Consumer Federation of America

United Policyholders
Empowering the Insured

SEVEN THINGS ALL HOMEOWNERS SHOULD KNOW ABOUT THEIR HOMEOWNERS INSURANCE POLICIES

Superstom Sandy revealed many of the problems homeowners may encounter when navigating the claims process after a natural disaster. Here are some tips from the Consumer Federation of America (CFA) and United Policyholders (UP) on what consumers should look out for when reviewing their policies:

1. MOST POLICIES CONTAIN EXCLUSIONS FOR FLOODS, EARTHQUAKES, OR LANDSLIDES

   In most parts of the U.S., insurance policies do not include coverage for losses caused by floods, earthquakes, or landslides. Consumers should determine if they are in high-risk zones by checking flood and earthquake maps.

   How do homeowners know if they are in a high risk for floods, wildfires, hurricanes or earthquakes?

   Homeowners can enter their zip code at www.DisasterSafety.org

   To find out if a property is in a flood zone, visit www.floodsmart.gov

   To find out if a property is in an earthquake zone, visit www.usgs.gov/hazards/earthquakes

   Homeowners should ask their agent or insurer about obtaining the necessary coverage or visit their state insurance department's website.

2. HOW DIFFERENT DEDUCTIBLES CAN RESULT IN UNEXPECTED OUT-OF-POCKET COSTS

   Most insurance policies have at least two different deductibles that apply in different circumstances and could result in significant out-of-pocket expenses in the event of a loss.

   The first is a flat dollar-amount deductible, usually $500 or $1,000 depending on the coverage the homeowner selects.

   Many policies also have different deductibles for losses caused by specific events such as windstorms, hurricanes and earthquakes. These deductibles are anywhere from two to five percent of the amount of insurance on the dwelling.

   For example, a five percent windstorm deductible on a home insured for $200,000 means the homeowner will be responsible for the first $10,000 of damage from a windstorm. Homeowners should consider shopping for policies that do not have a separate percentage deductible for certain covered losses, although that may be hard to find in some high-risk zones. If a percentage deductible is included, homeowners should make sure they understand the standard for what kind of weather event will trigger that deductible.

   Homeowners should ask an agent or insurer about these deductibles and get the explanation in writing for use if they have trouble after a claim.

3. HIDDEN CLAUSES CAN RESULT IN REDUCED OR DENIED CLAIMS, EVEN FOR LEGITIMATE CLAIMS

Homeowners should check their policies to see if they include a little-known provision called an anti-concurrent-causation (ACC) clause. If present, this clause may result in a denial of claim if a structure is damaged at about the same time by two risks, one of which is covered (like wind) and the other not (like flood). In these circumstances, either no coverage or limited coverage will be provided for the otherwise "covered" part of the claim.

For example, if a hurricane causes wind damage and then a storm surge causes water damage, there may be no coverage at all unless the homeowner has purchased flood insurance. Homeowners should be cautious and read the fine print to determine if their policy has this "trap door" that gives the insurer the ability to deny legitimate claims from covered losses.

Homeowners should ask an agent or insurer if the policy has an ACC clause and get the explanation in writing about how it will apply if two events they are concerned about happen at about the same time.

4. DEMAND SURGE AND WHY IT MAY LEAVE SOME HOMEOWNERS UNABLE TO REPLACE THEIR HOME

After a major loss, many homeowners are often shocked to learn that their policy does not cover the full amount of the damage and that they may face substantial out-of-pocket costs. The homeowner's policy may not guarantee to replace a home but rather may be limited to only the amount stated in the policy or, sometimes, for a small percentage more. Homeowners should understand how understand how replacement value calculations are determined when shopping for a policy.

After a severe weather event, the price of materials and labor to repair homes can increase considerably, a phenomenon known as "demand surge." A homeowner who has paid extra for "replacement cost" insurance may reasonably think it will cover the full replacement cost even when prices increase due to demand surge – but it may not.

If a family buys replacement cost coverage with a $500 deductible on a home valued at $200,000 and they lose their home in a fire, they should receive a claim check for $199,500 and their home can be rebuilt without additional out-of-pocket costs.

But if the damage to their home is the result of a hurricane and there are many other damaged homes in the same region, building material and labor scarcity may result in demand surge and could increase building costs dramatically, sometimes up to 50 percent. In these circumstances, a family may need as much as $300,000 to replace their home. If the insurer caps the replacement cost at policy limits, that $199,500 payment will fall far short of claim payment needed to replace their home.

Homeowners should ask an agent or insurer about how demand surge applies in their policy and get the explanation in writing for use if they have trouble after a claim.

5. <u>POLICIES MAY NOT COVER MOLD DAMAGE OR HIGH-VALUE ITEMS</u>

Home policies often limit or exclude coverage for mold damage, non-flood water damage, computers, business property, art, food spoilage and many other specific items. Whenever possible, homeowners should choose an "all risks" policy as opposed to a "named perils" policy since that is much more complete. Homeowners should consider additional coverage for mold damage and additional coverage to protect high-value property such as jewelry or computers. Homeowners should ask their agent or insurer what these limits and exclusions cost to remove if they are included in a homeowner's policy.

6. <u>BUILDING CODE COMPLIANCE INCREASES COSTS, AND IS NOT ALWAYS COVERED</u>

Homeowners can be unaware that some policies exclude additional costs if a local construction ordinance or building code requires upgrades. This coverage needs to be purchased separately, as an add-on to the basic policy. This add-on is usually not expensive and is important for all homeowners to consider including in their policies.

Homeowners whose homes are at risk for flood damage might also consider buying excess flood coverage on top of their NFIP policy. Here's why: If a structure is 50 percent damaged, flood insurance rules require elevation of the first floor of the whole home to the 100-year flood elevation, often increasing the replacement cost dramatically. NFIP flood policies cover code upgrades but the maximum $250,000 limit the NFIP offers may be inadequate.

Homeowners should ask their agent or insurer about any building and ordinance exclusion that might be included in their policy and check to see if additional coverage is available to fully protect their home.

7. <u>PRICES VARY AND HOMEOWNERS SHOULD ALWAYS COMPARE PRICES</u>

Homeowners should compare prices if they experience a large rate increase and at least once every three years. Many insurers raise rates for long-term policyholders if they believe that they are not price sensitive and unlikely to shop.

Homeowners' insurance prices can also vary widely from one insurer to another. Consider the range in rates for home insurance from shopping guides in three states around the country:

Place/State	low rate	high rate
Bergen County, NJ	$241	$2,519
Austin, TX	$677	$2,030
Johnson County, KS	$741	$5,706

For more information, contact:

J. Robert Hunter, Director of Insurance, CFA, 703-528-0062
Amy Bach, Executive Director, UP, 415-713-3048