

Chapter 12: Homeowners Insurance

Homeowners policies are multiple-line policies; they provide coverage for first-party property, third-party liability, voluntary medical payments and voluntary payment for property damage of others. If the policy lists the perils that are covered it is called a **specified** or **named perils policy**. In other cases, the policy covers all perils except those specifically excluded (known as an **all risk** or **all perils policy**).

Section I provides coverage for damage to both buildings and personal property due to a broad range of perils. **Section II** provides coverage for compensatory damages and defense costs for unintentional bodily injury and property damage to third parties that arise from accidents at the residence or that result from actions of the insured.

Section I

- A. **Dwelling Building** - covers the policyholder's main residence, attached structures, permanently installed outdoor equipment (fences, swimming pool etc.)
- B. **Detached Private Structures** - covers structures not attached to main residence (garages etc.)
- C. **Personal Property** - covers items that are owned or used by the insured regardless of whether they are lost or damaged at the insured's premises or away from home
- D. **Additional Living Expenses** - provides reimbursement for the additional expenses incurred if the dwelling cannot be used because it is damaged

Section II

- E. **Personal Liability** - pays for compensatory damages and defense costs for unintentional bodily injury and property damage to third parties that arise from accidents at the residence
- F. **Voluntary Medical Payments** - pays the medical expenses of non-residents who are injured while on the premises
- G. **Voluntary Payment for Damage to Property** - covers unintentional direct damage caused by the insured to property of others (no legal liability exists)
- H. **Voluntary Compensation for Residence Employee** - coverage for injury to persons employed by the insured to perform duties in connection with the maintenance or use of the premises

Loss settlement for homeowners policies varies depending on the type of policy and whether the loss is to the dwelling or personal property. The most common types of loss settlement methods are like-kind replacement cost, guaranteed replacement cost, and actual cash value. Being insured on a **replacement cost** basis means that the insurer will pay the cost to repair or replace the building with materials of similar kind and quality. **Guaranteed replacement cost** is when the insurer will pay the cost of repairs even if it exceeds the amount of insurance for Coverage A. **Actual cash value** is defined as replacement cost less depreciation.

Personal umbrella policies provide liability coverage with high limits (usually 1M+) above liability coverage provided by homeowners and automobile liability coverage. If losses exceed the limits on these other "primary" coverages, then the umbrella policy will pay losses up to its limit. Most umbrella policies also provide some coverage for liability exposures not covered under the insured's primary policy.

Losses arising from earthquakes and floods are excluded in the homeowners policy. Earthquake coverage can be purchased from private insurers as an endorsement or as a separate policy. Coverage for floods for homeowners is generally not available in Canada.

Catastrophes have disrupted property insurance markets and led to government provision of reinsurance in some countries as well as innovative private capital market instruments for financing catastrophe losses.

Questions

1. What coverages are provided under Section I and Section II of the Homeowners Policy?

ANS:

a) Section I – Property Coverages

Coverage A: Dwelling Building – Homeowner

Coverage B: Detached Private Structures (Homeowner only) - playground, shed, pool house

Coverage C: Personal Property - property you own, wear or use on premises

Coverage D: Additional Living Expenses

b) Section II – Liability Coverages

(answer missing under section 2)

Why buy Home Insurance?

What is covered in Home insurance?

What is not covered in home insurance?

Why are some items covered under personal article floater?

Why are catastrophe losses increasing?

What are some ways to manage losses from catastrophe incidents?

The following are “ideal characteristics” of an insurable exposure:

- Expected losses are calculable, *ex ante*;
- Loss is fortuitous from insured’s point of view;
- The happening, timing, and cost of a loss can clearly be determined (*ex post*);
- A large number of similar exposures exist;
- Losses are uncorrelated across exposures.

Based on these characteristics, evaluate to what extent the following liability risk ‘*Property damage in one’s home arising from the freezing of indoor plumbing.*’ is insurable?

Which of the water peril below is excluded from a personal property insurance contract in Canada?

- a. *Water damage caused when a pipe suddenly bursts.*
- b. *Water damage in basement due to slow leak in hot water heater.*
- c. *Water damage from the fire department extinguishing a fire in your bedroom.*
- d. *Water damage occurs during a storm in which a tree crashes through your roof and rainwater pours into your house through that hole.*