Property Loss Exposures and Homeowners Coverage

1

PROPERTY LOSS EXPOSURES

Virtually all individuals and families have property. Property used, stored, enjoyed, or displayed is property that may be exposed to loss. Such property may include a family's house, an individual's television, or a child's framed photograph. Losses to property can result in serious financial consequences to those who suffer the losses.

All property is subject to **property loss exposures**. Property may be destroyed, damaged, stolen, or lost, or may otherwise suffer a decrease in value because of a particular cause of loss (or peril).

Property loss exposure
A condition that presents the possibility that a person or an organization will sustain a loss resulting from damage (including destruction, taking, or loss of use) to property in which that person or organization has a financial interest.

Individuals and families face countless situations in their daily lives that present the possibility of a property loss that has financial consequences. For example, an individual's belongings could be destroyed by a flood, or a family's home and its contents could be destroyed by a tornado. These situations, and many more, are loss exposures that individuals and families might face.

Property loss exposures can be examined in terms of three loss exposure elements:

- Assets exposed to loss
- Causes of loss
- Financial consequences of loss

Assets Exposed to Loss

Assets exposed to loss are any items of property that have value. A common method of classifying property uses two broad categories—**real property** and **personal property**. Much like the term "real estate," real property includes land, buildings, attached structures, plants growing on the land, and anything embedded in the land, such as minerals. All other property, such as a bicycle or a sofa or a computer, is classified as personal property. Individuals and families can be faced with loss exposures by owning or having a legal interest in one or both of these types of property. See the exhibit "Examples of Assets (Property) Exposed to Loss."

Real property (realty)
Tangible property consisting of land, all structures permanently attached to the land, and whatever is growing on the land.

Personal property
All tangible or intangible property that is not real property.

Examples of Assets (Property) Exposed to Loss

Real Property	Land, buildings, other structures attached to the land (swimming pool, storage shed, flagpole), whatever is growing on the land (trees, crops), and anything embedded in the land (foundations, underground pipes)
Personal Property	Dwelling contents, high-value articles (jewelry, silverware), rare or unique property (antiques, art work), business personal property, motor vehicles, trailers, watercraft, and aircraft

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Real Property

Individuals and families face property loss exposures that can arise from several types of owned real property. All real property is tangible property having a physical form that can be seen or touched.

For example, a single-family home purchased by an individual could pose a significant real property loss exposure. The land also indicates an additional real property loss exposure, as may any foundations or underground pipes. Any sheds attached to the land, or anything growing on it, such as trees, also could present real property loss exposures.

Personal Property

Listing all the specific kinds of personal property that individuals and families can own that are exposed to loss would be virtually impossible, when one considers the scope of the personal property definition. A general sampling of some personal property loss exposures includes those experienced by homeowners, renters, or condominium owners, who likely own furniture, televisions, and other electronic entertainment equipment. Additional household personal property can include computers, appliances, dishes, carpets, sports equipment, clothing, tools, books, jewelry, cameras, and digital recording devices. A homeowner could park a car in the driveway (the car is personal property) or have a boat at a vacation home (the boat is personal property). Additionally, personal property can include intangible property such as patents or copyrights (which are also often referred to as intellectual property). See the exhibit “Insuring and Pricing Personal Property Loss Exposures—Personal Property Categories.”

Causes of Loss

Many causes of loss (or perils) can damage or destroy both real and personal property. In terms of real property, causes of loss faced by individuals and families include fire damage to a dwelling or storage shed, lightning damage to a tree, earthquake damage to a swimming pool, and wind damage to roof shingles. Personal property causes of loss can include theft of a car or damage

Insuring and Pricing Personal Property Loss Exposures—Personal Property Categories

For the purpose of identifying, insuring, and pricing personal property loss exposures, personal property can be divided into these categories:

Dwelling contents—the broadest category of personal property. A dwelling's contents may include furniture, appliances, draperies, electronics, kitchenware, groceries, clothing, sports equipment, tools, toys, and many other items common to the use of a dwelling as a home. Such items are generally insured as a group rather than individually.

High-value personal property—items of personal property worth considerable sums of money. Examples include jewelry, silverware, furs, and firearms. These items may be partially covered under the category of dwelling contents. However, they usually require a more specific type of insurance, because many property insurance policies limit the maximum amount of coverage available under specific loss conditions (for example, jewelry coverage is more limited for a theft loss under a homeowners policy than for a fire loss), for this category of personal property.

Rare or unusual property—items whose value comes from their unique characteristics. These items may often be one of a kind or one of a very few in existence in terms of like kind and quality and are not easily replaced. Examples of this type of property are antiques, works of art, coin or stamp collections, and other collectibles. Such items should be specifically listed for insurance purposes because most insurance policies limit the amount that an insurer will pay for this type of personal property.

Business personal property—personal property, such as office furniture and computer equipment, used for business purposes. Because most personal insurance policies limit or exclude coverage for business personal property, additional insurance coverage may be necessary.

Motor vehicles, trailers, watercraft, and aircraft—mobile property typically excluded (or covered only up to a certain limit) in policies covering dwellings and their contents. Because these items present unique loss exposures, they should be separately insured using the appropriate coverage form.

To keep the cost of personal insurance reasonable, personal insurance policies are designed to cover the loss exposures faced by the average person or family. If personal policies included unlimited coverage for all types of personal property, premiums needed to provide such coverage would be higher than most people could afford or would be willing to pay. For example, the cost to insure individual, expensive jewelry items against theft is not automatically included in homeowners policy premiums. Insurance professionals can help individuals and families understand the relationship between cost and coverage by explaining that, in order to keep insurance premiums reasonable for the average consumer, it is fair for those persons who own valuable or unusual items to pay an additional premium to insure them.

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to a car in an accident, disappearance of luggage and its contents while the owner is on vacation, and loss of a diamond that falls from its setting in a ring. Even damage to a motorboat that collides with a dock is a personal property loss. Any loss that results from the countless possible causes of loss that can