

Homeowners' Insurance FAQ

QUESTION: What kinds of coverage are included in a homeowners' insurance policy?

ANSWER: A typical policy provides coverage for your home, your personal belongings, other structures on the property, loss of use and personal liability.

Q: What is the difference between Form 2 and Form 3 coverage?

A: The Form 2, which is also referred to as broad-form coverage, provides protection for specifically named perils (fire, lightning, wind, theft, etc.). It is very good protection, but coverage is limited to the named perils. The Form 3 takes it a step further and provides coverage for any accidental damage except that which is specifically excluded. The Form 3 costs a bit more but is usually the better option as it provides coverage in more situations than the Form 2 does.

Q: What kind of claims do you see that are covered on the Form 3 but not on the Form 2?

A: The most common claim we see that is covered on the Form 3 but not on the Form 2 is ice and water backup damage. This type of claim can occur when snow and ice accumulate on your roof. The snow and ice can buildup and create a dam that can cause water to back up through the roof damaging the interior of the house.

Q: How much should I insure my home for?

A: There's no cut-and-dried answer. Most people buy a replacement cost policy, which provides replacement cost coverage up to the limit of insurance purchased. Most policies require that you select an amount of insurance close to what the actual replacement cost of the home would be in the event of a total loss.

Q: How much would my home cost to replace?

A: We have tools that can provide a rough estimate of what your home would cost to replace, but it's only an estimate. If you have made significant improvements to your home, or used non-standard construction, that will change the cost. It's a great idea to get a second opinion from a qualified contractor. Err on the side of caution. Costs of materials and labor can fluctuate widely, and construction standards may have changed since your house was built. The increase in premium is usually minimal.

Q: The amount of coverage I have is higher than the market value – why is this?

A: It's probably because you have a replacement cost policy. These policies require that you be insured close to what the actual replacement cost is or you could incur a

coinsurance penalty. It's important to remember that the market value or tax assessment reflect what you can sell the house for, not the cost to actually build it.

Q: Coinsurance penalty – what's that?

A: There is a clause that stipulates that you carry an amount of insurance that is close (usually 80 percent) to what the home would cost to replace. If you are under this amount you will receive a prorated settlement based on how underinsured you were at the time of loss. It's good to err on the side of caution when deciding how much coverage to purchase.

Q: Is there an alternative to a replacement cost policy? What is it and when is it appropriate?

A: It is called Actual Cash Value. It is policy that is based on what the home is worth. Claims are settled using this formula: Replacement cost minus depreciation – which isn't to be confused with the market value of the property. It may be appropriate when the replacement cost far exceeds the market value or the home is not eligible for a replacement cost policy.

Q: What deductible should I select?

A: You want to select a deductible you are comfortable with as this will be the amount you will be responsible for in the event of a claim. Higher deductibles reduce the premium, but the savings may or may not be significant. In general, the higher the amount of coverage on your home the more it makes sense to carry a higher deductible.

Q: How much personal liability protection should I purchase?

A: Most companies offer anywhere from \$100,000 to \$500,000. This coverage can provide protection to you if someone brings a lawsuit against you for bodily injury or property damage, such as dog bites, falls or pool accidents. It's up to you how much coverage you need, but the cost difference from one level to the next is minimal.

Q: Are my personal belongings covered?

A: Yes your personal belongings are covered. The amount is usually set at 70 percent of the coverage on your home when you have selected replacement cost coverage. It is automatically included and can be increased for additional premium if the amount is not adequate. It is important to remember that certain items have sub-limits.

Q: What are sub-limits?

A: Sub-limits are special limits imposed for certain types of property. For example, coverage for jewelry in the event of theft is limited to a certain amount – usually \$1,500. To obtain higher amounts you can have the items added on the policy for an additional

charge. Types of items that generally have sub-limits are: money and securities, jewelry, furs, silverware and business property. Another advantage of scheduling an item is that the coverage is generally broader. For example, loss or mysterious disappearance is not covered on a Form 3 Homeowners policy. But when the item is scheduled, loss is generally covered.

Q: I run a business from my home – will my liability insurance protect me?

A: Generally no. Homeowners' policies exclude coverage for business exposures. If you own a business, you need to discuss it with your agent.

Q: Does homeowners' insurance cover flooding?

A: No, you would need to buy a flood insurance policy.