OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
08-25-2021	**P&C Claims** **Policies and Procedures**	**Selection of Fire Investigators**	**70-95**

I. PURPOSE

This Operation Guide (OG) provides guidelines for claim staff and claim management with basic guidelines for the selection, verification, oversight, retention and evaluation of fire investigators. It also outlines the responsibilities for maintaining the O&C Selection Tool consistent with Our Commitment to Our Policyholders and the Preface. In general, the guidance provided is applicable to all homeowners policy forms unless otherwise indicated in the OG. Review the policy form and/or endorsement(s) to confirm the specific contract language and/or limits which are applicable to an individual claim.

If a policy provision or application is more restrictive than the law of the jurisdiction, then the law of the jurisdiction will apply. Also, there may be situations where the Enterprise position is broader than the law of the jurisdiction. In such situations, you should follow the Enterprise position. If policy wording in the jurisdiction conflicts with any of these guidelines or in case of unusual claim situations, contact claim management.

II. GENERAL INFORMATION

A designated Special Investigative Unit (SIU) and Fire Section Manager (SM) are responsible for the selection, oversight, retention and evaluation of fire investigators through a verification process.

The SIU and Fire SMs are responsible for preparing, making available and managing a list of fire investigators, placed in the O&C Selection Tool, who have been successfully verified, see Section IV below. Business needs should be considered when making additions or deletions to the fire investigator list. Geographical areas serviced by the fire investigator will be included on the O&C Selection Tool.

The SIU and Fire SMs designates coordinators, oversee the selection, verification, oversight, retention and evaluation auditing processes. The Coordinator group consists of Team Managers (TM) or Professional/Technical claim employees, with appropriate technical knowledge. The designated coordinators will act as the single point of contact for the SIU and Fire SMs.

As part of the verification process, Coordinators will be responsible for completing the evaluation of the fire investigators during the review period occurring every even numbered year.

Claim staff will use the fire investigators on the O&C Selection Tool to conduct origin and cause investigations. When selecting an investigator, confirm their availability, verbally and in writing, to respond timely to take the assignment. Further, the subject matter expertise of the fire investigator should be considered. In all instances, the final decision to hire a fire investigator must be approved by claim management.

When a fire investigator decides an engineer is needed to assist in determining the origin and cause of a fire, they should contact their claim specialist to seek approval for the expense. The claim specialist should review such requests with management. The fire investigator is responsible for hiring, managing and compensating experts required on the file, including a qualified engineer if one is needed, independent of other State Farm® procedures. State Farm will reimburse the fire investigator for reasonable engineering expenses incurred

The fire investigator may need to utilize special equipment or services of other experts to conduct their investigation. After first obtaining approval from a claim specialist to incur the additional expense, the fire investigator is responsible for making sure any additional vendors they select have the appropriate qualifications, training and licensing. The fire investigator is responsible for hiring, managing and compensating experts required on the file, independent of other State Farm procedures. State Farm will reimburse the fire investigator for reasonable expenses incurred.

For guidance in evaluating the fire investigator's work product, refer to the latest editions of the National Fire Protection Association (NFPA) 1033 "Standard for Professional Qualifications for Fire Investigator" and NFPA 921 "Guide for Fire and Explosion Investigations". It is essential that the opinions provided by the selected fire investigator are fair, honest, and

objective without regard to the monetary interest of State Farm, the individual investigator, or the vendor performing the service.

A claim specialist responsible for hiring a fire investigator should utilize the Procurement of Professional Services Letter O&C Fire Investigator, found in ECS Forms and Correspondence.

III. DUTIES AND KNOWLEDGE

- As suggested by NFPA 1033 Standard for Professional Qualifications for Fire Investigator, the approval process should ascertain whether the fire investigator is compliant with the duties of a fire investigator and has the requisite knowledge and skills as outlined in the latest editions of NFPA 1033 and NFPA 472 "Standard for Competence of Responders to Hazardous Materials/Weapons of Mass Destruction Incidents." NFPA 472 describes the competencies required of a responder to a location with known hazardous materials.
- NFPA 1033 Standard for Professional Qualifications for Fire Investigator, A.3.2.2 , Authority Having Jurisdiction (AHJ):

  > *"The phrase authority having jurisdiction or its acronym AHJ, is used in NFPA documents in a broad manner, since jurisdictions and approval agencies vary, as do their responsibilities. Where public safety is primary, the authority having jurisdiction may be a federal, state, local or other regional department or individual such as a fire chief; fire marshal; chief of a fire prevention bureau labor department, or health department; building official; electrical inspector; or others having a statutory authority. For insurance purposes, an insurance inspection department, rating bureau, or other insurance company representative may be the authority having jurisdiction. In many circumstances, the property owner or his or her designated agent assumes the role of the authority having jurisdiction, at government installations, the commanding officer or departmental official may be the authority having jurisdiction."*

- NFPA 1033, Administration, provides a list of minimum job performance requirements (JPRs) for service as a fire investigator in both the private and public sector. NFPA 1033 lists minimum standards for up-to-date basic knowledge of listed topics at a post-secondary education level. Fire investigators are required to remain current in the listed topics by attending formal education courses, workshops and seminars and/or through reading professional publications and journals.

IV. VERIFICATION PROCESS

The verification process includes the initial vetting of the fire investigator for inclusion on the O&C Selection Tool and the auditing process of the tool. As the qualifications and credentials of a fire investigator are verified, NFPA 1033 should provide guidance.

The method of accomplishing this verification is a three-part approach:

1. **Education, Training, Background**

   To determine whether the individual fire investigator complies with the minimum requirements set forth in NFPA 1033, request a curricula vitae (CV) and supporting documents.

   The CV and document request should include the name, office phone number, cell number, fax number, corporate address, investigator's city, email address, base rate, TIN, geographic area serviced by the investigator, educational history, license information including effective/expiration dates; license number; licensing authority; type of license, certifications and the certifying organization; membership in professional/industry organizations; bibliography of publications and/or research papers; references; and a list of all court cases in which the individual has testified as a fire origin and cause expert. A listing of any cases in which the fire investigator was barred from testifying due to a challenge should also be requested. The request and review of an updated/current CV should assist with the determination as to whether an investigator remains current with investigative methodology, fire protection technology, and code requirements.

   There are several certifications a fire investigator may attain to demonstrate their competencies. For example, the International Association of Arson Investigators (IAAI) provides the IAAI-Certified Fire Investigator® (IAAI-CFI®). The IAAI-CFI® is accredited by, the Pro Board, due to testing based on the requisite knowledge and skills of a standard NFPA 1033. Other industry recognized certifications should be taken into consideration.

   A reasonable background investigation is needed to verify that the investigator has sufficient knowledge, experience, and strong communication skills. The background investigation will be completed by the coordinators and might include, but not be limited to: a criminal history check; contacting listed references, performing basic internet research, interview, facility inspection, etc. These should be conducted on a reasonable basis, depending on the evaluator's personal knowledge of the fire investigator's background and should be done with the full knowledge and authorization of the individual.

The following documents shall be requested during the initial verification and as part of the review completed in subsequent audit periods to verify currency:

- Curricula Vitae (CV)
- Private Detective License, as applicable
- Proof of current Professional Liability Insurance and Errors and Omissions Insurance with a minimum liability limit of $1,000,000.
- Copy of any relevant industry designations or certifications.

2. **Job Performance Requirements**

The verification process should include informing the individual that State Farm's minimum expected fire investigator job performance requirements are set forth in NFPA 1033, unless controlled otherwise by governmental authority, with some noted exceptions listed in the Annex section of NFPA 1033.

The requisite knowledge and skills for each job performance requirement enumerated in NFPA 1033 must be based on the principles and methodologies as described in guidelines, standards, or treatise adopted or acceptable to the fire investigation and legal communities, such as the latest edition of NFPA 921 "Guide for Fire and Explosion Investigations."

The fire investigator should be informed that State Farm expects them to read and personally sign their final reports. Persons who were not involved in the fire scene inspection and/or vehicle fire investigation need not sign the report.

The hiring of a fire investigator by State Farm is for the sole purpose of providing expert opinions related to the origin and cause of that fire. State Farm does not ask that expert to review material beyond the scientific and environmental factors that lead to the fire at the insured property. Consistent with this scope of assignment, retained fire investigators shall be provided claim file material that aids in the fire investigator's efforts to determine the origin and cause of a fire consistent with the investigative methodology in NFPA 933. If the investigator requests other claim file materials, claim management should be involved in the decision as to what, if any, additional material will be released, and for what purpose.

Retained fire investigators should refrain from discussing in their reports, possible motives, opportunity of an incendiary fire and whether the evidence meets the evidentiary requirements of a particular jurisdiction. Opinions regarding responsibility for a fire should be limited to product liability cases.

3. **Evaluation and Verification Process**

The evaluation process to verify each fire investigator being retained continues to meet or exceed the requirements of NFPA 1033, occurs every two years on the even numbered year.

Once fire investigators have been listed on the O&C Selection Tool, after the initial verification process, the SIU and Fire SMs, and Coordinator group is responsible to assure those fire investigators have maintained the job performance requirements by attending training classes as described in NFPA 1033, Education, Training, and Background on an annual basis. The evaluation process includes requesting a copy of the fire investigator's CV, Private Detective License, proof of current Professional Liability Insurance and Errors and Omissions Insurance with a minimum liability limit of $1,000,000 and copy of their IAAI-CFI certificate or its equivalent to verify their currency.

Every even numbered year, the SIU and Fire SMs and coordinators will complete a report review (Exhibit B or Exhibit C and Exhibit D and E) for each fire investigator. In order to locate reports to be surveyed using Exhibits B or C, Investigator ID listings will be run by the SIU and Fire SMs support at the beginning of the evaluation year. Within the first 2 weeks of the evaluation cycle, the support person will input the investigator assignment report into the O&C repository and determine the target number of Exhibit B or C forms needed to achieve 5% sample (Minimum of 2). Should findings be identified, an additional 5% sample size will be reviewed for that investigator. The support person will notify the SIU and Fire SMs and coordinators the repository has been updated with the sample sizes for each investigator. The SIU SM, Fire SM and P&C will coordinate the timing of the review survey during the evaluation year.

Example Timing: For the evaluation cycle for years January 1, 2016 through December 31, 2017, the report will be run using Investigator ID listings by January 16th 2018, for the current year audit cycle.

- **Coordinator Responsibilities**

  As provided in NFPA 1033, the Evaluation of Job Performance Requirements shall be completed by individuals who are qualified and approved by the AHJ. The SIU and Fire SMs designate Coordinators. The Company representative selected as a coordinator should have the necessary training and/or experience to accomplish such an evaluation.

  The selected coordinators shall review the report for the fire scene to verify that the fire investigator possesses the requisite knowledge and skills. The reports should adequately reflect the use of the Scientific Method, the

industry-accepted methodology as outlined in NFPA 921.

The Coordinator will complete the survey Questions of Exhibits B and C, as well as Exhibits E and G. However, before determining whether additional follow up is needed or changing the active status of a fire investigator, authority should be received from the SIU and Fire SMs. Any time additional follow up is needed, an Exhibit H form must be completed. The coordinator should review any Exhibit H with the SIU and Fire SMs prior to filing.

- **SIU and Fire Section Manager Responsibilities:**

  The evaluation process for an individual Fire Investigator includes proper execution and completion of all elements of the review. To be considered finished; the 5% sample target of Exhibits B and C must be filed, Exhibits D - G must also be filed, as well as any required H Exhibits. The coordinator will then request the SIU or Fire SM to update/complete an entry in the O&C Selection Tool, indicating the review is complete.

  It is recommended that the SIU, Fire SMs and coordinators schedule management review meetings to ensure evaluations are completed timely, every two years (on even numbered years). It is the responsibility of the SIU and Fire SMs to update their Consulting Services consultant(s) of the progress of the evaluations on a yearly basis. In evaluation years, the Claim Consultant and the SIU and Fire SMs will review the progress of the evaluation and enter the result into the repository. If the section evaluation was not completed, the SMs will enter comments addressing their action plan. Further, when the evaluation has been completed, a subsequent meeting should occur and the results entered into the repository by the Consulting Services Consultant. The updates are to occur during the month of January, following the evaluation year.

  Further, as part of the evaluation, the coordinators should review the O&C Selection Tool and reconcile the listing with the O&C repository.

  Once all of the evaluation documents are compiled, they should be emailed to HOME CLMS-SIU-CRL where SIU and Fire SMs support will compile and file the documents into the O&C repository.

V. EXHIBITS

- **Exhibits: B & C:**
  The Coordinators will review the TIN listings and determine the target number of Exhibit B or C forms needed to achieve a 5% sample (minimum of 2). The sample of 5% of the total completed Fire Origin and Cause Reports from closed claims is to be reviewed using Exhibits B or C. The target number will also be forwarded to coordinators to begin the evaluation process for fire investigators. When an evaluator completes an Exhibit B or C the Exhibit should then be forwarded to the coordinator.

- **Exhibit D:**
  Following the completion of Exhibits B or C, an Exhibit D letter will be sent by the Auto and Fire SM's support with an Audit Letter and copies of the reports requesting verification, and a self-addressed envelope for use in returning the verification to the sending support. The support will then send an electronic copy of the verification to the Coordinators.

- **Exhibit F:**
  A physical inspection will be considered based upon business need and the result of the other exhibit review. Physical inspections can be completed both during a validation or non-validation year. If a physical inspection is completed, the inspector will conduct an inspection of the fire investigator's facilities to observe security of non-public/private information, reports and evidence storage (Exhibit F). When a physical inspection is completed, an Exhibit F, the Exhibit should then be forwarded to the Coordinator.

The following Exhibits may be used during the selection and verification process described previously. Exhibits B through H are accessed from State Farm Forms (P&C Claims; Auto/Fire):

- **Exhibit A: Procurement of Professional Services Letter O&C Fire Investigator**, Enterprise Claims System (ECS) Forms and Correspondence - FC0011918
- **Exhibit B: Evaluation Guide for an Independent Fire Investigator's Report of a Structural Fire Investigation**
- **Exhibit C: Evaluation Guide for an Independent Fire Investigator's Report of a Vehicle Fire Investigation**
- **Exhibit D: Audit Letter and Verification Questions**
- **Exhibit E: O&C Coordinator Origin and Cause Report Verification Questions Review**
- **Exhibit F: Fire Investigator Office Visitation Review (If Applicable)**
- **Exhibit G: O&C Coordinator Review of Fire Investigator Office Visitation Review (If Applicable)**

- **Exhibit H: Follow Up (If Applicable)**

OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
04-12-2023	**P&C Claims** **Policies and Procedures**	**Selection of Fire Investigators**	**70-95**

I. PURPOSE

This Operation Guide (OG) provides guidelines for claim staff and claim management with basic guidelines for the selection, verification, oversight, retention and evaluation of fire investigators. It also outlines the responsibilities for maintaining the O&C Selection Tool consistent with Our Commitment to Our Policyholders and the Preface. In general, the guidance provided is applicable to all homeowners policy forms unless otherwise indicated in the OG. Review the policy form and/or endorsement(s) to confirm the specific contract language and/or limits which are applicable to an individual claim.

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II. GENERAL INFORMATION

A designated Special Investigative Unit (SIU) and Fire Section Manager (SM) are responsible for the selection, oversight, retention and evaluation of fire investigators through a verification process.

The SIU and Fire SMs are responsible for preparing, making available and managing a list of fire investigators, placed in the O&C Selection Tool, who have been successfully verified, see Section IV below. Business needs should be considered when making additions or deletions to the fire investigator list. Geographical areas serviced by the fire investigator will be included on the O&C Selection Tool.

The SIU and Fire SMs designates coordinators, oversee the selection, verification, oversight, retention and evaluation auditing processes. The Coordinator group consists of Team Managers (TM) or Professional/Technical claim employees, with appropriate technical knowledge. The designated coordinators will act as the single point of contact for the SIU and Fire SMs.

As part of the verification process, Coordinators will be responsible for completing the evaluation of the fire investigators during the review period occurring every even numbered year.

Claim staff will use the fire investigators on the O&C Selection Tool to conduct origin and cause investigations. When selecting an investigator, confirm their availability, verbally and in writing, to respond timely to take the assignment. Further,

the subject matter expertise of the fire investigator should be considered. In all instances, the final decision to hire a fire investigator must be approved by claim management.

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The fire investigator may need to utilize special equipment or services of other experts to conduct their investigation. After first obtaining approval from a claim specialist to incur the additional expense, the fire investigator is responsible for making sure any additional vendors they select have the appropriate qualifications, training and licensing. The fire investigator is responsible for hiring, managing and compensating experts required on the file, independent of other State Farm procedures. State Farm will reimburse the fire investigator for reasonable expenses incurred.

For guidance in evaluating the fire investigator's work product, refer to the latest editions of the National Fire Protection Association (NFPA) 1033 "Standard for Professional Qualifications for Fire Investigator" and NFPA 921 "Guide for Fire and Explosion Investigations". It is essential that the opinions provided by the selected fire investigator are fair, honest, and objective without regard to the monetary interest of State Farm, the individual investigator, or the vendor performing the service.

A claim specialist responsible for hiring a fire investigator should utilize the Procurement of Professional Services Letter O&C Fire Investigator, found in ECS Forms and Correspondence.

III. DUTIES AND KNOWLEDGE

- As suggested by NFPA 1033 Standard for Professional Qualifications for Fire Investigator, the approval process should ascertain whether the fire investigator is compliant with the duties of a fire investigator and has the requisite knowledge and skills as outlined in the latest editions of NFPA 1033 and NFPA 472 "Standard for Competence of Responders to Hazardous Materials/Weapons of Mass Destruction Incidents." NFPA 472 describes the competencies required of a responder to a location with known hazardous materials.

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IV. VERIFICATION PROCESS

The verification process includes the initial vetting of the fire investigator for inclusion on the O&C Selection Tool and the auditing process of the tool. As the qualifications and credentials of a fire investigator are verified, NFPA 1033 should provide guidance.

The method of accomplishing this verification is a three-part approach:

1. **Education, Training, Background**

   To determine whether the individual fire investigator complies with the minimum requirements set forth in NFPA 1033, request a curricula vitae (CV) and supporting documents.

   The CV and document request should include the name, office phone number, cell number, fax number, corporate address, investigator's city, email address, base rate, TIN, geographic area serviced by the investigator, educational history, license information including effective/expiration dates; license number; licensing authority; type of license, certifications and the certifying organization; membership in professional/industry organizations; bibliography of publications and/or research papers; references; and a list of all court cases in which the individual has testified as a fire origin and cause expert. A listing of any cases in which the fire investigator was barred from testifying due to a challenge should also be requested. The request and review of an updated/current CV should assist with the determination as to whether an investigator remains current with investigative methodology, fire protection technology, and code requirements.

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   The verification process should include informing the individual that State Farm's minimum expected fire investigator job performance requirements are set forth in NFPA 1033, unless controlled otherwise by governmental authority, with some noted exceptions listed in the Annex section of NFPA 1033.

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The selected coordinators shall review the report for the fire scene to verify that the fire investigator possesses the requisite knowledge and skills. The reports should adequately reflect the use of the Scientific Method, the industry-accepted methodology as outlined in NFPA 921.

The Coordinator will complete the survey Questions of Exhibits B and C, as well as Exhibits E and G. However, before determining whether additional follow up is needed or changing the active status of a fire investigator, authority should be received from the SIU and Fire SMs. Any time additional follow up is needed, an Exhibit H form must be completed. The coordinator should review any Exhibit H with the SIU and Fire SMs prior to filing.

- **SIU and Fire Section Manager Responsibilities:**

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Further, as part of the evaluation, the coordinators should review the O&C Selection Tool and reconcile the listing with the O&C repository.

Once all of the evaluation documents are compiled, they should be emailed to HOME CLMS-SIU-CRL where SIU and Fire SMs support will compile and file the documents into the O&C repository.

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- **Exhibit F:**
  A physical inspection will be considered based upon business need and the result of the other exhibit review. Physical inspections can be completed both during a validation or non-validation year. If a physical inspection is completed, the inspector will conduct an inspection of the fire investigator's facilities to observe security of non-public/private information, reports and evidence storage (Exhibit F). When a physical inspection is completed, an Exhibit F, the Exhibit should then be forwarded to the Coordinator.

The following Exhibits may be used during the selection and verification process described previously. Exhibits B through H are accessed from State Farm Forms (P&C Claims; Auto/Fire):

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- **Exhibit C: Evaluation Guide for an Independent Fire Investigator's Report of a Vehicle Fire Investigation**
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- **Exhibit E: O&C Coordinator Origin and Cause Report Verification Questions Review**
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- **Exhibit H: Follow Up (If Applicable)**

OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
10-23-2019	**Claim Practices** **Fire and Casualty**	**Coverage Question Procedures**	**74-20**

Table of contents

I. PURPOSE

This Operation Guide provides guidelines for questions of coverage pertaining to a first or third party claim under the Homeowner Policy forms consistent with Our Commitment to Our Policyholders and the Preface. In general, the guidance provided is applicable to all homeowner policy forms unless otherwise indicated in the Operation Guide. Review the policy form and/or endorsement(s) to confirm the specific contract language and/or limits which are applicable to an individual claim.

If a policy provision or application is more restrictive than the law of the jurisdiction, then the law of the jurisdiction will apply. Also, there may be situations where the Enterprise position is broader than the law of the jurisdiction. In such situations, you should follow the Enterprise position. If policy wording in the jurisdiction conflicts with any of these, guidelines or in case of unusual claim situations, contact claim management.

II. COVERAGE QUESTIONS PROCEDURES - OVERVIEW

After a claim is presented, we may obtain information indicating a coverage question exists. A coverage question may exist when the facts indicate the claim may not be covered under the policy. Coverage questions may also involve violations of policy conditions. Acts of the insured at the time of policy application may also affect coverage.

A claim specialist aware of a coverage question must be careful to avoid forfeiting the insured's and the Company's rights by speaking or acting improperly. The rights of the insured and the rights of the Company may be influenced by the doctrines of waiver and estoppel.

A. Waiver

A waiver is the voluntary, intentional relinquishment of a known right. Express waiver is an oral or written relinquishment of a right. Implied waiver is a relinquishment of a right by reasonable inference of one's action or conduct. The doctrine of waiver is a rule of law.

For example, a claim specialist investigating a third-party lawsuit against the insured discovers that the insured gave

late notice of the loss to the insurer. A letter is then sent to the insured indicating we are waiving the late notice coverage question. The letter constitutes an express waiver of the late notice policy condition.

B. Estoppel

Estoppel arises when words or actions of the insurer lead the insured or claimant to change their position to their detriment, in reliance on the implication of coverage.

For example, an insurer, without taking a reservation of rights, undertakes the defense of a lawsuit against the insured. In reliance on this, the insured suffers the detriment of losing the opportunity to settle. The insurer may be estopped from raising certain policy defenses.

To avoid waiver or estoppel, the insured is put on notice that a coverage question is present. The most common method to effect this notice is to obtain a non-waiver agreement from the insured or send a Reservation of Rights letter.

You need to know the law on waiver and estoppel in your jurisdiction.

III. NON-WAIVER AGREEMENT - DESCRIPTION

A non-waiver agreement is a document that puts the insured on notice of the potential of non-coverage. The document also reflects an agreement between the insured and the Company. The insured agrees that the non-waiver allows the Company to continue the claim-handling process. Action taken in investigating, negotiating, settling, denying, defending, or ascertaining the amount of loss or damage will not waive any rights of the Company, including the right to deny coverage. The Company agrees that the insured's rights under the policy are not waived.

IV. NON-WAIVER PROCEDURES

A. When to Take a Non-Waiver

1. First-Party Claim

In a first-party claim, we are responding to a claim made by our insured. The insured is requesting that we investigate all aspects of the claim including the issue of coverage. By investigating the coverage issue, we are not waiving any of our rights. In fact, we are taking the action that we are obligated to take by our contract. We still have to be aware of the doctrine of estoppel and make sure our actions or words do not lead the insured to reasonably believe that there is coverage when there is not.

A non-waiver should be taken if there will be a protracted time period between the initial investigation and the decision concerning coverage, or if the facts of the claim indicate that securing a non-waiver is prudent. Consult management if there is any question whether or not a non-waiver should be obtained.

2. Third-Party Claim

A third-party claim is initiated by a party other than the insured. After the initial contact with the insured, our next communication is usually with the claimant. Thereafter, the insured may assume everything is being done to protect their interest. The assumption of coverage may result in prejudice to the insured. The risk of detrimental reliance and estoppel is present. Therefore, a non-waiver should be taken in a third-party claim anytime there is a legitimate question of coverage.

Statements taken during a third-party claim concerning the coverage question should be separate from statements taken concerning the reported incident.

Sometimes it is not possible to take separate statements. For example, when investigating a liability claim involving potential intentional injury or business pursuits, the facts to be ascertained may determine both coverage and liability. In these cases, it may be necessary to take the initial statement without the non-waiver. When the statement is completed and a coverage question is apparent, then a non-waiver should immediately be taken.

B. From Whom to Take a Non-Waiver

A non-waiver should be taken from every person claiming rights under the policy where the person's status as an insured would be affected by the coverage question.

Examples are:

1. The brother of the named insured, who is not a resident of the named insured's household, requests coverage under the liability section of the policy. A non-waiver should be taken from the brother as to his status as an insured and not from the named insured (unless different coverage questions are applicable to the named insured).

2. The investigation revealed an intentional injury was committed by an insured. A non-waiver should not be taken from other insureds not involved with the intentional injury.

3. Non-waivers relating to intentional injuries caused by a minor insured should be signed by the minor insured (if the minor is old enough to understand) and the parents, "as parents and natural guardians of the minor." The signature of the parents puts them on notice of the coverage question applicable to their minor child.

C. Additional Defenses

If additional policy defenses are discovered during the course of the investigation, an additional non-waiver should be secured. The new non-waiver should include all previous policy defenses still applicable, plus any new policy defenses.

D. How to Take a Non-Waiver

Obtaining the non-waiver in person is the preferred method to notify the insured of coverage questions. This method provides the opportunity of meeting with the insured or any other party seeking protection under the policy and explaining why the non-waiver is necessary. We can show the policy to the insured and explain where the non-waiver language was obtained. The insured has an opportunity to ask questions. It should be emphasized to the insured that they are not waiving any rights under the policy by signing the non-waiver agreement. It is the responsibility of the claim specialist to obtain the non-waiver.

E. Recorded Non-Waiver

Occasionally, during a telephone interview, a coverage question is discovered. A recorded non-waiver should be interjected into the interview as follows:

> "Mr./Mrs./Ms. Insured, I have just become aware that there is a question of (insert reason for non-waiver).
>
> For this (or these) reason(s), State Farm ___(Name)___ Company may have no obligation to defend or indemnify you for any claims arising out of the incident of ___(Date)___.
>
> I would like to continue with the investigation; however, before doing so, it is necessary that you and I agree that any action I take, or others in my company may take in investigating, negotiating, settling, denying, defending, or ascertaining the amount of loss or damage will not waive any rights of the company to deny any obligation, and will not waive any of your rights under the terms of the policy.
>
> Do you agree that if the investigation of this incident is continued, that neither you nor the company will waive any rights? (If "yes" proceed. If "no" and the statement concerns a first-party claim, proceed with the statement. After the statement is ended, inform the insured that he or she will be receiving a Reservation of Rights letter. Inform the TM who will mail a Reservation of Rights letter to the insured. If "no" and the statement concerns a third-party claim, discontinue and ask the TM to mail a Reservation of Rights letter.)
>
> Based upon our agreement, with your permission, I will continue to investigate this incident.
>
> To fix the time of this agreement, I note that today's date is __(Date)__ and the time is __(time)__."

After the recorded statement is completed, the TM must immediately review the file. The TM will be responsible for the issuance of a Reservation of Rights letter to the insured. The Reservation of Rights letter should be reviewed and approved by the TM. The signature block on the letter should be the TM's signature block. After the letter is reviewed by the TM and the file appropriately documented, the letter can be signed by a designee of the TM. The designee should sign the letter with the TM's name and write their (the designee's) initials next to the signature block.

V. RESERVATION OF RIGHTS LETTERS

If the insured refuses to sign the non-waiver or if it is not feasible, the claim specialist should do the following depending on the nature of claim involved.

A. First-Party Claim

Inform the insured that the investigation will continue and they will receive a Reservation of Rights letter. Notify the TM who will be responsible for issuance of a Reservation of Rights letter, which will have the same effect as a non-waiver. The Reservation of Rights letter should be reviewed and approved by the TM. The signature block on the letter should be the TM's signature block. After the letter is reviewed by the TM and the file appropriately documented, the letter can be signed by a designee of the TM. The designee should sign the letter with the TM's name and write their (the designee's) initials next to the signature block.

B. Third-Party Claim

1. Discontinue all activities or conversations regarding the claim.

2. Notify the TM who will be responsible for the issuance of a Reservation of Rights letter, which will have the same effect as a non-waiver. The Reservation of Rights letter should be reviewed and approved by the TM. The TM will advise the claim specialist when the investigation may be continued. The signature block on the letter should be the TM's signature block. After the letter is reviewed by the TM and the file appropriately documented, the letter can be signed by a designee of the TM. The designee should sign the letter with the TM's name and write their (the designee's) initials next to the signature block.

VI. CONTENT OF NON-WAIVER/RESERVATION OF RIGHTS

The non-waiver form entitled Request for Claim Service and Non-Waiver of Rights is available in ECS Forms and Correspondence:

- Request for Claim Service and Non-Waiver of Rights - All States except CA:
  - FC0015656 English
  - FC0015794 Spanish

- Request for Claim Service and Non-Waiver of Rights - CA:
  - FC0004717 English
  - FC0004718 Spanish

The top of the form has space for the reason(s) for the non-waiver. In this space the reasons should be set forth. If the coverage question(s) involve policy language, the reasons should be worded as closely as possible to the actual language in the policy. The non-waiver should be worded in such a manner the insured can readily identify the appropriate policy language involved. Indicated below is an illustrative list of reasons for obtaining the non-waiver. (The policy language used in the examples is derived from the Homeowners Policy. Make sure the coverage questions conform to the policy form involved in the claim.) When sending a Reservation of Rights letter, the exact policy language should also be quoted.

1. It is questionable whether a contract of insurance was in effect at the time of the loss/occurrence.

2. Company records indicate the policy expired on _____ for non-payment of renewal premiums.

3. Company records indicate the policy expired prior to the loss (first party) or occurrence (third party) date.

4. Company records indicate the policy was canceled at the named insured's request prior to the loss (first party) or occurrence (third party) date.

5. It is questionable whether the loss (first party) or occurrence (third party) took place during the policy period.

6. A question exists as to whether there has been a material misrepresentation regarding your application for insurance:

   a. Prior cancellations or refusal to renew insurance for the named insured.

   b. Prior losses within the last three years by the named insured.

Other reasons may be stated, based upon questions in the application or declarations in the policy.

7. It is questionable whether there has been compliance with the condition of the policy requiring the assistance and cooperation of the insured.
8. There is a question of insurable interest by the insured in the damaged property.
9. There is a question as to whether the origin and cause of the loss was accidental in nature.
10. It is questionable whether there has been a loss caused by a peril insured against.
11. It is questionable whether the bodily injury or property damage was caused by an occurrence as defined in the policy.
12. It is questionable whether the bodily injury or property damage is either expected or intended by the insured.
13. It is questionable whether there was bodily injury or property damage to any person or property which is the result of willful and malicious acts of the insured.
14. It is questionable whether the bodily injury or property damage arose out of business pursuits of any insured.
15. It is questionable whether the claim involves bodily injury to you or any insured within the meaning of part a. or b. of the definition of insured.
16. It is questionable whether the conditions of the policy have been violated by reason of delay by or on behalf of the insured in giving written notice to the Company concerning the accident or occurrence.
17. It is questionable whether the conditions of the policy have been violated by failure of the insured to immediately forward to the Company every notice, demand, summons, or other process relating to the accident or occurrence.
18. It is questionable whether there has been bodily injury or property damages as defined in the policy.

VII. COVERAGE QUESTION RESOLUTION

SEE: OG 70-20 Claim Committee Reports and Procedures for the manner in which coverage questions are resolved. Denial of coverage on a claim handled under a non-waiver or Reservation of Rights should be followed up in writing.

Denial letters should be reviewed and approved by the TM responsible for the claim file. The TM should document the review and approval process within the claim file notes.

VIII. WITHDRAWAL OF THE NON-WAIVER/RESERVATION OF RIGHTS

It is important that once a coverage question is resolved in the insured's favor, the non-waiver or Reservation of Rights letter be promptly withdrawn in writing by the TM to the insured and any other appropriate party. If there are remaining coverage questions, they should be restated in the letter reviewed by the TM.

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OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
01-15-2020	**Claim Practices** **Fire and Casualty**	**Statements**	**74-21**

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I. PURPOSE

Statement taking is another investigative tool for claim handlers to use in the handling of first and third party claims. Judgment should be exercised to determine whether a statement is needed on a particular claim. Questions asked during a statement should be tailored to the type of claim being investigated.

Statements are sometimes used in the investigation of coverage questions. Coverage question statements should be separate from statements taken concerning the reported incident. See: OG 74-20 Coverage Question Procedures.

A statement is a detailed recital of the facts of a loss taken from a person to assist in the investigation of a claim.

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II. TYPES OF STATEMENTS

A. Statements can be classified by content as:

1. Positive. A positive statement covers the actual knowledge possessed by an individual, what was actually seen, heard, smelled, felt, and experienced. The statement may contain information the witness has concerning the occurrence, people, or location involved.

2. Negative. A negative statement is one in which an individual denies any knowledge of the occurrence, people, or locations involved.

B. There are basically four kinds of statements, classified according to the way they are obtained.

1. Written Statement. This statement is written by the claim handler in the witness's own words. Upon conclusion, the witness will review the written statement for accuracy and should sign each page.

2. Recorded Statement. There are two types of recorded statements:

   a. Face-to-Face. The claim handler will meet with the witness and conduct the statement in person. Begin the recorded statement by identifying the voices during the recording after any breaks.

b. Telephone. Recorded telephone statements may be taken in lieu of face-to-face statements. The same general procedures as described in the face-to-face statement would apply.

3. Oral Statement. An oral statement is usually taken when an individual will not consent to a recorded or written statement. The claim handler should take notes as completely as possible, which cover the information provided by the witness. The notes should include a description as to where and when the conversation took place.

4. Sworn Statement or Examination Under Oath. The sworn statement (EUO) will be administered by our retained attorney with a court reporter present. Claim management's approval is required to conduct the sworn statement (EUO).

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III. USES OF STATEMENTS

A. Information

Statements are a collection of declared facts pertaining to the occurrence being investigated. Statements provide a summary of what each witness is expected to testify to if asked to do so in court. At times, there will be conflicting statements because people do not always see things exactly in the same light. Statements provide a method to evaluate a claim based upon facts, and not upon conjecture or hearsay.

B. Preservation of Facts

Statements are a method of giving permanence to a witness's report of what was seen, heard, felt, or experienced at the time of the occurrence. Details of the loss may be forgotten over time unless they have been preserved.

C. Challenge a Witness

A statement may be presented as evidence of prior inconsistent statements. It may be used to challenge the credibility of a witness who changes his or her testimony at the time of trial.

D. Admission Against Interest

A statement made by a party to the loss acknowledging that a prior statement of material facts is not as he or she now claims.

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IV. WHEN TO OBTAIN A STATEMENT

Statements should be taken when it is needed to memorialize the facts of the loss, which may be referenced at a later date. If the insured, claimant, party to the loss or other individual is represented by counsel, inform and get the consent of their legal representative before proceeding with the statement.

Statements can be taken anytime during the investigation of a claim. However, it is preferable to cover the facts while they are still fresh in the mind of the individual involved. Statements that address a coverage issue should be taken as soon as a coverage question has been identified.

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V. FUNDAMENTALS IN TAKING STATEMENTS

A. General Suggestions

1. The claim handler should be positive, professional, and courteous when taking a statement. The statement should be an unbiased collection of facts.

2. A claim handler should take separate statements if both a question of coverage and a description of the occurrence are involved. Similarly, statements of multiple witnesses should not be combined in one statement.

3. The claim handler should plan ahead. Allow enough time to take the statement, and make sure recording

equipment is functional. If at all possible, a face-to-face statement should be taken in a private area free from disturbances and taken at the statement giver's convenience.

B. **Written Statements**

The following suggestions may be helpful in taking a written statement.

1. Statements should always start at the left margin. No lines should be skipped. There should be no paragraphs in the written statement.

2. When the statement is complete, ask the witness to read the statement, and then without leaving a space, write in his or her own handwriting, the words "I have read this report of _____ pages and it is true." Then the witness should sign each page.

3. Any mistakes, deletions, strikeovers, or other changes should be initialed by the witness.

4. The statement should be in the witness's own words and should be a complete recital of all facts provided.

C. **Recorded Statements**

1. In any recorded statement, it is necessary to properly identify the person speaking. The beginning of the recorded statement should identify the claim handler and the date, time, and location of where the interview is being conducted. Immediately thereafter, the claim handler should ask the following questions:

    a. "Mr. Smith, will you please state your full name and spell your last name?"
    b. "Is this recording being made with your full knowledge and consent?"

    After this identification and acknowledgement of consent to record, the statement can proceed.

2. The claim handler should conclude the interview by asking the following questions:

    a. "Mr. Smith, is there any additional information relevant to this incident that you would like to report?"
    b. "Are the remarks you have made in this recording your true version to the best of your knowledge?"
    c. "Has this recording been made with your full knowledge and consent?"

3. Useful Suggestions.

    a. Do not interrupt the witness before he or she has had an opportunity to complete the answer.

    b. Be sure everyone is talking loud enough to be recorded. If the witness is talking too softly, adjust the input volume or request that the witness speak a little louder. Be sure to test the volume before you begin the statement.

    c. Try to ask open-ended questions that do not evoke one-word answers. Avoid asking leading questions.

    d. Avoid habitual interjections, such as "Uh-huh," "O.K.," "Fine," and so forth.

    e. Listen carefully to what the witness says. Following a statement outline is beneficial, but be prepared to follow up with additional questions if appropriate.

    f. Ensure all necessary information is obtained in the first interview

    g. When the statement is completed, the claim handler should indicate the time the interview has concluded and thank the individual.

4. Digital Statements

    - Recap the entire statement in file notes using the Enterprise Claim System.
    - Claim statements are recorded to a digital recording application on the workstation and uploaded to a server.
    - Statements may be retrieved at any time for review directly from the workstation. The statement plays

in Windows Media Player.
- Handheld digital recorders can be used for face-to-face recordings. The recorded statements are imported from the handheld recorder through the USB port directly into the application on the workstation.
- Transcriptions are requested by the claim handlers directly from the workstation. The statements are sent electronically to the transcription vendors.

See: OG 701-525, Digital Statements, for additional information

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VI. SUBJECT MATTER OF STATEMENTS

It is not possible to provide an outline of all the things which should be in a statement because of the variance of needs from case to case. However, certain information should usually be secured.

A. Identification. The beginning of a statement includes identification information of the witness; for example, name, occupation, address, ZIP code, and phone number. This information may be quite brief but should be complete. This information may be helpful in locating the witness at a later date.

B. Date, time, and place. Identify where and when the loss occurred.

C. Description of the scene. This might be the insured residence premises, an office building, an automobile, etc. Sometimes a description of the scene can be extremely valuable in evaluating the occurrence. It might be necessary to describe the slope of a sidewalk, the terrain of a golf course, or other details pertinent to the loss.

D. Description of the incident. Include all the relevant facts of how the loss occurred, identifying who was present at the time.

E. Description of damage. Discuss the damage or injuries that resulted from the occurrence. In first party claims, the insured should be asked to describe the damage. The viewpoint of any witnesses concerning the damage should also be obtained. Bodily injury or the nature of any injury should be described by the injured party and by other witnesses in a third party claim.

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OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
12-23-2020	**Claim Practices** **Fire**	**Personal Property Claim Handling**	**75-05**

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I. PURPOSE

This Operation Guide establishes guidelines and procedures for handling first party personal property losses consistent with Our Commitment to Our Policyholders and the Preface. In general, the guidance provided is applicable to all homeowner policy forms unless otherwise indicated in the Operation Guide. Review the policy form and/or endorsement(s) to confirm the specific contract language and/or limits which are applicable to an individual claim.

If a policy provision or application is more restrictive than the law of the jurisdiction, then the law of the jurisdiction will apply. Also, there may be situations where the Enterprise position is broader than the law of the jurisdiction. In such situations, you should follow the Enterprise position. If policy wording in the jurisdiction conflicts with any of these guidelines or in case of unusual claim situations, contact claim management.

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II. GENERAL INFORMATION

It is the intention of State Farm® to pay what we owe promptly, courteously, and efficiently.

To ensure the attainment of this goal, reasonably consistent investigative patterns, interpretations, and reporting procedures should be followed.

Not all claims require a physical inspection of the loss by a claim handler. Claims that may be handled to conclusion over the phone are the primary responsibility of the claim handlers working In Office. If needed, claim handlers may estimate damages over the phone with a policyholder or complete a task assignment to a proximity claim handler to inspect and estimate damages.

Further details on first party claim handling guidelines and requirements may be found in OG 75-01, First Party Claims Guidelines and Requirements.

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III. INVESTIGATION

When conducting the investigation, verify:

- Origin of the loss.
- Date of loss.
- Whether or not there were multiple occurrences.
- Ownership of property
- Use of property (business, hobby, collections, personal use)
- Quality of items
- Quantity of items

The claim handler should complete a scope of the personal property loss and gather information on the personal property items being claimed.

IV. INVENTORY SUBMISSION AND DOCUMENTATION

There are multiple ways in which a Policyholder can submit a detailed inventory to document a personal property loss.

1. Detailed file notes are acceptable for inventories consisting of only a few items or first contact settlements with the policyholder.

2. Contents Estimating Applications

    a. Use XactContents on all inventories in excess of a few items, or where judgment indicates a benefit may be derived from the mathematical capability of the system or a summary of yearly purchases.

    b. A Payment Tracker Worksheet Report should accompany all payments based on the XactContents application.

    c. Refer to OG 784-100 XactContents General Information for further details on the use of XactContents.

    NOTE: If an inventory was settled using the Contents Inventory (CI) application, the claim handler/associate will need to access ECS Documents to obtain a copy of the CI Settlement Print and re-create the inventory in XactContents for any further handling.

3. XactContents Contents Collaboration

    Contents Collaboration is an online tool that allows policyholders to enter their loss inventory directly into the XactContents application.

    Refer to: Contents Collaboration Getting Started Guide and Contents Collaboration Overview for additional information.

4. XactContents Excel Import Template

    The XactContents Excel Import Template may be sent to the customer via email. The customer may complete their inventory using the template and return it to us via email. The template is then imported directly into the XactContents application

    The generic and state specific versions of the template may be accessed on ClaimsNet: Job Tools: XactContents Import Templates.

5. Personal Property List from State Farm.com site

    The policyholder may download copy of a Personal Property List found on Statefarm.com. State specific lists are identified with instructions including state and jurisdictional differences.

    The use of electronic applications outlined above is recommended. Customer Personal Property Inventory instructions within Forms and Correspondence (F&C) (FC0007053 English or FC0013547 Spanish) may be used by the policyholder to assist with utilizing templates.

6. There may be limited situations where a personal property list or another manual form is used. The list created by the policyholder should not be used as a settlement document and will be entered into the contents estimating application. Customer Personal Property Inventory instructions within Forms and Correspondence (F&C) (FC0007053 English or FC0013547 Spanish) may be used by the policyholder or creation of personal property items being claimed.

    a. The claim handler may assist the insured with completing the personal property list.

    b. The following information should be captured on the personal property list:
        - Quantity
        - Age of the Item (years/months)
        - Detailed description of the item
            I. Brand name, model number, or specifications
            II. Where the item was purchased or obtained
        - Condition
        - The cost to repair or replace the item
        - The amount of loss for the item (if it cannot be repaired or replaced)

- Documentation available for the item

c. Personal property list or other manual inventory forms are entered into the contents estimating application.

d. If the claim handler will be obtaining information during the first contact, and then taking this information back to price, obtain discounts the list should be entered into the contents estimating application.

7. Documentation of Personal Property

Refer to: OG 75-06 Documentation of Personal Property Loss, for further details.

8. Photographs

When inspecting a loss, follow an inspection routine that helps separate undamaged and damaged property. Take photographs whenever the photos will assist in an evaluation of the claim. Photos may be helpful to the insured and claim handler in creating the room-by-room inventory. Photos also preserve the facts, illustrate any unusual property, and aid management in file review. Note in the file note the date of the inspection along with appropriate remarks and observations.

If not inspecting, request the insured send photographs of any unusual items if available.

V. EVALUATION AND SETTLEMENT

Personal property varies greatly by type, quality, and usage. The following should be expanded or modified to fit the individual case.

1. Determine the age and condition of the item(s) of property involved.

2. Determine the place of purchase.

Age and place of purchase may be established by other sources, original receipts, purchase orders, sales records, canceled checks, warranties, store records, or credit card records.

3. Establish the normal life expectancy of the item(s) involved.

- Refer to: OG 75-50 Betterment, Depreciation, and Actual Cash Value.
- When an unusual item(s) is involved, it may be necessary to consult an expert.

4. Depreciation

a. Refer to: OG 75-50 Betterment, Depreciation, and Actual Cash Value, for guidelines on determining betterment, depreciation, and actual cash value.

b. The State Farm Insurance Companies Depreciation Guide:
   1. Contains a list of various household goods and personal property along with their average useful life in years and average percent value in depreciation each year.
   2. Is available within the Contents Inventory application and in printed version (560-6069.2).

c. When the amount of depreciation applied to an item is greater or less than the amount outlined in the Depreciation Guide, an explanation should be noted in the claim file.

5. Replacement Cost

The claim handler should review the process for claiming replacement cost payments with the insured.

- Replacement cost
- Depreciation or discount amount
- Settlement amount
- Remaining replacement cost available

Refer to: OG 75-52 Replacement Cost on Personal Property, for guidelines on handling losses involving replacement cost coverage.

The Replacement Cost - Personal Property notice that is attached to the Personal Property List - Settlement Worksheet within F&C (FC0007335 English or FC0007336) should be provided to the policyholder when payment is issued and replacement cost is available.

The contents estimating applications settlement prints include the language contained in the Replacement Cost - Personal Property notice. This print:

- Alerts the insured that additional payments may be available on a replacement cost basis.
- Provides the insured with general information on how to submit a claim for additional payments.
- Directs the insured to column #12 of the Settlement Worksheet that contains the additional payment, which may be eligible to be received when the item is repaired or replaced.
- Consider sending with the Personal Property List - Settlement Worksheet within F&C (FC0007335 English or FC0007336) to assist in the discussion.
- Provides options available for replacement of covered personal property.
- Provides process for claiming replacement cost payments.

The claim handler/associate should discuss the following with insured:

Property not covered or subject to a special limit of liability (for example: money, business property).

6. State Farm Replacement Program

State Farm Replacement Program (SFRP) is designed for use by the claim handler/associate as a tool for replacing or pricing jewelry and watches, and for assisting with the evaluation of fine arts. Discounts are available on jewelry and watches.

SFRP should be given priority consideration as it enhances policyholder service. It is not necessary to obtain competitive quotes if the price is obtained or the product is ordered through SFRP.

- In the initial conversation with the insured, the claim handler/associate should explain the procedure for replacing items through SFRP or other discount sources, including the time frame involved.
- If the policyholder chooses a cash settlement rather than replacement, determine the Actual Cash Value (ACV) of the item by subtracting the depreciation from a price readily available to the general public. The ACV should not be determined by depreciating the SFRP quote since this quoted price is not available to the general public.
- In some cases, the SFRP quote may be less than the ACV calculated from a price readily available to the general public. In that case, it would be appropriate to pay an amount no greater than the SFRP price.
- ACV is the value of the article at the time of the loss. It is generally arrived at by deducting the depreciation from the cost to replace the item based on the open market price. Determining the amount of depreciation should be consistent with OG 75-50 Betterment, Depreciation, and Actual Cash Value.

7. Sales Tax / Delivery Charges

Sales tax, if applicable, should be included as a part of the replacement cost calculation. The claim handler/associate should verify with the insured if sales tax was already included in their claim for replacement costs. If not, it should be added. We will also pay for reasonable delivery charges the insured incurs.

8. Items Already Replaced by the Insured

If an insured has already replaced an item with an item of like, kind and quality for more than what we could have replaced it for, we will pay the amount the insured actually paid to replace the item with an item of like, kind and quality regardless of the discount price we could have obtained.

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OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
11-20-2019	**Claim Practices** **Fire**	**Documentation of Personal Property Loss**	**75-06**

Table of Contents

I. PURPOSE

This Operation Guide (OG) provides claim personnel with information as to what constitutes documentation of personal property losses.

II. GENERAL

No specific hard-and-fast rule may be given as to when, how much, or what constitutes adequate documentation. The circumstances of the loss and the needs of the file will guide the claim handler in determining what documentation is needed.

A. Policy Requirements

The policy requires the following of the insured under **Section I - Conditions**:

1. **Your Duties After Loss.** After a loss to which this insurance may apply, you shall see that the following duties are performed:

   a. give immediate notice to us or our agent. Also notify the police if the loss is caused by theft. Also notify the credit card company or bank if the loss involves a credit card or bank fund transfer card;

   b. protect the property from further damage or loss, make reasonable and necessary temporary repairs required to protect the property, keep an accurate record of repair expenditures;

   c. prepare an inventory of damaged or stolen personal property. Show in detail the quantity, description, age, replacement cost and amount of loss. Attach to the inventory all bills, receipts and related documents that substantiate the figures in the inventory.

   d. as often as we reasonably require:

      1. exhibit the damaged property;

      2. provide us with records and documents we request and permit us to make copies;

3. submit to and subscribe, while not in the presence of any other **insured**:

    a. statements; and
    b. examinations under oath; and

4. produce employees, members of the **insured's** household or others for examination under oath to the extent it is within the **insured's** power to do so;

B. Evidence of Ownership

Evidence of ownership may take several forms depending on the facts of each claim investigation. Examples of documentation may include receipts, canceled checks, repair orders, gift verification, photos, credit card invoices, divorce decrees, or owner's manuals.

C. Documentation

Documentation serves several purposes:

1. It may establish the existence of the property.
2. It helps to specifically identify the item (make, model, size, etc.).
3. It aids in establishing the value of the property.
4. It may indicate the ownership of the property.

D. Requests for Ownership Evidence

Requests for evidence of ownership should be reasonable. For example, we may request evidence of ownership on a two-year-old TV, but not on a three-week-old pair of socks.

III. EVALUATION

A. Property Evaluation

The evaluation of stolen or destroyed property may be difficult because it is not possible to inspect. Evaluation of the destroyed or stolen property is aided by documentation which will help to:

1. Verify the stolen item(s) actually existed.
2. Verify the item(s) was owned or used by an insured.
3. Verify the value of the item(s) at the time stolen.

B. Verification of Existence

1. Receipts, Purchase Orders, Invoices

    a. Original documents are helpful in establishing existence. However, they are not conclusive. They may establish existence, but not necessarily insured ownership or use. On larger items, it may be prudent to check with the seller, as well as having the receipt.

    b. Receipts for purchases after the loss are of little value, except they provide a beginning point at which to verify and document claims for replacement cost benefits.

2. Other Documentary Sources of Verification

    a. Canceled Checks

        i. Can be used to establish existence, age, original price, and ownership.
        ii. Not always absolute unless it is indicated exactly what item(s) was purchased and by whom.

    b. Credit Card Receipts

    These receipts usually describe the item(s) purchased, when purchased, and to whom sold.

    c. Charge Account Records

Sellers should have a record of purchases charged to an account.

d. Chattel Mortgages

Usually both chattel mortgages and conditional sales contracts are a matter of public record and could be verified.

e. Registrations

Many items, such as guns, must be registered. Boats are also usually subject to registration through the State or Coast Guard, or at the place normally used.

f. Customs Declarations

Items brought in from outside the United States probably have been declared and records may be checked.

g. Warranties and Guarantees

Most appliances, watches, clocks, and jewelry are protected by warranties for a period of time. If the written warranty contains a description of the item, it may be good verification.

h. Instruction Manuals

Instruction manuals are an indication the article(s) may have existed, but are not completely indicative of ownership. Some manuals are used as advertising pieces, and are readily available to the general public.

i. Tax Records

In some states, expensive items (boats, motors, jewels, major appliances, etc.) may be shown on personal property tax rolls.

j. Bills of Lading, Shipping Receipts, and Tariff Receipts

Articles that have been shipped from one place to another must have been covered by some type of document issued by a bailee.

3. Originals vs. Photocopies

a. Obtain original receipts, when available. If the insured requests the original be returned, place the State Farm® date stamp on the receipt, make a photocopy for the file, and return the date stamped original to the insured.
b. If the insured supplies a photocopy and does not have the original or will not supply it to us, verify the actual purchase and delivery of the article(s) with the seller. Verify such article(s) are listed on the police report.

4. Other Persons Able to Testify as to Existence

a. Delivery people
b. Movers
c. Repair people
d. Cleaners
e. Domestic servants
f. Neighbors
g. Relatives
h. Friends
i. Appraisers
j. Vendors, sales clerks, etc.
k. Landlords
l. Donors
m. Agents and Agency Management
n. Field Underwriters

C. Verification of Documentation

1. Some documentation may need to be verified. Verification includes:

   a. Carefully reviewing the document to see if it has been altered.

   b. Determining if the item was actually delivered and/or returned for credit.

   c. Taking the document to or calling the store to verify its validity.

2. If the loss is caused by theft, the policy also requires the insured to notify us or our agent and to notify the police. Where the loss warrants it, obtain a copy of the police report and check to see if articles claimed are on record with the police. A supplemental police report may be in order.

D. Document the File

The claim handler will determine what documentation is needed, given the circumstances of the loss and the needs of the file. Where documentation is requested, it is important to include in the claim file what documentation has been requested of the policyholder and what steps have been taken to verify the documentation. These documents may provide evidence of other insurance or sources of contribution.

IV. OTHER SOURCES OF INFORMATION

The following OGs involve discussions involving personal property losses:

OG 75-26 Theft Coverages
OG 75-50 Betterment, Depreciation, and Actual Cash Value
OG 75-52 Replacement Cost on Personal Property

OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
09-25-2019	**Claim Practices Fire**	**Section I - Additional Coverages**	**75-101**

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I. PURPOSE

This Operation Guide provides guidelines for the application of coverage and handling of claims under **Section I - Additional Coverages** under the homeowners policy forms consistent with Our Commitment to Our Policyholders and the Preface. In general, the guidance provided is applicable to all homeowners policy forms unless otherwise indicated in the Operation Guide. Review the policy form and/or endorsement(s) to confirm the specific contract language and/or limits which are applicable to an individual claim.

If a policy provision or application is more restrictive than the law of the jurisdiction, then the law of the jurisdiction will apply. Also, there may be situations where the Enterprise position is broader than the law of the jurisdiction. In such situations, you should follow the Enterprise position. If policy wording in the jurisdiction conflicts with any of these guidelines or in case of unusual claim situations, contact claim management.

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II. DEBRIS REMOVAL

A. Debris Removal - Covered Property

Debris removal is part of the repair/replacement cost of covered property damaged by a loss insured. It is included in

the limits applying to the damaged property. When the amount payable for the property damage plus the debris removal expense exceeds the limit for the damaged property, an additional five percent of that limit is available for debris removal.

The five percent Debris Removal Additional Coverage applies to **Coverage A - Dwelling**, **Coverage B - Personal Property**, and any other covered property noted in the policy, which provides an additional amount of insurance.

This additional five percent amount of insurance does not apply to Additional Coverage, item 3. Trees, Shrubs and Other Plants (applicable in Alberta, New Brunswick, North Carolina and Ontario) or the Additional Coverage, item 3. Trees, Shrubs and Landscaping (applicable in all other states). However, there is coverage up to the limit specified in the policy under certain circumstances, for tree debris removal including stumps.

B. Debris Removal - Tree Debris and Stumps

We will pay up to the specified limit in the policy in the aggregate for each loss to cover the reasonable expenses you incur in the removal of tree debris from the residence premises when the tree has caused a Loss Insured to Coverage A Property.

1. If a tree falls and damages **Coverage A - Dwelling**, the cost to remove the tree from the **Coverage A - Dwelling** is paid as a **Coverage A - Dwelling** expense. To then remove the tree debris from the residence premises, a debris removal expense is incurred.
2. If the tree debris felled by windstorm, hail or weight of ice and snow blocks the driveway on the residence premises and prevents and land or motor vehicle access to or from the dwelling there is coverage up to the specified aggregate limit to remove tree debris.
3. If the tree debris felled by windstorm, hail or weight of ice and snow blocks a ramp designed to assist persons with disabilities, on the residence premises and prevents access to or from a building structure there is coverage up to the specified aggregate limit to remove tree debris.
4. The tree debris removal coverage applies only to the tree debris that has damaged **Coverage A - Dwelling** or the tree debris felled by windstorm, hail or weight of snow or ice which blocks access as specified in 2. and 3. above. In calculating the covered loss, care should be taken in separating costs for covered and uncovered tree debris removal expense. Only a single aggregate limit applies, and any applicable deductible should be taken from the covered loss.
5. If coverage for tree debris removal is provided under this additional coverage, coverage for the removal of stumps would also be provided up to the limit.

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III. TREES, SHRUBS, AND LANDSCAPING

We cover outdoor trees, shrubs, live or artificial plants, or lawns, artificial grass and hardscape property used for aesthetic purposes not permanently affixed to realty on the residence premises for loss covered by perils described in Additional Coverages, 3. Trees, Shrubs, and Landscaping.

A. Limits

Under **Section I - Additional Coverages**, 3. Trees, Shrubs, and Landscaping, the most we can pay for the tree value plus debris removal is $750. The limit for this coverage, including the removal of debris, shall not exceed five percent of the amount shown in the Declarations for **Coverage A - Dwelling**. We will not pay more than $750 for any one outdoor tree, shrub, plant (live or artificial) or hardscape item, including debris removal expense. This coverage may increase the limit otherwise applicable. We do not cover property grown for business purposes.

Examples of hardscape items subject to either the 5% or $750 for any one item limit include, but are not limited to:

- figurines
- bird baths
- benches
- retaining walls not permanently affixed to the realty
- fake rocks that contain utility equipment or hold speakers
- rocks used as ground cover
- railroad ties not permanently affixed to the ground, or

B. Examples:

1. Wind damage to **Coverage A - Dwelling** from tree

During a hurricane, high winds topple five trees. Four of the trees that fall do not damage **Coverage A - Dwelling**. The fifth tree falls across the house and damages the roof. During the adjustment of the claim, the claim handler receives an estimate from a tree removal company to remove all tree debris from the residence premises for $1250. As received, the estimate is not sufficient to adjust the claim and determine the amount of the covered loss. The claim handler calls the tree removal company and determines the estimate can be broken down as follows:

	DAMAGE	PAY
Cost to remove tree from house	$300	$300 **Coverage A - Dwelling**
Cost to remove tree that damaged house from the residence premises.	$300	$300 Add'l. Cov. 1 Debris Removal within the $500 or $1000 limit (check policy for specific limits available for tree debris removal)
Cost to remove remaining Trees from the residence premises	$650	$0 (not covered)
Total	$1250	$600

The amount of the covered loss is $600, $300 to remove the tree from the house and $300 to remove that same tree from the residence premises. The $650 cost to remove the remaining trees from the residence premises is not a covered loss and is not included in any calculation of the amount payable. There is no coverage available for replacement of any of the trees because windstorm caused the loss and is not a covered peril described in Additional Coverages, 3. Trees, Shrubs and Landscaping.

Apply deductible as directed in OG 75-53 Deductibles.

2. Lightning damage to a tree and the tree falls on the dwelling

During a storm lightning damages a tree and the tree falls on the dwelling. During the adjustment of the claim, the claim handler receives an estimate for $9,500. As received, the estimate is not sufficient to adjust the claim and determine the amount of the covered loss. The claim handler calls the repair company and determines the estimate can be broken down as follows:

	DAMAGE	PAY	
Dwelling repair	$5,000	$5,000	**Coverage A - Dwelling**
Remove tree from Dwelling	$1,500	$1,500	**Coverage A - Dwelling**
Value of tree	$2,000	$750	Addl. Cov. 3 Peril - Lightning (check policy or endorsement for policy language and specific limits)
Cut up & haul tree from the residence premises	$1,000	$500 or $1,000	Addl. Cov. 1 Debris Removal FP-7955 w/end $500 HW 2100 Series- $1000
Total	$9,500	$7,750 or $8,250	FP-7955 w/end $7750 HW 2100 Series- $8250

Apply deductible as directed in OG 75-53 Deductibles.

3. Wind damage to multiple trees, dwelling and detached garage.

Wind causes several trees to blow over. One tree hits the dwelling, and one tree hits a detached garage. The other trees fall in the yard and do not cause damage to **Coverage A - Dwelling**.

	DAMAGE	PAY	
Dwelling Damage	$ 5,000	$5,000	**Coverage A - Dwelling**
Detached Garage Damage	$ 1,000	$1,000	**Coverage A - Dwelling**

Remove tree from Dwelling	$ 1,500	$1,500	**Coverage A - Dwelling**
Remove tree from Garage	$ 500	$ 500	**Coverage A - Dwelling**
Value of tree on Dwelling	$ 2,000**	$ 0	Not covered - wind is not a covered peril described in Additional Coverages #3
Value of tree on Garage	$ 1,000**	$ 0	Not covered - wind is not a covered peril described in Additional Coverages #3
Remove trees (Dwelling and Garage) from premises	$ 600	$500 or $600	Addl. Cov. 1 Debris Removal FP-7955 w/end $500 HW 2100 Series- $600
Cut up & remove other trees from remainder of premises	$ 1,000**	$ 0	These trees did not cause damage to Cov. A items
Total	$12,600	$8,500/$8,600	FP-7955 w/end $8500 HW 2100 Series- $8600

Apply deductible as directed in OG 75-53 Deductibles.

**These amounts should not be considered when calculating the amount payable as they do not involve a covered loss.

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IV. CREDIT CARD, BANK FUND TRANSFER CARD, FORGERY, AND COUNTERFEIT MONEY

Credit Card, Bank Fund Transfer, Forgery and Counterfeit Money coverage is provided as Additional Coverage in the Homeowners Policy.

A. Credit Card and Bank Fund Transfer Cards Coverage

1. We will pay up to $1,000 for any one occurrence.
2. The insured must have a legal obligation which arises because of the theft or unauthorized use of their credit cards and/or bank fund transfer cards.
3. Cards must be issued to or registered in an insured's name.
4. There is no coverage for loss if an insured has not complied with all terms under which the card was issued.
5. One card may be used numerous times and we will still consider the loss one occurrence.
6. The theft of several cards at one time is one occurrence and subject to an aggregate limit.
7. Under certain conditions federal law limits liability to $50 per credit card. Refer to Paragraph H. below.
8. If the loss involves a bank fund transfer card, the issuing bank should be contacted to determine what amounts they would pay.

B. Forgery Coverage

1. We will pay up to $1,000 for any one occurrence.
2. The insured must have suffered a loss caused by forgery or alteration of any check or negotiable instrument.
   a. The local law should be checked for the definition of forgery, defined in Black's Law Dictionary as:

      "A person is guilty of forgery if, with purpose to defraud or injure anyone, or with knowledge that he is facilitating a fraud or injury to be perpetrated by anyone, the actor: (a) alters any writing of another without his authority; or (b) makes, completes, executes, authenticates, issues or transfers any writing

so that it purports to be the act of another who did not authorize that act, or to have been executed at a time or place or in a numbered sequence other than was in fact the case, or to be a copy of an original when no such original existed; or (c) utters any writing which he knows to be forged in a manner specified in paragraph (a) or (b)."

b. Check may be a payroll check, check payable to an insured, or one of an insured's personal checks.

c. A negotiable instrument is defined in Black's Law Dictionary as:

"A written instrument that (1) is signed by the maker or drawer, (2) includes an unconditional promise or order to pay a specified sum of money, (3) is payable on demand or at a definite time, and (4) is payable to order or to bearer."

d. The Uniform Commercial Code Article 3 provides additional clarification on the definition and qualifications for negotiable instruments. Review these provisions in conjunction with the law of your jurisdiction to determine if the loss relates to a negotiable instrument.

C. Counterfeit Coverage

1. We will pay up to $1,000 for any one occurrence.

2. The insured must have suffered a loss through the acceptance of counterfeit paper currency:

a. must have been accepted in good faith.
b. must be United States or Canadian paper currency.

D. Deductible

No deductible applies to these coverages:

- Credit Card
- Bank Fund Transfer,
- Forgery and Counterfeit Money

Coverage is provided as Additional Coverage in the Homeowners Policy.

E. Exclusions Applicable To These Coverages.

1. Losses arising out of business pursuits, or

2. Dishonesty of an insured.

F. Defense Under These Coverages

1. We may investigate and settle any claim or suit as appropriate.

2. Our defense obligation ceases when we have paid our limit.

3. We will defend claims or suits:

a. at our expense and
b. with counsel of our choice.

4. We have the option to defend an insured or an insured's bank:

a. against suit to enforce payment under the forgery coverage
b. at our expense.

G. Federal Truth in Lending Act, 15 USC @ 1601 et seq.

The Federal Truth in Lending Act limits responsibility for the unauthorized use of a credit card to fifty dollars ($50.00),

15 U.S.C. §1643 (a)(1)(B).

This federal law significantly affects our exposure under the Credit Card Forgery Coverage. The purpose of the law is to limit the liability exposure to credit card holders for unauthorized use of a credit card. Under the law, a cardholder's liability for the unauthorized use of a credit card is governed by the following conditions:

1. The card must be an accepted credit card.

2. Liability is not in excess of $50.

3. The card issuer must have given the cardholder adequate notice of the potential liability.

4. The cardholder must notify the card issuer of the loss in a timely manner (typically within 60 days after the statement showing the fraudulent transaction(s) or two business days after learning the card was lost or stolen).

5. The card issuer must provide a method by which the user of the card can be identified as the person authorized to use it.

6. The unauthorized use occurs before the card issuer has been notified that an unauthorized use of the credit card has occurred or may occur as the result of loss, theft, or otherwise.

   Except as provided in this section, a cardholder incurs no liability from the unauthorized use of a credit card. Thus, there would be no liability under the Credit Card Forgery Coverage.

To further clarify the six conditions listed above, the following definitions of terms are included in the Consumer Credit Protection Act.

1. "Accepted credit card" means any credit card that the cardholder has requested and received, or has signed, or has used, or authorized another to use for the purpose of obtaining money, property, labor, or services on credit.

2. "Adequate notice" means a printed notice to a cardholder which sets forth the pertinent facts clearly and conspicuously so that a person against whom it is to operate could reasonably be expected to have noticed it and understood its meaning.

3. "Card issuer" means any person who issues a credit card, or the agent or such person with respect to such card.

4. "Cardholder" means any person to whom a credit card is issued or any person who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person.

5. "Credit" means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.

6. "Credit card" means any card, plate, coupon book, or other credit device existing for the purpose of obtaining money, property, labor, or services on credit.

7. "Unauthorized use" means the use of a credit card by a person other than the cardholder, who does not have actual, implied, or apparent authority for such use, and from which the cardholder received no benefit.

H. Investigation of Credit Card Losses

The existence and the amount of liability under a credit card loss may be influenced by several things, all of which the claim handler must consider during investigation. They include:

1. Statutory Regulations

   The claim handler should be completely familiar with the provisions of the federal statute regulating Credit Card Liability, and should encourage the insured to use its provisions to the fullest. The requirements imposed

upon the credit card issuer are stringent.

2. Terms of the Credit Card Contract

   Terms of the various credit card contracts vary greatly and the claim handler must investigate the contract terms. It is important to determine whether the insured gave immediate notice to the issuer upon discovery of unauthorized use.

3. Negligence of the Parties to the Contract, or of the Vendor

   The cardholder always has the possibility of the defense of contributory negligence on the part of the issuer or vendor. This might occur in a situation where a vendor would authorize many purchases in a short period of time, or authorize purchases of items which did not appear to benefit the purchaser. In another situation, we might also find the cardholder negligent if, for example, the cardholder lost the card and failed to notify the company or the issuer.

   Burden of proof. In any action by a card issuer to enforce liability for the use of a credit card, the burden of proof is upon the card issuer to show that the use was authorized or, if the use was unauthorized, then the burden of proof is upon the card issuer to show that the conditions of liability for the unauthorized use of a credit card, as set forth in subsection (a), have been met.

4. Good Faith of the Parties to the Contract, or of the Vendor

   The card issuer might be held lacking in good faith if it allows a person it knows or suspects to be an unauthorized purchaser to use the card.

   In order to determine the Company's liability, it is essential that the claim handler conduct a thorough investigation into the facts of the loss and the actions of the parties involved, namely the card issuer, the cardholder, and the vendor. This can best be accomplished by interviewing or taking statements from all three where possible.

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V. POWER INTERRUPTION

Most power interruption clauses provide coverage if the loss is caused either directly or indirectly by:

- a change of temperature,
- which results from power interruption that takes place on the residence premises, the power lines off the residence premises must remain energized,
- the power interruption must be caused by a Loss Insured occurring on the residence premises.

A question often arises when the only damage is a blown fuse or a thrown circuit breaker.

In each case, the insured must establish that the actual damage was caused by a peril insured against.

A blown fuse is actual damage.

By Company interpretation, even though a thrown circuit breaker is not actual damage per se, coverage will be extended if it is proven that the circuit was broken because of a peril insured against.

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VI. REFRIGERATED PRODUCTS

Under **Coverage B - Personal Property** of most Homeowners policies, we extend coverage to the contents of deep freezers or refrigerated units located on the residence premises. Coverage is provided for loss due to power failure or mechanical failure. This coverage requires the insured to use reasonable means to protect the insured property from further damage. Loss to the freezer or refrigerated unit itself is not covered.

For questions regarding the Company position on the rental or purchase of generators to protect the contents of deep freeze or refrigerated units,

Refer to: OG 75-100 Claim Applications - First Party.

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VII. COLLAPSE

A. FP 7955 Homeowners Series

The **Additional Coverage - Collapse** insuring agreement includes a definition of collapse: Please refer to the applicable policy form or endorsement.

The **Additional Coverage - Collapse** will apply to any building structure whether or not it is permanently attached to the realty. As such, sheds that are not permanently affixed to the realty receive coverage benefits as established under the Additional Coverage - Collapse.

B. HW 2100 Homeowners Series

The **Additional Coverage- Collapse** includes a definition of collapse. Please refer to the applicable policy form.

Coverage benefits as established under the **Additional Coverage - Collapse** would only be available to structures which meet the definition of ***building structure*** as defined by the policy.

Refer to: OG 75-100 Claims Applications - First Party Section II. **Coverage A - Dwelling** B. HW 2100 Homeowners Series Coverage - Dwelling 3. Dwelling and Building Structures.

C. Awnings

1. Roof-like shelters over windows and doors without vertical support from the ground are considered awnings. There may be individual cases where the shelter is constructed in such a manner that it is an integral part of the building and would be considered a porch rather than an awning.

2. Cloth and canvas patio or carport covers attached to a building are considered awnings.

3. The type of construction is the prime factor in determining whether or not the patio or carport is considered an awning or porch.

   In most cases, there must be vertical support from the ground on the exterior side before we will consider the item a porch. If there are vertical supports, we must determine how the item is affixed to the building. To be classified as a porch, it must be affixed in a permanent manner such that it becomes a part of the permanent structure.

4. FP-7955 Homeowners Series

   For guidance related to coverage on awnings due to weight of ice or snow.

   Refer to: OG 75-20 **Water Damage Losses VIII. WINTER WEATHER CLAIMS INVOLVING: ICE DAMS, WIND OR WEIGHT OF ICE, SNOW OR SLEET** E. Awnings 1. FP-7955 Series.

5. HW-2100 Homeowners Series

   For guidance related to coverage on awnings due to weight of ice or snow.

   Refer to: OG 75-20 **Water Damage Losses VIII. WINTER WEATHER CLAIMS INVOLVING: ICE DAMS, WIND OR WEIGHT OF ICE, SNOW OR SLEET** E. Awnings 2. FP-7955 Series.

   Disputed or questionable situations should be submitted to claim management.

D. Free-standing Carport

For information about free-standing carports

Refer to: OG 75-20 Water Damage Losses - First Party, Section VIII C. Free-Standing Carports

E. Examples - Collapse

1. Kitchen cupboards fall due to the weight of heavy contents.

   Covered - Weight of contents is a covered cause of loss for collapse, and a collapse did occur. Broken content items inside cupboards which are part of the building are covered for collapse. Coverage also applies for contents items located on the counter top beneath the cupboards damaged by the falling cupboards.

2. Contractor improperly nails sheetrock to the ceiling of insured's home. Three months after the construction is completed, the ceiling falls to the floor.

   Not Covered - Collapse due to improper construction must occur during construction.

3. Insured stores Christmas decorations in the unfinished attic and places boxes directly on the sheetrock. The ceiling below falls to the floor.

   Covered - The collapse was caused by weight of contents, a covered cause of loss for collapse. The Christmas decorations damaged in the collapse are covered. Any contents items located under the area that collapsed, damaged from the collapse are covered.

4. A utility shed not attached to the realty is extensively damaged by the weight of snow. The snow buckles the walls, causing the roof to fall down.

   Covered - The shed, although a personal property item, did fall down under the weight of snow. Thus, a collapse occurred, and the collapse was caused by a covered collapse cause of loss.

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VIII. LOCKS AND REMOTE DEVICES

A. **Section I - Additional Coverages** of the homeowner policy provides coverage for locks to exterior doors to the dwelling or other structures located on the residence premises." This may include common exterior entry ways to condominium or apartment complexes with multiple residents.

The insured incurs costs to re-key, the lock to the common exterior door due to a covered theft loss of that particular key, we will also pay reasonable expenses for replacement keys incurred by all residents affected by the need to re-key that particular exterior lock.

Many exterior keys are electronic and can be de-activated and activated by the condominium or apartment management. Each case needs to be handled on its individual merits.

No deductible applies to this coverage.

B. HW 2100 Homeowner Series

Section I - Additional Coverages of the homeowner policy provides coverage up to $1000 for locks and remote devices to exterior doors to the dwelling or other structures located on the residence premises." This may include common exterior entry ways to condominium or apartment complexes with multiple residents.

The insured incurs costs to re-key, recode, program or re-program, the lock or remote device to the common exterior door due to a covered theft loss of that particular key or remote device when the keys or remote devices are part of a covered theft loss. We will also pay reasonable expenses for replacement keys or remote devices incurred by all residents affected by the need to re-key that particular exterior lock. This coverage only includes remote devices designed solely for locking, unlocking, opening, or closing doors, including garage doors and gates.

Many exterior keys and remote devices are electronic and can be de-activated and activated by the condominium or apartment management. Each case needs to be handled on its individual merits.

No deductible applies to this coverage.

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OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
09-02-2020	**P&C Claims** **Policies and Procedures**	**Optional Policy Provisions**	**75-107**

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I. PURPOSE

This Operation Guide provides guidelines for the application of coverage and handling of claims under selected Optional Policy Provisions under the Homeowner Policy forms consistent with Our Commitment to Our Policyholders and the Preface. In general, the guidance provided is applicable to all homeowner policy forms unless otherwise indicated in the Operation Guide. Review the policy form and/or endorsement(s) to confirm the specific contract language and/or limits which are applicable to an individual claim.

If a policy provision or application is more restrictive than the law of the jurisdiction, then the law of the jurisdiction will apply. Also, there may be situations where the Enterprise position is broader than the law of the jurisdiction. In such situations, you should follow the Enterprise position. If policy wording in the jurisdiction conflicts with any of these, guidelines or in case of unusual claim situations, contact claim management.

Each Optional Policy Provision applies as shown in the ECS policy information and is subject to all the terms, provisions, exclusions and conditions of the policy. The ECS policy information will specifically list coverages and their limits.

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II. OPTION ID - Increased Dwelling Limit

Option ID provides an additional amount of insurance when the repair/replacement cost to the dwelling and/or building structures exceeds the applicable Coverage A limit.

Option ID is applicable only to building structures. Building structures include, for example, the residence dwelling, detached garage, and storage sheds permanently attached to the realty. Fences, walls, flag poles, in-ground pools and other like structures are not building structures and do not qualify for Option ID coverage.

Refer to the specific policy form or endorsement(s) applicable to the claim.

A. FP 7955 and HW 2100 Series with the following policy language.

Refer to the specific policy form or endorsement(s) applicable to the claim.

FP 7955:

Option ID - Increased Dwelling Limit. We will settle losses to damaged building structures covered under **COVERAGE A - DWELLING** according to the **SECTION I - LOSS SETTLEMENT** provision shown in the ***Declarations.***

If the amount you actually and necessarily spend to repair or replace damaged building structures exceeds the applicable limit of liability shown in the **Declarations**, we will pay the additional amounts not to exceed:

1. the Option ID limit of liability shown in the **Declarations** to repair or replace the Dwelling; or
2. 10% of the Option ID limit of liability to repair or replace building structures covered under **COVERAGE A - DWELLING, Dwelling Extension.**

Report Increased Values. You must notify us within 90 days of the start of any new building structure costing $5,000 or more; or any additions to or remodeling of building structures which increase their values by $5,000 or more. You must pay any additional premium due for the increased value. We will not pay more than the applicable limit of liability shown in the **Declarations**, if you fail to notify us of the increased value within 90 days.

HW 2100 Series:

Option ID - Increased Dwelling Limit. ***We*** will settle losses to damaged ***building structures*** covered under **COVERAGE A - DWELLING** according to the **Loss Settlement Provision** shown in the ***Declarations***.

If the amount ***you*** actually and necessarily spend to repair or replace damaged ***building structures*** exceeds the applicable limit of liability shown in the ***Declarations, we*** will pay the additional amounts not to exceed:

1. the Option ID limit of liability shown in the ***Declarations*** to repair or replace the ***dwelling***; or
2. 10% of the Option ID limit of liability to repair or replace ***building structures*** covered under **COVERAGE A - DWELLING, Other Structures.**

Report Increased Values. ***You*** must notify ***us*** within 90 days of the start of construction on any new ***building structure*** costing $5,000 or more; or any additions to or remodeling of ***building structures*** that increase their values by $5,000 or more. ***You*** must pay any additional premium due for the increased value. ***We*** will not pay more than the applicable limit of liability shown in the ***Declarations*** if ***you*** fail to notify ***us*** of the increased value within 90 days.

1. When is Option ID Coverage payable?

   That portion of the loss covered under Option ID is payable;

   a. After the necessary replacement/repair is complete and expense incurred.

   b. When a different building structure is purchased for the replacement of the dwelling, refer to: OG 75-51, Section II - REPLACEMENT COST LOSS SETTLEMENT - HOMEOWNER POLICY, C. Policyholders Responsibilities

   An exception can be made as follows:

   a. When repairs are substantially underway and the insured is completing the work themselves.
   b. The insured enters into a e contract for repairs that is acceptable to us.

   At all times judgment should be exercised on a claim-by-claim basis. In addition, review the law of the

jurisdiction.

2. Option ID- Dwelling Extension/Other Structures - building structures

Coverage A - Dwelling Extension/Other Structures-building structures qualifying for Option ID may receive 10% of the stated Option ID coverage limit, regardless of the number of building structures damaged. Therefore, when two or more building structures are on the residence premises and involved in the same occurrence, coverage is provided up to the 10% Option ID limit as an aggregate amount.

The following guidelines should be applied in handling claims with potential Option ID applicability:

> When the combined cost to repair/replace dwelling extension/other structures exceeds the Coverage A - Dwelling Extension/Other Structures limit of liability, the items which are not building structures should be paid first. This will allow the policyholder to receive the benefit of the maximum coverage available.

The following example shows the method of allocating payments under Coverage A - Dwelling Extension/Other Structures and Option ID if there was damage to the detached garage and other non-building structures.

Example: Allocating Payments Dwelling Extension/Building Structures, Other Structures - building structures and Option ID:

Coverage A Limit	$100,000
Dwelling Extension/Other Structures Limit	$10,000
Option ID Limit	$20,000 including 10% for Dwelling Extension/Other Structures - building structures, or $2000

	Repair costs	Dwelling Extension/Other Structures Payment	Option ID Payment
Fence:	$ 1,500	$ 1,500	$0
Detached Garage:	$ 9,500	$ 8,500	$1,000
Total:	$11,000	$10,000	$1,000

Total Payment of $11,000 based on paying for fence - "other structure" first under Coverage A - Dwelling Extension/Other Structures and paying $1,000 for the detached garage (building structures) under Option ID because Coverage A - Dwelling Extension/Other Structures limit exhausted.

The example above does not include a policy deductible.

3. Debris removal and Option ID

In policies providing Option ID - Increased Dwelling Limit, debris removal is included in the limit applying to the covered building structure. If the Coverage A limits available for the covered structure, including Option ID benefits, are exceeded as a result of debris removal and cost of repair, the **SECTION I - ADDITIONAL COVERAGES 1. Debris Removal** - 5% would be available. This is available for dwelling extension and other structures whether or not Coverage A damage is involved.

Example: Applying Dwelling Extension/Other Structures, OPT ID and Debris Removal limits:

Coverage A Limit	$100,000
Dwelling Extension/Other Structures Limit	$10,000
Option ID Limit	$20,000, including 10% for Dwelling Extension/Other Structures-building structures, or $2,000
Debris Removal Limit - Dwelling	$6,000 (5% of $120,000 combined limits)
Debris Removal Limit - Dwelling Extension/Other Structures	$600 (5% of $12,000 combined limits)

	Repair costs	Removal Costs	Dwelling Ext/Other Structures Payment	Option ID Payment	Additional Coverages - Debris Removal Payment
Fence:	$ 1,500	$ 300	$ 1,800	$0	$0
Detached Garage:	$13,500	$1,000	$ 8,200	$2,000	$ 600
Total:	$15,000	$1,300	$10,000	$2,000	$ 600

The example above does not include a policy deductible.

Debris Removal for the fence is included in the Dwelling Extension/Other Structures payment.

The cost to repair the detached garage (building structures) plus the detached garage debris removal charges exceeds the available limits ($10,000 Dwelling Extension/Other Structures + $2,000 Option ID). Thus, based on **SECTION I - ADDITIONAL COVERAGES 1. Debris Removal** - 5% of $12,000 ($600) is available to pay the debris removal charges associated with the detached garage repair.

4. Option ID Examples

Example 1: Applying Coverage A, Dwelling Extension/Other Structures and OPT ID limits

Option ID Coverage is limited to the stated amount shown in the ECS Policy Information for both the dwelling and building structures covered under Dwelling Extension/Other Structures coverage.

Coverage A Limit	$100,000
Dwelling Extension/Other Structures Limit	$10,000
Option ID Limit	$20,000, including 10% for Dwelling Extension/Other Structures - building structures, or $2,000

	Loss	Coverage A Payment	Option ID Payment	Total Payment
Coverage A Dwelling	$120,000	$100,000	$20,000	$120,000
Detached Garage	$ 11,000	$ 10,000	$ 0	$10,000
Total	$131,000	$110,000	$20,000	$130,000

The example above does not include a policy deductible.

In the example, since the total cost to repair/replace the dwelling exhausted the Option ID limit of liability, no additional coverage is available for the detached garage (building structures) beyond the Coverage A - Dwelling Extension/Other Structures limit of liability.

Example 2: Applying Coverage A, Dwelling Extension/Other Structures and OPT ID limits

Coverage A Limit	$100,000
Dwelling Extension/Other Structures Limit	$10,000
Option ID Limit	$20,000, including 10% for Dwelling Extension/Other Structures - building structures, or $2,000

	Loss	Coverage A Payment	Option ID Payment	Total Payment
Coverage A Dwelling	$ 117,000	$ 100,000	$17,000	$117,000
Detached Garage	$ 11,000	$ 10,000	$ 1,000	$ 11,000
Total	$128,000	$110,000	$18,000	$128,000

The example above does not include a policy deductible.

In this example, since Option ID limits were not exhausted in the dwelling loss, 10% of Option ID, or $2,000 remained available for the detached garage (building structures) loss, thus resulting in an additional $1,000 payment.

B. Option ID - HW 2100 Series or Endorsement.

Refer to the specific policy form or endorsement(s) applicable to the claim.

Option ID - Increased Dwelling Limit. ***We*** will settle losses to damaged ***building structures*** covered under **COVERAGE A - DWELLING** according to the **Loss Settlement Provision** shown in the ***Declarations***.

1. If the amount ***you*** actually and necessarily spend to repair or replace the damaged ***dwelling*** exceeds the limit of liability shown in the ***Declarations*** for Coverage A - Dwelling, we will pay the additional amounts not to exceed the Option ID limit shown in the ***Declarations***.
2. If the amount **you** actually and necessarily spend to repair or replace damaged ***building structures*** covered under **COVERAGE A - DWELLING, Other Structures** exceeds the limit of liability shown in the ***Declarations*** for Other Structures, ***we*** will pay the additional amounts not to exceed 10% of the Option ID limit shown in the ***Declarations***.

Report Increased Values. ***You*** must notify ***us*** within 90 days of the start of construction on any new ***building structure*** costing $5,000 or more; or any additions to or remodeling of ***building structures*** that increase their values by $5,000 or more. ***You*** must pay any additional premium due for the increased value. ***We*** will not pay more than the applicable limit of liability shown in the ***Declarations*** if ***you*** fail to notify ***us*** of the increased value within 90 days.

1. When is Option ID Coverage payable?

   That portion of the loss covered under Option ID is payable;

   a. After the necessary replacement/repair is made and expense incurred.
   b. When a different building structure is purchased for the replacement of the dwelling refer to OG 75-51, Section II - REPLACEMENT COST LOSS SETTLEMENT - HOMEOWNER POLICY, C. Policyholders Responsibilities

   An exception can be made as follows:

   a. When repairs are substantially underway and the insured is completing the work themselves.
   b. The insured enters into a contract for repairs that is acceptable to us.

   At all times judgment should be exercised on a claim-by-claim basis. In addition, review the law of the jurisdiction.

2. Option ID- Other Structures - building structures

   Coverage A - Other Structures-building structures qualifying for Option ID may receive 10% of the stated Option ID coverage limit, regardless of the number of building structures damaged. Therefore, when two or more building structures are on the residence premises are involved in the same occurrence, coverage is provided up to the 10% Option ID limit as an aggregate amount.

   The following guidelines should be applied in handling claims with potential Option ID applicability:

   > When the combined cost to repair/replace other structures exceeds the Coverage A - Other Structures limit of liability, the items which are not building structures should be paid first. This will allow the policyholder to receive the benefit of the maximum coverage available.

   The following example shows the method of allocating payments under Other Structures and Option ID if there was damage to the detached garage and other non-building structures.

   Example: Allocating Payments Building Structures, Other Structures and Option ID:

Coverage A Limit	$100,000
Other Structures Limit	$10,000
Option ID Limit	▪ $20,000 Dwelling (20% of Coverage A limit) ▪ $2,000 Other Structures - building structures (10% of the Option ID limit

for the Dwelling - $20,000 x 10% = $2,000)

	Repair costs	Other Structure Payment	Option ID Payment
Fence:	$1,500	$1,500	$0
Detached Garage:	$9,500	$8,500	$1,000
Total:	$11,000	$10,000	$1,000

The example above does not include a policy deductible.

Total Payment of $11,000 based on paying for fence - "other structure" first under Other Structure and paying $1,000 for detached garage (building structure) under Option ID because the Other Structures limit was exhausted.

3. Debris removal and Option ID

In policies providing Option ID - Increased Dwelling Limit, debris removal is included in the limit applying to the covered building structure. If the Coverage A limits available for the covered structure, including Option ID benefits, are exceeded as a result of debris removal and cost of repair, the **SECTION I - ADDITIONAL COVERAGES 1. Debris Removal** - 5% would be available. This is available for Other Structures whether or not Coverage A damage is involved.

Example: Applying Other Structures, OPT ID and Section I - Additional Coverages Debris Removal limits:

Coverage A Limit	$100,000
Other Structures Limit	$10,000
Option ID Limit	▪ $20,000 Dwelling (20% of Coverage A limit) ▪ $2,000 Other Structures - building structures (10% of the Option ID limit for the Dwelling - $20,000 x 10% = $2,000)
Additional Coverage - Debris Removal Limits	▪ $6,000 Dwelling (5% of $120,000 combined limits) ▪ $600 Other Structures (5% of $12,000 combined limits)

	Repair costs	Removal Costs	Other Structures Payment	Option ID Payment	Debris Removal Payment
Fence:	$1,500	$300	$1,800	$0	$0
Detached Garage:	$13,500	$1,000	$8,200	$2,000	$600
Total:	$15,000	$1,300	$10,000	$2,000	$600

The example above does not include a policy deductible.

Debris Removal for the fence is included in the Other Structures payment.

The cost to repair the detached garage (building structures) plus the detached garage debris removal charges exceeds the available limits ($10,000 Other Structures + $2,000 Option ID). Thus, based on **SECTION I - ADDITIONAL COVERAGES 1. Debris Removal** - 5% of $12,000 ($600) is available to pay the debris removal charges associated with the detached garage repair.

4. Option ID Examples

Example 1: Applying Coverage A, Other Structures and OPT ID limits

Option ID Coverage is limited in total to the stated amount shown in the ECS Policy Information for the dwelling and for the building structures covered under Other Structures coverage.

Coverage A Limit	$100,000
Other Structures Limit	$10,000

Option ID Limit	$20,000 Dwelling (20% of Coverage A limit) ▪ $2,000 Other Structures - building structures (10% of the Option ID limit for the Dwelling - $20,000 x 10% = $2,000)

	Loss	Coverage A Payment	Option ID Payment	Total Payment
Coverage A Dwelling	$130,000	$100,000	$20,000	$120,000
Detached Garage	$13,000	$10,000	$2,000	$12,000
Total	$143,000	$110,000	$22,000	$132,000

The example above does not include a policy deductible.

In the example, the total cost to repair/replace the dwelling exceeded the Coverage A limit and utilized the 20% Option ID limit of liability. In addition, Option ID coverage is available for the detached garage (building structures) not to exceed the 10% of the Option ID limit.

Example 2: Applying Coverage A, Other Structures and OPT ID limits

Coverage A Limit	$100,000
Other Structures Limit	$10,000
Option ID Limit	$20,000 Dwelling $2,000 Other Structures - building structures (10% of the Option ID limit for the Dwelling $20,000 x 10% = $2,000)

	Loss	Coverage A Payment	Option ID Payment	Total Payment
Coverage A Dwelling	$117,000	$100,000	$17,000	$117,000
Detached Garage	$13,000	$10,000	$2,000	$12,000
Total	$130,000	$110,000	$19,000	$129,000

The example above does not include a policy deductible.

In this example, since Option ID limits were not exhausted in the dwelling loss, 10% of Option ID, or $2,000, remained available for the detached garage (building structures) loss, thus resulting in an additional $2,000 payment.

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III. OPTION JF - Jewelry and Furs

Jewelry and furs is classified as Coverage B - Personal Property. Coverage for personal property items under the policy is generally on a named peril basis. This option provides accidental direct physical loss coverage for the listed items of personal property.

Coverage applies for mysterious disappearance or loss of a stone from its setting. Although mysterious disappearance is not a named peril, it is accidental direct physical loss to an item covered in Option JF.

Costume jewelry items are considered within the scope of jewelry and are therefore bound by the Option JF limits.

The homeowners policy makes reference in the Jewelry and Fur coverages to an amount of insurance for "any one article." The decision on whether something is "any one article" will be based on the way the items were purchased. For example:

1. If the insured purchased a pair of earrings, we would consider them as one article. If the insured buys one earring, it will also be considered one article.
2. If the insured purchased an engagement ring and a wedding ring as two separate items and later soldered them together, we will consider them two separate articles.
3. A charm bracelet and charms purchased separately would be considered separate articles.

A. Option JF- Limits:

Option JF provides additional amounts of insurance for Jewelry and Fur articles. Our limit is the Coverage B limit plus the Option JF aggregate limit, for loss by any Coverage B peril except theft.

Our limits for loss by theft are those shown in the ECS policy information for Option JF.

Our limit for jewelry or fur losses caused by Coverage B perils other than theft is the Coverage B limit plus the aggregate limit.

B. Option JF Examples:

Example - Applying Option JF- Ring damaged by Fire

Coverage B Limit	$ 30,000
Option JF Limit	$1,500/$2,500
Deductible	$ 250

	Loss	Coverage B Payment	Option JF Payment	Total Payment
Jewelry (Ring Value	$ 35,100	$ 30,000	$ 2500	$ 32,500

Payment includes full Coverage B limits plus $2,500 (Option JF aggregate). The deductible would not be applied as the loss exceeded the available limits by more than the amount of the deductible.

Example: Applying OPT JF- when loss exceeds Coverage B Limits:

Fire loss:

Coverage B Limit	$ 30,000
Option JF Limit	$1,500/$2,500
Deductible	$ 250

	Loss	Coverage B Payment	Option JF Payment	Total Payment
Personal Property	$ 35,100	$ 30,000	$ 0	$ 30,000
One Ring (value)	$2,000	$ 0	$2,000	$ 2,000
Fur (value)	$1,500	$ 0	$ 500	$ 500
One watch (value)	$800	$ 0	$ 0	$ 0
Total				$32,500

Payment includes full Coverage B limits plus $2,500 (Option JF aggregate). The deductible would not be applied as the loss exceeded the available limits by more than the amount of the deductible.

Coverage available is:

Coverage B Limit	$ 30,000
Option JF	$2,500 aggregate limit
Deductible	$0 (applicable deductible)
Total	$32,500

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IV. OPTION IO - Incidental Business

The coverage provided by this option applies only to that incidental business occupancy on file with the company.

The Option IO limits are shown in the Declarations. The first limit applies to property on the residence premises. The second

limit applies to property while off the residence premises. These limits are in addition to the COVERAGE B - PERSONAL PROPERTY, Special Limits of Liability on property used or intended for use in a business. Coverage provided includes:

1. **Coverage A - Dwelling, Dwelling Extension (Other Structures), item 2.b.** is deleted. We would provide coverage for other structures used in whole or in part for business purposes on the residence premises.
2. **Coverage B - Personal Property** is extended to include equipment, supplies and furnishings usual and incidental to this business occupancy. This Optional Policy Provision does not include electronic data processing system equipment or the recording or storage media used with that equipment or merchandise held as samples or for sale or for delivery after sale.

   Several exclusions apply to Section II claims presented under this coverage. Please review the policy and endorsements closely and refer questions to claim management.

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V. OPTION OL - Building Ordinance or Law - FP-7955 Homeowner Series

Claims are sometimes made for enforcement of an ordinance or law regulating the construction, repair or demolition of a **Coverage A - Dwelling** on the residence premises. Enforcement is the existence of a law or ordinance adopted by the agency which regulates the construction or repair of the Dwelling Coverage A only, and is in force at the time of loss.

Application of Option OL applies to building structures at the residence premises under Coverage A, and may involve:

- property damaged by a Loss Insured;
- property undamaged but subject to change or demolition because of ordinance or law, or
- property which did not exist prior to the loss insured, but is now legally required.

The claim handler should communicate the Option OL coverage with the customer and document the claim file accordingly.

Claim handlers should use their knowledge and judgment with individual claims and document the file accordingly. The claim handlers can use recent experience with the verification of enforcement of a code to assist in the coverage decision. Due to the fact that local ordinances and state laws are subject to change, each claim should be handled individually and consideration given to the ordinance and laws relevant on the date of loss.

When a weather or other catastrophic events occur and a building code is investigated and determined to be in force, local management should work with Consulting Services to have information added to the ECHP for that particular event only. The process for evaluating applicable building codes should be followed and documented for each unique event.

Review the policy language, and all provisions, in conjunction with the law of your jurisdiction.

A. Option OL Coverages and Limits

Coverage for Building Ordinance or Law is only provided under the Optional Policy Provision: Option OL - Building Ordinance or Law. This is an additional amount of insurance applying only to the dwelling caused by the enforcement of a building ordinance or law as outlined in the policy.

Refer to **Coverage A - Dwelling, 1. Dwelling** for items covered by Option OL. There is no Option OL - Building Ordinance or Law coverage for any structure not attached to the dwelling.

Option OL provides additional amounts of insurance for a percentage of the Coverage A limit as indicated in the ECS policy information. It can be written as 10%, 25%, or 50% of the Coverage A limit.

The total limit of insurance provided by this Building Ordinance or Law provision will not exceed an amount equal to the Option OL percentage (10%, 25%, or 50%) applied to the Coverage A - limit shown in ECS at the time of the loss. The Option OL percentage will typically be 10% unless otherwise indicated in ECS.

For example, our insured has a $100,000 Coverage A limit and an Option OL limit of 25%. For losses covered by Option OL - Building Ordinance or Law, the insured has $25,000 in coverage due to enforcement of building ordinances or laws.

B. Damaged Portions of Dwelling

When the **Dwelling** covered by the policy is damaged by a Loss Insured we will pay for the increased cost to repair or rebuild the damaged portion of the **Dwelling** with Option OL coverage. The increased cost must meet the following conditions:

1. caused by the enforcement of a building, zoning or land use ordinance or law
2. the enforcement is directly caused by the same Loss Insured
3. the building ordinance or law requirement is in effect on the date of loss

Some jurisdictions have valued policy law that requires the insurer to pay policy coverage limits if the loss meets the criteria in the valued policy statute. Be sure to review any valued policy law in your jurisdiction to evaluate its applicability to the loss and the Option OL coverage. Know the law in your jurisdiction. Review coverage positions with management.

Example: Damaged Property

A wood shake roof is damaged by hail. The claim handler's investigation determines that a code will be enforced to require the regular wood shakes to be upgraded to a higher fire rated wood shake. The initial estimate should be written to repair or replace the existing damaged materials. The Actual Cash Value (ACV) payment would be calculated based on the replacement cost of the existing type of wood shake. Once the insured has entered into a contract acceptable to us, or repairs have been completed, payment would be made up to the amount actually and necessarily spent for the upgrade to a higher fire rated wood shake subject to the Option OL limit. The policyholder should be advised of the available coverage for the upgrade and the limit of liability under Option OL and the file should be documented.

C. Undamaged Property

There are times when the Dwelling sustains such extensive damage, areas without damage are impacted by repairs. Option OL coverage may apply to the increased cost if the following conditions are met:

1. caused by the enforcement of a building, zoning or land use ordinance or law
2. the enforcement is directly caused by the same Loss Insured
3. the building ordinance or law requirement is in effect on the date of loss

Three scenarios are:

1. Undamaged portions of the **Dwelling** subject to change due to an ordinance or law.

   Example: Egress Windows

   FP 7955 Homeowner Series only

   Water damage occurs in a home that requires a bedroom to be gutted to the stud walls, however there is no damage to the windows. The claim handler's investigation determines that a building code is in force which requires the replacement of 2 undamaged windows. The windows which have a 4 ft egress, will need to be brought up to code which requires a minimum egress of 5 ft. The initial estimate and ACV payment should include the repair or replacement of the water damaged building materials in the room, and the depreciated value of the undamaged 4ft windows. Once the insured has entered into a contract acceptable to us, or repairs have been completed, payment would be made for the increased cost of the 5ft windows required by code.

   In this example the undamaged windows are only being replaced because of a code enforcement, therefore all payments for the 2 windows would be paid under Option OL. We will not pay more than the amount actually spent, subject to the limits available.

   FP 7955 Homeowners Series w/Homeowner's Endorsement

   In this example, there would not be coverage under the FP 7955 Homeowners policy with Homeowners Amendatory Endorsement. The endorsement updates Option OL- Building Ordinance and Law Item 3.c that requires there to be damage to the specific feature, system or components that have been physically damaged by a loss insured in order for Option OL coverage to be provided. In the example above the windows were undamaged.

2. Undamaged portions of the building structure subject to demolition because of an ordinance or law

   Example: Constructive Total Loss

   The insured's home is damaged by a fire. 50% of the dwelling is damaged by the fire, but the city ordinance requires the insured to demolish both the damaged and the undamaged portion. We would owe the insured

for the demolition and repair of the undamaged portion of the **Dwelling** up to the Option OL percentage shown in the Declarations. Therefore, we owe the value of removing debris for the undamaged portion(s) after the insured spends the amount or has entered into a contract acceptable to us.

Constructive totals and reparability issues should be considered. Claims management should review claims recommendations concerning the interplay between Option OL and coverage due to a reparability or constructive total issue.

3. Legally required changes to the undamaged portion of the **Dwelling** because of an ordinance or law which have not been physically damaged by the loss insured.

   Example: Legally required changes but no loss insured sustained

   The insured makes a claim for legally required changes to front porch steps which are no longer in compliance with local ordinance. The claim is for construction to necessitate the reconfiguration of steps on a porch attached to an undamaged covered **Dwelling**. We would not pay for this with or without Option OL as there is no Loss Insured sustained.

D. Property Which did not Exist Prior to the Loss

There are times when the enforcement of a law or ordinance will require repairs to the Dwelling damaged by a loss insured to include materials not part of the Dwelling at the time of the loss.

Option OL provides coverage for the increased cost to repair the Dwelling due to the enforcement of a building ordinance or law directly caused by the same Loss Insured that originally damaged the Dwelling.

We will not estimate or pay for the increased cost of construction until the dwelling is actually repaired or replaced with new materials meeting the OL requirement. This guidance does not apply to self-adhered waterproof membrane or drip edge/gutter apron. See Section E2. Estimating under Option OL- self-adhered waterproof membrane or drip edge/gutter apron below.

E. Estimating and Payment

1. Estimating Option OL items

   When a claim involves increased costs covered under Option OL, either to damaged or undamaged portions of the Dwelling other than self-adhered waterproof membrane or drip edge/gutter apron, applicable Option OL items should be entered into the estimate at the time of payment for the Option OL items.

   The initial ACV estimate, including covered undamaged portions of the Dwelling to which a building code requires replacement, should be estimated based on the existing materials and construction costs on the date of loss. Depreciation should be applied based on the age and condition of the existing materials for both damaged and undamaged items requiring repairs. The increased cost required by the ordinance or law can be included in the estimate and paid according to the Option OL coverage when the insured enters into a contract acceptable to us or repairs are actually completed.

   When the insured completes the repairs themselves, including those required by ordinance and law we may estimate and pay for the Option OL repairs when the work is substantially underway and there is no contractors estimate.

2. Estimating under Option OL - self-adhered waterproof membrane or drip edge/gutter apron

   When a claim involves replacement of a slope or the entire roof, and the installation of self-adhered waterproof membrane or drip edge/gutter apron are required by the enforcement of a building code or law, these items should be included in the initial estimate as outlined below.

   - estimate for the required self-adhered waterproof membrane and drip edge/gutter apron on a Payable When Actually Repaired or Replaced (PWARR) basis.
   - These items will be paid once the self-adhered waterproof membrane and drip edge/gutter apron are replaced.

   Refer to the Code Upgrade for Roofing Items job aid for additional information pertaining to PWARR items in the estimate and the inclusion of these code upgrade items and noting PWARR quantities and amounts.

3. Payment

Until the dwelling is repaired or replaced we will not pay more for the covered undamaged portions of the Dwelling than the depreciated value of the undamaged portions of the Dwelling.

We will not pay for the increased cost required by an ordinance or law and covered under this policy, for damaged, undamaged or demolition, until the amounts are actually spent, or the insured has entered into a contract acceptable to us. We will not pay more than the amount actually spent. Payments are subject to the Option OL limit. The insured has up to two years to make the repairs or replacement.

When the insured completes the repairs themselves, including those required by ordinance and law we may estimate and pay for the Option OL repairs when the work is substantially underway and there is no contractors estimate.

We will not pay for any increased cost of construction if the original construction, addition, modification, renovation, remodel or repair did not comply with the ordinance of law in effect when the work was performed.

We will not pay for more than a dwelling of the same height, floor area and style or the same or similar premises as the building structure, subject to the applicable limits.

When a payment is made under Option OL, Reason Code BC is to be used for the portion of the payment which applies to the optional coverage. See: OG 74-40 Payments and Coding

F. Additional Examples showing Building Ordinance or Law Coverage Limitations

Example: Applying Option OL Coverage Limitations- Demolition and Rebuilding of Undamaged portion of dwelling.

The Coverage A limit on the insured's home is $100,000 when the home is damaged by a fire. The Option OL percentage is 25% of the Coverage A limit. The Coverage A estimate for damage caused by fire is $50,000. The city ordinance requires the insured to demolish the undamaged portion. The demolition and rebuilding of the undamaged portion will total $30,000, with an ACV of $15,000.

We would owe the insured for the demolition and repair of the undamaged portion of the Dwelling up to the Option OL limit ($25,000). We would pay the depreciated value ($15,000) until the repairs are completed. The remaining portion ($10,000) of the Option OL limit would be payable with a contract acceptable to us or when repairs are complete.

Example: Applying Option ID, Option OL and debris removal coverage limitations

The following is an example of where Option ID, OL and debris removal are applied to a loss:

Coverage A	$100,000
Option ID	$10,000, 10% of Coverage A limit
Option OL	$10,000, 10% of Coverage A limit
Debris Removal	5% of each coverage limit

A windstorm caused a large tree to severely damage the Dwelling. In addition to the repair estimate on the Dwelling, a building code requires an upgrade of all undamaged electrical in the home. The insured decides to rebuild the home in the current location. The total repair estimate including debris removal is $150,000, which includes the electrical upgrade of $10,000.

	Loss Amount	Cov A Limit	Opt OL Limit	Opt ID Limit
Estimate	$140,000	$100,000	$ 0	$10,000
Elec. Upgrade	$ 10,000	$ 0	$ 10,000	$ 0

The Coverage A estimate totals $140,000 which includes a covered loss to the electrical system. There is a $10,000 expense to remove and replace the undamaged electrical to comply with local building codes. $100,000 of the repair estimate can be applied under Coverage A. $10,000 can be applied toward the repair estimate under the Option ID coverage. The $10,000 electrical upgrade can be applied under Option OL.

	Loss Amount	Debris Removal
Coverage A	$100,000	$5,000
Option ID	$ 10,000	$ 500

Option OL	$ 10,000	$ 500
Total	$120,000	$6,000

Debris removal can also be applied to the Coverage A, Option ID and Option OL limit. $5,000 will be provided for Coverage A and $500 will be available for both the Option ID and Option OL limit. The total payment on the loss is $126,000.

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VI. OPTION OL - Building Ordinance or Law - HW 2100 Homeowner Series

Claims are sometimes made for enforcement of an ordinance or law regulating the construction, repair or demolition of a building structure on the residence premises. Enforcement is the existence of a law or ordinance adopted by the agency which regulates the construction or repair of ***building structures*** at the ***residence premises***, and is in force at the time of loss.

Refer to the policy for a definition of ***building structures***. Option OL coverage applies to any structure meeting the policy definition of ***building structure*** located on the ***residence premises***.

Application of Option OL applies to ***building structures*** at the residence premises under Coverage A, and may involve:

- property damaged by a Loss Insured;
- property undamaged but subject to change or demolition because of ordinance or law, or
- property which did not exist prior to the loss insured, but is now legally required.

The claim handler should communicate the Option OL coverage with the customer and document the claim file accordingly.

Claim handlers should use their knowledge and judgment with individual claims and document the file accordingly. The claim handlers can use recent experience with the verification of enforcement of a code to assist in the coverage decision. Due to the fact that local ordinances and state laws are subject to change, each claim should be handled individually and consideration given to the ordinance and laws relevant on the date of loss.

When a weather or other catastrophic events occur and a code is investigated and determined to be enforced, local management should work with P&C Claims Consulting Services to have information added to the ECHP for that particular event only. The process for evaluating applicable codes should be followed and documented for each unique event.

Review the policy language, and all provisions, in conjunction with the law of your jurisdiction.

A. Option OL Limits

Option OL provides additional amounts of insurance for a percentage of the Coverage A limit. as indicated in the ECS policy information. It can be written as 10%, 25%, or 50% of the Coverage A limit.

The total limit of insurance provided by this Building Ordinance or Law provision will not exceed an amount equal to the Option OL percentage (10%, 25%, or 50%) applied to the Coverage A - Coverage Amount shown in ECS at the time of the loss. The Option OL percentage will typically be 10% unless otherwise indicated in ECS.

For example, our insured has a $100,000 Coverage A limit and an Option OL limit of 25%. For losses covered by Option OL - Building Ordinance or Law, the insured has $25,000 in coverage due to enforcement of building ordinances or laws.

B. Damaged Portions of Building Structures (Coverage A)

When the **building structures** covered by the policy is damaged by a Loss Insured we will pay for the increased cost to repair or rebuild the damaged portion of the **building structures** with Option OL coverage. The increased cost must meet the following conditions:

- caused by the enforcement of a building, zoning or land use ordinance or law
- the enforcement is directly caused by the same Loss Insured
- the building ordinance or law requirement is in effect on the date of loss

Some jurisdictions have valued policy law that requires the insurer to pay policy coverage limits if the loss meets the criteria in the valued policy statute. Be sure to review any valued policy law in your jurisdiction to evaluate its applicability to the loss and the Option OL coverage. Know the law in your jurisdiction. Review coverage positions with management.

Example: Damaged Property

A wood shake roof is damaged by hail. The claim handler's investigation determines that a code will be enforced to require the regular wood shakes to be upgraded to a higher fire rated wood shake. The initial estimate should be written to repair or replace the existing damaged materials. The Actual Cash Value (ACV) payment would be calculated based on the replacement cost of the existing type of wood shake. Once the insured has entered into a contract, or repairs have been completed, payment would be made up to the amount actually and necessarily spent for the upgrade to a higher fire rated wood shake subject to the Option OL limit. The policyholder should be advised of the available coverage for the upgrade and the limit of liability under Option OL and the file should be documented.

C. Undamaged portions of Building Structure (Coverage A)

There are times when the building structure sustains such extensive damage, areas without damage are impacted by repairs. Option OL coverage may apply to the increased cost if the following conditions are met:

- caused by the enforcement of a building, zoning or land use ordinance or law
- the enforcement is directly caused by the same Loss Insured
- the building ordinance or law requirement is in effect on the date of loss

Three scenarios are:

1. Undamaged portions of the building structure subject to change due to an ordinance or law

   Example: Electrical Panel Box

   A fire occurs in a home causing significant damage to the structure, including the electrical wiring, however there is no damage to the existing 60 amp electrical panel box and related components. The claim handler's investigation determines that a building code is in force which requires the undamaged 60 amp electrical panel box and related components to be upgraded to 100amp electrical service.

   Because the electrical system was damaged by the fire, the cost to upgrade the undamaged electrical panel box and related components would be covered under Option OL. The initial estimate and ACV payment should include the repair or replacement of the fire damaged building materials in the home only. Once the insured has entered into a contract acceptable to us, or repairs have been completed we would estimate and pay for the undamaged electrical panel box and related components required by code and covered under Option OL. We will not pay more than the amount actually spent, subject to the limits available.

2. Undamaged portions of the building structure subject to demolition because of an ordinance or law

   Example: Constructive Total Loss

   The insured's home is damaged by a fire. 50% of the dwelling is damaged by the fire, but the city ordinance requires the insured to demolish the undamaged portion. We would owe the insured for the demolition and repair of the undamaged portion of the dwelling up to the Option OL percentage shown in the Declarations. Therefore, we owe the value of removing debris for the undamaged portion(s) after the insured spends the amount or has a contract acceptable to us.

   Constructive totals and reparability issues should be considered. Claims management should review claims recommendations concerning the interplay between Option OL and coverage due to a reparability or constructive total issue.

3. Legally required changes to the undamaged portion of the building structure because of an ordinance or law which have not been physically damaged by the loss insured.

   Example: Legally required changes but no loss insured sustained

   The insured makes a claim for legally required changes to front porch steps which are no longer in compliance with local ordinance. The claim is for construction to necessitate the reconfiguration of steps on a porch attached to an undamaged dwelling. We would not pay for this with or without the endorsement as there is no Loss Insured sustained.

D. Property which did not exist prior to the loss but is now legally required

There are times when the enforcement of a law or ordinance will require repairs to a **building structure** damaged by

a loss insured to include materials not part of the **building structure** at the time of the loss.

Option OL provides coverage for the increased cost to repair **building structures on the residence premises** due to the enforcement of a building ordinance or law directly caused by the same Loss Insured that originally damaged the **building structure**.

We will not pay for increased cost of construction until the building structure is repaired or replaced or the insured has entered into a contract acceptable to us. This guidance does not apply to self-adhered waterproof membrane or drip edge/gutter apron. See Section E.2. Estimating under Option OL- self-adhered waterproof membrane or drip edge/gutter apron below.

Example: Roof vents- required by building code, not on building structure at time of loss

A claim is made for roof damage due to a severe hail storm. The claim investigation determines that a code will be enforced to require installation of 3 (turtle) roof vents although no roof vents of any kind were on the roof at the time of the loss. Once the insured has entered into a contract, or repairs have been completed, payment would be made up to the RC of the 3 (turtle) roof vents.

A claim is made for roof damage due to a severe hail storm. The claim investigation determines that a code is in force which requires the installation of 3 (turtle) roof vents although no roof vents of any kind were on the roof at the time of the loss. Once the insured has entered into a contract acceptable to us, or repairs have been completed, the items required by code would be included in the estimate and payment would be made for the 3 (turtle) roof vents. The cost to replace the (turtle) roof vents required by code would be paid under Option OL subject to the limits available.

E. Estimating and Payment

1. Estimating Non-Roofing

When a claim involves increased costs covered under Option OL, either to damaged or undamaged portions of the **building structure** other than self-adhered waterproof membrane or drip edge/gutter apron, applicable Option OL items to meet the building code should be entered into the estimate at the time of payment for the Option OL items, which is typically not at the time of the initial estimate. The initial estimate should be based on the existing materials and construction which are damaged as a result of the loss.

The initial estimate may include the cost to demolish covered undamaged portions of the **building structure** required to be demolished because of an ordinance or law, if there is a contract acceptable to us or the cost has been incurred.

When the insured completes the repairs themselves, including those required by ordinance and law we may estimate for the Option OL repairs when the work is substantially underway and there is no contractors estimate.

2. Estimating under Option OL- self-adhered waterproof membrane or drip edge/gutter apron

When a clain involves replacement of a slope or the entire roof and the installation of self-adhered waterproof membrane or drip edge/gutter apron are required by the enforcement of a building code or law these items should be included in the initial estimate as outlined below.

- estimate for the required self-adhered waterproof membrane and drip edge/gutter apron on a Payable When Actually Repaired or Replaced (PWARR) basis
- These items will be paid once the self-adhered waterprooof membrane and drip edge/gutter apron are replaced

Refer to the Code Upgrade for Roofing Items job aid for additional information pertaining to PWARR items in the estimate and the inclusion of these code upgrade items and noting PWARR quantities and amounts.

3. Payment

We will not pay for the increased cost required by an ordinance or law and covered, for damaged, undamaged or demolition, of property to **building structures** on the residence premises until the amounts are actually spent, or a contract acceptable to us is in place. We will not pay more than the amount actually spent. Payments are subject to the Option OL limit. The insured has up to two years to make the repairs or replacement.

When the insured completes the repairs themselves, including those required by ordinance and law we may estimate and pay for the Option OL repairs when the work is substantially underway and there is no contractors estimate.

We will not pay for any increased cost of construction if the original construction, addition, modification, renovation, remodel or repair did not comply with ordinance of law in effect when the work was performed.

We will not pay for more than a building structure of the same height, floor area and style or the same or similar premises as the building structure, subject to the applicable limits.

When a payment is made under Option OL, Reason Code BC is to be used for the portion of the payment which applies to the optional coverage. See: OG 74-40 Payments and Coding

F. Additional Examples showing Building Ordinance or Law Coverage Limitations

Example: Applying Option OL Coverage Limitations- Demolition and Rebuilding of Undamaged portion of building structure.

The Coverage A limit on the insured's home is $100,000 when the home is damaged by a fire. The Option OL percentage is 25% of the Coverage A limit. The Coverage A estimate for damage caused by fire is $50,000. The city ordinance requires the insured to demolish the undamaged portion. The demolition and rebuilding of the undamaged portion will total $62,000.

The expense to demolish and rebuild the undamaged portion can be covered under Option OL up to the amount actually spent and subject to the applicable limit. This should be included in the estimate and paid when the insured begins the demolition, or enters into a contract acceptable to us for the demolition and rebuilding of the undamaged portion of the building structures.

Example: Applying Option ID, Option OL and debris removal coverage limitations.

The following is an example of where Option ID, OL, and debris removal are applied to a loss:

Coverage A	$100,000
Option ID	$10,000, 10% of Coverage A limit
Option OL	$10,000, 10% of Coverage A limit
Debris Removal	5% of each coverage limit

A windstorm caused a large tree to severely damage the dwelling. In addition to the repair estimate on the dwelling, a building code requires an upgrade of all undamaged electrical in the home. The insured decides to rebuild the home in the current location. The total repair estimate including debris removal is $150,000, which includes the electrical upgrade of $10,000.

	Loss Amount	Cov A Limit	Opt OL Limit	Opt ID Limit
Estimate	$140,000	$100,000	$ 0	$10,000
Upgrade	$ 10,000	$ 0	$10,000	$ 0

The Coverage A estimate totals $140,000 which includes a covered loss to the electrical system. There is an additional $10,000 expense to remove and replace the undamaged electrical to comply with local building codes. $100,000 of the repair estimate can be applied under Coverage A. $10,000 can be applied toward the repair estimate under the Option ID coverage. The $10,000 electrical upgrade can be applied under Option OL.

	Loss Amount	Debris Removal
Coverage A	$100,000	$5,000
Option ID	$ 10,000	$ 500
Option OL	$ 10,000	$ 500
Total	$120,000	$6,000

Debris removal can also be applied to the Coverage A, Option ID, and Option OL Limit. $5,000 will be provided for Coverage A and $500 will be available for both the Option ID and Option OL limit. The total payment on the loss is $126,000.

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OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
11-20-2019	**Claim Practices** **Fire**	**Fungus, Mold and Mildew**	**75-110**

I. PURPOSE

This Operation Guide (OG) provides guidelines for the handling of mold, mildew, and other fungi claims under the homeowners policy forms consistent with Our Commitment to Our Policyholders and the Preface. In general, the guidance provided is applicable to all homeowners policy forms unless otherwise indicated in the Operation Guide. Review the policy form and/or endorsement(s) to confirm the specific contract language and/or limits which are applicable to an individual claim.

If a policy provision or application is more restrictive than the law of the jurisdiction, then the law of the jurisdiction will apply. Also, there may be situations where the Enterprise position is broader than the law of the jurisdiction. In such situations, you should follow the Enterprise position. If policy wording in the jurisdiction conflicts with any of these guidelines or in case of unusual claim situations, contact claim management.

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II. OVERVIEW

Claims are sometimes made for damage caused by, resulting in, or consisting of mold, mildew, or various other fungi. Many policy forms define fungus as follows:

> "**fungus**" means any type or form of **fungus**, including mold, mildew, mycotoxins, spores, scents, or byproducts produced or released by fungi.

Occasionally, an insured contends that in addition to physical damage to the structure and contents, one or more household members suffers from adverse, fungus-related health effects. This OG discusses issues and provides information on handling these claims, and answers some of the more common questions.

It is important to remember the issues surrounding fungus are not static. The science regarding the possible effects to humans, the possible damage to building/contents, and the extent and costs of damage remain fluid.

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III. POLICY APPLICATION

Review the policy and all endorsements of the policy to determine if fungus is excluded or if coverage is provided.

Generally, where fungus exclusionary policy language or endorsements apply, there is no coverage for fungus damage, testing, or remediation. While the Company will not deny an otherwise covered claim due to the presence of fungus on the items damaged by a covered loss, the additional or increased costs associated with fungus damage, testing or remediation will not be covered.

If coverage is provided, consider the guidance in this OG for investigating and analyzing coverage for claims involving fungus.

When coverage for fungus is excluded and the anti-concurrent causation language is applicable, the guidance in Sections IV. - V. of this OG would not apply. The anti- concurrent causation language is typically found in **Section I Losses Not Insured 2**.

If a policy provision or application is more restrictive than the law of the jurisdiction, then the law of the jurisdiction will apply. Consult management with questions.

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IV. INVESTIGATION AND ANALYSIS

Fungus is present indoors and outdoors. To constitute an accidental, direct physical loss, there must be an identifiable, unexpected event that creates the fungus condition. Early action to prevent fungus from forming is a best practice in approaching fungus related losses.

Fire claim handlers can assist the policyholder by providing mitigation information and helping the insured understand the claim process. Explain to the insured what the investigative process will be, what coverages may apply, what we need from them to assist in the investigation, and what they may expect from the Company. Consideration should be given to checking for prior water losses that may be involved.

An inspection should be completed when necessary for the investigation. Personal protective equipment is available at the claim handler's discretion and can be acquired through regular purchasing channels using ePro. In addition there are training courses on the proper use of personal protective equipment available on SFLMS.

A. Coverage Investigation and Analysis

Consider the following questions when investigating and analyzing coverage:

- What events occurred to cause the fungus?

  The proximate cause of the fungus must be determined in order to analyze coverage. To determine the fungus' source, the services of a qualified expert may be required.

- Does the loss solely "consist of" fungus?

  If there was no accidental direct physical loss to cause the fungus, and instead the loss itself is the presence of fungus, then the loss is not insured. Similarly, if the fungus is caused by another excluded event, or if there is no named peril for the cause of loss, there is no coverage for the resulting fungus.

- Was the fungus a result of a covered cause of loss?

  If fungus is the result of a loss rather than the cause of a loss, coverage must be analyzed for the event that caused the fungus. If the proximate cause of the loss is covered, fungus resulting from the covered event is also covered.

  The definition of "proximate cause" is determined by the laws that apply in your state.

- Manifestation/Date of Loss

  In some cases, the insured may be unsure as to when the event causing the loss with fungus occurred. A recorded statement should be taken when appropriate and should include information as to when the insured discovered the damage and what the nature and extent of the damage was upon discovery. Different jurisdictions have different standards for what constitutes the date of loss. For some, it is the date the loss actually occurred. For others, it is the date the damage became manifest and/or the date of insured's discovery. Be familiar with which standard applies by jurisdiction.

- Do multiple policy limits apply?

  A claim that presents with multiple sources raises the question of multiple policy limits. The issues here depend on which of the sources are covered, and whether the covered sources are clearly distinguishable from each other. Depending on the nature and complexity of the events, experts may be needed to help determine the number and causes of loss being claimed.

  Where multiple covered losses can be distinguished by cause and result, the policy limits and deductibles apply separately to each.

  In cases where the remediation and damage combined render the house a total loss, only one policy limit and deductible applies, regardless of the number of incidents contributing to the damage being claimed.

- Do additional coverages apply?

  The policy should also be reviewed to determine if there are any additional coverages that may apply. In cases where the policy limit is paid, only one deductible should be applied.

  See: OG 75-53 Deductibles

Questions may arise in handling losses involving fungus. In addition to the guidance found here, OG 75-100 Claim Applications–First Part, OG 74-20 Coverage Questions Procedures and OG 75-07 Structural Loss Claim Handling can provide more information.

B. Personal Property Investigation and Analysis

For Personal Property, accidental direct physical loss coverage is provided for loss caused by the named perils. Consider the following guidance when investigating and analyzing coverage for personal property:

- Proximate Cause

  When evaluating coverage for personal property claims, the accidental direct physical loss to the personal property must be caused by one or more of the named perils.

  Put another way, if there is a causal link between a covered named peril for contents and the fungus damage, coverage is available.

  Example: If the force of wind or hail made an opening in the roof of the building, and rain entered, wetting the personal property and resulting in fungus damage to the personal property, coverage would be available for the water and ensuing fungus damage. If, however, there was no opening made in the roof, there would be no coverage for the water damage or the ensuing fungus damage to the personal property.

- No Direct Damage by Water

  When there has been a covered water loss resulting in fungus which damages the building, but there has been no direct loss by a covered named peril to personal property which has fungus damage, it must be established whether or not there is actual fungus damage to the personal property.

  The presence of fungus in the building does not necessarily mean there is fungus damage to personal property. Nor does the presence of fungus or fungus spores on a surface constitute damage. Generally, there should be visible fungus growth that penetrates the surface or fabric of an object to the extent that it cannot be removed by ordinary cleaning before damage can be said to have occurred. Also, consider the natural condition of the property as opposed to actual damage by a loss insured.

  Example: If there is fungus damage to personal property, and the water that caused the fungus damage is from a covered named peril (for example, wind creates an opening in the roof allowing water to intrude into the building), but there is no direct water damage to the personal property, is there coverage for the fungus damage to the personal property due to the resulting increase in moisture levels from the covered water loss?

  Where our investigation establishes a causal link between a covered named peril and the fungus damage to the personal property, we will pay to clean, repair, or replace the personal property.

- Property Removed

  When there is covered damage to a building and damage to personal property that is not covered:

- We do not owe for costs of cleaning or replacement of personal property that is not covered in order to maintain the building free of fungus and fungus spores once any necessary remediation and restoration to the building is completed. The insured would be responsible for this expense.

- It may be advisable to remove, store, and return the personal property in order to effect the covered building repairs. The costs to remove and store the personal property may be part of the covered loss.

- A discussion with the insured is advisable encouraging them to explore the effects of moving fungus affected personal property back into the fungus free building. They may discover that unless the personal property is cleaned, restored, or replaced before moving it back into the remediated building, fungus could be reintroduced into the building. This could present a question of coverage for any additional building claims resulting from this reintroduction of fungus.

The coverage question would be based on the insured's duties to protect the property from damage and on the basis that any loss resulting from reintroducing fungus into the building is not accidental in nature.

C. Damage Investigation and Analysis

Questions for consideration when investigating and analyzing damage include but are not limited to:

- How far has the fungus spread?

  Fungi produce tiny spores, which in turn reproduce. Fungus spores waft through the indoor and outdoor air continually. When fungus spores attach to damp spots, they may begin growing and digesting whatever they are growing on in order to survive. Fungus requires nutrients to grow. Wet cellulose materials, such as paper and paper products, cardboard, ceiling tiles, wood, and wood products, are particularly conducive for growth of fungi. Other porous materials, such as dust, paint, wallpaper, insulation, drywall, carpet, fabric, and upholstery commonly support fungus growth. If fungus appears extensively on the surface of these materials, it is necessary to determine how far the fungus penetrates so the proper scope of repairs can be assessed. For example, does framing, insulation, or sheathing require treatment once drywall is removed?

  Evidence of fungus should be noted and discussed with the insured. An investigation may include inspection of attic spaces (in the case of interior water damage from a leaking roof) or crawl spaces (in the case of water damage from overflow of a plumbing system or appliance). However, where no indication of fungus can be discovered - no visible fungus, no odor of fungus, no notice by the insured of any indication of fungus - there is generally no need to tear out floors, walls, or other structural items, to discover if fungus exists.

- What repairs will be required?

  Claim handlers can establish the scope of repair for many of these losses. However, it may be necessary to use an expert to assist in determining the extent of damage and repairs.

  It is rare that the presence of fungus requires complete demolition of a structure, although it is not out of the question. If presented with a complete demolition recommendation, review with management.

D. Retention of Experts

Retention of experts to evaluate causation, damage, air quality or habitability should be done with claim management approval. In the case where testing may be indicated, personnel qualified and credentialed to perform indoor air quality sampling may be considered. Sampling results are usually provided by laboratory analysis. In some cases, an expert may be retained to interpret the laboratory results and to assist with a remediation plan. Help in locating experts is available on the American Industrial Hygiene Association website.

> **Note:** Only certain sections of the website are available to members. These sections do not require a sign-on ID. This information can be accessed but not copied, by State Farm personnel

Expenses incurred for experts and testing are adjustment expenses See: OG 74-04 Payments and Coding. The insured should be provided copies of any expert's reports we obtain, and should be advised of our investigative findings. See OG 70-94 Use of Independent Non-Engineering Experts in the handling of First Party Claims and OG 70-96 Use of Engineering Firms in the handling of First Party Property Claims.

E. Sampling and Testing for Mold

According to Environmental Protection Agency (EPA) Guidelines, in most cases, if visible mold growth is present,

sampling is unnecessary. Appropriate remediation will remove the mold, regardless of what kind it is. Sampling is generally of questionable value in determining habitability, and should be considered the exception to a remediation procedure rather than the rule. Exceptional instances where sampling might be considered include those cases where:

- It is needed to establish the cause of the mold.
- It is needed to determine the type of mold where illness is being claimed, but any evidence of mold is lacking or inconsistent with the extent of proposed remediation.
- It is needed to develop a remediation plan because of unusual circumstances surrounding the loss.

F. Remediation

When a covered loss due to mold has been determined, remediation is considered a part of the repair process, and expenses incurred for remediation are indemnity expenses, subject to the applicable policy or endorsement limits or according to the applicable endorsement. If policy limits are exceeded, debris removal may be available, subject to the special limits for this additional coverage. The use of "clearance testing" will, in the majority of cases, be unnecessary and should not be a standard part of remediation procedure.

Scope of remediation will be dictated by the nature and extent of the mold damage involved. While guidelines are developing and changing, the EPA Guidelines describe levels of remediation of mold.

The EPA Guidelines are general guidelines and are based on the size of the affected area to make it easier to select appropriate techniques, not on the basis of health effects or research showing there is a specific method appropriate at a certain number of square feet.

G. Failure to Mitigate

In some cases the insured may be faced with high deductibles or repair costs that are not covered. Many times, such repairs must be made before remediation can begin in order to stop the source of the problem. While we need to be sympathetic to this situation, we cannot ignore the contractual obligation the insured has to protect the property from further damage, particularly where the fungus damage continues to worsen without repair and remediation.

Considerations in such cases include:

The insured's failure to make necessary repairs for remediation, or to commence remediation timely, is a breach of duties to protect the property from further damage. It may prejudices the Company's rights by expanding the scope of the loss beyond the original damage.

The insured should be notified of his or her duties to protect the property from further damage. In cases where it appears these duties have not been met, a reservation of rights should be considered.

In some cases, coverage under Additional Coverage-Temporary Repairs may be available in order to facilitate repairs so remediation can commence.

Example: A leak from defective flashing creates a covered interior water loss with fungus involved. The flashing itself would not be covered, but temporary repairs to it could be made and paid for under the Temporary Repairs additional coverage provision of the Homeowners policy. Remediation could then commence.

Costs of remediation and repair should be developed and paid as soon as known. The insured should be advised, with a follow-up in writing, of their duties to effect remediation and repair.

Any delays in this process should be documented in the file. In such cases, a prompt underwriting review is further recommended.

H. Condemnation of property

In some cases where the damage is extensive or hazardous, governmental agencies may order condemnation of the property. Such proceedings do not necessarily render the property a total loss that is subject to policy limits payments. Each case needs to be addressed as to causation, coverage, extent of damage, and amount of covered loss. Condemnation may simply be a quarantine prohibiting occupancy until remediation and/or repairs are made.

Investigation is needed to determine if the dwelling is repairable, or if the remediation and repair involved render the dwelling a total loss. In valued policy states, a total loss may mandate payment of policy limits.

I. Mortgagee's interest

In some cases, where remediation costs exceed $7,500, the question may arise as to whether the mortgagee needs to be named on the settlement draft for remediation expenses. Remediation is considered a part of the repair process, and as such, the mortgagee retains an interest in those repairs. OG 74-04 Payments and Coding, outlines the guidelines for including mortgagees on payments. These guidelines apply to remediation expenses as well as repair or replacement expenses.

J. Loss of Use Investigation and Analysis

The Homeowners policy provides coverage for loss of use, including additional living expense, when the premises is rendered uninhabitable from a loss insured. Most often, the premises are uninhabitable because of the nature and extent of the physical damage to the building. Whether fungus renders a particular building uninhabitable depends on the physical damage involved, the circumstances of the insured, and the extent of fungus.

- Should the insured stay in the home during the repair process?

If an insured has concerns about possible exposure to fungus, it would be advisable for them to consult their physician. The decision of whether to stay in the home rests entirely with the insured; however, coverage for additional living expenses will depend on whether the residence premises is rendered uninhabitable by a loss insured. Use judgment in determining habitability. Helpful information may include a physician's diagnosis and/or opinion of a current or preexisting medical condition.

If the actual covered physical damage to the residence premises itself, or the remediation and repair of the covered damage, renders the residence premises uninhabitable, then coverage for additional living expense (ALE) would generally be available.

In some cases, where the residence premises has been rendered uninhabitable, a decision to extend ALE coverage may need to be made before the investigation is complete and before it can be determined whether damage is caused by a covered loss or if other policy conditions or exclusions apply.

See: OG 75-102 Loss of Use Coverage Additional Living Expense, Fair Rental Value, and Prohibited Use: Homeowners Policy for further guidelines on handling claims with pending coverage questions involving ALE.

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V. DISPUTE RESOLUTION

In cases where disputes arise as to the scope or cost of covered damages:

- Every effort should be made first to take the necessary steps to prevent the damage from worsening. Areas that can be agreed upon, especially with regard to remediation, need to be resolved so remediation and prevention of further damage can take place.
- If other areas of scope and cost remain, arbitration at an early stage is an option, subject to agreement from both parties
- If the only issue involved is the cost to repair the covered loss, appraisal under the contract's appraisal condition may be considered.

Any applicable state law or regulation that modifies this interpretation must be taken into account.

See: OG 70-25 Alternative Dispute Resolution and OG 70-80 Arbitration – Intercompany

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OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
05-19-2021	**Claim Practices** **Fire**	**Replacement Cost on Personal Property**	**75-52**

I. PURPOSE

This Operation Guide provides guidelines for handling of replacement cost on property claims for the application of coverage and handling of claims under the homeowner policy forms consistent with Our Commitment to Our Policyholders and the Preface. In general, the guidance provided is applicable to all homeowner policy forms unless otherwise indicated in the Operation Guide. Review the policy form and/or endorsement(s) to confirm the specific contract language and/or limits which are applicable to an individual claim.

If a policy provision or application is more restrictive than the law of the jurisdiction, then the law of the jurisdiction will apply. Also, there may be situations where the Enterprise position is broader than the law of the jurisdiction. In such situations, you should follow the Enterprise position. If policy wording in the jurisdiction conflicts with any of these guidelines or in case of unusual claim situations, contact claim management.

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II. REPLACEMENT COST COVERAGE

Replacement cost may be available by way of endorsement or as provided in Section I - Loss Settlement provisions of the policy. Confirming the existence of replacement cost, explaining the coverage, and providing the policyholder with information on how to obtain replacement cost are necessary on every claim.

A. Under **Section I- Loss Settlement, B1- Limited Replacement Cost Loss Settlement**, we will pay the cost to repair or replace property covered under Section I -Coverages, **Coverage B - Personal Property**.

B. Replacement cost coverage does not apply to the following items. We will pay market value at the time of loss for:

1. Antiques, fine arts, paintings, statuary, and similar articles which by their inherent nature cannot be replaced.

   Antiques and other collectibles fluctuate in value based on supply and demand.

2. Articles whose age or history contributes substantially to their value, including but not limited to memorabilia, souvenirs, and collector's items.

   Examples include articles that have substantial sentimental value but little or no monetary value.

3. Property not useful for its intended purpose. Examples include:
   a. Worn out appliances.
   b. Clothing that needs mending.
   c. Scratched records and tapes.

d. Broken tables, chairs, lamps or other broken personal property.
e. Out of style clothing.
f. Attachments for appliances that have been sold or junked.
g. Old textbooks and magazines.
h. Used parts taken off motor-propelled vehicles with no intent to reinstall.
i. Personal property stored in attics or basements

It is often difficult to fit property within these classifications. Investigation and discussion with the insured are needed. The location of the item can be an excellent clue as to whether the item was useful for its intended purpose at the time of loss. Judgment is required on a case-by-case basis.

Once the usefulness of the covered property has been established, refer to the Special Limits of Liability and Loss Settlement sections of the policy to determine the basis of payment.

C. We will not pay an amount exceeding the smallest of the following:

1. Our cost to purchase items that can be replaced through the use of State Farm® Replacement Program (SFRP) or other discount sources at the time of loss.

2. The full cost of repair.

3. Any special limit of liability described in the policy.

4. Any applicable Coverage B limit of liability.

D. The insured may elect not to repair or replace the property. Property not repaired nor replaced within the time limit specified in the policy is settled on an Actual Cash Value (ACV) basis, or on our cost to repair or replace, whichever is smaller.

E. In many states, the insured may elect to make additional claim for replacement cost within two years after the loss. Jurisdictional differences require review.

F. We will pay replacement cost for eligible personal property items when:

1. The item(s) have actually been replaced, or the insured has contracted to purchase (pre-ordered, purchased on lay-away) the item(s)
2. Replacement was for a similar item or replacement was for an item of similar use, for example the policyholder was paid actual cash value for a love seat but has submitted a request for replacement cost benefits for replacing the love seat with a couch. The replacement cost benefits payable for items of similar use will not exceed the replacement cost benefits allowed for damaged property.

G. For procedures on coding losses involving replacement cost:

See: OG 74-04, Payments and Coding

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III. EXPLANATION OF REPLACEMENT COST TO THE INSURED

In keeping with Our Commitment to Our Policyholders, claim specialist should explain all relevant coverages under the policy and encourage policyholders to avail themselves of all applicable coverages under their policy.

The Important Information - Personal Property Notice (Exhibit # 1) is part of the Personal Property Inventory - Customer Worksheet (this is within Forms and Correspondence (F&C) (FC0007267 English or FC0007273). Personal Property Inventory - Settlement Worksheet and settlement prints which are to be provided to the insured.

Upon completion of the personal property claim, the claim specialist should review the following with the insured:

- The amount of the personal property settlement
- How to make claim for replacement cost
- The time period to replace the items eligible for replacement cost

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Exhibit 1. Important Information - Personal Property Notice

Important Information

Additional Payments May Be Available
Replacement Cost – Personal Property

(To be provided with the Personal Property Inventory Customer Worksheet)

Your policy may provide for additional payments on a replacement cost basis for some of your personal property items.

The personal property items must be repaired or replaced within a specified period of time in order to present a claim for additional payments on a replacement cost basis. Please refer to your policy for specific time limits and additional settlement provisions. Following repair or replacement, please submit your documentation to us referring to the claim number and item number.

If an insured replaces a lost or damaged item, replacement cost benefits may be paid. If the item has not been replaced, the claim will be paid based on actual cash value. Actual cash value (ACV) is calculated by determining the replacement cost (RC) of the item and then subtracting depreciation (ACV = RC - depreciation). The amount of the depreciation is based on age, quality, and condition of the property at the time of the loss.

The item's effective age is used in calculating depreciation. If the item's condition is classified as average, then the effective age is the same as the actual age. If the item's condition is classified as above average or below average, the effective age of the item is determined by adjusting the actual age by a factor of 1.4 for below average and .6 for above average. As a result, an item that is 10 years old in below average condition has an effective age of 14 years (10 years x 1.4). An item that is 10 years old in above average condition has an effective age of 6 years (10 years x .6).

Regardless of the age, if an item is usable for its intended purpose, depreciation does not exceed 80%. If the item is replaced within the time allowed by the policy, the depreciation previously deducted may be paid up to the amount spent to replace the item or the agreed upon replacement cost for that item, whichever is less. All the terms and conditions of the insurance policy apply.

If you have any questions, please contact your claim handler.

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Our Commitment to Our Policyholders

It is the responsibility of the State Farm claim staff to implement Company philosophy with respect to claim handling. Our commitment to our policyholders is to treat them like a good neighbor. We should:

- Listen, be fair, be open, and carry out our part of the bargain under the contract in good faith.
- Be familiar and in compliance with those laws and regulations that impact claims in the appropriate state, and treat policyholders consistent with requirements of the law.
- Explain all relevant coverages under the policy. Encourage policyholders to report all losses and avail themselves of all benefits under their policy.
- Diligently investigate the facts to determine if a claim is valid, reasonably evaluate the claim, and act promptly in resolving the claim. If it is necessary to deny a claim for coverage or damages, it should be done promptly and courteously, with an explanation for the decision.
- Make an objective evaluation of the facts and circumstances supporting our policyholders' claims. Doing so helps ensure our policyholders obtain all benefits available provided by the insurance policy.
- Give insureds a reasonable opportunity to comply with their responsibilities under the policy. If a claim is denied, be willing to listen to subsequent input from the insured. Complete any necessary follow-up in a timely fashion, giving due consideration to any additional findings.
- Communicate with and be responsive to inquiries from insureds and their attorneys by promptly responding to communications.

In addition to our obligation to deal fairly with each policyholder, we also have an obligation to pay only covered claims in the proper amount. Payment of those claims not covered, or fraudulent claims, unnecessarily increases insurance costs for all policyholders.

In summary, we are committed to paying what we owe, promptly, courteously, and efficiently.

For updates or inquiries, contact HOME CLMS-CONTENTREVIEW

12/05/2019

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2/13/2023

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Contains information that may not be disclosed outside State Farm without authorization.

Last Update: 2/13/2023