Overview of Lecture 2 (CPCU policy handbook, pp. 1-40)

I. Physical Construction of an Insurance Contract

II. Property-liability Insurance Policy Content

III. Purposes of an Exclusion

I. Physical Construction of an Insurance Contract

A. Terminology

1. Policy
   - the complete written contract of insurance

2. Lines of insurance
   - originated with the lines (horizontal rows) on the insurer's annual statement

3. Monoline policy
   - a policy covering a single line of insurance

4. Package policy
   - a policy covering more than one line of insurance

5. Form
   - generally one of the major documents within an insurance policy

6. Coverage part
   - one or more forms that, together, provide coverage for a line of insurance
7. Endorsement
   - a document modifying the coverage of one or more forms

B. Self-contained versus modular policy

1. Self-contained insurance policy
   - includes declarations, insuring agreement, conditions, exclusions and endorsements in one document
   - most appropriate for insuring loss exposures that are essentially the same from insured to insured

2. Modular policy (legos)
   - different components (forms) put together to make policy
   - example:

3. Advantages of package policy (modular policy)
   a. general
      - fewer forms required to meet a wide range of needs
   b. insurer's
      - increase premium volume by writing several lines
C. Preprinted versus manuscript policies

1. Preprinted policies

   a. widely used, standardized insurance forms, providing a benchmark
      - developed by insurance service and advisory organizations

   b. developed for use by companies writing high volumes of insurance in a particular line

   c. in areas of dispute, courts favor those (typically insureds) who were not involved in writing the policy

2. Manuscript policies

   - specially drafted policies for the particular needs of an insured
II. Property-Liability Insurance Policy Content

A. Declarations

- information unique to a particular policy
- (i.e. policy number, name of insured, description of covered property, policy expiration date)

B. Definitions

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C. Insuring agreement

- conditional promise to make payment or provide a service

Example: Building and Personal Property- "We will pay for direct physical loss of or damage to Covered Property at the premises described in the Declarations caused by or resulting from any Covered Cause of Loss."

D. Exclusions

- policy provision that eliminates coverage for specified loss exposures
- can be in definitions, insuring agreement and "exclusions" section

E. Conditions

- qualify an otherwise enforceable promise of the insurer
- insurance contract does not provide a "no strings attached" promise

- common conditions:
  -
  -
  -

F. Miscellaneous provisions and endorsements
III. Purposes of an Exclusion

A. Eliminate coverage for uninsurable (by private insurers) loss exposures
   - speculative risks, political risk, normal wear and tear
   - excluded perils fails to meet requirements of an ideally insurable loss exposure:
     1.
     2.
     3.
     4.
     5.
     6.

B. Assist in the management of moral and morale hazards
   - moral hazard (intentional actions designed to cause a loss)
   - morale hazard (carelessness or indifference regarding a loss)

C. Reduce the likelihood of coverage duplication

D. Eliminate coverages that are not needed by the typical purchaser
   - not fair to require a typical insured to purchase coverage on a risk that is unique to a small number of insureds

E. Eliminate coverages requiring special treatment
   - special rating, underwriting, loss control or reinsurance treatment

F. Assist in keeping premiums at a reasonable level
- if the chance of loss is too great, premiums will be unreasonable