Difference Between HO2 & HO3

All Risk v Named Peril

The typical Homeowner's policy comes in two basic forms, nowadays, an HO2 and an HO3. For better or worse, an HO3 policy is referred to in the business as an "All Risk" policy. This is really a misnomer because it does not cover everything that can happen to your house. It should have been dubbed a "Named Exclusion" policy. In contrast, a HO2 policy is a Named Peril policy.

The HO 2 Policy says that if any of the following perils happen, they will consider it a claim:

- Fire
- Lightning
- Wind
- Hail
- Explosion
- Aircraft
- Vehicles
- Smoke
- Theft
- Riot/civil commotion
- Glass Breakage
- Pipe Freezing
- Volcanic Eruption
- Falling Objects
- Vandalism/Malicious Mischief
- Electric Current

This seems like it covers about everything that could possibly happen to a home. It isn't. Flood, earthquake and Ice Dam are just a couple of perils that the HO2 policy does not cover. The important concept here, is that the perils are named. Hence, it is a Named Perils Policy.

The HO3 Policy, on the other hand, covers you for all risk of physical loss Except for the following:

- Ordinance of Law
- Earth movement
- Governmental Action
- Nuclear Hazard
- Power failure
- War / military action
- Water (Flood)
- Inherent defects
- Vermin

It should have been called the tongue tripping Named Exclusion policy instead of All Risk, for it invites consumer confusion.

Note, however, that even an HO3 policy covers the personal property on a named peril basis.