

# A Consumer's Guide to Homeowners Insurance

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NAIC Consumer Guides Working Group*

This guide provides information on how to make decisions when you buy homeowners insurance. You have a choice in coverages and prices will differ between insurance companies.

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## **Why You Need Insurance**

Homeowners insurance is an important purchase for many people. There are two major reasons to buy homeowners insurance.

- To protect your assets
  - Homeowners insurance covers both your property and your personal legal responsibility (or liability) for injuries to others or their property while they're on your property.
  
- To satisfy your mortgage lender
  - Most mortgage lenders require you to have insurance as long as you have a mortgage and to list them as the mortgagee on the policy. If you let your insurance lapse, your mortgage lender will likely have your home insured. The premium may be much higher (and the coverage much less) than a policy you would buy on your own. The lender can require you to pay this higher premium until you get your own homeowners insurance again.

## **Basic Coverages in a Homeowners Policy**

Most homeowners insurance policies provide a package of coverages. The main types of coverage are:

- **Dwelling.** Pays for damage to your house and to structures attached to your house. Includes damage to fixtures such as plumbing, electrical wiring, heating and permanently installed air-conditioning systems.
- **Other Structures.** Pays for damage to fences, tools sheds, freestanding garages, guest cottages and other structures not attached to your house.
- **Personal Property.** Pays for theft of or damage to the contents of your house, including furniture, electronics, appliances and clothing.
- **Loss of Use.** Pays some of your additional living expenses while your home is being repaired.
- **Personal Liability.** Covers your financial loss if you are sued and found legally responsible for injuries or damages to someone else.
- **Medical Payments.** Pays medical bills for people hurt on your property or hurt by your pets.

## **Additional Coverages**

Many homeowners policies also cover the following:

- **Debris removal.** Pays to remove damaged trees and other debris on your property as a result of a covered peril.
- **Trees, plants and shrubs.** Reimburses you for the value of landscaping lost from a covered peril.
- **Credit card coverage.** Provides a limited amount of coverage for unauthorized use of your credit card.
- **Personal Property Away from Home.** Reimburses you for the value of your possessions damaged or lost when they aren't on your property, such as those at an off-site storage locker or with your child at college.

**Peril** is an insurance term for a specific risk or reason for a loss. Some policies cover all perils except ones specifically excluded. At the other extreme are policies that cover only the perils named in the policy.

## **Types of Homeowners Policies**

To be reimbursed for damage to your property, a covered peril (such as fire, theft or windstorm) must have caused your loss. Which perils your policy covers depends on the type of policy you buy. The most common types of homeowners policies are listed below. All of the policy types **except** the dwelling fire form cover your dwelling and its contents as well as personal liability and medical payments. Read Table 1 to learn the specific perils each type of policy covers.

A type of homeowners policy is called a **Form**

- The **Dwelling Fire Form** covers only your dwelling. It does not cover your personal property, personal liability or medical payments. It also covers only a few perils. It's the type of policy your mortgage lender will buy for you if you let your homeowners policy lapse. It's also used for vacation homes and when you can't find other coverage.
- The **Basic Form** insures your property against only the list of perils shown in Table 1.
- The **Modified Coverage Form** is for older homes whose cost to rebuild is greater than their market value. It covers the same set of perils as the Basic Form.
- The **Broad Form** insures your property against the long list of perils shown in Table 1.
- The **Special Form** is the most popular of all homeowners forms. It insures your property against all perils except those the policy specifically names as not covered. Perils commonly excluded are flood and earthquake.
- The **Tenants Form** is for renters. It insures your personal property against all of the perils in the Broad Form.
- The **Condominium Unit Owners Form** is for owner-occupants of condominium units. It insures your personal property and your walls, floors and ceiling against all of the perils in the Broad Form.

There are other types of insurance for other types of residences. If you own a **townhouse** you may insure it through either an individual homeowners policy or an association master policy. If you live in a **mobile home** that has wheels and doesn't rest on blocks or a permanent foundation, in most states you'll buy a form of automobile insurance. This insurance offers far less coverage than homeowners policies. If your home is on land used for farming or raising livestock, ask about a **farmowners** policy.

**Table 1. Perils Covered by Different Types of Homeowners Policies**

<i>Peril</i>	<i>Type of Policy</i>					
	<i>Dwelling Fire</i>	<i>Basic Form and Modified Coverage Form</i>	<i>Broad Form</i>	<i>Special Form</i>	<i>Tenants Form</i>	<i>Condominium Unit Owners Form</i>
Fire, smoke, windstorm, hail, lightning, explosion, vehicles, civil unrest	■	■	■	■	■	■
Theft, vandalism		■	■	■	■	■
Trees and other falling objects		■	■	■	■	■
Weight of ice, snow, sleet		■	■	■	■	■
Freezing, rupturing or sudden and accidental overflow of a plumbing, heating, air-conditioning or fire-sprinkler system or a household appliance		■	■	■	■	■
Power surge		■	■	■	■	■
All perils except flood, earthquake, war, nuclear accident and other perils specifically excluded in your policy		■	■	■	■	■

## **Flood Insurance**

Homeowners policies don't cover flood damage. Depending on where your home is, you may qualify for flood insurance through the National Flood Insurance Program. If your home is in a flood plain, your mortgage lender will usually require you to buy flood insurance.

## **Limits of Coverage**

Your agent usually will help you decide how much dwelling coverage to buy when you first get homeowners insurance. Your coverage should equal at least 80% of the full replacement cost of your home. Note that replacement cost and market value are not the same. The market value, which includes the price of your land, depends on the real estate market.

You should review your dwelling coverage from time to time to be sure it doesn't drop below 80% of the cost to replace your home. If it does, your insurance company may reduce the amount that it will pay on a claim.

The limits of your coverage for other structures, for personal property and for loss of use of your home are expressed as percentages of your dwelling limit. The coverage is usually a set percent – for example, if your dwelling coverage limit is \$150,000, the limit of your coverage for personal property will be \$75,000 (50% of the dwelling limit – See Table 2). You choose your personal liability limit and your coverage limit for medical payments.

**Table 2. Policy Limits**

<b>Coverage Component</b>	<b>Normal Limit of Coverage</b>
Dwelling	You Choose
Other Structures	10% of Dwelling Coverage Limit
Personal Property	50% of Dwelling Coverage Limit
Loss of Use	20% of Dwelling Coverage Limit
Personal Liability	You Choose
Medical Payments	You Choose

## **About Deductibles**

A deductible is the money you have to pay out-of-pocket on a claim before the policy pays the loss. The deductible applies to coverage for your home and personal property and is paid on each claim. Higher policy deductibles mean lower policy premiums. A policy with a \$1,000 deductible has a lower premium than the same policy with a \$500 deductible. Having a higher deductible is a good way to save money on your homeowners insurance premium and to submit fewer claims. But, be sure you can afford the deductible in case you have a loss.

### **Replacement Cost and Actual Cash Value**

You can choose to insure your home and its contents for either replacement cost or actual cash value. **Replacement cost** is the cost to replace or rebuild your home or repair damages using materials of similar kind and quality without deducting for depreciation. **Depreciation** is the decrease in your home's value since you built or bought it because of age or wear and tear. **Actual cash value** is the value of your home considering its depreciation. Actual cash value coverage pays you for your loss but doesn't pay enough to fully repair or replace the damage.

## **Optional Coverages**

You can add other coverages. Sometimes you can add coverage by buying an endorsement; other times, you must buy another policy to cover a specific peril or a specific item of property. Some reasons you might want to add coverages are:

- **To cover perils most homeowners policies don't cover.** The National Flood Insurance Program writes most *flood insurance policies*, although some insurance companies also sell it. Many insurance companies sell *earthquake insurance* as either a separate policy or as an endorsement to your homeowners policy. While homeowners policies in most states cover damage caused by *windstorm and hail*, policies in coastal areas often exclude this coverage, in which case you would need to buy a separate policy to protect from this risk. You may be able to buy endorsements to cover damage caused by *mold* or by *water backup and sump overflow* since most homeowners policies offer limited or no coverage for this.
- **To cover property most homeowners policies don't cover.** You can buy endorsements to cover or increase your coverage for in-home daycare, for summer homes, for small boats, or for contents in your vehicles or in your refrigerators and freezers.
- **To increase your current coverage.** *Guaranteed Replacement Cost coverage* pays to completely rebuild your home while a *Personal Property Replacement Cost endorsement* pays to replace your personal property. An *Inflation Guard endorsement* raises your dwelling coverage limit annually in line with inflation. *Personal Umbrella Liability insurance* increases your liability coverage above the level available in a homeowners policy. A *Scheduled Personal Property endorsement* (or “personal article floater”) covers jewelry, furs, stamps, coins, guns, computers, antiques and other items whose value may be greater than the normal limits in your homeowners policy.

## **Business Uses of Your Home**

While homeowners insurance isn't designed to cover most business uses of your home, some policies may cover some business uses, at least partially. For example:

- **Computers and laptops.** If you use your home computer or laptop for business purposes, it's often covered only up to \$2,500. If your laptop is lost, damaged or stolen away from your home, it's often covered only up to \$500.
- **Day care coverage.** Most homeowners policies provide a limited amount of liability coverage if you care for a friend's children and aren't paid. But if you're paid to provide day care in your home, you must buy more insurance to cover your liability.

## **Other Types of Insurance**

You may hear about other types of insurance, especially when you buy your home. Lenders usually require **private mortgage insurance (PMI)** if your down payment is less than 20% of the home's purchase price. PMI protects the lender if you default on your mortgage. The PMI premium is often included in your monthly mortgage payment.

**Title insurance** protects you and the lender against any monetary loss due to errors in the title. You usually pay for title insurance as a one-time fee when you buy a home.

A **home warranty** covers the mechanical breakdown of individual parts of a home, such as the electrical and plumbing systems. A warranty doesn't cover the home's structure, may or may not cover appliances, ends at a specific point in time (for example, one year) and has exclusions and limitations that you should review. Home warranties may not be regulated as insurance in your state.

## **How Insurers Determine Your Premium**

Many factors affect the premium you pay, including which insurance company you choose. Different insurance companies charge different premiums for similar coverage. Decisions you make about how much insurance coverage to buy also affect your premium. Some of the other things that are likely to affect your premium are:

### ➤ The characteristics of your home

- The cost to rebuild your home. This is not the same as the purchase price (which includes the cost of the land). The agent may help you estimate the replacement cost using information about your home and its contents.
- Whether your home is made of brick or wood. The premium is lower for homes that are primarily brick than for wood frame homes.
- The distance from your home to a water source or fire department and the quality of your community's fire protection services.
- The age and condition of your home. The premium usually is higher for older homes and homes in poor condition than for newer homes and homes in good condition.
- The claims history of your home and of homes in your area.

### ➤ Your choices and characteristics

- The coverages you choose, including optional endorsements.
- The deductible you choose.
- Insuring your home and autos with the same insurance company.
- Your credit history. To access your credit report, the agent may ask you for your Social Security Number. In many states, insurers use your credit history as a factor to decide whether to sell you insurance and what price to charge you.
- Your history of filing claims for water damage, fire, theft or liability on homes you've owned.

### ➤ Other characteristics

- Having protection devices in your home, such as smoke detectors, a burglar alarm, a sprinkler system, deadbolts on doors, or security devices for windows. Many insurers offer a discount if you have any of these.
- Having a wood furnace or wood stove.
- Having a swimming pool, trampoline or playscape that could cause injuries.
- The types of pets you have. Some insurers won't insure you if you own certain breeds of dogs.
- Operating a business from your home.

## **Smart Shopping**

Different insurance companies charge different rates for the same coverage. Also, not all insurance companies settle claims in the same manner. Therefore it makes sense to shop around for the best insurance company for you.

Insurance companies use one of three methods to sell their products.

- **Independent agents** represent several companies and can give you several quotes.
- **Exclusive agents** only sell the products of one insurance company.
- **Direct market** sales are over the Internet or by mail or telephone.

If you buy insurance through an agent you'll have the benefit of discussing your needs with a local expert who can also advise you if you have a claim. Direct marketing may be cheaper or quicker but may expose you to unlicensed or fraudulent insurers.

You can find insurance companies and agents through the phone book, on the Internet and television and by asking friends and neighbors. You should also check with your state insurance department to see if it publishes premium comparison guides for homeowners insurance.

Customer service is important to most consumers, particularly when they have a claim. You can get a sense of how well an insurer serves its customers from a complaint index. Many state insurance departments post complaint index information on their websites. A complaint index measures how many complaints your state insurance department receives relative to the size of the company.

Before you sign an application for any insurance coverage, call your state insurance department and verify that the company and the agent you're dealing with are licensed in your state. It's illegal for unlicensed insurers to sell insurance. Business cards aren't proof that an agent is licensed. If you do business with an unlicensed agent or company, it may not pay your claims or refund your premiums if you cancel your policy. If an unlicensed agent or company contacts you, call your state insurance department immediately so it can investigate. Your actions may protect someone else from being victimized.

## Getting Premium Quotes

Getting premium quotes is a good way to compare different companies' prices. But, first you should decide what coverages and policy limits you need. It's important that you know how much it would cost to rebuild your home. You should buy a policy with a dwelling limit that is at least 80% of that amount. An insurance agent can help you estimate the cost to rebuild your home.

| When you get quotes it's crucial that you ask for the same coverages and limits and give the same information to each agent or company. To give you an accurate quote, the agent or company will usually ask for a description of your house (such as where it's located, its square footage, when it was built and the type of construction). He or she also may ask about items that increase your insurance needs, such as owning pets and expensive possessions. An agent may visit your home for other information (such as the distance from the nearest fire department, the general condition of your home and to take a photo). Or the agent may ask you for that information. Be sure to get rate quotes and key information in writing.

Make sure you ask the agent if you qualify for any discounts. Some insurers offer a discount if you also buy your auto insurance from them or if you disaster-proof your home (for example, add storm shutters), update the home's electrical or plumbing systems, get a new roof or add home security devices (for example, a burglar alarm).

Also be sure to find out how much your premium will change if you choose different deductibles.

While you're getting quotes you should also ask the agent some of these questions:

- Are the agent and the insurance company licensed by my state insurance department? For how long? (Your state insurance department can confirm the answers to these questions.)
- | • How can I find out the claims history of the home before I buy it? The claims history of the home may affect your premium.
- If I submit a claim, how will it affect my premium when I renew the policy?
- How will my credit history affect my premium?
- What does the policy cover? What doesn't it cover? What are the limits to the coverages?
- How much coverage do I need for my personal property?
- | • Should I buy flood insurance or earthquake coverage? Your homeowners insurance policy doesn't cover either.
- What types of water damage are **not** covered? Is mold damage covered?

## **Your Responsibilities**

A homeowners insurance policy is a legal contract. It's written so that your rights and responsibilities and those of the insurance company are clearly stated. When you buy homeowners insurance, you will receive a policy -- not a photocopy -- within 30 days. If you don't, contact the insurance company, not the agent. If you need a company's toll-free number, call your state insurance department.

You should read your policy and be sure you understand it. If you have questions about your insurance policy, contact your insurance agent or company. Keep your policy in a safe place and know the name of your insurer. If you still have questions, call your state insurance department.

Other helpful tips:

- Pay the premium on time. Most insurers don't offer a grace period for paying the premium – the due date is the due date.
- Keep a file of all paperwork you completed online or received in the mail and signed, as well as any other documents related to your insurance, including the policy, correspondence, copies of advertisements, premium payment receipts, notes of conversations and any claims submitted.
- Make a household inventory.
  - Go through each room; write down and take pictures or videos of everything in the room.
  - Inventory everything, including valuable items such as antiques, electronics, jewelry, collectibles, and guns.
  - Store your inventory in a secure place at another location such as your workplace, a safe deposit box, a relative's house, or online.
  - Annually review and update your inventory, including your pictures/videos. Also update your inventory when you buy new items.
  - Keep receipts with your inventory for all repairs and new items you buy for proof if you file a claim.
- Maintain your home.
  - A homeowners policy isn't a maintenance contract; it insures against damage from perils such as fire, wind, and hail. It doesn't pay to repair items that simply wear out, like rotted porch railings. You're responsible for the upkeep of your home such as repairing your roof when it begins to leak or cleaning your chimney flue so it doesn't catch fire.

## **Filing a Claim**

Read your policy – it’s your guide to the types of losses that may or may not be covered. How often you file a claim and the types of claims you file often affect your premium and whether your insurer will renew your policy. If the cost to repair the damage is not much more than your deductible, you may want to pay for the repairs without filing a claim.

Most insurance companies report your homeowners claims to one or more private nationwide claim databases (such as CLUE). Insurance companies use these databases to see the claims you’ve submitted in the past.

Insurance companies normally expect you to file a homeowners claim about once every 5 or 10 years. If you submit claims more often than that, your insurance company may penalize you by raising your premium when you renew your policy, and other insurance companies may refuse to offer you coverage.

To file a claim, call your insurance agent or company as soon as possible. Ask about forms or documents you’ll need to support your claim. You’re also required to protect your home from further damage. For example, you may need to board it up or clean up water from a backed-up drain. You must keep records about your loss; receipts and pictures will help.

The insurance company will assign a claims adjuster to assess the damages and determine the payment. These adjusters may be employees of the company or independent contractors. You should cooperate with the adjuster’s investigation of your claim. The adjuster will probably want to meet with you at your house to inspect the damage. Jot down notes and keep track of the dates of any conversations you have with your agent or adjuster.

If there are disagreements between you, the insurer and the claims adjuster, first try to resolve them with your insurer. Don’t feel rushed or pushed to agree with something you aren’t comfortable with. It might help to have your contractor meet with you and the insurance adjuster.

If you and the insurer still disagree about the value of the claim, check your policy for an appraisal clause. Another option is to hire an attorney or a public adjuster. A public adjuster isn’t an attorney or a government employee. States that allow Public Adjusters require them to be licensed and to follow certain guidelines. If you have questions about the use of Public Adjusters in your state, call your State Department of Insurance.

If you have trouble with or questions about your claim you also may contact your state insurance department for help. Your state Insurance Department has consumer services personnel who can help you work with your insurer to resolve disagreements.

## **Losing Your Insurance**

There's a big difference between an insurance company cancelling your policy and not renewing it.

**Cancellation** means either you or your insurance company stop the coverage before the policy's normal expiration date (which is usually 12 months after the policy starts). You can always cancel your policy for any reason. When you're a new policyholder, there's a limited period of time (typically 60 days) in which your insurance company can cancel your policy for any reason. After that, it can only cancel you if you don't pay your premium, if you've lied on your application or if your risk has changed substantially.

If your insurance company cancels your policy, it must give you notice. The number of days varies by state. If you or the insurer cancels your policy, the company may refund a portion of your premium.

**Non-renewal** means the company refuses to renew your policy after it expires. Insurance companies have the right to not renew your policy. If your company chooses not to renew your policy, it must give you notice; the number of days (typically 30 days before the renewal date) varies by state.

## **What to Do if You Can't Find Insurance**

- <Insert state-specific FAIR Plan information>
- <Insert state-specific wind pool or other residual market mechanism information or market assistance program>

## **For More Information**

- Visit your state insurance department of insurance website:
  - <Insert state department of insurance website information for the long version of the consumer's guide>
  - <If applicable, insert consumer rights information>
  - <If applicable, insert premium comparisons>
  - < If applicable, insert complaint handling information>
- The National Association of Insurance Commissioners (NAIC) website for Consumers - [www.naic.org/consumer\\_home.htm](http://www.naic.org/consumer_home.htm)
- The National Flood Insurance Program website - [www.floodsmart.gov](http://www.floodsmart.gov)
- To access your free annual credit report go to [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 877.322.8228