Contract Provisions

Insurable Interest

The policy is a contract between the named insured and the FAIR Plan. FAIR Plan policies **do not** provide coverage to any person or entity not named on the policy and **do not** insure the interest of any person or entity not named on the policy.

Brokers should understand that the Policyholder must be the legal owner or be able to demonstrate an existing financial interest in the covered property. For example, if a homeowner has a mortgage on their home, the mortgage company would have an insurable interest in the property.

When a claim is submitted, the FAIR Plan verifies insurable interest and pays accordingly.

Any individual(s) or entity named on the policy (named insured, additional insureds, mortgagee) must have an insurable interest in the property insured.

The policy forms contain an abundance of information and important provisions which dictate who has insurable interest and can affect how the FAIR Plan will respond to a claim. The tabs below include policy excerpts from the Dwelling Fire Policy as an example, to illustrate some of these provisions.

DEFINITIONS	CONDITIONS	DEATH CLAUSE

In this policy, "you" and "your" refer to the "named insured" shown in the Declarations and the spouse if a resident of the same household. "We", "us" and "our" refer to the Company providing this insurance.

DEFINITIONS | CONDITIONS | DEATH CLAUSE

2. Insurable Interest and Limit of Liability. Even if more than one person has an insurable interest in the property covered, we will not be liable in any one loss:

a. for an amount greater than the interest of a person insured under this policy; or
b. for more than the applicable Limit of Liability.

Refer to California Insurance Code Section 280:

ARTICLE 4. Insurable Interest: Generally [280 - 287] 280. If the insured has no insurable interest, the contract is void.

DEFINITIONS | CONDITIONS | DEATH CLAUSE

23. Death. If you die, we insure, for the remainder of this policy period:

a. your legal representatives but only with the respect to the property of the deceased covered under the policy at the time of death;

b. with respect to your property, the person having proper temporary custody of the property until appointment and qualification of a legal representative.

Settlement Valuation

An important question when considering a loss settlement is how the policy values the loss. Coverage may be written on an Actual Cash Value (ACV) basis, or a Replacement Cost Value (RCV) basis, as we discussed in depth in the Dwelling Fire Policy chapter.

As a reminder, ACV coverage pays the amount required to repair or replace the damaged property, minus a deduction for depreciation based on the age and condition of the affected property, up to the policy limit. On the other hand, RCV coverage pays the amount required to repair or replace the damaged property, without a deduction for depreciation, up to the policy limit. Depreciation is withheld from an RCV settlement initially, and payment for the depreciation holdback is issued at such time as the insured submits proof of repairs with receipts.

In the example below, the insured has sustained a covered loss to his home. This scenario will illustrate how depreciation may be applied and the payment amount determined when ACV coverage applies. Relevant values are noted below.

Coverage A—Dwelling Limit of Liability	$250,000
ACV of Dwelling	$250,000
Deductible	$1,000