

Introduction

Home insurance is an expensive purchase for many Americans. This guide provides information on how to make decisions that can lower the cost of your home insurance and increase the value you receive.

Although home insurance is not required by law in most states, if your home is mortgaged, your lender may require the purchase of insurance on your home. To get the best value for your money, you must take responsibility for your home insurance purchase and make your own decisions.

The coverages offered to homeowners are typically contained in a package of liability and property coverages. This Consumer Guide principally addresses the package of coverages found in a “homeowners” policy. It does not address the more limited offerings of fire and extended coverages.

Why Buy Home Insurance?

- C Owners: To protect both your house and personal property.
- C Tenants: To protect your furniture and other personal property.
- C Everyone: Protection against liability for accidents that injure other people or damage their property.

Commonly Asked Questions

How much home insurance do I need?

- C Property Protection: The better your coverage, the less you will have to pay out of your own pocket if disaster strikes.
- C Self Protection: You need enough liability coverage to protect yourself from lawsuits resulting from your negligence.
- C Lender Requirements: Your lender may require you to cover the house for at least the amount of the mortgage. This may be either too little or too much coverage for your individual circumstances. You are not required to purchase insurance from the insurer recommended by your lender.
- C Policy Requirements: Insurers may impose some coverage requirements for replacement cost protection.

What Affects Home Insurance Prices?

- C Type of Construction: Frame houses usually cost more to insure than brick.
- C Age of House: New homes may qualify for discounts in some states. Some insurance companies either may not insure very old homes or offer a limited form of coverage.
- C Local Fire Protection: Your home's distance from a fire hydrant and the quality of your local fire division determine your fire protection class.
- C Amount of Coverage: The amount of coverage you buy for your house, contents and personal liability will affect the price you pay.
- C Deductible Amount: Your choice of a higher deductible will reduce the price for home insurance.
- C Discounts: In some states, insurers offer lower prices for such things as insuring your home and car with the same company and installing deadbolt locks or alarm systems.

What Deductible Should I Choose?

- C The deductible applies only to coverage on your house and personal property. It is the amount you have to pay out of pocket on each claim.
- C A policy with \$100 deductible will cost more than one with \$250 deductible. Higher deductibles may be available at a reduced price.

Basic Coverages Available

Whether you own or rent, there are different packages of home insurance offered to protect your home and belongings.

Each package protects against a specified number of perils. Perils are events that cause damage to property. Three examples are fire, windstorm and theft. In addition to coverage for named perils, each package policy usually contains four additional types of coverage: property damage, additional living expenses, personal liability and medical payments. Home insurance policies apply to most owner occupied single-family homes, and are modified slightly for apartments and condominiums.

Property Damage

Property damage coverage helps pay for damage to your home and personal property. Other structures such as tool sheds, detached garages, houses and their contents are also covered. You should check with your agent or your insurance company to determine if the amount of coverage on other structures is sufficient.

Personal property is the contents of your home and other personal belongings owned by you or family members who live with you.

Home insurance policies may provide limited coverage for small boats; however, most home insurance policies do not cover motorized vehicles unless they are unlicensed and used only at your home. Your insurance agent or your insurance company can help you find appropriate coverage for your car, boat, snowmobile or other recreational equipment.

Some forms of personal property, such as silverware, computers, guns, money, expensive antiques and jewelry, have limited coverage under your homeowner's policy and may need additional insurance. This coverage can be added to your policy as an endorsement.

You can choose to insure your home and belongings for either replacement cost or actual cash value. These terms are explained below.

Replacement Cost or Actual Cash Value?

Replacement cost is the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality, without deducting for depreciation. Depreciation is the decrease in home or property value since the time it was built or purchased because of age or wear and tear.

Many insurers require homeowners to insure their homes for at least 80 percent of the replacement cost. If the homeowner fails to insure for at least 80 percent of the replacement cost, a penalty is applied to partial losses. For example, if it would cost \$125,000 to replace your home and it is insured for \$100,000 (80 percent of its replacement value), and a fire causes \$25,000 worth of damage, then your insurance company will pay the full \$25,000.

On the other hand, if your \$125,000 home is insured for \$75,000 (which is less than 80 percent of its replacement value), and you suffer a \$25,000 loss, your company would pay for

only part of the loss. You would have to pay the balance out of pocket. Your company would pay for damages based upon the following formula:

$$\frac{\text{Amount of Insurance Carried}}{\text{Amount of Insurance Necessary to cover assets (80 percent of \$125,000)}} = \frac{\$75,000}{\$100,000} = 3/4 \text{ or } 75\%$$

Using these figures, your company will only pay for 75% of your \$25,000 loss. Hence, $3/4 \times \$25,000 \text{ loss} = \$18,750$ paid by the company. You would have to pay the balance of \$6,250.

As you can see, insuring your home for at least 80% of its replacement cost is very important. Check with your agent or insurance company to see what is required. You may wish to insure at 100 percent of replacement cost so you will have sufficient coverage in the event of a total loss.

Actual cash value is the amount it would take to repair or replace damage to your home after depreciation. For example, if your roof has a 20-year warranty and is 17 years old, there would be a depreciation for the age and condition of the roof.

Most standard home insurance policies cover the contents of your home (i.e., personal belongings) on an actual cash value basis. Many insurers offer an option for you to insure your belongings at replacement cost. The premium will be slightly higher for this coverage; however, you may want to consider this option.

Whether your home is insured for replacement value or actual cash value, it is important to keep track of its value. For instance, the addition of a room, new insulation and yearly inflation all increase the replacement cost of your home, while the actual cash value of the home may decrease over time.

Check with your agent or insurance company at least once a year to make sure your policy provides adequate coverage.

Additional Living Expenses

Most home insurance policies provide additional living expenses that will pay some expenses if your home is damaged by an insured event to the extent that you cannot live there while repairs are being made, or if you are denied access to your home by government order. These expenses could include limited motel, restaurant and warehouse storage.

Personal Liability

This coverage protects you against a claim or lawsuit resulting from bodily injury or property damage (non-auto and non-business) to others caused by your negligence. This coverage applies to you and all family members who live with you. You should check with your agent or insurance company to determine if the amount of personal liability coverage is sufficient.

Medical Payments

Regardless of who is at fault, this coverage pays medical expenses for persons accidentally injured on your property by a member of your family or by your pets. Medical payments do not apply to your injuries or those of family members living with you or to activities involving your at-home business. You should check with your agent or insurance company to determine if the amount of medical payments coverage is sufficient.

Insurance Forms

An insurance form is another name for an insurance policy, and it specifies what perils (such as fire, lightning, flood, etc.) your home and belongings are insured against. The following are descriptions of the various insurance forms available for homeowners, renters and condominium owners. Not all insurers use these exact terms to describe their home insurance forms; however, the coverage provided will be similar.

Home Insurance

The five homeowners package forms offered to owners of single family owner occupied homes are HO-1, HO-2, HO-3 with HO-15 and HO-8. These policy forms insure your home and belongings against at least 11 named perils. The more perils your policy covers, the more you will pay for the policy.

- C Basic Form HO-1 insures your property against the first 11 basic perils shown in the chart on page 7.
- C Broad Form HO-2 covers the 18 perils listed in the chart on page 7.
- C Special Form HO-3, the most popular of all homeowner's forms, offers a broad range of coverage. This form provides comprehensive coverage on your home and broad named peril coverage on your contents.
- C Comprehensive Form HO-3 with HO-15 covers your home and personal property for everything that is not specifically excluded. This policy generally provides the broadest coverage available, but is not offered by all companies. It usually costs

more.

- C Modified Coverage Form HO-8 is designed to provide package coverage to the owner-occupants of homes that do not meet all the requirements applicable to other homeowners forms. The HO-8 provides building and personal property coverage slightly more restrictive than that of other homeowners forms for owner-occupants that include a replacement cost clause. The HO-8 is particularly well-suited for residences that have suffered extensive depreciation.

Your home may not qualify for one of the five homeowners package policies, therefore, a company may offer you limited coverage on your house. This coverage may be fire and extended coverage. Your home and only your home would be covered for damage due to very specific perils or losses.

Renters' Insurance

If you rent an apartment or a house, you still have a need for liability coverage and for insuring your personal possessions. Liability coverage protects renters the same as it would if you were a homeowner.

The owner of the property is responsible for insuring the building and for obtaining his or her own liability coverage.

- C Tenants Form HO-4, or a renters' policy, insures your household contents and personal belongings against the perils included in the home insurance Broad Form HO-2. Like home insurance, it provides coverage for additional living expenses and includes personal liability protection.

Condominium Insurance

Your condominium association should purchase a policy that covers the building, any common walls and grounds and liability associated with common properties. You have a right to examine the association policy.

To protect your contents and interior walls, you may purchase Unit-Owners Form HO-6. An individual unit-owner policy is similar to home insurance and renters' insurance.

- C Condominium Unit-Owners Form HO-6 will cover a unit-owner who wishes to insure his or her property or to cover any items not insured by the association's policy. A unit-owner policy will also pay for property damage to personal belongings, wall, floor and ceiling coverings, and any accessories not originally installed in the unit. It also provides personal liability protection.

Optional Coverages You May Wish to Consider

C *Guaranteed Replacement Cost Coverage*

Guaranteed replacement cost coverage is the most complete coverage for your home. To obtain this type of coverage, you typically must meet specific underwriting rules and conditions of the company. This may include increasing the amount of your insurance on a monthly, quarterly or yearly basis to keep up with the inflation rate. Check with your insurance agent to determine if an additional premium is required and if there are exclusions or conditions that apply.

C *Inflation Guard Endorsement*

If the replacement cost of your home is increasing with inflation, your policy limits must be periodically increased to maintain your coverage at 80% or higher. Even though the amount of homeowners insurance you carry is at least 80% of your home replacement cost, this amount of coverage may not be enough in the future.

To aid you in keeping coverage at an adequate level, some companies offer an “Inflation Guard Endorsement.” This endorsement will allow your insurance company to automatically change your policy limit during the policy period. Normally, the higher premium is not paid until the time of renewal.

Even if you have this endorsement on your policy, you should check your coverage limits periodically to make sure you are adequately, but not excessively, insured. Not all companies offer this endorsement, so check with your agent or company if you are interested in purchasing it.

C *Scheduled Personal Property Endorsement*

This endorsement is sometimes called a “personal article floater.” A personal article floater covers possessions such as jewelry, furs, stamps, coins, guns, computers, antiques and other items that may exceed normal limits in your regular home insurance policy. A personal article floater itemizes each article, gives a description of the article insured and lists excluded perils. It often provides coverage that is broader than the coverage granted in the home insurance policy. There is typically no deductible applied to this coverage.

C *Increased Limits on Money and Securities*

This endorsement increases the coverage on money, bank notes, securities, deeds, etc.

C ***Secondary Residence Premises Endorsement***

Homeowners coverage under this endorsement applies to a secondary residence such as a summer home. Remember that these secondary residences are not automatically covered by the home insurance policy on your primary or principal residence.

C ***Watercraft Endorsement***

Applicable to small sailboats and outboard motor boats, this endorsement broadens personal liability and medical payments coverage as well as physical damage to the boat. You may need to purchase a “Boat Insurance Policy.”

C ***Theft Coverage Protection Endorsement***

As a result of this endorsement, your theft protection is broadened. The contents of your motor vehicle, trailer or watercraft are covered without proof of forcible entry. This endorsement applies only to forms HO-1, HO-2, HO-3 and HO-4.

C ***Credit Card Forgery and Depositors Forgery Coverage Endorsement***

Loss, theft or unauthorized use of credit cards (with certain exceptions) is covered by this endorsement. Also covered is the forgery of any check, draft, promissory note, etc., again with certain exceptions. No deductible applies to this endorsement.

C ***Flood Insurance***

Each year, thousands of Americans find out too late that their homeowners policies do not cover flood damage. Many people mistakenly believe that if they own or rent homes in floodplain areas, only then do they need flood insurance coverage. The fact remains that many people living outside high risk areas do not have coverage for flood damage. National Flood Insurance Program (NFIP) statistics show that over one in four claims are paid to homeowners and renters located outside the floodplains. People should seriously consider protecting their homes and personal assets from the destruction of flooding by purchasing flood insurance. Unfortunately, most people without flood insurance never fully recover financially.

The NFIP is the only way for most people to buy flood insurance to protect their homes and personal property from the financial ruin brought on by flooding. Nearly every home’ or renters’ policy throughout the United States specifically excludes coverage for damage by “rising water.” An NFIP Standard Flood Insurance Policy specifically provides coverage from “partial or complete inundation of normally dry land areas.” For more information, contact your agent

or call NFIP at 1-888-call flood, extension 445.

C ***Earthquake Insurance***

Earthquake insurance is available through most insurance companies at an additional cost. It is normally issued as an endorsement and attached to your home insurance policy.

C ***Windstorm Coverage***

Most home insurance policies cover damage caused by windstorm and hail. However, in some areas of certain states, mostly coastal, this coverage is excluded from the standard policy. For more information, ask your insurance agent or insurance company if this peril is covered by your policy.

Smart Shopping

The key to comparison shopping is to know what insurance coverages you need before you start and then to find out how much those coverages will cost from a number of insurers. Comparison shopping takes time but will save you money. Different companies charge different rates for the same coverage.

No one wants to pay more for their home insurance than they absolutely have to. The only way you can make certain you are not paying too much is to shop around. Find out what different insurers charge for identical products and services.

Seek Unbiased Information

Information is available to consumers from a number of unbiased sources. These sources include public libraries, your state insurance division, consumer groups and consumer publications.

Because the insurance industry, like many other industries, has developed many words not commonly used by the average person, consumers may need to find a good glossary or dictionary of insurance terms from the public library.

Consumers may also obtain a wide variety of information from their state insurance division. Every state insurance division has personnel available to answer questions regarding home insurance coverage.

Where to Shop

When you begin to contact insurers, there are a few things you should know about how insurance companies market their products.

Most insurance companies and many agents advertise. Check the newspaper and yellow pages of the telephone directory for companies and agents in your area. In addition, contact your neighbors, relatives and friends for recommendations on insurance companies and agents. Ask them about their experience regarding price and service. In particular, ask them what kind of claim service they have received from the companies they recommend.

Consumers often rely on their insurance agent or company to tell them what kind of coverage they need. Insurance agents are paid on a commission basis. Remember, competition only works if the consumer shops for coverage.

Price Quotations

When shopping for home insurance, premium quotations are a useful tool for comparison of different companies' products. When asking for price quotations, it is crucial that you provide the same information to each agent or company.

To give you an accurate quote, the agent or company will usually request the following information:

- C description of your house;
- C distance from the nearest fire division and fire hydrant;
- C square footage;
- C security devices;
- C a picture of your home;
- C the coverages; and
- C limits you want.

This information is necessary to the rating process described earlier in this guide.

You should understand that not all insurance companies use insurance agents to sell their product. Insurance companies generally use one of three methods to market their product: 1) direct marketing; 2) independent agents; or 3) exclusive agents. The type of marketing method may be good or bad for a consumer, depending on the type of services offered. Therefore, consumers should be aware of each of the three methods and may want to consider them in their purchase decision.

Direct marketers sell insurance through the mail and by telephone. In some cases, consumers can save money with direct marketers because these companies do not have to pay insurance agents commissions to sell their policies. Companies can pass along some of these savings to the consumer. However, some consumers prefer to pay an additional premium for the

opportunity to have a local agent available to them.

If you decide to call agents for quotations, ask them how many companies they represent. Independent agents represent several companies; therefore, you can get quotes for more than one company from one agent. This is considered an advantage to many consumers.

Some insurance companies sell coverage through agents that only represent their company. These companies call their agents an exclusive agency force. Exclusive agents can only offer you coverage from the company they represent; therefore, you can only get a quote from one company for each exclusive agent that you talk to.

Sometimes exclusive agents may work for a lower rate of commission than independent agents. This is because companies do not have to give the agent an incentive to write their product over another company's product. The lower commission structure, especially commissions for renewal business, can represent significant cost savings to the insurance company and often a portion of that savings is passed along to the consumer in lower premiums.

For Your Protection

Once you have selected the insurance coverages you need and an insurance agent or company, there are steps you can take to make certain you get your money's worth.

Before signing an application for any insurance coverage, call your state insurance division and verify that the company and the agent you are dealing with are licensed in your state. It is illegal for unlicensed insurers to sell insurance. Business cards are not proof of a licensed insurance agent or company. If you do business with an unlicensed agent or company, you have no guarantee that the coverage you pay for will ever be honored. If you purchase insurance from companies not legally doing business within your state, you will not be protected by the guaranty fund should the company fail.

Every state has a safety net to protect insurance consumers from financial loss in the rare instance that a company becomes insolvent. This safety net is called a "guaranty fund." The guaranty funds are established by state law and are composed of licensed companies in the state. They pay the claims of policyholders and other claimants of an insolvent company. The money to pay the claims against the insurance company comes from assessments made against all of the insurance companies that are members of the guaranty fund.

If you are contacted by an unlicensed agent or company, call your state insurance division immediately so that regulatory action can be taken. By doing so, you may protect someone less knowledgeable than you from being victimized.

You should be aware that a home insurance policy is a legal contract. It is written so that your rights and responsibilities, as well as those of the insurance company, are clearly stated. When you purchase home insurance, you will receive a policy. You should read that policy and make certain you understand its contents. If you have questions about your insurance policy,

contact your insurance agent or company for clarification. Keep your policy in a safe place and know the name of your insurers. If you still have questions, call your state insurance division.

Your State Insurance Division

The Nevada State Insurance Division exists to serve you and can be a source of unbiased information and assistance to you. If you do not understand your insurance policy, you can call the Consumer Services Section of the Insurance Division and ask questions.

If you have a complaint against an insurer, it is always best to contact your insurance company first and attempt to settle the matter. Most insurance companies have policyholder service offices set up precisely to handle such questions. If you still are not satisfied, contact the Nevada State Insurance Division. The Consumer Services Section has specialists to help you with your problem. Although they cannot represent you legally against an insurance company, they can make appropriate investigation into potential violations of insurance laws or regulations based upon your complaint.

Contact Information

Northern Nevada

State of Nevada
Department of Business & Industry
Division of Insurance
788 Fairview Drive, Suite 300
Carson City, Nevada 89701-5453
(775) 687-4270

Southern Nevada

State of Nevada
Department of Business & Industry
Division of Insurance
2501 East Sahara Ave., Room 302
Las Vegas, Nevada 89104
(702) 486-4009

Consumer Services Section

For consumer complaints or questions, contact one of our Consumer Services Officers:

Carson City (775) 687-4270

Las Vegas (702) 486-4009

Toll Free in Nevada 1-800-992-0900
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World Wide Web

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