

Slahadeen university
College Administration and
Economics
Dep: Finance and Banking
**Vehicle and property
Insurance**
Stage 2

Chapter 4

property Insurance

(Homeowner Insurance)

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property Insurance

: Homeowner Insurance

What are the components of Homeowner Insurance policy?

What does Homeowner Insurance policy cover?

What is meant by exceptions in Homeowner Insurance policy?

What do we mean by principle of solutions in insurance on the properties?

Homeowner Insurance

- 1) The housing insurance policy's include the main building of the dwelling and the annexes to the dwelling such as the car park, the garden,
- 2) the stores, and also include the contents of the house,
- 3) the personal needs of the dwelling occupants,
- 4) and the civil liability towards others.
- 5) The bodies supervising the work of the insurance companies worked to standardize the insurance policy's to some extent as a kind of organization of the insurance industry and the protection of individuals.
- 6) It includes the unification of insurance policy's in terms of the form and structure of the document,

(What does a homeowner's insurance policy cover?)

7) the legal language in which the document was written and the exceptions.

8) The aim is to help individuals for the purpose of facilitating comparison in terms of price between several insurance offers by insurance companies.

The insured person who wishes to insure his/her home must submit the title deed of the property to prove his/her ownership of the property for the purpose of ascertaining the existence of the insurance interest with the insurance applicant.

Components of the Housing Insurance policy

- **1- Declaration:**
 - An accurate description of the dwelling shall be given in terms of the address of the dwelling
 - The endorsement includes the beginning and end of the insurance contract
 - And the insurance policy covers the main building,
 - The insurance policy covers the payment of rent expenses for another residence,
- **2- Definitions :** Insurance contracts include a special page for definitions, where the main words or sentences are in brackets
- **3- Insurance Agreement:** the insurance agreement summarizes the main commitments of the insurer that he/she agrees to pay certain obligations such as paying losses in the event of their occurrence

(What are the components of a home insurance policy?)

4- Property Covering: The insurance company covers the main building, ancillary buildings, car parking, stores, losses from the use of the dwelling, and other document includes the personal property of residents of the dwelling.

5- Personal property:

It includes all personal property used by family members such as cupboard, personal clothes, kitchen supplies, refrigerator, washing machine, television, mattresses, seating seats, tables and chairs, etc. Some personal properties are excluded from the insurance policy, such as:

Domestic animals, birds and fish.

Motorcycles, electronic devices.

Small aircraft, which are used for the hobby of flying.

Rooms rented to others.

Computers used for commercial activities.

Electronic credit cards

(What are the components of a home insurance policy?)

Section	Quality of the Property	Maximum coverage limits in dollars
A	Money, medals, credit cards	\$ 200
B	Personal notes, manuscripts, stamps, precious notes, securities	\$1,500
C	Gold and jewelry, watches and precious stones	\$1,500
D	Electronic devices	\$1,500
E	Loss of silver pots, gold pots	\$2,500

- 6- Civil Responsibilities :

The home insurance policy covers the civil liability of the property owner due to damage to others as a result of a fire in the house and the fire spreading to neighborhood and causing them to incur financial losses.

- 7- Exclusions :

Insurance companies exclude some cases, which we will discuss later.

8 – Circumstances:

This clause includes the cost of repair or rebuilding

(What are the components of a home insurance policy?)

The housing insurance policy covers six areas:

1- The main dwelling building.

2-Other buildings, including the parking area, store, tools in the parking area. swimming pool, garden, and the value of other buildings are limited to 10% of the value of the basic housing building and it is called coverage B.

3-Personal property : . The insurance amount on personal property is equal to 50% of the insurance amount on the main house building.

4- Loss of use coverage includes covering the expenses of renting another dwelling or the wages of sleeping in hotels until the dwelling is repaired and the owner of the dwelling is forced to pay the rent.

5- Legal liability.

6-Coverage of money and valuables, including money and gold (with limited limits).

(What does a property insurance policy cover?)

What are the risks covered by home insurance?

- 1- Fire and lighting
- 2- Wind storms or hail
- 3- Explosion
- 4- Personal actions of individuals
- 5- Aircraft
- 6- Vehicles
- 7- Theft
- 8- Falling things
- 9- Damages from volcanoes that appear in some countries and cause stones and hot dust to fall on nearby dwellings.

(What are the risks covered by home insurance?)

Replacement cost

- In most home insurance policies, the insurance policy includes the replacement cost.

The cost of replacement **includes similar kind of construction, i.e. repairing the dwelling to its previous condition, or building a new house similar to the previous one.**

- Individuals can buy an insurance policy called Guaranteed Replacement cost, meaning that the document insures the construction of a new home and its accessories.

(What is the replacement cost for home insurance?)

What are the exceptions to the home insurance policy?

1- Earth movement

2- Water destruction

3- War and civil unrest

4- Nuclear Hazard

5- Neglect

6- International losses

7- Government Actions

(What are the exceptions to the home insurance policy?)

Duties after the loss has occurred

- 1- Informing (or notifying) the insurance company of the occurrence of the loss.
- 2- Preparing a list of property damages, including material description, quantity, unit price, and total losses.
- 3- Protection of the property.
- 4- Presenting the destroyed and damaged materials to the insurance company so that the insurance company confirms the actual occurrence of the loss.
- 5- Fill in a file about the loss within a period of 60 days at the request of the insurance company.

(What are the duties after the loss has occurred?)

Charges in housing insurance

- Insurance companies use charges in home insurance,
- **The aim of the forbearances is to exclude small claims and direct homeowners to take more care in order not to cause losses such as fire and theft.**
- *((Why put homeowners insurance charges?)))*
- For example, if the owner of the property insured the property in the amount of one million dollars, and the amount of the charge was 5000 dollars, if a fire occurred and the losses were 80,000 dollars, the person receives \$75,000 (80,000-5,000) in compensation and is charged \$5,000 of his or her own money.
- The aim of the forbearance is the indirect pressure on the insured to take care of his home and force him to prevent some avoidable dangers from occurring, such as the occurrence of fire due to negligence in the kitchen and gas leakage from the cooker.

Pricing homeowner policies

Insurance companies depend on paying compensation for the losses that occurred to the main building and other accessories on the basis of the replacement cost without subtracting the extinctions. The replacement cost means that the insurance company assigns a construction company to build a new house on the same size as the building area of the house before the fire, according to the modern specifications of the building and at building price of the current time. Using the principle of replacement cost, as they guarantee that their homes will be rebuilt and better than before.

There is another way to price the insurance policy and it depends on knowing the expected risk cost.

Expected Risk Cost

The cost of the expected risk can be reached from the following equation:

The cost of the expected risk = the cost of the expected loss \times the probability of the risk occurring

Previous statistics on fire, storms, or floods are used to determine the probability of occurrence of danger. For example, previous experiments estimated the probability of fire at a rate of three in a thousand (0.003), meaning that there is a probability of fire of three dwellings out of every thousand dwellings. The insurance company should estimate the cost of the expected loss from the fire, which includes burning the house, burning the contents of the house, the possibility of death or injuries to the residents in the house, smoke inhalation by the neighbors and their forced stay in the hospital for treatment.

Example:

If the cost of replacing a new home is \$1,000,000 and the probability of a fire is 0.003 (three in a thousand), then the cost of the expected risk is equal to:

$$\begin{aligned} \text{The cost of the expected risk} &= 1,000,000 \times 0.003 \\ &= 3000 \$ \end{aligned}$$

according to the size of the building and the cost of building one cubic meter of construction at the present time, for example if the building area of one house is 10416 cubic meters and the cost of building a cubic meter is 120 \$.

$$\begin{aligned} \text{The cost of replacing a new house} &= 120 \times 10416 \\ &= \$1,250,000 \end{aligned}$$