

# Personal Property and Casualty Insurance

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## Protecting What You Own

Property and casualty (P&C) is the term commonly used to describe insurance designed to protect an individual from loss or damage to the physical assets he or she owns. For example, a fire may seriously damage or completely destroy a home. Without adequate homeowner's insurance to provide the funds to repair or rebuild, such a loss could be a financial disaster. Homeowner's policies can also provide protection for the home's contents, such as furniture, appliances, and other personal belongings.



Many P&C policies also provide liability protection. For example, the owner of an automobile who causes an accident may be required by a court (be found "liable") to pay others for repair of property damage, medical expenses, lost wages, or pain and suffering. The dollar amounts of such court decisions can be enormous.

## Types of Policies

There is a wide variety of property and casualty policies. A number of additional coverages (endorsements) can be added to a basic policy to provide protection against risks found only in certain geographical areas, to protect specific types of property, or to cover a temporary situation. Some of the most common types of policies and endorsements include:

- **Automobile insurance:** Auto policies typically cover repair of physical damage, payments for medical expenses, and liability protection. A separate policy is often used to cover recreational vehicles such as motor homes, golf carts, snowmobiles, trailers, ATVs, or campers.
- **Homeowner's insurance:** A homeowner's policy can provide protection for both the home and its contents, against a wide range of perils, as well as provide very broad personal liability coverage.
- **Condo unit owner's insurance:** Similar to the homeowner's policy, the condo unit owner's policy differs primarily in that coverage is provided primarily for the contents.
- **Renter's insurance:** Renter's policies provide coverage for the personal property of an individual renting a home, condo, or apartment. A renter's policy can also include personal liability coverage similar to that found in a homeowner's or condo unit owner's policy.
- **Earthquake insurance:** Earthquake insurance is normally offered as an endorsement to a homeowner's, condo unit owner's policy, or renter's policy to provide protection against loss caused by earthquake. It can also be a stand-alone policy.
- **Flood insurance:** Flood insurance is provided through a separate policy. The federal government stands as the ultimate guarantor for flood policies.

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- **Watercraft insurance:** Watercraft policies cover loss and liability for the personal use of small watercraft such as boats or jet skis or for larger craft such as ocean-going yachts.
- **Umbrella liability:** Acts as excess or catastrophic protection to the basic liability protection offered with most other P&C policies. The liability coverage offered by an “umbrella” policy begins where the coverage in a basic policy ends and, in some instances, offers broader protection.

## Uniform Policy Forms

The Insurance Service Office (ISO) and the American Association of Insurance Services (AAIS) are industry service organizations that provide actuarial and loss information to P&C insurers. These service organizations also provide standardized, uniform policy agreements, called “forms,” which are used by many insurers.<sup>1</sup> Such standardized policy forms make it easier for a consumer to understand the terms of the policy and to compare policies offered by different insurance firms.

## Understand the Contract

An insurance policy is a written contract between the insured and the insurance company. The protection provided by P&C policies of all types typically represents a significant part of an individual's overall risk management program. Thus, it's important for an insured individual to read and understand key policy provisions, such as:

- **What perils (or risks) are covered in the policy?** Two basic approaches are involved. In the “named-peril” form, the policy will specify only those perils that are covered. In the “all-risk” form, the policy will list only those perils that are not covered and provide protection for all others.
- **What perils are not covered?** In many cases, perils that are excluded can be covered by endorsement and payment of an additional premium.
- **What are the policy limits?** What is the maximum benefit/coverage payable by the insurance company in the event of a loss? Is a home that would cost \$200,000 to rebuild insured for \$100,000?
- **What are the deductible amounts?** A policy deductible is the “self-insurance” element in an insurance policy; the term refers to the part of the loss the policy buyer must pay before the insurance company pays its portion. The deductible can be a flat amount or a percentage of the insured value at the time of a loss.
- **Impact of inflation:** A home built 20 years ago can be rebuilt, but at a much higher cost. Most policy forms provide for replacement cost of a home and contents, along with an annual inflation guard of between 2% and 6%.
- **In the event of a loss, what are the duties of the insured?** Each policy will specify certain actions that an insured must take in the event of a loss.

## Seek Professional Guidance

Insurance agents and brokers, insurance counselors, and other trained financial consultants can help provide detailed answers to questions about a particular policy. These professionals are also helpful in selecting the right policy and the appropriate amount of coverage.

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<sup>1</sup> Some insurers have their own forms, which may differ from the standard contracts developed by ISO or AAIS.