

CHAPTER 8:
OTHER COVERAGES AND OPTIONS

OVERVIEW OF OTHER COVERAGES AND OPTIONS

- Refers to the various insurance coverages written to complement the personal and commercial policies reviewed in the previous chapters.

OVERVIEW OF NATIONAL FLOOD INSURANCE PROGRAM

- Flood Insurance is underwritten by the federal government and administered by the Flood Insurance Administration
- The purpose is to:
 - Provide coverage against the catastrophic effects of flood, which are excluded from both personal and commercial policies
 - Used as an incentive to local communities to improve land used by minimizing future flood losses and improving the quality of the community
- Any licensed insurance producer may make application for flood coverage to the Flood Insurance Administration or to any “Write Your Own” carrier.
- This carrier writes and services flood policies in their name and underwriting losses retained by the government
- Insurers who participate are paid an expense allowance

ELIGIBILITY OF NATIONAL FLOOD INSURANCE

- May only be written in participating communities that agree to adopt flood control measures
- A 30 day waiting period applies for new application and endorsements to increase coverage
- An exception to the 30 day rule applies in the event the applicant is purchasing coverage prior to and/or in conjunction with a loan
- Deductibles may not be reduced mid-term unless required in writing by the mortgagee
- Participating communities must agree to implement land use provisions to minimize flooding
- During the initial period, the community qualifies for the NFIP Emergency Program
- After the participating community has complied with the NFIP requirements, coverage limits are revised upward

OVERVIEW OF THE THREE STANDARD FLOOD INSURANCE POLICY FORMS

- Dwelling Policy Form
 - Detached single family home
 - Two to four family home (ex. Duplex)
 - Dwelling unit in a residential condominium
 - Residential townhouse/row house
 - Manufactured mobile homes
- General Property Policy Form
 - Commercial buildings or units and residential condominium buildings that are uninsurable under the residential condominium building association policy

- Residential Condominium Building Association Policy
 - residential condominium building with 75% or more of its total floor area in residential use

POLICY LIMITS

- Dwelling Policy Form
 - Building- \$250,000
 - Contents- \$100,000
- General Policy Form
 - Building- \$500,000
 -
 - Contents- \$500,000
- Residential Condominium Building Association Policy
 - Building- replacement cost, or the total number of units x \$250,00 whichever is less
 - Contents- \$100,000

PERILS COVERED

- Coverage is provided for direct loss by flood at the described location and includes overflow of:
 - Tidal waters
 - Runoff
 - Surface water
 - Mudslides
 - Mudflows
- Almost any building that is walled, roofed, above ground and fixed to a permanent site is eligible
- Limited coverage applies to basement losses

PROPERTY NOT COVERED

- Accounts
- Bills
- Currency
- Deeds
- Evidence of debt
- Money
- Securities
- Bullions and manuscripts
- Lawns
- Trees

- Shrubs
- Plants and livestock
- Fences
- Retaining walls
- Outdoor swimming pools
- Wharves
- Piers and docks
- Motor vehicles
- Underground structures (septic tanks and wells)

LOSS SETTLEMENT

- Provides settlement on an ACV basis with optional replacement cost on principal residences
- A standard \$500 deductible applies separately to both the building and content losses in all non-special flood hazard areas
- A \$1,000 deductible applies in all other areas

OVERVIEW OF OCEAN MARINE INSURANCE

- One of the oldest forms of insurance. It has evolved from a limited coverage form into today's modern Ocean Marine Policy
- Although it is primarily an unregulated policy from a rate and policy viewpoint, it is typically written with the following coverages:
 - Hull Coverage
 - Insures against damage to or loss of the ship itself
 - The standard coverage includes collision liability or a running down clause which applies to damage to another ship or its cargo
 - No coverage is provided for damage to piers, wharves, other structures or loss of life
 - Hull coverage may be written on a single vessel basis or fleet basis
 - Cargo Coverage
 - Insures against damage to the cargo and may be purchased on a single trip policy, a voyage policy or an open cargo policy
 - A warehouse-to-warehouse clause may be added to cover cargo on both sea and land
 - The need for coverage, whether it is for ocean going or over land, is governed by the terms upon which the goods are purchased or sold. Listed below are common terms used in transporting goods:
 - Free Along Side
 - The seller is responsible for loss or damage until the time the goods have been delivered alongside the vessel or the designated dock
 - Cost, Insurance and Freight
 - Seller provides marine insurance to a named point of destination
 - The seller's price includes the goods, marine insurance and transportation charges to the named destination point

- The goods are the buyer's responsibility
- Cost & Freight
 - The seller is responsible for goods until the time the goods enter the custody of the ocean carrier
 - The seller's price of the goods includes the cost of transportation to the named point
 - The goods are the buyer's responsibility thereafter
- Free On Board
 - The seller is responsible for loss or damage until the goods have been placed on board the vessel Thereafter, the goods are the buyer's responsibility
- Freight Coverage
 - An indirect loss coverage that reimburses the insured for loss of income that would be earned for moving the cargo
 - Example: a shipper of cargo would be exposed to the loss of freight charges if the voyage would be interrupted
 - A similar exposure exists in transporting passengers in the event of voyage termination
 - Passage money coverage may be secured to cover the exposure of loss of passage money

OVERVIEW OF COVERAGE FORMS

- These may be written on either an All Risk or Named Peril basis
- All risk standard exclusions include:
 - Loss due to War
 - Strikers
 - Riot
 - Civil commotion
 - Decay
 - Deterioration
 - Inherent vice
- Named peril policies provide coverage for perils of the sea including:
 - Wind
 - Wave action
 - Collision
 - Stranding
 - Sinking
 - Capsizing

OVERVIEW OF IMPLIED WARRANTIES

- Require the vessel and its cargo to comply with certain standards
- The ship owner warrants the following conditions:
 - Not deviate in its voyage
 - The vessel must follow an agreed route
 - Legal
 - The venture is of legal purpose
 - Condition of cargo
 - The cargo is properly packaged
 - Seaworthy
 - The vessel is seaworthy with a competent captain and crew
- Implied Warranties are used to promote compliance with maritime practices
- If any of the implied warranties are breached, coverage may be denied

OVERVIEW OF LOSS ADJUSTMENT

- Listed below are the adjustment provisions:
 - Particular Average
 - A partial loss with no requirement to share the loss
 - In these instances, the loss is borne entirely by the individual owner whose cargo was damaged or lost
 - Example: the damage of cargo by the entry of sea water into a shipping container.
In this instance the cargo owner incurs the loss
 - General Average
 - A partial loss which resulted from a voluntary and deliberate sacrifice that was made for the benefit of all concerned and which must be shared by all parties in proportion to their interest
 - In this interest, everyone shares in the loss

OVERVIEW OF AVIATION INSURANCE

- This type of insurance can be favorably compared to the commercial automobile coverage forms
- Aviation insurance is commonly classified into the following two categories:
 - Insurance covering the aircraft itself (hull coverage and aircraft liability)
 - Insurance covering airport operations (airport liability and hangar keeper legal liability)
 - Coverages applying to aircraft may be written as individual coverage or packaged together
 - Aircraft insurance includes the following two primary coverages:
 - Hull Coverage
 - Physical damage coverage for the hull of the aircraft
 - Includes equipment that is installed in the hull
 - Hull coverage may be written on either an All Risk or Named Peril basis
 - Two separate deductibles apply in hull coverage

- One applies to motion losses and a second separate deductible applies to an aircraft not in motion losses
- Aircraft liability
 - Liability coverage protecting the plane owner in the event of its negligent operation
 - Coverage is written on a passenger basis or on an excluding passenger basis
 - Separate limits may apply to each category
 - Aircraft liability coverages only applies to owned aircraft or a temporary substitute

Pilots operating an aircraft must be certified by the Federal Aviation Administration to operate legally. The aircraft policy excludes losses if the aircraft is:

- Operated in violation of Civil Air Regulations
- Operated for a use not indicated in the declarations
- Operated by someone other than the pilot named in the declarations page
- Not registered as airworthy

Large aircraft, because of the catastrophic nature of the exposure, are insured through specialized aviation pools. Endorsements include:

- Engine mechanical breakdowns
- Search and rescue costs
- Foaming of runway costs
- Automatic increase in value of scheduled aircraft
- Loss of use

OVERVIEW OF BOATOWNERS/YACHT INSURANCE

SECTION 1

- This type of insurance is generally written on an All Risk basis although named peril coverage is available. It includes:
 - Coverage A
 - Vessels including horns, lights, mooring cleats and similar permanently attached items
 - Coverage B
 - Outboard motors including fuel containers and start up equipment and controls supplied as integral equipment by the manufacturer
 - Coverage C
 - Trailers designed for and used to transport a vessel
 - Coverage D
 - Miscellaneous boating equipment meaning accessories which are used for the safety or operations of a covered vessel or motor

- Examples: anchors, oars, extra fuel tanks, motor covers, deck chairs, refrigerators, etc.

Property excluded includes:

- Hunting, fishing or sporting equipment
- Water skiing or scuba equipment
- Portable television sets
- Radios
- Food and beverage
- Clothing
- Jewelry
- Hang gliders
- Other devices of flight

Perils exclude:

- Dishonest or illegal acts
- Mysterious disappearances
- Freezing or overheating of engines
- Corrosion or rust
- Weathering
- Marring
- Scratching
- Chipping
- Denting and deterioration

Also included in a Boat owners policy is a Lay-up warranty. This requires boats that are located in cold waters to be out of use during the winter months. Property losses are settled on an ACV basis with optional replacement cost coverage available.

SECTION 2

- Frequently written in conjunction with property policies to supplement and fill gaps in coverage
- Usually written on an All Risk basis without a coinsurance clause and generally excludes coverages that are provided in the underlying policy
 - Examples: earthquake, flood, mysterious disappearance and weather conditions

OVERVIEW OF FEDERAL CROP INSURANCE

- Promotes the economic stability of agriculture through a sound system of crop insurance and providing the means for the research and experience helpful in devising and establishing such insurance
- Is a multi-peril crop insurance that protects crops due to natural disasters such as hail, drought, freezes, floods, fire, insects, disease and wildlife, or the loss of revenue due to a decline in price

- Crop insurance is Federally regulated and sold and serviced by private-sector crop insurance companies and agents

OVERVIEW OF CROP-HAIL INSURANCE

- Crop-Hail policies are not part of the Federal Crop Insurance Program
- Regulation is by individual state insurance departments
- Covers only hail damage to crops
- Endorsements can be added to the policy

CHAPTER 8
PRACTICE EXAM

1. Under a Boat Owners Policy, which of the following is not covered?
 - a. Clothing
 - b. Fog horn
 - c. Anchor
 - d. Ship-to-shore radio
2. All of the following are characteristics of Ocean Marine Hull Coverage except:
 - a. Coverage may be written on a single vessel basis or fleet basis
 - b. Coverage is provided for damage to piers, wharves, other structures or loss of life
 - c. Coverage includes collision liability
 - d. Coverage is provided for fixtures permanently attached to the ship
3. The term Free on Board means
 - a. The seller is responsible for loss or damage until the time the goods have been placed on board the vessel
 - b. The seller is responsible for goods until the time the goods enter the custody of the ocean carrier
 - c. The seller is responsible for loss or damage until the time the goods have been delivered along the side of the vessel
 - d. The buyer is responsible for goods until the time the goods enter the custody of the ocean carrier
4. All of the following are true of Aviation Insurance except:
 - a. Aviation liability coverage is typically written by an aviation pool
 - b. The most common aviation coverages are bodily injury liability, property damage liability, medical payments and hull coverage
 - c. Aviation insurance is not a specialized field
 - d. Policies can be favorable compared in coverages to Automobile Policies
5. All of the following are true of Ocean Marine Coverage except:
 - a. The four major coverages of an ocean marine policy are hull coverage, cargo coverage, freight insurance and protection and indemnity
 - b. Hull and cargo coverage can be written on either a named peril or all risk basis
 - c. The underwriting of ocean marine is relatively new
 - d. It provides coverage for ocean going vessels
6. Under the Write Your Own Flood Program:
 - a. Limits are different under the Write Your Own Program
 - b. Producers are paid an expense allowance
 - c. Participating insurers have no underwriting exposure
 - d. Producers must make application through a local carrier

7. All of the following are covered perils under the national Flood Policy except:
 - a. Water spray
 - b. Mudslides, caused by flooding
 - c. The rapid accumulation of runoff of surface water
 - d. The overflow of tidal waters
8. The maximum available limit for residential contents coverage under the National Flood Program is:
 - a. \$100,000
 - b. \$75,000
 - c. \$50,000
 - d. \$35,000
9. Under the National Flood Policy in non-specialized areas, deductibles apply:
 - a. Separately to both building and contents portions of the loss
 - b. Only to the residential types of losses
 - c. Only to the contents portions of the loss
 - d. Only to the building portion of the loss
10. The maximum available limit for a single family home under the National Flood Program is:
 - a. \$500,000
 - b. \$250,000
 - c. \$150,000
 - d. \$100,000
11. The maximum available limit for a business building under the National Flood Program is:
 - a. \$500,000
 - b. \$250,000
 - c. \$150,000
 - d. \$100,000
12. Flood insurance is available through:
 - a. Only direct through the Flood Insurance Administration
 - b. A risk manager
 - c. A consultant
 - d. An insurance provider
13. The standard deductible under the Flood Policy is:
 - a. \$750
 - b. \$500
 - c. \$250
 - d. \$100
14. All of the following are excluded property under a Flood Insurance Policy except:
 - a. Motor vehicles
 - b. Educational books
 - c. Lawns, trees and shrubs
 - d. Accounts, bills and currency

15. What is the waiting period for Flood Insurance?
- 90 days
 - 30 days (not in conjunction with a loan)
 - 3 days
 - There is never a waiting period
16. All of the following are true of Flood Insurance except:
- Implementation of the flood program promotes socioeconomic goals
 - Flood Insurance provides coverage that is excluded from personal and commercial policies
 - Participating communities must agree to implement certain land uses
 - Maximum limits are available to communities immediately
17. The National Flood Insurance Program is administered under what government department?
- Department of Insurance
 - Department of Health, Education and Welfare
 - Department of Education
 - Flood Insurance Administration
18. All of the following would be covered property under the Boat Owners Policy except:
- Water skis
 - Motors
 - Hull trailer
 - Horns

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CHAPTER 8 ANSWER KEY

1. a
2. b
3. a
4. c
5. c
6. c
7. a
8. a
9. a
10. b
11. a
12. d
13. b
14. b
15. b
16. a
17. d
18. a