
Addendum: for use with Virginia Property & Casualty online ExamFX course and study guide version # 25740en, per exam content outline updates effective 3/1/2022.

*The following are **content additions** to supplement your existing text unless otherwise indicated:*

Property and Casualty Insurance Basics

Binders

Whether issued in writing or orally, binders – temporary agreements to provide coverage until a contract can be issued – cannot be issued for longer than 60 days.

Binders must include all the usual terms of the policy as to which the binder was given, together with any applicable endorsements as are designated in the binder.

Dwelling Policy

Selected Endorsements

Automatic Increase in Insurance

Automatic increase in insurance is an endorsement that may be added to a dwelling policy to increase the amount of insurance by an annual percentage to offset the effects of inflation. This endorsement requires additional premium.

Broad Theft Coverage

The only theft coverage provided in any dwelling policy forms is theft of property that is a part of the building under the special form.

There are no policy forms that cover theft of personal property. However, broad theft coverage can be added by endorsement if the insured is the owner-occupant of the dwelling.

The endorsement will cover personal property owned by the insured or a resident of the insured's household caused by theft or attempted theft, or for vandalism or malicious mischief that results from theft or attempted theft. There is no coverage if the premises have been **vacant for more than 60 consecutive days** prior to the loss.

The broad theft endorsement can provide both on-premises and off-premises coverage. Off-premises coverage can be insured only if on-premises coverage is written. A separate limit of liability will be shown on the declarations page for both coverages.

On-premises coverage insures loss of property that is owned or used by the insured or a resident employee at the premises described in the policy. It also extends to property placed for safekeeping in a bank, trust, or safe-deposit company, a public warehouse, or an occupied dwelling not owned, occupied, or rented by the insured.

Off-premises coverage provides protection for property that is either owned or used by the insured, or owned by a resident-employee (while in a dwelling occupied by an insured or while in the employ of the insured), when it is away from the described premises.

There is **no off-premises coverage** for property at a newly acquired principal residence. However, the on-premises limit will apply automatically for 30 days, including while the property is in transit to the new location.

Certain types of property are covered only for specific amounts. If the insured requires higher limits for these items, additional coverage may be purchased. The categories of property with these special sub-limits are as follows:

For **Dwelling ('14) Policy**, the following coverage limits apply:

- \$200 for money, bank notes, bullion, gold, silver (excluding goldware and silverware), platinum, coins, and other metals;
- \$1,500 for securities, accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, passports, tickets, and stamps;
- \$1,500 for watercraft and their trailers, furnishings, equipment, and outboard motors;
- \$1,500 for other trailers;
- \$1,500 for jewelry, watches, furs, and precious and semiprecious stones;
- \$2,500 for firearms and related equipment; and
- \$2,500 for silver and silver-plated ware, gold and gold-plated ware, and pewterware, including flatware, hollowware, tea sets, trays, and trophies.

In addition to the special limits, certain types of property are specifically excluded from coverage. The following are the types of property not covered by the broad theft endorsement:

- Animals, birds, or fish;
- Credit cards and fund transfer cards;
- Aircraft, hovercraft, and their parts (except model or hobby aircraft);
- Property while in the mail;
- Property held as a sample or for sale;
- Property specifically described and insured by any other insurance;
- Property of tenants, roomers, and boarders (other than relatives);
- Business property of the insured or resident employee;
- Property in the custody of a laundry, cleaner, tailor, presser, or dryer, except loss by burglary or robbery;
- Property at any other location owned, rented, or occupied by the insured, except if the insured is temporarily residing there;
- Motor vehicles (other than motorized vehicles used to service the premises that are not subject to motor vehicle registration, and vehicles designed to assist the handicapped); and
- Motor vehicle equipment and accessories, including sound receiving, transmitting or recording devices, while in the vehicle.

Dwelling Under Construction

Dwellings under construction are eligible for coverage. However, due to the unique nature of these risks, an endorsement is required to modify some of the policy provisions. The limit of liability for a dwelling under construction is provisional, and is based on the completed value of the structure. At the time of loss, the applicable limit is a percentage of the provisional limit, based on the proportion of actual cash value of the property at the time of loss. Premium is based on an average amount of insurance during construction.

Homeowners Policy

H. Section I - Conditions (Property)

Provisions for Certain Risks

Homeowners policies that provide for the payment of the full replacement cost of the insured property must permit the insured to file a claim for the actual cash value of the property without impacting their right to file a claim for the difference between the actual cash value and the full replacement cost unless a claim for full replacement cost has been previously resolved.

Any claim for such difference must be made within 6 months of the last date on which the insured received a payment for actual cash value or the date of entry of a final order of a court of competent jurisdiction declaratory of the right of the insured to full replacement cost, whichever occurs last.

Selected Endorsements – *new section on outline*

Personal Property Replacement Cost

Personal property replacement cost endorsement changes the actual cash value settlement on personal property, household appliances, carpeting, awnings and outdoor equipment to a replacement cost basis. Certain types of property will not benefit from this coverage, such as fine arts, antiques, memorabilia, articles that are not in good working order, and items that are stored and have become outdated or obsolete.

There is no requirement that the personal property be insured to 80% of replacement cost at the time of loss. However, some insurers require that the amount of Coverage C be increased to 70% of Coverage A amount when this endorsement is purchased.

Scheduled Personal Property Endorsement

If the insured requires higher limits for certain types of property, the scheduled personal property endorsement may be used to schedule individually described items or classes of items on a blanket basis. This endorsement typically provides open peril or special form coverage on listed items. The endorsement provides for the scheduling of 9 different classes of property:

- Jewelry;
- Furs;
- Cameras;

- Musical instruments;
- Silverware;
- Golfer's equipment;
- Fine arts (including porcelains and glassware);
- Postage stamps; and
- Rare and current coins.
- Newly acquired jewelry, furs, cameras, and musical instruments are covered up to the lesser of the following limits:
 - 25% of the amount of insurance for that class of property; or
 - \$10,000.

The new property must be reported within 30 days of acquisition, and the insured may be required to pay the additional premium from that date. For coverage to apply to fine arts, the report of acquisition must be provided within 90 days.

Insured perils: this endorsement insures against direct physical loss to property caused by any of the following perils:

- Wear and tear;
- Insects or vermin;
- War;
- Nuclear hazard;
- If fine arts are covered – breakage caused by fire or lightning, windstorm, earthquake or flood, explosions, and malicious damage or theft; or
- If postage stamps are covered – fading, creasing, denting or scratching, transfer of colors, and disappearance.

The following are additional benefits and features of the scheduled personal property endorsement:

- The Coverage C limits no longer apply for the property scheduled on this endorsement;
- Insured locations: scheduled personal property endorsement covers eligible property worldwide;
- Fine arts and antiques can be covered on an other than ACV basis;
- The special limits of liability no longer apply to items or classes or property scheduled; and
- No deductible will apply to a covered property loss.

Earthquake Endorsement

Earth movement (earthquake) is excluded in all property policies, but usually can be purchased separately for an additional premium. The coverage can be purchased to cover the dwelling, other structures, and/or personal property. Rates generally are determined by the type of construction that determines the dwelling's vulnerability to earthquake losses. Frame buildings are less susceptible to severe damage than masonry veneer buildings. Therefore, they have lower rates for this coverage.

Earthquake coverage provided by endorsement in a homeowners form considers one or more earthquake shocks occurring within a **72-hour period** as a single earthquake.

The **deductible** under earthquake coverage is stated as a percentage of loss; however, it cannot be less than a specified minimum dollar amount (for example, \$500 in HO '11 ISO form). The deductible applies separately to buildings, other structures, personal property, and loss of use.

Masonry veneer structures are not covered by an endorsement issued for a frame dwelling. A separate endorsement is available for this type of construction.

Permitted Incidental Occupancies Endorsement

Although certain types of incidental businesses, such as an office or studio, are permitted for eligibility, a separate **permitted incidental occupancies endorsement** must be attached to cover other structures used for business activity, remove the special limit of liability for business property and the personal liability and medical payments coverage. The limitations are eliminated only for the business described in the endorsement.

Home Daycare Endorsement

If the insured operates a home day care business out of the insured residence, the **home day care coverage endorsement** may be attached to the policy to cover the liability exposure associated with the business. Coverage excludes loss or damage that results from sexual molestation, corporal punishment, physical or mental abuse, or draft and saddle animals – including vehicles used with such animals, motor vehicles, aircraft, or watercraft. The premium is based on the number of children kept in the home.

Personal Injury Endorsement

Personal injury coverage, including injuries that result from false arrest, libel, slander, defamation of character, and invasion of privacy, may be added by endorsement.

Watercraft Liability Endorsement

Watercraft endorsement provides liability protection for bodily injury or property damage caused by the ownership or use of watercraft (excluding when used to carry persons for a fee or when rented to others).

Business Pursuits Endorsement

Business pursuits is an endorsement that allows an insured to extend the Section II liability coverage to certain business pursuits that occur away from the premises. It covers the activities of the insured, but will not cover the liability of a business owned by an insured.

Commercial Package Policy (CPP)

E. Equipment Breakdown

Business Income - Report of Values

Business Income – Report of Values endorsement is used to report the insured's business income. The information is used for calculating amount to be paid on a lost business claim after a direct loss.

The report contains the total of net sales and other earnings, less expenses, for the 12-month period ending prior to the inception of the beginning policy and an estimate of those values for the 12-month period starting at the inception of the current coverage.

Selected Endorsements – *new section on outline*

Ordinance or Law Coverage

Ordinance or law is an endorsement that can be added to the property coverage form. It covers a building in the event that the enforcement of any building, zoning, or land use law results in loss or damage, any increased cost of repairs or reconstruction, or demolition and removal costs.

The endorsement is split into 3 different coverages which need to be activated by purchasing each coverage. The insured can purchase all or some of the coverages included. The ordinance or law coverage endorsement can be added only to a property policy written on a replacement cost basis and coinsurance does not apply.

The building listed in the endorsement must suffer covered direct damage to at least part of the structure. Only the part of the structure covered by a peril in the policy and subject to the ordinance or law will benefit from this endorsement.

Coverage is for completion of minimum requirements as stipulated by the ordinance or law. No coverage will be provided for ordinances or laws the insured was required to comply with prior to the loss.

This endorsement can provide the following coverages when selected:

- **Coverage A** — loss to the undamaged portion of the building-loss in value to the undamaged portion of the building;
- **Coverage B** — demolition cost of the undamaged portion of the covered building; and
- **Coverage C** — increased cost of construction for the damaged and undamaged portions of the building.

Peak Season Limit of Insurance

The **peak season limit of insurance** endorsement adjusts the amount of insurance on business personal property to allow for the changes in value because of seasonal increases in stock. For instance, some retail businesses will have a much larger inventory on hand prior to winter holidays.

Value Reporting Form (Full Value Form)

The **value reporting form** is the usual method of determining premiums and amount of coverage on those properties insured for fluctuating values. At the reporting period (either daily, weekly, monthly, quarterly, or policy period, whichever is specified in the contract), the insured reports the values at risk and pays premiums for that period based upon the report.

The value reporting form allows the amount of coverage to float with the changing values. Premiums are adjusted at the end of the policy period based on the average values reported.

The policy limit must be the maximum value expected during the policy period. In the beginning of the policy period, a provisional (or advance premium) is paid, typically based on **75% of the policy limit**. During the policy period, the insured is required to file reports as to actual values for specified periods of time. At the end of the policy period, the premium is adjusted as if the average value was held every day of the policy period.

It is important the reports be kept current as required. Should a loss occur on a day when the reports are not current as required, the maximum payable will be whatever the last report said. If the reports are current, the policy will pay what the insured can prove was lost, up to the policy limit. Should a loss occur before the first report is due, up to the full amount of insurance applies. If the first report has not been submitted as required when a loss occurs, the insurer will pay no more than **75% of the amount** it would otherwise pay.

If values have been underreported, the insurer will not pay a greater portion of a loss than the amount reported divided by the actual value on the report due date. *For example*, if the insured reports \$50,000 and the actual value is \$75,000, only about 67% of the loss value has been reported, so only two-thirds (approximately 67%) of the loss will be covered.

Spoilage

The **spoilage** endorsement classifies *perishable stock* as covered property when owned by the insured or when property of others in the care, custody and control of the insured. The endorsement extends coverage for the following causes of loss:

- Breakdown of refrigeration, cooling or humidity control equipment when located at the described premises;
- Contamination by a refrigerant; and
- Power outage, on or off the premises, when beyond the control of the insured.

This endorsement may add an additional condition for maintenance of a refrigeration agreement at the insured location to provide coverage.

Vacancy Permit

The Vacancy Permit form is an endorsement that adds coverage for vandalism and sprinkler leakage for a specified time period.

Businessowners Policy

Selected Endorsements – *new section on outline*

Earthquake Endorsement

The Earthquake and Volcanic Eruption endorsement modifies businessowners property policies and adds coverage for the perils of earthquake and volcanic eruption (eruption, explosion, or pouring forth of a volcano). All earthquake shocks or volcanic eruptions occurring within any 168-hour period are considered one earthquake or explosion.

Protective Safeguards Endorsement

Protective safeguards endorsement adds a policy condition requiring the insured to maintain protective safeguards (e.g., automatic sprinkler system or fire alarm) as a condition for coverage. If the automatic sprinkler system is shut down due to breakage, leakage, freezing, or opening of the sprinkler heads, the insured has 48 hours to restore the system before the insured must notify the insurer.

Named Perils Endorsement

The **named perils** endorsement modifies insurance provided under the Businessowners Coverage Form. It removes the cause of loss and limitation sections of the property coverage. These are replaced with a list of named perils. The optional coverage for money and securities is replaced with burglary and robbery coverage for business personal property, as well as money and securities. The additional coverages for collapse and water damage, other liquids, powder or molten material damage are removed from the form.

The **exclusions** are also amended to the following:

- Electrical apparatus;
- Burst piping;
- Water discharge;
- Steam apparatus;
- Mechanical breakdown;
- Errors or omissions;
- Errors from installation, testing and repair;
- Electrical disturbance; and
- Continuous or repeated seepage or leakage of water.

Hired Auto and Nonowned Auto Liability Endorsement

Hired and nonowned auto liability endorsement provides coverage for liability arising out of the use or maintenance of a hired or nonowned auto. These coverages are purchased separately and are scheduled on the endorsement. This endorsement can

be added to the BOP only if the insured does not have commercial auto insurance. This insurance is excess over any primary insurance coverage on the hired or nonowned auto.

This endorsement modifies who is considered an insured. Under this endorsement, an insured is any of the following:

- The named insured;
- Any other person using a hired auto with the insured's permission;
- For nonowned auto:
 - Any partner or executive officer of the insured; or
 - Any employee of the insured but only while the nonowned auto is being used in the insured business.

The following are specifically **excluded** from the definition of an insured:

- Any person while employed in or otherwise engaged in duties in connection with an auto business (other than the insured's auto business);
- The owner or lessee of a hired auto or the owner of a nonowned auto, or any agent or employee of such owner or lessee; and
- Any person or organization for the conduct of any current or past partnership or joint venture that is not show as a named insured in the Declarations.

The Utility Services - Direct Damage Endorsement

Utility Services - Direct Damage endorsement provides coverage for direct damage caused by utility service disruption stemming from a covered peril. The insured's location and utility service must be indicated in the endorsement. Utility services include water services, communication services and power supply services.

The Utility Services - Time Element Endorsement

Utility Services - Time Element endorsement covers the insured's loss of business income or extra expense in the event of a direct physical loss to a utility service. The insured's location and utility service must be indicated in the endorsement.