

California Homeowner Insurance Coverage Guide

What California Homeowners Should Know

Provided by

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Introduction to California Homeowners Insurance

The largest single investment most consumers make is in their home. In order to best protect your family, your home, and your possessions, it is wise to take the initiative to fully understand your homeowners insurance policy. While it is difficult to predict future loss, you can minimize the impact of loss on yourself and your family by spending the time necessary to familiarize yourself with your policy and how it specifically addresses your needs in the event of a loss.

Homeowners insurance is a package policy consisting of different types of coverage for the house, its contents, additional living expenses, personal liability claims against the policyholder and other members of the household, and medical payments to others. The policyholder pays a single premium amount for the combination of coverage listed in the policy..

When you purchase insurance, it is important to remember to shop for insurance in the same way that you shop for any other consumer product. Take the lead in shopping for and understanding your insurance policy. Make sure to compare prices, policy coverage and conditions, and complaint information. Also, research the coverage options that are available to you. Don't rely only on the word of someone else, including an insurance agent or broker, as to what is the "best coverage" for you. Find an agent or broker who is willing to spend time discussing your needs and how specific insurance coverage can best meet your needs. It is always wise to compare policies on your own to help determine the best product for you.

Always try to plan ahead when you need to purchase insurance. Allow the proper amount of time to make an informed decision. Never make important decisions on the spot without conducting research first. Remember, this is your home, not the insurance agent's or lender's. You should always take the lead in deciding what sort of insurance to buy and how much insurance you need.

Not All Insurance Companies Charge the Same Price

Under California law, each insurance company calculates its own rates, subject to California Department of Insurance (CDI) approval. Since each company's loss experience differs, the rates will differ as well. Therefore, it is wise to shop for the best price and coverage available in relation to your insurance needs. The CDI is pleased to offer online premium comparisons that cover over 90% of California's homeowners insurance market. You can receive these comparisons via the CDI Web site at www.insurance.ca.gov, or by calling the CDI Hotline at 1-800-927-HELP.

Costs and Payments

Most companies sell their policies through independent agents, who are often representing several companies and should be able to get the most competitive prices. However, some companies deal directly with the consumer and can offer competitive prices because of lower expenses. Again, premiums can vary greatly between insurers!

Many companies have their own methods of premium installment or payment plans, so ask for the details regarding premium installments or payments available through the company you consider for coverage. You can use this information to compare with premium financing options.

Discounts

Sometimes companies offer discounts for burglar alarms and fire protection devices such as smoke detectors, alarms, and sprinklers. Ask about the discounts available through the companies you are considering.

What Is Covered By Homeowners Insurance?

Typical homeowners coverage insures your dwelling, other structures and contents, and may cover against losses such as:

- Fire or lightning
- Windstorm or hail
- Breakage of glass
- Explosion
- Riot or civil commotion
- Theft
- Aircraft
- Vehicles
- Smoke
- Vandalism and malicious mischief

You may elect to buy specialized homeowners coverage that provides additional protection for your dwelling and contents beyond the standard coverage limitations in most homeowners policies. Ask your insurance agent or broker about available endorsements to extend coverage. Endorsements to coverage such as building code upgrade can greatly add to your protection in a loss. You may also want to consider separate earthquake coverage or flood insurance, as these types of hazards are specifically excluded in most homeowners insurance policies.

Your policy also covers loss of use, including increases in living expenses due to fire or other insured loss. It is a good idea to be familiar with the coverage provisions for living expenses and include the information in your regular disaster plan in case of emergency.

Liability coverage protects you for injuries or damages to others caused by you, a member of your family, or pet. Medical payments insurance covers medical expenses to non-family members injured at your home.

Important: Read exclusions in your insurance contract. Earthquake, flood, mold, earth movement, and "wear and tear" are some of the perils that are usually excluded. When an insurer writes your homeowners coverage, the insurer is legally obligated to offer you earthquake coverage for an additional premium. The earthquake coverage may be written directly by the homeowner's insurer, by a separate insurer, or through the California Earthquake Authority (CEA).

Tenants (renters) insurance covers the loss of personal property and **loss** of use due to the above-mentioned perils, and may include liability and medical payments coverage.

Condominium insurance is similar to tenants insurance and covers personal property and improvements. Loss of use is generally limited to 40 percent of the contents limit. The condominium association generally purchases insurance for the building structure and common areas, such as corridors. Loss Assessment Coverage can be an important policy provision for you. It covers you for certain assessments the condominium association makes. However, you should check if it covers you for earthquake losses and how much it will provide you in the event of an earthquake loss. You should also carefully analyze the type of insurance your association has and how it would affect you in the event of a loss. Most condominium association policies cover the common areas and walls. Your condominium owner's policy will cover interior damage to your unit.

What Limits Should I Set on My Policy?

The "dwelling" limit should be the amount it would cost to replace your home. This may have nothing to do with the purchase price or the current market value of your home, as homeowners insurance does not generally cover the land value of your insured property. Your insurance policy is not governed by the real estate market, but by the cost of the materials and labor involved in rebuilding your home. Insurance companies have formulas that they use to evaluate the replacement cost of your home. Since the formulas developed are unique for each company, different insurers may suggest or require different limits of coverage for your dwelling limit.

The following information can assist you to determine if the limit set by your company accurately reflects the price it would cost to rebuild your home in the event of a total loss:

- Contact your agent or broker for assistance in evaluating your dwelling limit. In order to prevent a "he said, she said" situation from arising in the future, you need to document your discussions and inquiries in writing.
- Review your dwelling limit initially and upon renewal. Discuss any changes to your home in writing to your agent, broker, or insurer that may cause your dwelling limit to increase or decrease.
- Know the replacement cost of your home. Be familiar with the building materials that make up your home including the construction type and any special features.
- Stay informed as to the current building costs in your area. Contact local general contractors and ask what the current price per square foot is for a home similar to your own.
- Keep accurate records of updates, renovations, and improvements to your home. Save receipts and samples of materials used when possible and contact your insurance agent or broker to increase the dwelling limit when appropriate.
- Contact your agent, broker, or insurance company if you believe your policy limits may be inadequate to request a comprehensive inspection of your home.

If you believe that your dwelling limit is undervalued or overvalued, and you have submitted documentation in writing to your agent, broker, or insurer to raise or lower the limits and your request is refused, then contact the CDI for assistance by using the information in the "Talk to Us" section of this brochure.

The "contents" limit is generally around 50% of the dwelling amount; however, this is a guideline only, as the most competent source on the replacement value of your personal possessions is you. Be sure to take into account all of your personal property when calculating the contents limits. Read and understand the limited coverage amounts for specific types of personal property such as:

- Jewelry
- Fine arts
- Silverware
- Antiques

- Collectibles
- Firearms
- Computer hardware and software
- Business personal property
- Money

The limited coverage amounts for specific types of personal property are not separate limits in addition to the contents limit. These limits are included in the overall contents limit and represent the maximum paid out for that specific type of personal property. Therefore, it is very important to add an endorsement (sometimes referred to as a "rider" or a "floater") to coverage which specifically schedules and takes into account the value of personal property that you may own above the special limits. Contact your agent or broker to discuss how to adequately cover any personal property that is valuable, falls above the limits, or is in any way out of the ordinary. Also, make sure to take into account commonplace household items when calculating your contents limit. Often, people concern themselves only with big ticket items purchased for use in their homes and neglect to account for all the many things you need to run your household and enjoy your home such as small appliances, kitchen utensils, linens, window coverings, and sundries. Remember, personal property also includes clothing, shoes, accessories, and personal items.

Two major problems suffered by homeowners on their Residential Property/Homeowners insurance policies in the Northern and Southern California fires were

- (a) Many of the dwellings were under-insured, i.e., insured for amounts inadequate for rebuilding. Insurers sometimes refer to this as inadequate insurance-to-value.
- (b) The problem of increased cost of construction was evident in many situations. When rebuilding, homeowners have to comply with new building code requirements. In some instances the difference between the dwelling limit and the code upgrades was a significant amount. Also, the extreme heat of some fires (and some new building code requirements) necessitated building new foundations along with appropriate debris removal. This is a situation that can be easily overlooked when determining building limits.

An important part to owning any property is protecting the property to the best of your ability. Homeowners insurance is a vital component to the protection of your property. By knowing and understanding the coverage and limits of your policy, and by making sure that values are current, you greatly add to you and your family's peace of mind in any loss situation.

Will My Policy Completely and Totally Replace My Home If It Is Destroyed?

This depends on whether your policy is a replacement cost value policy or an actual cash value policy. If your policy is an actual cash value policy, it will not. California courts have decided that actual cash value, unless otherwise specified in the insurance contract, is the fair market value. Fair market value can be loosely defined as the amount that a knowledgeable, willing buyer would pay and that a knowledgeable, willing seller would take for an item, neither being under unusual pressure to buy or sell. Insurers are permitted to provide an alternate definition of actual cash value in the policy if another method of determining value is to be used.

If you have a replacement cost policy, the chances that you will be able to completely rebuild your home are better; however, there are many types of replacement cost policies, so you need to be careful to purchase a replacement cost policy that best meets your needs. A policy cannot be sold as a "guaranteed replacement cost" policy unless it will pay to completely rebuild the home. Other types of replacement cost policies will pay your policy limits, plus a certain percentage above those limits. Some policies do not have building code upgrade (ordinance or law) coverage. Cities and counties periodically change their building codes. Unless your policy has this coverage, your insurance company may not pay for changes you may need to make to the structure of your home to bring it up to current building codes.

As discussed earlier your agent, broker, or insurer can assist you in establishing a limit that is adequate to rebuild your home. It is important to update that limit periodically to maintain a limit that reflects current construction costs. You may want to ask your agent, broker, or insurer if they automatically review or increase limits on a regular basis or if they offer an automatic inflation guard option that increases limits according to current inflation information.

In short, there is no substitute for reading your policy and your renewal declarations carefully. Whenever you are unclear about your policy, you need to contact your agent, broker, or company for clarification in writing. Discovering after a loss that you did not have the right coverage is not a situation you want to experience.

For more detailed information on residential claims, please see the CDI's Residential Property Claims Guide. This brochure helps you navigate the claims process and discusses hot topics such as water damage, mold, and replacement cost.

Remember, if you only shop by comparing prices only and not by comparing coverage, you are doing yourself a disservice. Your home is one of the most important purchases you will make. Take the time to get the facts straight before you purchase homeowners insurance. It may be one of the best decisions you make for yourself and your family.

Some Final Tips

- Take the time to shop around for homeowners insurance. Compare prices, service, and coverage. CDI premium surveys can help with premium comparison. You can call the CDI Hotline for further information and discussion.
- Provide the most complete and accurate information to your agent or broker when requesting a premium quote or completing an insurance application.
- Read all applications or finance agreements before signing. Read them again after you have filled them out completely (and before you sign) in order to check and see if everything is correct. Never sign a blank form or something that you do not understand. Keep a copy of all signed documents in a safe place for your records.
- Review and read your policy when you receive it. Don't file it without checking to see that the coverage, limits, premium, and other information are correct. Also, read through the policy carefully to identify your rights and obligations and the company's rights and obligations under the terms of the policy.
- Keep an inventory of personal property, listing all of the items you own, the dates purchased, and the price. If possible, take pictures of important and valuable items. You may want to videotape your home and possessions as well. Keep these records in a safe place away from home, preferably in a safe-deposit box. Also, periodically update your inventory, appraisals, photos, and videotape. This will help you to file and settle a claim quickly and efficiently..

Glossary of Homeowners Insurance Terms

Actual Cash Value (ACV) - Unless otherwise defined in the policy, actual cash value in California means fair market value. The fair market value of an item is the dollar amount that a knowledgeable buyer (under no unusual pressure) is willing to pay, and a knowledgeable seller (under no unusual pressure) is willing to accept.

Agent - A licensed individual or organization authorized to sell and service insurance policies for an insurance company.

Binder - A short-term agreement that provides temporary insurance coverage until the policy can be issued or delivered.

Broker - A licensed individual or organization who transacts insurance on your behalf.

Claim - Notice to an insurance company that a loss has occurred that may be covered under the terms and conditions of the policy.

Declarations - Usually the first page of an insurance policy that contains the full legal name of your insurance company, your name and address, the policy number, effective and expiration dates, premium payable, the limits of insurance, covered property, deductibles, and any applicable lienholder information.

Deductible - The amount of loss that the policyholder is responsible to pay up-front before covered benefits from the insurance company are payable.

Depreciation - A decrease in value due to age, wear and tear, or obsolescence.

Endorsement - A written agreement that changes the terms of an insurance policy by adding or subtracting coverage.

Exclusion - A contractual provision in an insurance policy that denies or restricts coverage for certain perils, persons, property, or locations.

Insured - The policyholder who is entitled to covered benefits in case of an accident or loss.

Insurer - The insurance company that issues the insurance policy, and agrees to pay for losses and provide covered benefits.

Premium - The price of insurance paid to the insurance company for a policy.

Quote - An estimate of the cost of insurance based on information supplied to the agent, broker or insurance company.

Replacement Cost - The amount that it costs to replace lost or damaged property with new property of like kind and quality in the local market.