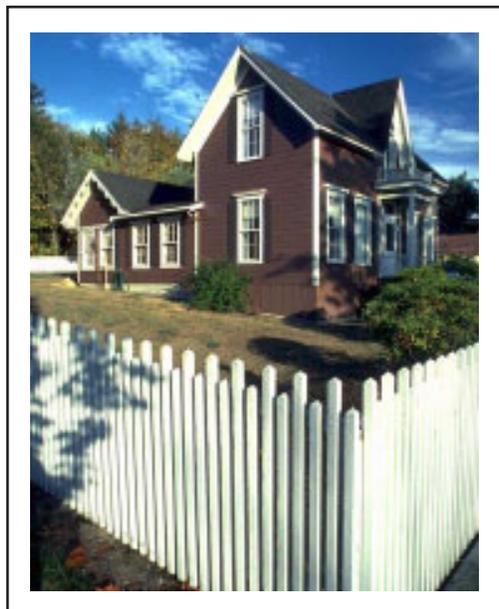


Consumer's Guide to
**Homeowner
Insurance**



**Choosing and using your
homeowner insurance coverage**



Office of the Washington State Insurance Commissioner

Message from the Insurance Commissioner:

Your home and personal belongings are among the most expensive items that you purchase in your lifetime. Accordingly, it is important that you take the necessary steps to protect this investment.

As a property owner, you should be prepared for the possibility of loss from fire, lightning, weather, burglary, theft and/or liability. Whether your home is a house, condominium, manufactured home or duplex -- even if you're a renter -- it is essential that you are properly protected and insured.

Choosing the right insurance company can be daunting and difficult as there are many factors to be considered when selecting an insurer and deciding on coverage.

My staff has prepared this consumer guide to assist you in making sound decisions and informed choices. It is essential that you know what coverage meets your needs and what the various companies offer before making your purchase.

This guide includes information on what homeowner policies cover, how much insurance you should buy and steps you can take to expedite the processing of claims, should you need to file one.

If you still have questions after reviewing this material, please call our Consumer Protection Hotline at 1-800-562-6900. My staff is eager to assist you.

Sincerely,



■ A full list of homeowner insurance fact sheets can be found on the Insurance Commissioner's Web site. Some related fact sheets are:

- ✓ *Insurance Tips for Homeowners*
- ✓ *Household Inventory*
- ✓ *How Insurance Companies Determine Homeowner Rates*
- ✓ *Insurance Decoded (A Consumer's Insurance Glossary) guide*
- ✓ *Questions and Answers on Credit Scoring*
- ✓ *Earthquake Insurance*
- ✓ *Mold and Homeowner Insurance*
- ✓ *How Tenant Insurance Works*
- ✓ *Winter Weather and Insurance Coverage*
- ✓ *Flood Insurance*
- ✓ *Insurance and Home Business*

These and others are available on the Web at http://www.insurance.wa.gov/publications/inpublications_home.asp

Or go to www.insurance.wa.gov and click on "Publications" to view the OIC's full library of publications. Or call 1-800-562-6900.

This consumer guide is available online at the above address (and in alternative formats upon request.)

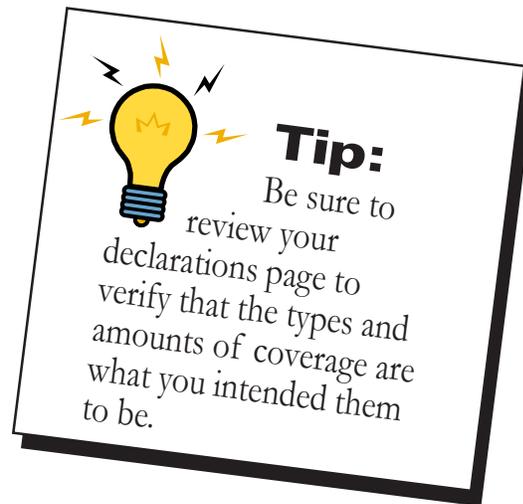
Understanding your homeowner insurance policy

Your insurance policy is actually a contract between you and the insuring company. It sets out exactly what the company agrees to do in exchange for the premium that you pay. It describes your responsibilities and the general provisions of coverage. This contract is divided into two sections: a **declarations page** and the **policy** itself.

The declarations page

This section of the policy includes basic details of the agreement. It is important that you review this page to be sure that all the information is correct and the coverages listed are what you requested. The declarations page includes:

- ✓ Name of the insurance company
- ✓ Name(s) of the persons(s) insured
- ✓ Location of the residence insured
- ✓ The policy number
- ✓ Policy period
- ✓ Property covered
- ✓ Coverages purchased
- ✓ Limit of liability for each coverage
- ✓ Applicable deductibles



The policy

The second part of your insurance contract is the policy itself. This includes:

- ✓ Insuring agreement
- ✓ Definitions
- ✓ Conditions

(Each of these sections apply to the entire policy.)

Section I of the policy describes your property coverages (protection against loss to your property)

Section II includes liability coverages (protection against claims made by someone else against you)

In addition, each section includes coverages, limitations, exclusions, definitions and conditions that apply only to that section.

The optional coverages listed will apply to your policy only if they are listed separately on the declarations page and generally will require an additional premium.

Types of Coverage

A homeowner policy is a package of protection that provide coverage for your property, medical payments for others, and personal liability. This type of policy is available for homes occupied by the owners as their primary residence. Because there are a wide variety of homeowner policies available, be sure to read your policy to determine exactly what coverage your insurance company provides.

Dwelling coverage

This coverage provides for the repair or replacement of your home and attached structures such as a garage or deck. Most homeowner policies provide for the replacement cost of your home when a specific amount of coverage is maintained (a percentage of amount it would cost the insurance company to rebuild it). Some policies will offer guaranteed replacement cost, a guarantee that the company will bear the full cost to replace your home, up to a specific amount.

Other structures

This coverage provides for the repair or replacement of other permanent, separate, unattached structures on your premises. The coverage limit for other structures is typically 10 percent of the dwelling coverage. This coverage protects against a loss to a detached garage or personal workshop. It usually will not provide coverage for other buildings on your premises that are occupied by a tenant or buildings used for business. If you have an unusually large detached garage or several outbuildings on your premises, you may need to purchase additional coverage.

Personal property

This coverage provides for repair or replacement of your furnishings and personal effects. This coverage usually specifies an amount of 50 to 70 percent of the dwelling coverage, depending on your insurance company program. This coverage extends worldwide, but usually will provide only up to 10 percent of the coverage limit while it is away from your home. Increased limits on personal property may be available at an additional cost. Repair or replacement under this coverage usually is made on an actual cash-value basis, which is equal to the replacement cost, less depreciation.

Personal property coverage is usually offered on a named perils basis. This means that the policy will specify and list the perils. Commonly covered perils include fire, lightning, windstorm, hail, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism and malicious mischief, theft and falling objects. There may be specific limits for recoverable amounts under specified perils. For example, your policy may provide up to \$5,000 in personal property coverage, but may have a limit of \$200 for theft of money.

There are exclusions under this section of the policy with which you need to be familiar. For instance, property of roommates or borders, automobiles, larger boats and property used for business will not be covered. You may, however, be able to purchase additional coverage for some types of business property inventory.

Additionally, you may be able to purchase replacement cost coverage on your personal property or buy increased limits on jewelry, sports equipment, cameras, stamp and coin collections, and computers.

Property of unique or significant value should be protected by purchasing **scheduled personal property** coverage or by buying a separate **floater**. A floater is a separate coverage form attached to a homeowner policy. It will require additional premium.

Loss of use or additional living expenses

This coverage provides for the increase in your housing expenses when you are displaced because of a covered loss. Your policy will usually include the loss of use (LOU) or additional living expense (ALE) coverage at 20 percent of the dwelling coverage limit without additional premium. There may be restrictions on this coverage, such as a maximum amount payable per month or a time limitation.

Medical payments

This coverage provides for medical expenses of others when they are accidentally injured while on your property. Most policies include at least \$1,000 of coverage, but higher limits may be available. This coverage generally is limited to any non-resident on your property with your permission, and payment is made without a determination of negligence.

Personal liability

Personal liability protection covers expenses for bodily injury and/or property damage sustained by others when you are determined to be legally liable. Most policies include at least \$100,000 of coverage, but higher limits may be available. When deciding how much coverage to purchase, consider the value of your total assets and how much you might lose if another person successfully sued you for damages.

Personal liability coverage extends beyond your property limits. It may provide coverage if your child damages a neighbor's property. If an incident occurs involving family members (as defined in your policy) at other locations, the liability of your family members also will be covered by the policy.

Additional coverages

This type of coverage generally provides for debris removal; damage to trees, plants and shrubs, and credit card coverage. The amount of coverage in this category may be capped, and coverage may be limited to specific perils.

Optional Coverage

Earthquake

This coverage provides for repair or replacement of your home following an earthquake. Not all companies offer this coverage and those that do may have specific requirements that must be met in order for you to qualify for the coverage. The amount of this coverage will match your dwelling coverage, but you will have a separate deductible, usually 10 to 20 percent of the coverage amount. Your policy will define what constitutes an earthquake and will include any limitations that may apply to this coverage.

Flood

Flood insurance is available as a separate policy and provides coverage for direct physical losses caused by flood, flood-related erosion, abnormal tidal surges, and mudslides. The National Flood Insurance Program (NFIP) provides these policies through an arrangement with private companies. If your property is located in an area with a high likelihood of flooding, your lender may require you to obtain this coverage.

More information is available from your insurance agent or by calling 1-888 FLOOD29 (1-888-356-6329) or on-line at <http://www.fema.org>

Home daycare

Home daycare insurance provides liability coverages for daycare facilities in your home when you care for a limited number of children.

Home business

Home business coverage may be offered as part of your homeowner policy. Each insurance company will define the type of home business that it is willing to cover on a homeowner policy.

Sewer backup endorsement

This coverage protects against losses from the backing up of a sewer or sump pump. These losses generally are not covered under a homeowner policy. This endorsement is available through most insurance companies, but you may have to ask for it.

Umbrella liability policies

These policies supplement the liability coverage you already have through your home and auto insurance, providing an extra layer of protection. Normally, these policies pay after the liability limit of the homeowner or auto policy is exhausted.

Secondary residence premises endorsement

This coverage provides protection for a secondary residence, such as a summer home.

Watercraft endorsement

This endorsement provides coverage for small sailboats and outboard motor boats. It broadens personal liability and medical payments coverage.

Theft coverage endorsement

This protection broadens theft coverage to include contents to your motor vehicle, trailer or watercraft without proof of forcible entry.

Credit card forgery and depositor's forgery coverage endorsement

This coverage provides protection against loss, theft or unauthorized use of credit cards (with certain exceptions). It also covers the forgery of any check, draft, promissory note, and the like (with certain exceptions). No deductible applies to this endorsement.

Other types of policies

Renters policy

This coverage provides protection for personal possessions and personal liability when you rent an apartment or house.

Condominium owner policy

This policy provides most of the same coverage of a standard homeowner policy. However, because the building is covered by a condominium association policy, there is no coverage for the dwelling under this policy. Building items inside your unit will be afforded some amount of coverage. For instance, this coverage would help you restore a unit with bare walls to habitable conditions by paying for cabinets, fixtures or custom features not covered under the association policy. An additional coverage available, loss assessment, helps pay for an assessment that you may be charged to help meet your responsibility for covered losses that occur to common areas.

Mobile homeowner policy

This is a package of insurance written specifically for mobile homes. It includes coverage on the mobile home as well as theft and liability protection.

Farm or ranch policy

Coverage for a farm or ranch is similar to a homeowner policy in many ways. The usual farm owner policy does not provide replacement cost coverage on your dwelling. You can buy replacement cost coverage for your farm dwelling, but you must ask for it. Crops, livestock and farm equipment usually must be insured under separate policies.

Helpful terms and definitions

- ✓ **Actual cash value**
The cost to replace an item, less depreciation, sometimes called “market value.”
- ✓ **All perils**
Coverage is provided for all losses except those that are excluded. Sometimes called “open peril” coverage.
- ✓ **Attached garage**
A garage that shares at least one common wall -- or breezeway -- and common roof with the residence and has no living space above it.
- ✓ **Built-in garage**
A garage that shares at least one common wall -- or breezeway -- and has living space above it.
- ✓ **Deductible**
The portion of a covered loss that is the policyholder’s responsibility.
- ✓ **Detached garage**
A garage that is a separate building from the residence.
- ✓ **Dwelling**
A residential building and everything attached.
- ✓ **Floater**
An insurance policy added to a homeowner policy that applies to personal property whenever it is moved, rather than at a specific location.
- ✓ **Insurance**
A contract for transferring risk from individuals to an insurance company. In exchange for a premium, the insurance company agrees to pay for losses covered under the terms of the policy.
- ✓ **Peril**
The cause of a loss.
- ✓ **Risk**
The chance or uncertainty of loss.
- ✓ **Scheduled personal property**
An itemized list of property with detailed descriptions that provides broader coverage than your homeowner policy.
- ✓ **Underwriting**
The specific criteria each company sets to determine whether a risk qualifies for coverage under its policy.

Shopping for coverage

How to determine how much coverage you need

Insurance companies have established formulas which are used to help determine the appropriate limits of dwelling/structure coverage. These calculations take into consideration the same types of information used in appraisals. Consideration is given to:

- ✓ Construction materials
- ✓ Type of floor plan (two-story, split level, ranch, etc.)
- ✓ Total square footage
- ✓ Number and types of rooms
- ✓ Type of garage or carport
- ✓ Special features

The replacement cost of your home may not be similar to your local government's assessed value for tax purposes or the current market value because different criteria are used to establish those values.

Once you establish the appropriate coverage amount for your home, you should review this information annually to ensure that the coverage maintains pace with inflation and other changes that affect the cost to repair or replace any damage to your home. Your dwelling limit may be increased by a fixed percentage at renewal and this automatic adjustment may be one of the features required by the company to insure your home for replacement cost.

Whenever changes are made to your home, such as additions or substantial improvements, you should notify your insurance company. Not only do these changes increase the value of your home, but undertaking major renovations, roof replacement, electrical and plumbing system updates may entitle you to discounts.

Factors that affect underwriting

All companies set underwriting and rating guidelines. These may include, but are not limited to:

- ✓ **Property information** -- This will include street address, the year the house was built, number of living units, type of construction material used, type of foundation, living space square footage, number of rooms, age of the roof, roofing materials, and the age of heating, plumbing and electrical systems.
- ✓ **Community fire protection** -- These factors include the distance from the nearest fire department, the proximity of the nearest fire hydrant and response time of responding fire department.
- ✓ **Prior insurance** -- An uninsured property that you have owned for several years will be more difficult to insure than a property that you have newly purchased.
- ✓ **Claims and occurrence history** -- You may be asked to disclose both claims and occurrences from the past. An occurrence may not have resulted in a claim being opened or processed, but insurers say it does represent potential for loss, and insurers may ask about such events.
- ✓ **Stability** -- You will be asked for information such as your occupation and how long you have been with your current employer.
- ✓ **Credit information** -- You may be asked to provide information regarding any bankruptcy, judgements or credit problems. The insurer also may obtain your credit history from one of the national credit reporting companies.

The company may require an inspection of the property. Once the policy is issued, the company may require a reinspection prior to a renewal.

The cost of homeowner insurance

State law requires insurance companies to submit proposed rates and rate changes to the Office of the Insurance Commissioner for review. These requests must include sufficient financial information that establishes the need for the requested rate. If the OIC's rate analysts are satisfied with the information provided, the OIC is compelled by state law to approve the request.

Homeowner insurance rates are based on a variety of factors. Basically, the premium that you pay consists of a "base rate" amount that is adjusted up or down to reflect specific risk factors. While the weight given to these risk factors will vary by company, the major factors are fairly universal.

Territory rating -- Homeowner rates can vary according to geographical region. Some areas are more prone to wind damage or water damage. The crime rate and emergency response time in an area can impact how an insurer rates your home.

Construction -- Wood frame construction is at greater risk from fire and other types of loss than homes constructed from concrete or masonry. On the other hand, masonry structures are more susceptible to damage by an earthquake than wood structures.

Amount of insurance -- Your premium will vary depending on the replacement cost of your home. Note: the cost to actually rebuild your home may exceed its current market value or sales price. Talk to your agent to determine whether you have an adequate amount of coverage.

Credit history -- Your insurance company may use information from your credit history to determine an insurance score for you, and this may affect how much you will pay for coverage. Insurers believe that there is a statistical relationship between your score and the likelihood that you'll file a claim in the future. However, companies are restricted from using certain kinds of credit information by recent state law.

Claims history -- Some companies may charge you more based on the number of claims you have filed. They may even cancel your coverage if you have made several claims. Every company is different. Talk to your agent to find out how his or her company handles claims history.

Reducing your rates

Every insurer who provides homeowner coverage uses its own package of "special" discounts to market its products to particular types of customers. The following list contains a sampling of discounts that you may want to ask your agent about:

- ✓ **Multiple policies** -- If you have your home, auto, liability and/or other policies with the same company, it may offer a discount.
- ✓ **Non-smoker discount** -- Some insurers offer a discount when all family members are non-smokers.
- ✓ **Protection devices** -- If you have smoke detectors, burglar alarms or automatic sprinkler systems, the company may offer a discount.
- ✓ **Long-time customers** -- Some insurers offer discounts to long-time customers with no claims history.

- ✓ **Higher deductibles** -- Choosing a higher deductible will reduce rates. If you have a lien holder, there may be a limit as to the amount of deductible you can choose.

Advance preparations can ease the claims process

Insurance is something that you hope you never have to use, but if you should ever find yourself in the position of having to file a claim after experiencing a loss, the following suggestions can make the process easier:

- ✓ **Written inventory** -- Create, and regularly update, a written inventory of your home's contents.
- ✓ **Video/photographic record** -- Videotape or photograph the contents of your home, also the exterior from different viewpoints and angles.
- ✓ **Identify** -- Engrave or mark larger possessions to show ownership.
- ✓ **Appraisals** -- Have jewelry, antiques, stamps, coins and other valuable collectibles appraised.
- ✓ **Document security** -- Keep your insurance policy, home inventory, appraisals, photos, video records in a secure secondary location (your office or with a trusted friend).

Records and documentation should be updated periodically. Set a specific date annually for this review.

If you experience a loss

If you experience a loss, you should:

- ✓ Notify your agent or insurance company.
- ✓ Ask your agent or company what documents, forms, and other data you will need in order to have your claim processed.
- ✓ Review your policy coverage and ask your agent or company for an explanation of the coverage available for the loss.
- ✓ Protect your property from further damage. Save the receipts for the temporary repairs, and submit them to the insurance company for reimbursement. Permanent repairs should not be made until after the company has had a chance to inspect the damaged property.
- ✓ If you are unable to live in your home, keep your agent or insurance company informed of your whereabouts so they can reach you and provide guidance.
- ✓ Itemize your contents loss (this is where your inventory list is extremely helpful) including copies of receipts for the larger items.
- ✓ If the loss is due to a criminal act, such as burglary or theft, notify the police or local law enforcement agency.

You must prove your loss, and receipts are the best way to do it. If you don't have receipts, then photos of the damaged or missing items taken prior to the loss may help document the loss. Promotional brochures and other information may be helpful as well. If your insurance company requires a "proof of loss" (POL) form to be submitted, completing it and submitting it in a timely and accurate manner will help prevent delays in the claim process. Keep complete copies for your reference.

Washington State Office of the Insurance Commissioner (OIC)

Consumer Protection



Hotline



1 (800) 562-6900

How can we help you?

The Consumer Protection Hotline can help if you:

- Had a claim denied and don't know why.
- Feel an insurance company has delayed your claim.
- Feel an insurance company has treated you unfairly
- Feel an insurance company/agent has broken the law.
- Have lost coverage and want to know your rights.
- Don't understand coordination of insurance benefits.
- Have questions regarding terms/conditions of a policy.
- Can't afford health care coverage or prescription drugs.
- Need help with Medicare eligibility/enrollment.
- Don't know if your children qualify for free health insurance.
- Aren't sure how to choose and finance long-term care.
- Want to know public health coverage options (Medicare, Medicaid, etc.) or how to fill gaps in Medicare.
- Don't know why your health insurance didn't cover a service.

One toll-free call connects you to OIC Consumer Protection!

- Have an operator connect you to the right staff member *or* local counselor for your needs.
- Order any of the OIC's many publications.
- Get bilingual help.



Consumer Protection is:

Consumer Advocacy

Expert professional staff answer questions and educate you regarding problems with any kind of insurance or insurance company—**auto, life, disability, health, homeowner/tenant, or other**. We have the authority to investigate complaints against insurers and agents, provide dispute resolution, and enforce insurance law on your behalf.

www.insurance.wa.gov

*STATEWIDE HEALTH INSURANCE BENEFITS ADVISORS

SHIBA* HelpLine

Counselors/educators assist and advocate for you regarding **health insurance** and **health care/prescription access**. A state-wide volunteer network offers individual counseling and group education in **local** communities to help you understand your rights and options. We help with **private insurance** and **public programs**, policy evaluations, billings, appeals, and more.

www.insurance.wa.gov/consumers/shiba/default.asp