# The Standard Fire Policy

## 1. The Standard Fire Policy

### 1.1 Introduction

**Standard Fire Policy**:

- First standardized property insurance form
- Foundation for all property insurance coverage

**Key Concepts**

This chapter will introduce:

- The original property insurance policy
- Its basic structure and sections
- The way endorsements work in the policy

You are probably already familiar with several types of property insurance—your personal auto policy, for example, or the insurance on your home—but in order to really understand the way these kinds of policies work, we have to go back in time and examine the standard fire policy. This was the first **standardized** form of property insurance ever used. Because it is the foundation of current property insurance forms, the Standard Fire Policy provides an ideal backdrop for our study of property insurance, how it works, and why.

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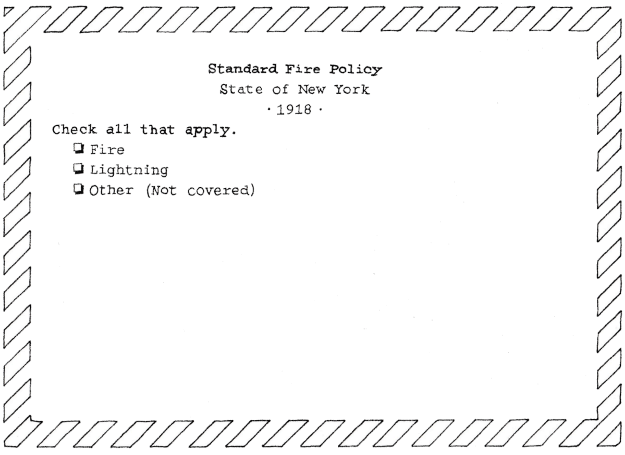
In this chapter you will become familiar with the four parts of a Standard Fire Policy and the purpose of endorsements in an insurance policy.

## 1.2 History

**Standard Fire Policy**

- First used in 1918 in New York
- Provided homeowner and commercial property protection
- ACV valuation
- Named peril policy
- Only covered fire and lightning


Standard Fire Policy
State of New York
· 1918 ·
Check all that apply.
❑ Fire
❑ Lightning
❑ Other (Not covered)

In 1918, the state of New York developed the Standard Fire Policy to provide insurance protection for both homeowners and commercial property owners.

Although it is no longer in use in its original format, the Standard Fire Policy continues to act as the basic foundation of all homeowners and commercial property policies issued today.

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The Standard Fire Policy was typically a named peril policy, but it only protected against losses from fire and lightning.

Valuation was usually done on an actual cash value basis.

### 1.3 “165 Line” Policy

**“165 Line” Policy**

The original Standard Fire Policy dedicated 165 lines to explain new insurance concepts still used today in property insurance contracts, such as:

- Concealment and misrepresentation
- Property and perils excluded from coverage
- Insurance cancellation due to an increase in hazards
- Obligations to a mortgagee
- Requirements of the insured in the event of a loss
- Subrogation
- Appraisal

The standard fire policy is also known as the “165 Line” policy, because it originally dedicated 165 lines to a variety of new insurance concepts that we still use today in all of our property insurance contracts.

Some of these newly established property insurance concepts included: concealment and misrepresentation; property and perils excluded from coverage; insurance cancellation due to an increase in hazards; obligations

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to a mortgagee; requirements of the insured in the event of a loss; subrogation; and appraisal.

## 1.4 Line of Coverage, Monoline

**Line of Coverage**
A particular risk or group of risks covered by an insurance policy

**Monoline Policy**
An insurance policy that covers only one risk or type of risk

When an insurance policy covers a particular risk or group of risks, this is known as a “line” of coverage. A policy can combine several different lines of coverage, as with the Homeowner’s policy which we will see next, or it can be a “monoline” policy, covering only one particular type of risk.

***For example…***
Say Jane owns a valuable stamp collection. She keeps some of the pieces at home on display, and the rest in a bank vault. If she wants to insure the entire collection against theft, she could purchase a **monoline policy** that covers only the stamp collection, nothing else.

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## 1.5 Property Insurance Policies

**Standard Fire Policy**: the foundation for property coverage

Property owners often have a package policy that builds on this basic coverage

4 Parts of the Standard Fire Policy:

1. Declarations Page
2. Insuring Agreement
3. Conditions
4. Exclusions

Property owners generally use the standard fire policy as a foundation for coverage; they then select from a variety of other coverage options and plans to create a complete package policy known as a homeowners policy or a commercial package policy, which we will cover later.

The original standard fire policy contained four parts, and this is the basic format still used for most policy packages today:

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part one: the declarations page;

part two: insuring agreement;

part three: conditions; and

part four: exclusions.

Next, we'll look at a basic overview of each of these sections.

## 1.6 Sections of a Standard Fire Policy: Declarations Page

**1. Declarations Page ("Dec Page")**: gives an overview of the whole policy, and states:

- Named insured
- Location of the insured property
- Policy period
- Policy premium
- Coverage types
- Coverage limits
- Any applicable endorsements

The Declarations Page is always the first part of an insurance policy. Industry insiders often refer to the declarations page as the "dec page." It provides an overview of the entire policy, and it states the named insured,

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the location of the insured property, the policy period, the policy premium, coverage types, coverage limits, and any applicable endorsements.

## 1.7 Sections of a Standard Fire Policy: Insuring Agreement

**2. Insuring Agreement**: states exactly what the policy covers and what the insurer will pay or provide in exchange for the insured's premiums

The Insuring Agreement specifies exactly what is covered under the policy and what the insurer has agreed to pay or provide in exchange for collecting premiums from the insured.

This section typically makes a broad statement about what the insurer promises to do for the insured, which the insurer then refines and narrows by way of the policy definitions, conditions, and exclusions.

## 1.8 Sections of a Standard Fire Policy: Conditions

**3. Conditions**: describes certain issues that can restrict or suspend coverage, including:

- A list of duties, rules of conduct, and obligations for the policyholder & for the insurer
- Proof of loss

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- Preservation of property
- Cancellation
- Assignment
- Subrogation
- Other insurance
- Vacancy

The Conditions section of a Standard Fire policy describes certain issues that can restrict or suspend the coverage stated in the insuring agreement.

It provides a list of duties, rules of conduct, and obligations for the policyholder to follow in order for insurance coverage to apply. If a policyholder does not meet the conditions in the policy, the insurer can deny the claim.

The conditions section will also list some of the duties and responsibilities of the insurer. With the cooperation of both parties, the insurance policy can maintain its requirement of utmost good faith.

Other topics discussed in the conditions section include: proof of loss, preservation of property, cancellation, assignment, subrogation, other insurance, and vacancy.

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## 1.9 Requirements in Case Loss Occurs

**Requirements in Case Loss Occurs**

- Notify insurer of the loss immediately
- Protect the property from further damage
- Organize personal property, separating damaged from undamaged
- Make checklist of damaged and undamaged property with details about ACV
- Submit to examination under oath
- Show the insurance company (upon request):
    - remains of damaged property
    - accounts, bills, invoices
- Submit proof of loss form within the specified time period

One condition in a Standard Fire Policy outlines “Requirements in case loss occurs.” These requirements are very similar to the “Duties after a loss” in other policies. The insured must notify the insurer immediately if a loss occurs. He must protect the property from further damage, put the property in order, and separate damaged property from undamaged property.

The insured should also give the insurer a complete list of damaged property, with costs, actual cash value, and the amount of loss claimed, including any taxes, shipping, transportation, or demolition costs associated with replacing damaged items.

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He must be able to show the insurer the remains of damaged property, any applicable accounts, bills, and invoices. If necessary, he must submit to examination under oath.

Finally, the insured needs to submit a proof of loss form that includes the following information: the time and origin of the loss; the insured's (and anyone else's) interest in the property, the ACV of each item and the amount of loss to each item; all encumbrances and all other contracts of insurance on the property; important changes to the property since the policy went into effect; who was living in the property during the loss (and what they were doing); whether or not it then stood on leased ground, and the plans of any destroyed buildings and machinery.

### 1.10 Periods of Limitations Tolled

- State statutes often pause (toll) limitation periods from date claimant files a proof of loss to date claim is paid or denied
- This protects claimant's right to sue the insurer, even if insurer denies claim after period of limitation expires

Recall that a statute of limitations is a statute based on the common law legal system that specifies the maximum period of time, after damages occur, that legal proceeding based on those damages may be initiated. Once the statute of limitation expires, the claimant loses the legal right to

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seek indemnity and file a lawsuit.

To keep insurance companies from taking advantage of a statute of limitations in order to avoid paying a claim, state statutes will often toll (or pause) the limitation period from the date on which a claimant files a proof of loss until the claim is denied. This effectively prevents an insurer from sitting on a claim while the statute of limitations runs out, then denying the claim and giving the policyholder no legal recourse.

## 1.11 Sections of a Standard Fire Policy: Exclusions

**4. Exclusions**: states which perils are NOT covered under the policy, such as:

- Extreme perils that cause catastrophic damage to multiple policyholders at a time
- Intentional losses
- Risks that are impossible to quantify
- Risks brought on by a policyholder's negligent actions

The Exclusions section of the Standard Fire policy provides a list of perils that are specifically excluded from coverage under the policy. In other words, "if such and such event causes damage to your property, we will not pay for the damage."

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Some known perils cause such catastrophic and widespread damage that no insurer could possibly hope to cover the losses if such a peril affected a large number of its policyholders.

Perils such as “intentional losses” are also excluded so that a policyholder cannot purposefully damage his own property just to profit from his insurance arrangement.

Other common exclusions include risks that are nearly impossible to quantify or are brought on by a policyholder’s own negligence.

## 1.12 Common Exclusions

**Common Policy Exclusions**:

- Earthquakes and earth movements, such as landslides or mudflows
- Floods and water damage, such as water seeping through the foundation of a home
- War and / or acts of terrorism
- Nuclear hazards
- Governmental actions (such as drug forfeiture) or court seizure
- Intentional losses such as arson
- Mutiny or military action
- Ordinance or law (such as when building code upgrades force a homeowner to remodel)

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The Standard Fire Policy's exclusions formed a basis for the exclusions of today's insurance policies. Just as the Standard Fire Policy itself evolved over time, its basic exclusions were adapted as new perils appeared or became more prominent.

Most modern insurance policies will typically exclude the perils listed here.

However, keep in mind that this is not the same for every policy. A particular policy may have a very different list of exclusions, so you must always look at each section closely.

## 1.13 Endorsements

**Endorsements**

Written documents attached to a policy that add or change coverage for specific perils or insured items

- Can be added when a policy is purchased
- Can be added anytime during the term of the policy
- Also called "riders," "addendums," or "attachments"

The standard fire policy is a very basic property policy, only covering damages to property caused by fire and lightning. What if you needed a basic policy, but wanted to add coverage for a few other perils, such as wind and hail?

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Changes to a standard fire policy are made through the use of endorsements.

An endorsement is a written document attached to an insurance policy that can add coverage that is not included under the original policy, or subtract coverage that is included.

***For example…***
A standard fire policy applies **actual cash value valuation** to insured property, but many policyholders prefer to add an endorsement to their insurance contract that upgrades their coverage to **replacement cost valuation**.

Policyholders can add endorsements either when they purchase their policy, or anytime during the policy term.

Endorsements are also known as riders, addendums, or “attachments” and they appear in the very back of an insurance policy.

## 1.14 Conclusion

Modern property insurance policies are based on the Standard Fire policy

- Optional endorsements are added to broaden or individualize coverage
- The Standard Fire Policy is a “springboard” for all comprehensive residential

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and commercial property policies

Modern policy packages developed as insurers began adding optional endorsements and extensions to either broaden or individualize coverage. In other words, the kind of home you have or the type of business you run determines what kind of coverage you need.

As insurers customized and broadened their policies for the needs of their policyholders, they used the standard fire policy as a starting point and made changes as needed, leading to the more comprehensive forms available today.

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