

Property Insurance

COURSE OBJECTIVES: The purpose of this course is to teach basic property insurance concepts such as essential terminology, pooling risk, risk management, loss assessment, and the types of property that can be covered by insurance. Students will learn how insurance policies are organized. They will also learn the standardized approach to using basic form, broad form, and special form policies that provide increasing levels of coverage.

In addition to learning about standardized policy forms, students are shown how floaters and endorsements are added to customize coverage to suit clients' needs. Students will also study examples of commercial property insurance, homeowner's insurance, and dwelling insurance to gain an understanding of how personal and commercial insurance are written.

LEARNING OBJECTIVES:

Upon completion of this course, the student should be able to:

- Define basic terminology used in all property forms
 - Describe the process of loss assessment
 - Explain that insurance is based on pooling risk and on the principle of indemnification
 - Discuss policy structure
 - Explain the types of coverage and exclusions to expect
 - Analyze different types of property insurance policies
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I. PROPERTY INSURANCE

Lesson 1A

- Pooling Risk

Insurance is based on the concept of pooling risks such as lightning damage. Based on past statistics on lightning damage to property, a premium is calculated which in total will be enough to pay for all damages during a policy period, but on an individual basis is affordable in terms of the relative devastation it guards against. Insurance is the financial mechanism that we use to protect those in a group who face unpredictable personal or financial loss. People who buy insurance do so to protect themselves from four types of economic loss. They are:

- Loss of property value
- Loss of business income
- Loss of financial freedom
- Loss by losing key personnel

- Real Property

There are different sorts of property in terms of ownership and insurable interest. So it is critical to use consistent definitions for each type. A building or buildings being insured is called real property.

- Unimproved Land - Real estate, other than all permanent property improvements, is known as unimproved land.

Lesson 1B

- Buildings and Other Structures - Buildings and other structures can be subdivided into various categories.
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- **Elements of Personal Property**

Personal property is movable property such as clothing and sports equipment, as opposed to real property (real estate). Personal property can be classified as either tangible or intangible.

- **Tangible Property**

Tangible property, both real and personal, is subject to both physical damage (including destruction) and wrongful removal.

- **Money and Securities** - The term money and securities includes all types of monetary assets such as cash bank accounts, certificates of deposit, securities, notes, drafts, and evidences of debt.
- **Accounts Receivable** - Accounts receivable are records of money due or collected from customer or client accounts.
- **Inventory** - For a wholesaler or retailer, inventory represents goods ready for sale. For a manufacturer, inventory is usually more specifically defined as raw materials, stock in process, and finished goods.
- **Furniture, Equipment, and Supplies** - Many items of personal property can be conveniently classified as furniture, equipment, or supplies.

Lesson 1C

- **Machinery** - Logically, machinery could be included in the previous category--furniture, equipment, and supplies. However, because particular items of machinery often have high values, this class of property should be considered separately.
 - **Data Processing Hardware, Software, and Media** - Many organizations have electronic data processing (EDP) equipment with substantial values. This is another category of specialized equipment, and more and more entities can be found with high values at risk in this kind of property.
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Lesson 1D

- Valuable Papers, Books, and Documents - Even small organizations may generate a huge volume of accounting, financial, and statistical records. In addition, many organizations' operations depend on valuable books, films, drawings, maps, abstracts, deeds, photographs, and other documents.
- Mobile Property - Automobiles, aircraft, boats and ships, heavy mobile equipment used by contractors, and other mobile machinery represent a separate class of property.
- Intangible Property - Many items of intangible property are legal rights, rather than tangible property.

Lesson 1E

- Standardized Policies
The policies discussed may not follow the policies that you work with word-for-word, but they will include the basics that almost every insurance policy will include. As with all other insurance contracts, property insurance contracts consist of the following:
 - Declarations
 - Insuring agreements
 - Conditions
 - Exclusions
 - Definitions
 - Declarations
 - Who is insured? - The Declarations page states who is insured on the policy.
 - What property is covered? - As previously discussed, almost anything can be insured as long as it has an insurable interest and pure risk.
 - When is property insured? - Property is insured during the policy period—the period of time between the time the policy becomes valid and the
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time the policy expires.

- How much property is insured for? - The Declarations page also states the maximum amount payable by the insurance company for a loss.

Lesson 1F

- Insuring agreement
 - Property covered - The insuring agreement explains, more in depth, what property is covered in a policy, as well as what perils the property is insured against.
 - Perils insured against - Some insurance policies cover only specific perils such as fire or flood. These types of policies can be called Specified peril or Named peril policies.
 - Direct loss, indirect loss - The Insuring agreement also lists whether the policy will cover direct loss, indirect loss or both direct and indirect loss.
- Exclusions and limitations

Exclusions are items listed in the insurance policy that are specifically labeled as non-covered items. Policy exclusions vary from policy to policy depending on individual needs and requirements. The five basic broad categories that can be found in property policies are:

 - Non-accidental losses
 - Losses controllable by the insured
 - Extra-hazardous perils
 - Catastrophic perils
 - Property covered in other policies
- Conditions
 - Duties following loss - The conditions section of a property insurance policy lists the rights and duties of both the insured and the insurer.

Lesson 1G

- Valuation - In the Valuation condition or the How Losses Will Be Paid condition, the insurance contract lists the provisions and obligations of the insurance company when a loss occurs.
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- Repair cost - The repair cost is only the amount of money needed to repair damaged property
- Replacement cost - Replacement cost is the amount needed to replace items entirely.
- Actual cash value - When a loss is paid by the insurance company as the Actual cash value (ACV), the insured basically receives the item or property's "real value".
- Market value - Market value represents the amount of money a property can likely be sold for at any given time.
- Coinsurance - The Coinsurance condition lists the minimum amount of insurance that the insured should carry on a given property.

Lesson 1H

▪ When Losses are Paid

The amount of time required to reimburse the insured may not be stated in the policy, but it is understood that the insurance company will act in a prompt manner.

- Pair or set - The Pair or Set condition found in property contracts states that if a pair or set of items exists, the loss of one of the items is important enough to the value of the set as a whole to be covered alone.
 - Deductible - The Deductible is the first portion of the reimbursement that must be paid by the insured.
 - Salvage and abandonment - A Salvage condition in a contract states that the insurance company may take possession of damaged property after it has paid for the loss as a total loss. The Abandonment condition in a contract states that the insured may not abandon damaged property to the insurance company and then expect to be reimbursed for the full value of it.
 - Subrogation - Most insurance companies have Subrogation rights listed in their policies. Subrogation may also be known as Transfer of Right of Recovery Against Others to Us.
 - Appraisal and arbitration - The Appraisal condition allows the insured and the insurer to resolve conflicts over reimbursement amounts. The Arbitration condition is very similar to the appraisal
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condition except that it allows for more than loss value to be disputed; it allows for almost any dispute or disagreement between the insurance company and the insured to be reviewed

- Other Insurance
 - Primary and Excess - When the same loss may be covered by two separate insurance policies, one policy is the Primary insurance, and the other is the Excess insurance.

Lesson 11

- Pro Rata
The Pro Rata method of paying losses by multiple insurance policies means that each company pays a proportionate percentage of the loss.
 - Liberalization
The Liberalization condition states that, if any law is passed that broadens coverage under a policy form or endorsement, without requiring an additional premium, then all existing similar policies or endorsements will be construed to contain the broadened coverage.
 - Assignment
Transfer of Rights or Duties Under This Policy, also known as Assignment condition, states that the policy may not be transferred to anyone else other than the insured, unless by written consent of the insurer—except if the insured dies.
 - No Benefit to Bailee
The No Benefit to Bailee condition states that property will not be covered by the policy when in possession of bailees, such as storage companies or repair centers.
 - Mortgage Condition
Lenders, or mortgages, under the Mortgage condition (also known as the Loss Payable condition) have many of the same obligations as the insured in the policy.
 - Policy Period and Policy Territory
The Policy Period and Policy Territory conditions state that property will not be covered by the insurance unless
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the loss occurs within the Policy period and within the boundaries of the Policy territory

- **Vacancy and Un-occupancy**
Many insurance policies have Vacancy or Un-occupancy conditions that state what limitation and exclusions will be made for properties left vacant or un-occupied.
 - Reporting forms - Policies that charge a flat premium every time the policy is renewed are referred to as Non-reporting policies. Reporting policies are issued when the amount of coverage needed is difficult to determine.

II. COMMERCIAL PROPERTY INSURANCE

Lesson 2A

- **Commercial Property Coverage Part**
The most widely used means of providing the property insurance is the Commercial Property Coverage Part of the Commercial Package policy.
 - **Commercial Property Declarations and Coverage Forms**
The Commercial Property Declarations form provides additional information about the premises to be insured and the specific forms that will apply, as well as the names and addresses of any mortgage holders.
 - **Causes of Loss Forms**
The Causes of Loss Forms list the perils that the property is insured against.
 - **Commercial Property Conditions Form**
 - The Control of Property Condition - states that an act of neglect of a person beyond the insured's direction or control will not affect the insurance.
 - The Legal Action Against Us Condition - states that the insured, having complied with all conditions of the policy, has only two years from the date that direct physical loss occurred to bring action against the insurer.
 - The Other Insurance Condition - states that when there is other insurance written on the same basis, the other policies are pro rated.
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- The Policy Period, Coverage Territory Condition - states that any loss covered must be a loss suffered within the area described as the coverage territory in the policy, and must have occurred within the policy period.
- The Transfer of Rights of Recovery Against Others to Us Condition - gives the insurance company subrogation rights.
- Building and personal property coverage form
 - Property Covered - Each property coverage form defines what property is covered, what property is not covered, what special conditions apply, and how limits and deductibles apply.

Lesson 2B

- Property Not Covered - Some of the property excluded from coverage includes:
 - Animals that are not boarded or for sale
 - Autos for sale
 - Money and related property
 - Contraband
 - Etc.
- Additional Coverages:
 - Preservation of Property
 - Fire Department Service Charge
 - Debris Removal
 - Pollution Clean-up and Removal
- Coverage extensions:
 - Newly Acquired or Constructed Property
 - Personal Effects and Property of Others
 - Outdoor Property
 - Property Off-Premises
- Conditions:
 - Duties in the Event of a Loss

Lesson 2C

- Building and Personal Property Coverage Conditions Cont'd.:
 - Loss Payment
 - Valuation
 - Stock
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- Glass
- Valuable Papers and Records
- Tenants' improvements and betterments
- Vacancy
- Mortgage Holders
- Coinsurance
- Optional Coverages - The Building and Personal Property coverage form also provides three optional coverages:
 - Replacement Cost
 - Inflation Guard
 - Agreed Value
- Builder's Risk Coverage Form
 - Property Covered - This form covers commercial, residential, or farm buildings that are under construction.
 - Amount of Coverage Available - The amount of coverage available under the Builder's Risk coverage form is determined by using the expected value of the building after its completion.

Lesson 2D

- Builder's Risk Reporting Form
The Builder's Risk Reporting form may be attached to the Builder's Risk coverage form to allow the insured to gradually increase the coverage on the property as the value of the property increases.
 - Condominium Coverage Forms
There are two condominium forms available under the Commercial Property coverage part:
 - Condominium Association coverage form - insures the condominium association against direct physical loss or damage.
 - Condominium Commercial Unit-owners coverage form - covers the contents of a commercial condominium.
 - Business Income Coverage Forms
 - Coverages - When a business has suffered a loss of income due to a direct physical loss from a peril insured against, the Business Income coverage form will cover the lost income.
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- Extra Expense - Extra Expense coverage allows a business to continue after a covered loss by reimbursing those expenses needed to keep going.
- Business Income With Extra Expense Coverage Form - Helps a business continue running, or to continue running at a minimum loss, by providing the necessary money to purchase those things needed to stay in operation.
- Business Income Without Extra Expense Coverage Form - Replaces Extra Expense coverage with Expenses to Reduce Loss coverage.
- Rental Value - Rental Value includes fair rental value of any part of the premises that is occupied by the insured, the total anticipated rental income from a tenant occupancy, and all amounts that are legal obligations of the tenant and would otherwise be the insured's obligations.

Lesson 2E

- Additional Coverages
 - Order of Civil Authority
 - Extended Business Income
 - Optional Coverages
 - Extended Period of Indemnity
 - Maximum Period of Indemnity
 - Monthly Limit of Indemnity
 - Agreed Value
 - Business Income from Dependent Properties – Broad Form
 - Contributing Location
 - Recipient Location
 - Manufacturing Location
 - Leader Location
 - Extra Expense Coverage Form
 - Extra Expense coverage forms pay for any extra expense that is incurred by a business if the business is such that temporarily stopping production, or cutting production down, during the repair period after a loss is not possible.
 - Legal Liability and Glass Coverage Forms
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- Legal Liability - The Legal Liability coverage form also covers damage to property belonging to others that is in the care, custody or control of the insured, but only if the insured is legally liable for the property.
- Glass - This form covers glass listed in the declarations, including the lettering and ornamentation of such glass.

Lesson 2F

▪ Causes of Loss Forms

The Causes of Loss forms states what perils are insured against and lists specific exclusions. There are four separate Causes of Loss forms:

- Basic - The Causes of Loss—Basic form is a named perils form which lists eleven covered perils, some of which include:
 - Fire
 - Lightning
 - Explosion
 - Windstorm or hail
 - Smoke
 - Aircraft or vehicles
 - Riot or civil commotion
 - Vandalism
 - Sprinkler leakage
 - Sinkhole collapse
 - Volcanic action
 - Broad - The Causes of Loss—Broad form covers all of the perils listed in the basic form as well as:
 - Falling objects
 - Weight of snow, ice, or sleet
 - Water damage
 - The cost of tearing out or replacing any part of a building to repair damage to the system from which water or steam escaped, as well as costs to repair or replace the system itself.
 - Breakage of glass
 - Collapse
 - Special - The Causes of Loss—Special form covers direct physical losses that are not specifically excluded or limited in the form.
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Lesson 2G

- Earthquake - The Causes of Loss—Earthquake Form covers two specific perils, earthquake and volcanic eruption, and must be used in conjunction with the Basic, Broad, or Special Causes of Loss forms.
- Endorsements - Several endorsements can be added to the Commercial Property coverage part:
 - Value reporting endorsements
 - Ordinance or law coverage endorsements
 - Spoilage endorsements

III. HOMEOWNER'S INSURANCE

Lesson 3A

- The Homeowners Policy Introduction
Homeowner insurance is a type of property insurance that covers a wide array of possible losses.
- A Residential Property Package
People buy HO insurance to protect themselves, but if they have a loan, the mortgage company will use the house as collateral.

Lesson 3B

- Importance of Records
The most important part of getting the money deserved for lost possessions is identifying the lost items. Before an individual purchases an insurance policy, a photo or video record of what they own should be made.
 - Types of Homeowner's Policies
 - HO-1 - This is the "basic" plan of homeowner's insurance.
 - HO-2 - This is referred to as the "broad" plan.
 - HO-3 - This plan is referred to as the "special" policy.
 - HO-4 - This plan is specifically for people who rent an apartment.
 - HO-5 - This plan is the most comprehensive
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- coverage available. It is known as the "all-risk" policy.
- HO-6 - This policy is specifically for the owners of condominium apartments and works in the same way as HO-4 for apartment buyers.
- HO-7 - There is no HO-7 policy.
- HO-8 - This policy is a specialized plan for the owners of older buildings that are irreplaceable.

Lesson 3C

- Eligibility, Insureds
Homeowners policies are a bit stricter than Dwelling policies with regards to who may, or may not, be eligible for coverage.
- Extent and Scope of Homeowners Coverage
There are two sections of the Homeowners policy. Section I and Section II.
- Section I – Property
Under Section I of the Homeowners policy, there are four separate policy coverages:
 - Coverage A – Dwelling
 - Coverage B – Other Structures

Lesson 3D

- Coverage C – Personal Property
 - Personal Articles Floater Policy
 - Special Limits of Liability
- Coverage D – Loss of Use

Lesson 3E

- Additional Coverages - In All Homeowners Forms
 - The Homeowners policy, besides the four coverages discussed, has several additional coverages:
 - Debris Removal
 - Reasonable Repairs
 - Trees, Shrubs, and Other Plants
 - Fire Department Service Charge
 - Property Removed
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- Credit Card, Electronic Fund Transfer Card or Access Device, Forgery, and Counterfeit Money
- Loss Assessment
- Collapse
- Glass or Safety Glazing Material
- Landlord's Furnishings
- Ordinance or Law
- Grave Markers
- Additional Coverages - In Selected Homeowners Forms - Certain Homeowners forms have additional coverages in them:
 - Building Additions and Alterations
- Perils Insured Against:
 - Basic Named Perils - Every HO form has a certain number of identical coverages.

Lesson 3F

- Broad Named Perils - The HO-2 adds some additional perils and expands the definitions of several others.
 - Special Form Coverage - The HO-3, also known as the Special form, provides open-peril or all-risk coverage for the dwelling and other structures, insuring against all risks of direct physical loss that are not specifically excluded in the policy.
 - Exclusions - All of the exclusions that have been discussed so far are included in all Homeowners policies.
 - Conditions –
 - Loss Settlement: The Loss Settlement condition states that covered property losses are valued at actual cash value, but not to exceed the amount necessary to repair or replace.
 - Limits of Liability, Deductible: The Homeowners offers more than just property coverage on the building. Therefore, the policy requires a specific minimum limit of liability for each of the major property coverages.
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Lesson 3G

- Section II – Liability

The following section focuses on the Liability portion of the Homeowners policy.

- Coverage E – Personal Liability - If a claim or lawsuit is made against an insured for bodily injury (BI) or property damage (PD) that the insured has become legally obligated to pay caused by an occurrence to which coverage applies, the policy will pay up to the policy limit including prejudgment interest.
- Coverage F – Medical Payments to Others - Pays all necessary medical expenses incurred within three years of an accident that causes bodily injury.

- Homeowner's Insurance Discounts

Companies offer several types of discounts, but they do not offer the same discount or the same amount of discount in all states. Here are some elements that the consumer will probably consider before he/she makes a decision to purchase a homeowner's insurance policy:

- Shopping
- Deductibles
- Group Purchase
- Security
- Loyalty
- Quality

Lesson 3H

- Exclusions – There are some important exclusions that apply to Coverage E and F.
- Watercraft Exceptions - The following are exceptions to the exclusion for liability arising out of the use of watercraft.

Lesson 3I

- Additional Coverages - The following additional coverages are also included in Section II of the Homeowners policy:
 - Loss Assessment
 - Claim Expenses
 - Damage to Property of Others
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- First Aid Expenses
- Conditions –:
 - Section II
 - Section I and Section II
- Homeowner Endorsements
 - Section I Endorsements:
 - Special Personal Property Coverage: The HO-3 provides open peril coverage on the Dwelling and other structures, and named peril coverage for personal property. But there are coverage limits on specific kinds of personal property. Such limits are extended by using endorsements that describe property and list dollar values.
 - Schedule Personal Property: The Schedule Personal Property endorsement provides a separate schedule of insurance for categories of valuable property that either has specific limits or is expensive and not properly covered by the policy.
 - Personal Property Replacement Cost: The Personal Property Replacement Cost endorsement provides that the policy will reimburse losses to personal property on a replacement cost basis instead of with actual cash value.
 - Permitted Incidental Occupancies: The Permitted Incidental Occupancies endorsement overrides the exclusions under the Homeowners forms that apply to the insured's business activities conducted on the residence premises.

Lesson 3J

- Earthquake: The Earthquake endorsement is the only way to provide coverage for losses caused by earthquakes under the Homeowners policy.
 - Home Day Care Coverage: The Home Day Care Coverage endorsement extends coverage to this kind of business.
 - Section II Endorsements:
 - Watercraft: Because the Homeowners form only provides limited coverage for watercraft,
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individuals may purchase the Watercraft endorsement to cover more.

- Business Pursuits: The Business Pursuits endorsement provides liability coverage for business conducted away from the residence premises, which otherwise would not be covered, other than for permitted incidental occupancies.
- Personal Injury: The Personal Injury endorsement modifies the definition of bodily injury to include personal injury.

- **Condominium Owner's Insurance**

A condominium owner's insurance policy protects against losses from unexpected events, such as fire, theft, personal liability and most natural disasters that are uncontrollable.

- Personal Property Coverage:
 - Coverage C – Personal Property: Coverage C refers to personal property owned or used in various locations in the world.

Lesson 3K

- Liability Protection Coverage:
 - Coverage E – Personal Liability: Personal liability helps to cover the associated costs and related damages in the event that the insured is sued for the accidental damage to other people or other people's property.
 - Coverage F – Medical Payments: Most policies will pay up to \$1,000 per person in medical bills regardless of the insured's legal responsibility when an accident involves bodily injury to others.

- **Termination of Policy**

The following are ways that policies can be terminated.

Lesson 3L

- **Principles of Insurance for Mobile and Manufactured Homes**

Regardless of which word is used, mobile home

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insurance is really the same as conventional home insurance. Selected coverages are the same and the claim process is the same. There is no standard policy form for a mobile home. Insurance companies that offer this type of policy offer their own customized forms that have been approved, or filed with the ISO.

Lesson 3M

- Property Coverage - There are four basic property protections for mobile homeowners.
- Types of Coverage:
 - Coverage A – The Dwelling: This covers the actual mobile home on the residence premises.
 - Coverage B – Outbuilding or Other Unattached Structures: Coverage B covers other structures within the residence premises but set apart from the house by clear space.
 - Coverage C – Personal Property: Coverage C refers to personal property which an individual owns or uses anywhere in the world.
 - Coverage D – Loss of Use: If the insured experiences a loss as a result of a covered peril and the mobile home becomes uninhabitable, the insurance company will normally provide the insured with benefits.

Lesson 3N

- Liability Protection - There are at least two basic liability protections that an individual will want to acquire:
 - Coverage E – Personal Liability
 - Coverage F – Medical Payments
 - Mobile Home Risk Factor - Mobile homes are popular today because they are relatively inexpensive to buy, but they can be expensive to insure. Premiums for mobile homes are generally higher than for site-built homes.
 - Decreasing Costs - Action can be taken to help lower premiums.
 - Rate Variations - Of course, some insurance pricing factors are uncontrollable.
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IV. DWELLING INSURANCE

Lesson 4A

- The Dwelling Policy
 - Introduction - Before the 1950s people who owned homes had to buy separate policies to insure themselves. They had to buy a Dwelling policy on their home, a separate liability policy, a separate jewelry policy and so on. However, during the 1950s insurance companies began to combine, or package, individual policies into what is now known as the Homeowners policy.
 - Eligibility, Insureds - The Dwelling policy covers the named insured and his/her spouse, as long as the spouse lives in the same household as the insured.
- Basic Form
 - Basic Policy Coverages - The DP-1, the Basic form, provides the following coverages:
 - Coverage A – Dwelling
 - Coverage B – Other Structures
 - Coverage C – Personal Property
 - Coverage D – Fair Rental Value

Lesson 4B

- Perils Insured Against - Only fire, lightning and internal explosion are automatically covered under the Basic form
 - Extended Coverage Perils - Extended Coverage perils are those perils which are not automatically covered (only fire, lightning, and internal explosion are automatically covered).
 - Vandalism and Malicious Mischief (V&MM) - Vandalism and Malicious Mischief (V&MM) coverage is available as well in the Extended Coverages.
 - Other Coverages - The Dwelling Basic form also provides certain Other Coverages, including the following:
 - Debris Removal
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- Other Structures
- Reasonable Repair
- Property Removed
- Improvements, Alterations and Additions
- Fire Department Service Charge
- Worldwide Coverage
- Rental Value

Lesson 4C

- Exclusions
- Conditions
 - Loss Settlement
 - Recovered Property
 - Other Insurance
 - Pair or Set
 - Deductible
 - Our Option
 - Loss Payment
- Covered Perils – Broad Form (DP-2) and Special Form (DP-3)

The Broad form (DP-2) expands coverage by broadening certain perils covered under the Basic form and also includes additional perils.

Lesson 4D

- Basic Policy Coverage - Coverage A—Dwelling, Coverage B—Other Structures, Coverage C—Personal Property, and Coverage D—Fair Rental Value, are all provided in the Basic policy coverages.
 - Other Coverages - The following coverages are provided under DP-2 and DP-3, but not DP-1:
 - Collapse
 - Glass of Safety Glazing Material
 - Trees, Shrubs, and Other Plants
 - Replacement Cost Coverage - Losses to personal property under the DP-2 and DP-3 are paid at actual cash value; however, losses to the Dwelling and Other Structures are paid on a replacement cost basis.
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- Dwelling Policy Endorsement

The following are endorsements that may be added to the Dwelling policy:

- Broad theft coverage
- Dwelling under construction
- Automatic increase in coverage

- Personal liability and medical payments to others

Coverage L and Coverage M may be added to the Dwelling policy as an endorsement, or they may be purchased as a separate policy.

- Coverage L – Personal liability
 - Coverage M – Medical payments to others
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