

Talking about “All Risk” or “Open Perils” Coverage

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THE TYPICAL INSURANCE CLIENT is not interested in what is actually covered until they have a loss. They want the most coverage for the least money, and count on their insurance agent to provide this. Understanding policy language - what is covered and not covered - can be difficult for even the seasoned insurance professional. Insurance is complicated.

Let's start with the basics. In order to be covered, property insurance losses must be caused by covered perils or covered causes of loss, subject to policy exclusions and conditions. In the days before society became quite so litigious, insurance coverage was written on either a “Named Perils” or “All Risk” basis. The term “all risk” was confusing, since “all risk” does not mean all possible causes of loss. This led to agents being hit with E&O claims. In order to solve this problem, insurers stopped calling policies “all risk” and terms such as “special”, “expanded”, “open” perils or “all causes of loss” came into fashion. The term “all causes of loss” is not to be confused with “all covered causes of loss”. “All covered causes of loss” refers to the causes of loss that are covered in a specific policy.

What is covered under an “open perils” policy? What are the advantages to the insured?

Flood is usually excluded, but other types of water damage are typ-

ically covered. These include ice damming, and rain through an open window. A chandelier falls while being cleaned. The countertop is

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scorched by a hot appliance. These are just a few examples. For the insured, one big advantage to “open perils” coverage is that the burden of proof shifts to the insurer. To deny a claim, the insurance company must demonstrate that the loss was caused by one of the excluded perils. Under “basic” or “named perils” policies, the insured must prove that the loss was caused by a covered peril.

What are the “open perils” exclusions? Is coverage available?

Commonly excluded causes of loss include flood, earthquake, nuclear, war/military action, governmental action, wear and tear, decay, deterioration, contamination and pollution. Flood coverage is offered through National Flood Insurance Program. Earthquake coverage is also generally available. Other caus-



es of loss, such as wear and tear, are not available. Insurance is not a maintenance policy. Due to their catastrophic nature, nuclear and war perils are generally considered uninsurable.

Explaining exclusions and coverages under an “open perils” policy can be a challenge. The agent must also balance the client's need for coverage with their goal to save money. Understanding policy language and providing the proper coverage for your insureds is another mark of the true insurance professional.

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