

A consumer's guide to:

Homeowner Insurance

Choosing and using your homeowner insurance coverage



 Washington State
Office of the
Insurance Commissioner

www.insurance.wa.gov



A message from the Insurance Commissioner:



Your home and personal belongings are among the most expensive items you will purchase in your lifetime. Make sure you take the necessary steps to protect your investment.

As a property owner, you should prepare for the possibility of property loss from fire, lightning, weather, burglary, theft, or even lawsuits due to your negligence that cause property damage or injury to others. Whether your home is a house, condominium, manufactured home or duplex -- even if you're a renter -- it is essential you are properly protected and insured.

There are many factors to consider when you select an insurer and decide on coverage. This guide can help you determine what coverage meets your needs. It includes general information on what homeowner policies cover, the coverage limits, and tips on filing a claim.

Please take the time to read through this guide before you buy a policy.

If you still have questions after reviewing this information, please call our Insurance Consumer Hotline at 1-800-562-6900.

Sincerely,

A handwritten signature in black ink that reads "Mike Kreidler". The signature is written in a cursive, flowing style.

Mike Kreidler
Insurance Commissioner



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Understanding your homeowner insurance policy

Your insurance policy is a contract between you and your insurance company. It spells out exactly what the company agrees to do in exchange for the premium you pay. It also describes your responsibilities and the general terms of coverage. The contract is divided into two basic sections: a declarations page and the policy itself.

The declarations page

This section of the contract includes basic details of the agreement. It's important you review this page to ensure that all the information is correct and the coverages you requested are listed. The declarations page includes:

- Name of the insurance company
- Name(s) of the person(s) insured
- Location of the insured residence
- The policy number
- Policy period
- Property covered
- Coverages purchased
- Limits of liability for each coverage
- Applicable deductibles
- Your premium

The policy

The second part of your insurance contract is the policy itself. This includes:

- Insuring agreements
- Definitions
- Conditions

Section one of your policy describes your property coverages and the losses it covers.

Section two typically includes:

- Liability coverage (protection against claims someone else makes against you)
- Premises medical coverage or accidental injury coverage (pays the medical expenses of others accidentally injured on your property)

Each section includes coverages, limitations, exclusions, definitions, and conditions that apply only to that section.

Make sure you review your declarations page to verify your policy includes the types and amounts of coverage you requested.

Types of coverage

A homeowner policy is a protection package that provides coverage for your home, personal property, medical payments for others, and protection against claims someone else makes against you. This type of policy is available for primary residence homes occupied by the owners. It's often referred to as a "package" policy.

There are a wide variety of homeowner policies available, so be sure to read your policy to find out what coverage your insurance company provides. Following are some of the coverages that may be included in your policy.

Dwelling coverage

This coverage provides for the repair or replacement of your damaged or destroyed home and attached structures, such as a garage or deck. Most homeowner policies provide replacement coverage. This coverage pays the actual cost to replace your home up to the limit of your policy.

Some policies offer guaranteed replacement cost. Under this policy, the company will pay the full cost to replace your home, even if it is above the policy limit.

Before you have a loss, discuss with your agent or company how replacement costs work and the conditions of the policy limit for your specific coverage.

Coverage for other structures

This coverage provides for the repair or replacement of other permanent, separate, unattached structures on your property. The limit is typically 10 percent of the dwelling coverage. This coverage protects against a loss to a detached garage, personal workshop or detached fence. It usually will not provide coverage for other buildings on your property that renters

occupy, or buildings you use for business. If you have an unusually large detached garage or several outbuildings on your property, you may need to buy additional coverage.

Personal property coverage

This coverage provides for repair or replacement of your furnishings and personal items, such as your TV, stereo, clothing, dishes, etc. The coverage is usually 70 percent of the dwelling coverage for replacement costs, depending on your insurance company. Your replacement coverage is based on the used value until you actually replace the item. This means your insurance company will initially pay you for the used value of your item. After you buy the replacement item, your insurance company will pay you the difference between the used value and the actual replacement cost.

This coverage extends worldwide, but usually provides only up to 10 percent of the personal property coverage limit for property you keep at another location. You may be able to buy increased limits on personal property for an additional cost.

Insurance companies usually offer personal property coverage on a named peril basis. This means that the policy will specify and list the perils that trigger coverage. Commonly covered perils include fire, lightning, windstorm, hail, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism and malicious mischief, theft, and damage caused by falling objects.

Your policy may provide specific coverage limits for specified property and perils, such as jewelry, cameras, furs, art, silver, stamp collections, etc. Ask your agent or insurer if you need to raise those limits.

Homeowner policies do have exclusions. For example, they do not cover a roommate's or renter's property, autos, and/or damage caused intentionally.

Coverage for loss of use or additional living expenses

This coverage pays for your additional living expenses if your house is deemed unlivable. For example, if you can't stay in your home due to a broken pipe that floods your home or a fire burns down your house. However, your normal cost-of-living expenses, such as your house payment or utility bills, are not covered. Your policy usually will include the loss of use or additional living expense coverage at 20 percent of your dwelling coverage limit without additional premium. Your policy may include restrictions on this coverage, so check with your agent or insurance company.

Medical payments coverage

This coverage pays the medical expenses of others when they are accidentally injured on your property. Most policies include at least \$1,000 of coverage, but higher limits may be available. Generally, this coverage is limited to any non-resident on your property with your permission. The insurance company does not need to determine negligence to pay the injured person or their provider. This coverage also is called "good neighbor" coverage.

Personal liability coverage

This coverage pays expenses for bodily injury and property damage sustained by others when you are legally liable. For example, if you knew you had a loose deck railing and someone leaned on it, and fell off your deck and was hurt, you would be liable. Most policies include at least \$100,000 of coverage, but higher limits may be available. When deciding how much coverage to buy, think about the value of your total assets, and how much you might lose if someone successfully sued you for damages.

Personal liability coverage extends beyond your property location. The coverage goes with you wherever you go.

Additional coverages

This type of coverage generally provides for debris removal, damage to trees, plants and shrubs.

Additional coverages also may include credit card coverage. This protects you if someone steals your credit card and makes unauthorized charges.

Your policy may cap the amount of coverage in this category, and it may limit the coverage to specific perils. Check with your agent or insurer to see what additional coverages are available.

Optional coverage

The following optional coverages or endorsements (a written form attached to your insurance policy that alters your policy's coverage, terms, or conditions) will apply to your policy only if they are listed separately on the declarations page. Generally, they require an additional premium.

Earthquake

This coverage provides for repair or replacement of your home following an earthquake. Not all companies offer this coverage. For those that do, you may have to meet specific requirements to qualify. For example, the insurance company may require you to retrofit your home for earthquakes, or require you to strap your hot water tank to a wall. The amount of this coverage will match your dwelling coverage, but you will have a separate deductible, usually 10 to 20 percent of the coverage amount. Your insurance company may offer higher deductibles. Your policy will define what constitutes an earthquake, and list any limitations that may apply.

Flood

Your homeowner policy will not cover flooding. You must buy flood insurance separately. It provides coverage due to physical losses caused by flood, flood-related erosion, and abnormal tidal surges and mudslides. If your property is located in an area with a high chance of flooding, your lender may require you to obtain this coverage. Flood insurance is available through the National Flood Insurance Program (NFIP). For more information, contact your insurance agent, or the NFIP at 1-888 FLOOD29 (1-888-356-6329), or at www.floodsmart.gov.

Home daycare

Home daycare insurance provides liability coverage for daycare operations you conduct in your home when you care for a limited number of children.

Home business

Your insurance company may offer home business coverage. Each insurance company defines the type of home business it is willing to cover on a homeowner policy.

Umbrella liability policies

These policies extend your coverage above the limits of the liability coverage you already have through your homeowner and auto policies. They provide you with an extra layer of protection. Normally, these policies pay after you exhaust the liability limit of your homeowner and auto policies.

Secondary residence premises endorsement

This coverage provides protection for a secondary residence, such as a summer home.

Watercraft endorsement

This endorsement provides coverage for small sailboats and outboard motor boats. It broadens personal liability and medical payments coverage. There are size limitations to watercraft and engine horsepower, so discuss this with your agent before a loss occurs.

Credit card forgery and depositor's forgery coverage endorsement

This coverage provides protection against loss, theft, or unauthorized use of credit cards. It also covers the forgery of any check, draft, or promissory note. No deductible applies to this endorsement. However, check with your agent to see if this coverage has any exceptions.

Other types of policies

Renters policy

This coverage provides protection for personal possessions and personal liability when you rent an apartment or house.

Condominium owner policy

If you own a condominium, this policy covers your internal unit. It covers items, such as your cabinets, fixtures, flooring, wall coverings, appliances, custom features, etc. Your condominium association's policy covers the main portion of the building and the common areas. You can also buy Loss Assessment coverage. This coverage helps you pay for an assessment the association may charge you to help them pay for covered losses that occur to common areas. Some condominium owner policies may

include Loss Assessment coverage in the basic policy. Be sure to ask your agent or insurer.

Mobile homeowner policy

This is a package insurance policy written specifically for mobile homes. It includes coverage on the mobile home and the contents. It also includes theft and liability protection.

Farm or ranch policy

Coverage for a farm or ranch is similar to a homeowner policy in many ways. However, due to the many types of structures and equipment typically used on farms, the insurer can customize a farm policy to cover many items and property.

Shopping for coverage

Determine how much coverage you need

Insurance companies use established formulas to help them decide the appropriate limits of dwelling and structure coverage. These calculations take into consideration the same type of information used in real estate appraisals, such as:

- Construction materials
- Type of floor plan (two-story, split level, ranch, etc.)
- Total square footage
- Number and types of rooms
- Type of garage or carport
- Special features

Your replacement cost of your home may not be similar to your local government's assessed value for

tax purposes or the current market value. They use different criteria to establish those values.

Once you establish the appropriate coverage amount for your home, you should review this information annually. This will ensure your coverage maintains pace with inflation and other changes that affect the cost to repair or replace any damage to your home. Most policies automatically adjust your dwelling limit at renewal, so you may want to review it to make sure you have adequate coverage.

Whenever you make changes to your home, such as additions or major improvements, notify your insurance company. This is important — it can affect the amount of coverage you will need to maintain full replacement cost coverage should you have a loss after renovations or improvements. Talk to your agent before you make major improvements or renovations.

Factors that affect underwriting

All insurance companies set underwriting and rating guidelines. They use these guidelines to determine whether to offer you coverage and how much to charge you. The factors that affect underwriting may include, but are not limited to:

- **Property information** – This includes your street address, the year your house was built, number of living units, type of construction material, type of foundation, living space square footage, number of rooms, age of the roof, roofing materials, and the age of heating, plumbing, and electrical systems.
- **Community fire protection** – These factors include the distance from your home to the nearest fire department and fire hydrant, and the fire department’s response time.
- **Prior insurance** – Insurance companies look at your prior insurance history. For example, if you own an uninsured property for several years, and then decide to insure it, you will have a more difficult time getting insurance. Insurance companies believe this shows a lack of responsibility by the homeowner.
- **Claims and occurrence history** – Your insurance company may ask you to disclose both claims and occurrences from the past. A claim is a loss you reported to the company for coverage. An occurrence is either a loss you did not report, or if you did report it, it did not result in an opened or processed claim. Insurance companies believe this represents the potential for loss, and may ask you about such events.
- **Stability** – Your insurance company will ask you for information, such as your occupation and how long you have worked for your current employer.
- **Credit information** – Your insurance company may ask you to provide information about any bankruptcy, judgments, or credit problems. They may also obtain your credit history from one of the national credit reporting companies.

Your insurance company may also require an inspection of the property. Once the policy is issued, they may require a re-inspection prior to a renewal.

The cost of homeowner insurance

State law requires insurance companies to submit proposed rates and rate changes to our office for review. These requests must include sufficient financial information to justify the need for the requested rate. If we are satisfied with the justification, we are required by law to approve the request.

Insurance companies base homeowner rates on a variety of factors. Your premium consists of a “base rate” amount the insurance company adjusts up or down to reflect specific risk factors. While the weight given to these risk factors will vary by company, the major factors are fairly universal. They include:

- **Territory rating** – Homeowner rates may vary according to geographical region. Some areas are more prone to wind or water damage. The crime rate and emergency response time in an area also can impact your rate.
- **Construction** – Wood frame construction is at greater risk from fire and other types of loss than homes built with concrete or masonry. However, masonry structures are more susceptible to earthquake damage than wood structures.

- **Amount of insurance** – Your premium will vary depending on the replacement cost of your home. Remember, the cost to actually rebuild your home may exceed its current market value or sales price. Talk to your agent to find out if you have an adequate amount of coverage.
- **Credit history** – Under federal law (Fair Credit Reporting Act), insurance companies can use credit history as one factor that impacts your homeowner rate. They may assign you an insurance score based on your credit history. They use your score as one factor to decide whether to accept or decline your coverage, or how much to charge you. However, the Insurance Commissioner believes the use of credit information in insurance is inherently unfair. The law limits the use of certain information in credit scoring. For more information, go to www.insurance.wa.gov/current-issues-reform/credit-scoring.
- **Claims history** – Some companies may charge you more based on the number of claims you have filed. They may even cancel your coverage if you made several claims. Every company is different. Talk to your agent to find out how his or her company handles claims history.

Reducing your rates

Every insurance company that provides homeowner coverage uses its own package of “special” discounts to market its products to particular types of customers. The following list contains suggestions on how to reduce your rates. Be sure to ask your agent about:

- **Non-smoker discount** – Some insurers offer a discount when all family members are non-smokers.
- **Long-time customers** – Some insurers offer discounts to long-time customers with no claims history.
- **Multiple policies** – If you have your home, auto, liability, and other policies with the same company, it may offer a discount.
- **Protection devices** – If you have smoke detectors, burglar alarms, or automatic sprinkler systems, the company may offer a discount.

In addition to the discounts listed above, you may want to think about choosing a higher deductible to reduce your rates. If you have a lien holder, they may require a minimum deductible amount.

Prepare ahead to ease the claims process

Insurance is something you hope you never have to use, but if you should ever need to file a claim after experiencing a loss, the following suggestions can make the process easier:

- **Written inventory** – Create and regularly update a written inventory of your home’s contents.
- **Video/photographic record** – Videotape or photograph the contents of your home, and the exterior from different viewpoints and angles.
- Notify your agent or insurance company.
- Ask your agent or insurance company what documents, forms, and other data you need to get your claim processed.
- Review your policy and ask your agent or insurance company for an explanation of what is covered.
- **Appraisals** – Have someone appraise your jewelry, antiques, stamps, coins, and other valuable collectibles.
- **Document security** – Keep your insurance policy, home inventory, appraisals, photos and video records in a secure secondary location (such as your office or a safety deposit box). Update your records and documentation annually.

If you experience a loss

- Protect your property from further damage. Save the receipts for temporary repairs, and submit them to the insurance company for reimbursement. You should not make permanent repairs until after your insurance company has inspected the damaged property.
- If you are unable to live in your home, tell your agent or insurance company where they can reach you.
- Itemize your losses and include copies of receipts for larger items, such as large appliances, furniture, expensive cameras, and computer and electronic equipment. If the loss is due to a criminal act, such as burglary or theft, notify your local law enforcement agency.

You must prove your loss – and receipts are the best way to do it. If you don’t have receipts, then photos of the damaged or missing items may help document the loss. Promotional brochures and other information may be helpful as well. If your insurance company requires you to submit a “proof of loss” form, complete and submit it in a timely and accurate manner. This will help prevent claim processing delays. Keep complete copies for your reference.

Additional homeowner insurance information

For more information about homeowner insurance, check our homeowner section on the web at www.insurance.wa.gov/your-insurance.

Notes

Need more help?

Call our Insurance Consumer Hotline!

1-800-562-6900

www.insurance.wa.gov

Our professional consumer advocates enforce insurance law and can investigate complaints against insurance companies and agents on your behalf.

We also offer individual counseling and group education on health care issues in your communities. Our highly trained volunteer Statewide Health Insurance Benefits Advisors (SHIBA) can help you understand your rights and options about health care coverage, prescription drugs, government programs, and more.

