

Homeowners Insurance

Survival Guide

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As a claims adjuster, I handled many large and small homeowners insurance claims. Aside from losing a loved one, there is probably nothing more emotionally taxing than seeing your home, and all its contents, destroyed by fire. Despite its intense heat, there is something terribly cold and impersonal about fire – it does not care that your family photo albums cannot be replaced, it does not care that the engagement ring in your bedroom was handed down for generations, it does not care that the young lady of the house could sleep – even without her own bed – if only she had her special stuffed animal or blanket.

With a catastrophic loss, there are always going to be surprises – things you will learn as an insurance customer which were always in your policy, but which you never thought you would need to know. I hope you never do need to know about them, but here are a few of those surprises which, in my experience, caused the greatest dismay to devastated homeowners who had lost their homes.

Special Limits of Liability

Your personal property – the unattached items you own and insure under your homeowners policy – have a Limit of Liability which is stated on the Declarations Sheet of your policy. This is the greatest amount the insurer will pay for contents lost or damaged by a covered cause. Since many homeowners have a hard time valuing their possessions, the typical approach is to set the limit at 50% of the home's replacement cost. So the first thing to know is that this limit is really set by agreement with you – the homeowner – and if a higher limit is more appropriate that this “guideline”, then it is up to you to tell your agent this, and adjust the limit before any loss.

But *within* this limit for contents, your policy also contains what are known as “Special Limits Of Liability”. These are sub-limits for special classes of property defined in the policy, such as jewelry or financial securities, for which the policy will not pay more than a smaller, set amount. I will lay them out for you here: (All examples come from the ISO HO3 Form, Edition 10-00)

- \$200 on money, bank notes, bullion, gold, silver, platinum, coins, medals, scrip, stored value cards and smart cards.
- \$1,500 on securities, accounts, deeds, evidences of debt, letters of credit, notes other than bank notes, manuscripts, personal records, passports, tickets and stamps.
- \$1,500 on watercraft of all types, including trailers and equipment/motors.
- \$1,500 on trailers other than boat trailers.
- \$1,500 for loss by theft of jewelry, watches, furs, precious and semiprecious stones.
- \$2,500 for loss by theft of firearms.
- \$2,500 for loss by theft of silverware (and similar tableware).
- \$2,500 on business property.
- \$1,500 on electronic equipment while in a motor vehicle.
- \$1,500 on business electronics while away from the residence.

You might notice that the high-value items which are relatively easy to steal – jewelry, furs, firearms and silverware – are limited *only for loss by theft*. If such items are included in your general

contents values insured, and are lost by fire or some other catastrophic cause, the special limit does not apply.

Why the special limits, and what can you do about them?

These classes of property are generally of a type that are either considered to be uninsurable by standard property insurers – such as large amounts of money or securities – or have special attributes that make them more appropriately insured on a separate policy or endorsement, with separate and usually more stringent underwriting considerations.

For instance, theft coverage for jewelry or firearms and other precious goods can generally be added to your policy by scheduling them separately, providing appraisals to verify their values, and sometimes by showing that some sort of security system is in place to protect them from theft.

Powered watercraft and their trailers, on the other hand, should be insured on a separate policy if they are of value, as should business equipment. In general, almost everything on this list can be insured at greater limits – for a price.

When Replacement Cost Doesn't Mean Replacement Cost

Insurance companies have thought this out a lot better than you have. Trust me on this. They have inserted provisions in the policy which may well be “fair”, but which are nevertheless different from what you probably think they are. Replacement Cost coverage – which is a fairly standard basis for covering homes and their contents these days – is not always what it sounds like.

Two prime examples – when you have selected a coverage limit less than the “true” replacement cost of the property, and when, for whatever reason, you decide *not* to replace what you have lost.

In the first case, say your house would cost \$200,000 to rebuild just as it was before a fire. You, however, first insured the house 10 years ago, and at the time you selected Replacement Cost coverage and chose a building limit of \$120,000, which was enough to replace the building 10 years ago. You have not changed the limit since then. Your unendorsed policy contains a provision, which states that you will not receive replacement cost coverage for your building unless your building limit is *at least 80% of its current replacement cost*. This means that you should have had at least a \$160,000 limit on the building, and because your limits were inadequate, you do not qualify for replacement coverage, even on a partial loss to your building. (You would still have coverage, either at Actual Cash Value after depreciation, or at a proportion of your loss set out in a formula contained in the policy – whichever is greater).

This is called a “Co-Insurance” penalty – by not reporting and paying premium on the full value of your covered property, you are in effect becoming a co-insurer of the property, self insuring for a portion of that value.

In the second example – when you decide not to replace the damaged or lost items – the replacement cost coverage does not take effect, and instead your claim is limited to the Actual Cash – or depreciated – Value. Some practical examples of this – when a fire destroys everything in the house, and you duly list and claim all the music and computer CDs you have purchased over the years, the company will only pay you the depreciated value of such items (usually pennies) *until* you actually go out and buy their replacements, submitting receipts to demonstrate you have done so. (It is important to note here that the basic, un-endorsed HO3 policy will only pay for contents at ACV in any event. However, it has largely become standard practice to attach a Personal Property Replacement Cost endorsement to homeowners policies.)

Or, if your house is destroyed and you decide to pack it in and move rather than re-building, you may be limited to Actual Cash Value coverage for your building loss. In other words, if you don't actually rebuild or replace the house, you might not collect the full limits.

“Nobody Reads These Things!”

It is true that few policyholders know what their policies say or promise to do. It is also true, though, that most of the problems that happen when people have property claims are not the result of some nefarious, deceptive practice on the part of insurance companies. By and large, they honor the promise represented by the policy which the insurance customer buys.

The real problem is one of neglect. Unless there is a claim, we tend to think about our insurance needs only when we make large purchases – when we buy a new house, we choose a rational value to insure it for, often with the help of the bank. If we buy or receive some nice jewelry or fine arts, we are aware of their value – and our need to protect it – so we have a thoughtful conversation with our agent, and pick an appropriate insurance value. But this valuation picture can change dramatically as the years pass. The bank is still very well protected for *its* interest in the house, but what about the equity *you* have earned as its value appreciated over time? Likewise, has the jewelry or artwork appreciated in value? Or, on the other side, might it have *depreciated*, so that you may be paying premium for coverage that cannot be collected on?

I recommend you seek out an agent who is a real, technical expert on the inner workings of the policies he or she sells, and then make it a point to sit down and review coverages with him or her at least once every three years. This takes some discipline, and I admit I have trouble doing it myself. I find the best way for me to remember this particular task is to write myself a large note reminding me to review coverage at the same time my taxes are due, *and leave it in the file where I keep my tax returns*. This is the time when I “take stock” of what happened for the year, and bring the previous year's records out, so I know a big note saying “MUST UPDATE POLICIES IN 2006” gets in front of me when it needs to.

A Final Word

Again, no one likes thinking about his or her insurance, and no one likes to plan for a catastrophic loss. All the more reason to do one of the simplest things you can to prevent problems with major fire claims. It is an hour or so that is well spent, can even be fun, and is some of the cheapest insurance you can get.

Simply rent or borrow a camcorder, and with the lights on – perhaps with a family member playing “host” and holding up items with some running commentary – walk around your house, open all the doors and cupboards, and film everything that's there, then put the tape in a safe place away from the home.

I did not say film everything of *value*, I said film *everything*.

Recall that the contents of your home are covered up to some limit, chosen by you and listed on the Declarations Page of your policy. But this limit is the *most* the insurance company will pay you for your contents, and in the unhappy event the house and all its contents are *gone*, two huge problems hit almost every insured square in the face. The first is that the company requires a complete list of lost or damaged items before they will pay for them, and I can bear witness to the near impossibility of the task involved in trying to list *every possession you own*, when you are already traumatized by loss and displacement. The second problem is that companies typically make only partial payments on contents

until you have gone out and replaced the items you have lost, and this takes time. If you have a record of the items you owned, and can use it to demonstrate the condition and value of those items before the loss, you can maximize your up-front recovery, and quite possibly obtain the full payment earlier in the process, if not right away.

An added bonus of making this record is that it will also act as support for your building damage claim. It will testify to the quality and type of construction you had, and even let the builder see the color schemes and fine details you want recreated.

Of course, choosing the right agent - one who knows his or her way around the policies and the claims process - is perhaps the *best* insurance you can get.