A Consumer's Guide to Home Insurance

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About the NAIC …

The National Association of Insurance Commissioners (NAIC) is the oldest association of state government officials. Its members consist of the chief insurance regulators in all 50 states, the District of Columbia and five U.S. territories. The primary responsibility of the state regulators is to protect the interests of insurance consumers, and the NAIC helps regulators fulfill that obligation in a number of different ways. This guide is one example of work done by the NAIC to assist states in educating and protecting consumers.

Another way the NAIC lends support to state regulators is by providing a forum for the development of uniform public policy when uniformity is appropriate. It does this through a series of model laws, regulations and guidelines, developed for the states' use. States that choose to do so may adopt the models intact or modify them to meet the needs of their marketplace and consumers.

The NAIC's mission is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost effective manner, consistent with the wishes of its members:

- Protect the public interest.
- Promote competitive markets.
- Facilitate the fair and equitable treatment of insurance consumers.
- Promote the reliability, solvency and financial solidity of insurance institutions.
- Support and improve state regulation of insurance.

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A Consumer's Guide to

HOME INSURANCE

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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 the structure of your home and your personal property, as well as 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. Compared to a policy you would buy on your own, the premium might be much higher and the coverage will be limited to damage to the structure of your home. The lender can require you to pay this higher premium until you get your own homeowners insurance again.

Coverages in a Homeowners Policy

Most homeowners insurance policies provide a package of coverages. The main types of coverage are described below. Keep in mind that you're covered only if the loss is caused by a peril your policy covers. For example, if your home becomes unlivable due to an earthquake and your homeowners policy doesn't cover earthquakes, your policy won't pay for loss of use of your home. Review your policy for the limits of your coverage.

- **Dwelling**. Pays for damage to your house and to structures attached to your house. This includes damage to fixtures, such as plumbing, electrical wiring, heating and permanently installed air-conditioning systems.
- **Other Structures**. Pays for damage to fences, tool sheds, freestanding garages, guest cottages and other structures not attached to your house.
- **Personal Property**. Reimburses you for the value of your possessions, including furniture, electronics, appliances and clothing, damaged or lost even when they aren't on your property, such as those at an off-site storage locker or with your child at college.
- **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.

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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, where the cost to rebuild is greater than the market value. It covers the same set of perils as the Basic Form.
- The **Broad Form** insures your property against the perils shown on 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.

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Table 1. Perils Covered by Different Types of Homeowners Policies

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

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 or through a private insurer. Contact an insurance agent for more information. If your home is in a flood plain, your mortgage lender will usually require you to buy flood insurance.

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Limits of Coverage

Your insurance agent usually will help you decide how much dwelling coverage to buy when you first get homeowners insurance. Your coverage should equal 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 the cost to replace your home. If it drops below 80% of the full replacement cost of your home, 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 percentage (see Table 2). For example, if your dwelling coverage limit is $150,000 and your coverage for personal property is limited to 50% of your dwelling coverage, your coverage for personal property would be $75,000. Check your policy, as coverage limits might be based on percentages different from those in Table 2. You choose your coverage limits for your personal liability and for medical payments.

Table 2. Policy Limits

Coverage Component	Typical Limit of Coverage
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

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 will have a lower premium than the same policy with a $500 deductible. In some locations, there are also catastrophe deductibles, which are expressed as a percentage instead of a dollar amount.

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Having a higher deductible can be a good way to save money on your homeowners insurance premium and to submit fewer claims. However, 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 rebuild your home or repair damages using materials of similar kind and quality. **Actual cash value** is the value of your home considering its age and wear and tear. Actual cash value coverage pays you for your loss, but often 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 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 might be able to buy endorsements to cover damage caused by *mold* or by *sewer or drain backups* and *sump pump overflow* since most homeowners policies offer limited or no coverage for these types of events.

- **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 might be greater than the normal limits in your homeowners policy. An *ordinance or law endorsement* pays for the extra expense to rebuild your home in compliance with building codes and other ordinances or laws that didn't exist when your home was originally built.

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Business Use of Your Home

While homeowners insurance isn't designed to cover most business uses of your home, some policies might 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, but you should check your policy limits. Your laptop might be covered, even if it's lost, damaged or stolen when it's away from your home.

- **Daycare 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 daycare in your home, you must buy more insurance to cover your related liability.

Other Types of Home-Related Insurance

You might 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 might not be regulated as insurance in your state.

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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). Your insurance agent might help you estimate replacement cost using information about your home and its contents.
  - Whether your home is made of brick or wood. The premium usually is lower for homes that are primarily brick or masonry 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 often 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.
  - The length of time you've been with your current insurance company.
  - Your credit history. To access your credit report, the insurance agent might 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.

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Smart Shopping

Different insurance companies charge different rates for the same coverage. Also, not all insurance companies provide the same level of claims service. Therefore, it makes sense to shop around for the best insurance company for your needs.

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.

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 Web sites. A complaint index measures how many complaints your state insurance department receives relative to the size of the company.

It's illegal for unlicensed insurers or agents to sell insurance. Business cards aren't proof that an agent is licensed. If you do business with an unlicensed agent or company, it might not pay your claims or refund your premiums if you cancel your policy. If an unlicensed agent or company contacts you, check with your state insurance department immediately, so it can investigate. Your actions may protect someone else from being victimized.

You also want to buy insurance from a company that's financially sound. You can check the financial health of an insurance company by using ratings from independent ratings agencies such as Standard and Poor's, A.M. Best and Moody's.

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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. An insurance agent or a contractor might be able to 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 insurance 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 might ask about items that increase your insurance needs, such as owning pets and expensive possessions. An agent might visit your home to take a photo or ask you for other information (such as the distance from the nearest fire department and the general condition of your home). Be sure to get rate quotes and key information in writing.

Make sure you ask the insurance 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 might 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?
- How much liability coverage should I buy?
- 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?

If you're thinking of buying a home, you can ask an agent to estimate the cost of insurance.

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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. 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.

When you buy homeowners insurance, you will receive a policy—not a photocopy. If you don't receive a policy within 30 days, contact the insurance company, not the agent. If you need a company's toll-free number, contact your state insurance department.

Keep your policy in a safe place and know the name of your insurer. If you still have questions, contact 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 home 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 home inventory, including your pictures/videos. Also update your inventory when you buy new items.
  - Keep receipts with your home 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.

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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 might want to pay for the repairs without filing a claim.

> Most insurance companies report your homeowners claims to private nationwide claim databases (such as the Comprehensive Loss Underwriting Exchange, better known as CLUE). Insurance companies use these databases to see the claims you've submitted in the past.

To file a claim, contact 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 might need to board it up or clean up water from a backed-up drain.

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 insurance 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.

> Public adjusters aren't attorneys or government employees—they're freelance adjusters that charge you a fee. Not all states allow public adjusters, but those that do require them to be licensed and to follow certain guidelines. If you have questions about the use of public adjusters, contact your state insurance department.

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.

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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 generally 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. You may ask the insurer for the reason. You also may choose not to renew your policy.

What to Do if You Can't Find Insurance

Contact your state insurance department to see if your state has a FAIR Plan, wind pool, or other residual market mechanism information or market assistance program available. See below for information on contacting your insurance department.

For More Information

- If you can't find insurance, consumer rights information, premium comparisons or complaint handling information, visit your state insurance department's Web site. The department will have some information posted on the Web site, plus contact information if you have other questions. To find the Web site address of your state department, visit the National Association of Insurance Commissioners (NAIC) Web site at *www.naic.org/state_web_map.htm* and select your state on the map.
- Visit the NAIC Web sites for consumers: *www.InsureUonline.org* or *www.naic.org*.
- Visit the National Flood Insurance Program Web site: *www.floodsmart.gov*.
- Access your free annual credit report through *www.annualcreditreport.com* or call 877-322-8228.

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