or equipment breakdown insurance) insures against accidental physical damage to equipment or machinery.
- ✓ ***Builder's risk insurance:*** insures against the risk of physical loss or damage to property during construction. Builder's risk insurance is typically written on an "all risk" basis covering damage due to any cause (including the negligence of the insured) not otherwise expressly excluded.
- ✓ ***Crop insurance*** "Farmers use crop insurance to reduce or manage various risks associated with growing crops. Such risks include crop loss or damage caused by weather, hail, drought, frost damage, insects, or disease, for instance."

- ✓ ***Earthquake insurance*** is a form of property insurance that pays the policyholder in the event of an earthquake that causes damage to the property. Most ordinary home owners insurance policies do not cover earthquake damage. Most earthquake insurance policies feature a high deductible. Rates depend on location and the probability of an earthquake, as well as the construction of the home.
- ✓ ***A fidelity bond*** is a form of casualty insurance that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees.
- ✓ ***Flood insurance*** protects against property loss due to flooding. Many insurers in the U.S. do not provide flood insurance in some portions of the country. In response to this, the federal government created the National Flood Insurance Program which serves as the insurer of last resort.
- ✓ ***Landlord insurance*** is specifically designed for people who own properties which they rent out. Most house insurance cover in the U.K will not be valid if the property is rented out therefore landlords must take out this specialist form of home insurance.
- ✓ ***Marine insurance*** and marine cargo insurance cover the loss or damage of ships at sea or on inland waterways, and of the cargo that may be on them. When the owner of the cargo and the carrier are separate corporations, marine cargo insurance typically compensates the owner of cargo for losses sustained from fire, shipwreck, etc., but excludes losses that can be recovered from the carrier or the carrier's insurance. Many marine insurance underwriters will include "time element" coverage in such policies, which extends the indemnity to cover loss of profit and other business expenses attributable to the delay caused by a covered loss.
- ✓ ***Surety bond insurance*** is a three party insurance guaranteeing the performance of the principal. A surety bond is a contract among at least three parties: (1) The principal - the primary party who will be performing a contractual obligation, (2) The obligee - the party who is the recipient of the obligation, and (3) The surety - who ensures that the principal's obligations will be performed. Surety bonds are frequently used in the construction industry: in order to obtain a contract to build the project, the general contractor (and often the sub-contractors as well) must provide the owner a bond for its performance of the terms of the contract. Conversely, owners and contractors may also provide payment bonds to ensure that subcontractors and suppliers are paid for work done.
- ✓ ***Terrorism insurance*** provides protection against any loss or damage caused by terrorist activities.
- ✓ ***Volcano insurance*** is an insurance that covers volcano damage in Hawaii.
- ✓ **Windstorm insurance** is an insurance covering the damage that can be caused by hurricanes and tropical cyclones.

Liability Insurance

Liability insurance is a very broad superset that covers legal claims against the insured. Many types of insurance include an aspect of liability coverage. For example, a homeowner's insurance policy will normally include liability coverage which protects the

insured in the event of a claim brought by someone who slips and falls on the property; automobile insurance also includes an aspect of liability insurance that indemnifies against the harm that a crashing car can cause to others' lives, health, or property. The protection offered by a liability insurance policy is twofold: a legal defense in the event of a lawsuit commenced against the policyholder and indemnification (payment on behalf of the insured) with respect to a settlement or court verdict. Liability policies typically cover only the negligence of the insured, and will not apply to results of willful or intentional acts by the insured.

- ✓ **Directors and officers liability insurance** protects an organization (usually a corporation) from costs associated with litigation resulting from mistakes made by directors and officers for which they are liable. In the industry, it is usually called "D&O" for short.
- ✓ **Environmental liability insurance** protects the insured from bodily injury, property damage and cleanup costs as a result of the dispersal, release or escape of pollutants.
- ✓ **Prize indemnity insurance** protects the insured from giving away a large prize at a specific event. Examples would include offering prizes to contestants who can make a half-court shot at a basketball game, or a hole-in-one at a golf tournament.
- ✓ **Professional liability insurance**, also called Professional Indemnity Insurance, protects professional practitioners such as architects, lawyers, physicians, and accountants against potential negligence claims made by their patients/clients. Professional liability insurance may take on different names depending on the profession. For example, professional liability insurance in reference to the medical profession may be called Medical Malpractice. Notaries public may take out errors and omissions insurance (E&O). Other potential E&O policyholders include, for example, real estate brokers, home inspectors, appraisers, and website developers. There are also specific E&O policies for technology companies, such as software developers, technology consultants and other creators of technology. This coverage focuses on the failure to perform, financial loss and error or omission of the products or services sold. Additional coverage for breach of warranty, intellectual property, personal injury, security and cost of contract can be added.

The primary reason for professional liability coverage is that a typical general liability insurance policy will only respond to a bodily injury, property damage, personal injury or advertising injury claim. The above mentioned professional services and products can cause claims without causing a bodily injury, property damage, personal injury or advertising injury. Common reasons alleged in making claims on these policies are negligence, misrepresentation, violation of good faith and fair dealing, and inaccurate advice. For example, if a software product fails to perform properly, it may not cause physical damages, personal or advertising injuries, therefore the general liability policy would not be triggered. It may, however, directly cause financial losses which could potentially be attributed to the software developer's misrepresentation of the product capabilities.

Professional liability insurance policies are generally set up based on a claims-made basis, meaning that the policy only covers incidents that occurred during the timeframe

in which the coverage was active. It is important to continue your coverage, because canceling the policy, will in effect, make it as if you never had coverage.

Credit Insurance

Credit insurance repays some or all of a loan when certain things happen to the borrower such as unemployment, disability, or death.

Credit insurance is a term used to describe both trade credit insurance and credit life insurance.

Credit life insurance is a consumer purchase, often sold with a big ticket purchase such as an automobile. The insurance will pay off the loan balance in the event of the death or the disability of the borrower. Although purchased by the consumer/borrower, the benefit payment goes to the company financing the purchase to satisfy a debt.

Credit insurance or **trade credit insurance** (also known as **business credit insurance**) is an insurance policy and risk management product that covers the payment risk resulting from the delivery of goods or services. Credit insurance usually covers a portfolio of buyers and pays an agreed percentage of an invoice or receivable that remains unpaid as a result of protracted default, insolvency or bankruptcy. Trade credit insurance is purchased by business entities to insure their accounts receivable from loss due to the insolvency of the debtors. This product is not available to private individuals.

The costs (called a "premium") for this are usually charged monthly, and are calculated as a percentage of sales of that month or as a percentage of all outstanding receivables.

Credit insurance insures the payment risk of companies, not of private individuals. Policy holders require a credit limit on each of their buyers for the sales to that buyer to be insured. The premium rate is usually low and reflects the average credit risk of the insured portfolio of buyers.

In addition, credit insurance can also cover single transactions or trade with only one buyer.

Mortgage insurance insures the lender against default by the borrower. Mortgage insurance is a form of credit insurance, although the name *credit insurance* more often is used to refer to policies that cover other kinds of debt.

Other Types

- ✓ ***Collateral protection insurance or CPI***, insures property (primarily vehicles) held as collateral for loans made by lending institutions.
- ✓ ***Defense Base Act Workers' compensation or DBA*** Insurance provides coverage for civilian workers hired by the government to perform contracts outside the U.S. and Canada. DBA is required for all U.S. citizens, U.S. residents, U.S. Green Card holders, and all employees or subcontractors hired on overseas government contracts. Depending on the country, Foreign Nationals must also be covered under DBA. This coverage typically includes expenses related to medical treatment and loss of wages, as well as disability and death benefits.
- ✓ ***Expatriate insurance*** provides individuals and organizations operating outside of their home country with protection for automobiles, property, health, liability and business pursuits.

- ✓ ***Financial loss insurance*** protects individuals and companies against various financial risks. For example, a business might purchase coverage to protect it from loss of sales if a fire in a factory prevented it from carrying out its business for a time. Insurance might also cover the failure of a creditor to pay money it owes to the insured. This type of insurance is frequently referred to as "business interruption insurance." Fidelity bonds and surety bonds are included in this category, although these products provide a benefit to a third party (the "obligee") in the event the insured party (usually referred to as the "obligor") fails to perform its obligations under a contract with the obligee.
- ✓ **Kidnap and ransom insurance**: Kidnap and ransom insurance (K&R insurance) is designed to protect individuals and corporations operating in high-risk areas around the world, such as Mexico, Venezuela, Haiti, and Nigeria, certain other countries in Latin America, as well as some parts of the Russian Federation and Eastern Europe. K&R insurance policies typically cover the perils of kidnap, extortion, wrongful detention and hijacking. K&R policies are indemnity policies - they reimburse a loss incurred by the insured. The policies do not pay ransoms on the behalf of the insured. The insured must first pay the ransom, thus incurring the loss, and then seek reimbursement under the policy. Losses typically reimbursed by K&R polices are ransom payments, loss-of-ransom-in-transit and additional expenses, such as medical expenses. The policies also typically indemnify personal accident losses caused by a kidnap. These include death, dismemberment, and permanent total disablement of a kidnapped person. They also typically pay for the fees and expenses of crisis management consultants,. These consultants provide advice to the insured on how to best respond to the incident
- ✓ ***Locked funds insurance*** is a little-known hybrid insurance policy jointly issued by governments and banks. It is used to protect public funds from tamper by unauthorized parties. In special cases, a government may authorize its use in protecting semi-private funds which are liable to tamper. The terms of this type of insurance are usually very strict. Therefore it is used only in extreme cases where maximum security of funds is required.
- ✓ ***Nuclear incident insurance*** covers damages resulting from an incident involving radioactive materials and is generally arranged at the national level. See the Nuclear exclusion clause and for the United States the Price-Anderson Nuclear Industries Indemnity Act)
- ✓ ***Pet insurance*** insures pets against accidents and illnesses - some companies cover routine/wellness care and burial, as well.
- ✓ ***Pollution Insurance***, which consists of first-party coverage for contamination of insured property either by external or on-site sources. Coverage for liability to third parties arising from contamination of air, water, or land due to the sudden and accidental release of hazardous materials from the insured site. The policy usually covers the costs of cleanup and may include coverage for releases from underground storage tanks. Intentional acts are specifically excluded.
- ✓ ***Purchase insurance*** is aimed at providing protection on the products people purchase. Purchase insurance can cover individual purchase protection, warranties, guarantees, care plans and even mobile phone insurance. Such

insurance is normally very limited in the scope of problems that are covered by the policy.

- ✓ ***Title insurance*** provides a guarantee that title to real property is vested in the purchaser and/or mortgagee, free and clear of liens or encumbrances. It is usually issued in conjunction with a search of the public records performed at the time of a real estate transaction.
- ✓ ***Travel insurance*** is an insurance cover taken by those who travel abroad, which covers certain losses such as medical expenses, loss of personal belongings, travel delay, personal liabilities, etc.