Chapter 19  Principles of Real Property Insurance

Risks of Property Ownership

- Loss of property due to fire, wind, water, vandalism or other hazards
- Loss of use
- Liability loss resulting from negligence in the use of the property
- Financial loss, particularly the inability to make mortgage payments, as a result of disability or death of a wage earner

Homeowner's Policy (HO)

- Items covered
  - Dwelling, Other structures, Personal property, Loss of use, Personal liability, Medical payments
- Replacement cost coverage
  - Replacement cost coverage for dwelling
  - Personal property is normally limited to actual cash value
- Can purchase personal property replacement cost endorsement (recoup full replacement cost)
Homeowner's Policy

- Personal articles floater policies
  - Antiques, collectibles, etc.
  - Credit card forgery and counterfeit money losses
  - Normally covers $1,00 from credit card fraud

Homeowner's Policy

- Factors influencing rates
  - Location
  - Construction
  - Deductibles (usually $250 to $500/occurrence)
  - Coinsurance
    - Must hold coverage at least 80% of replacement cost
    - Percentage (Amount of Coverage) / (80% of replacement cost)

Renter's and Condo Owner's Insurance

- Covers only personal property and personal liability
  - College students away from home might be covered on parents' policy!
Protection from Specific Risks

- Earthquake insurance
- Making an inventory and a photographic record
  - Video tapes, record serial numbers/model
- Liability insurance
  - The personal excess liability policy
- Flood insurance
  - National Flood Insurance Act of 1968
- Mortgage life insurance

Problem

- Joe and Ann Homeowner carry a $70,000 homeowners' policy on their house, which is valued at $100,000. If they suffered a $20,000 fire loss, what percentage of loss would the insurance company pay?

Problem

- The Ownesbys paid $80,000 for their house in 1985 and insured it for that amount. The replacement cost of the house had escalated to $120,000 by 1996, when it was destroyed by fire.
- How much will the insurance company pay for the total loss?
Problem

- Suppose the Owensbys (from the prior problem) had damage only to the kitchen that would cost $12,000 to repair.
- What amount would be paid by the insurance company for the loss?
- How much insurance would they have needed to be reimbursed in full for the loss?