

*A Consumer's Guide to:*

# Homeowner Insurance

*Choosing and using your homeowner insurance coverage*



## 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 is 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 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.

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. The 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. The amount of coverage is generally a percentage of the amount it would cost the insurance company to completely rebuild your home.

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

attached 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 cost 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 take with you when you travel. 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 require specific coverage limits for specified property and perils. 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 large boats.

Also, check with your agent or insurer to see if you can buy replacement cost coverage on your personal property, or buy increased limits on jewelry, sports equipment, cameras, stamp and coin collections, computers, silver, and valuable artwork.

### **Coverage for loss of use or additional living expenses**

This coverage pays for your 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 limits. If an incident occurs involving family members who live with you (as defined in your policy) at other locations, it will cover the liability of your family members. For example, it may provide coverage if your minor child damages a neighbor's property.

### **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 on the Web at <http://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.

### Sewer backup endorsement

This coverage protects against losses from sewer or sump pump backup. Your homeowner policy generally does not cover these losses. This endorsement is available through most insurance companies, but you may have to ask for it.

### 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.

### Theft coverage endorsement

This protection broadens theft coverage to include the contents of your auto, trailer, or watercraft without proof someone forced entry.

### 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.

### Mobile homeowner policy

This is an 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, the usual farm owner policy does not provide replacement cost coverage on your dwelling. It provides actual cash value coverage, which is the cost to replace damaged or lost property with like property, minus depreciation. You can buy replacement cost coverage for your farm dwelling, but you must ask for it. However, you must insure crops, livestock, and farm equipment under separate policies.

# Shopping for coverage

## How to 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 reinspection 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 that the use of credit information in insurance is inherently unfair, and in 2002, he proposed legislation to limit its use. The law limits the use of certain information in credit scoring. For more information, please read the fact sheet, “Credit Scoring and Insurance” on the Web at [http://www.insurance.wa.gov/publications/factsheets/credit\\_scoring.pdf](http://www.insurance.wa.gov/publications/factsheets/credit_scoring.pdf).
- **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.
- **Identify** – Engrave or mark larger possessions to show ownership.
- **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

- 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.
- 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 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.

# Helpful terms and definitions

## Actual cash value

The cost to replace an item, minus any depreciation, sometimes called “market value.”

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## All perils or open perils coverage

This coverage is provided for all losses (such as fire, theft, windstorm or lightning), except those that are excluded.

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## Attached garage

A garage that shares at least one common wall or breezeway, and a common roof with the residence that has no living space above it.

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## Built-in garage

A garage that shares at least one common wall or breezeway, and that has a living space above it.

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## Deductible

The portion of a covered loss that is the policyholder’s responsibility.

## Detached garage

A garage that is a separate building from the residence.

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## Dwelling

A residential building and everything attached to it, such as a garage or built-in appliances.

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## Endorsement

A written form attached to your insurance policy that adds or subtracts coverage. You may have to pay an extra premium for an endorsement. Your agent or broker should let you know if there is an additional cost.

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## Floater

An insurance policy you add to your homeowner policy. This is coverage for your personal property that moves from location to location. For example, when you are traveling, this would cover your cameras, luggage, etc.

It applies to specific personal property for specified limits and generally at additional cost. Typically, your standard homeowner policy only covers a specified dollar limit for personal property that you take with you. A floater extends this coverage.



## Insurance

A contract to transfer risk from individuals to an insurance company. In exchange for a premium, the insurance company agrees to pay for losses covered under the terms of the policy.

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## Liability coverage

Coverage that pays for damage if you are legally liable for bodily injury to others or damage to someone's property.

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## Peril

The cause of a loss, such as lightning, windstorm, hail, fire, smoke, an explosion, riot or civil commotion, aircraft, vehicles, vandalism and malicious mischief, theft, or falling objects.

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## Risk

The chance a loss will occur or the uncertainty a loss may occur.

## Scheduled personal property

An endorsement to your homeowner insurance. It provides coverage for loss or damage to items such as jewelry, furs, coin collections, silverware, sports equipment, etc. It includes an itemized list of your property with detailed descriptions and appraised values.

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## Underwriting

The specific criteria each insurance company uses to decide if a risk qualifies for coverage.

# Additional homeowner insurance publications

For more information about homeowner insurance, please read the following fact sheets at: [http://www.insurance.wa.gov/publications/inpublications\\_home.asp](http://www.insurance.wa.gov/publications/inpublications_home.asp)

- *Insurance Tips for Homeowners*
- *Household Inventory*
- *How Insurance Companies Determine Homeowner Rates*
- *Insurance Decoded (A Consumer's Insurance Glossary) guide*
- *Questions and Answers on Credit Scoring*
- *Earthquake Insurance*
- *Mold and Homeowner Insurance*
- *How Tenant Insurance Works*
- *Winter Weather and Insurance Coverage*
- *Flood Insurance*
- *Insurance and Home Business*

To request a hard copy, please call the Insurance Consumer Hotline at 1-800-562-6900.

You can also go to [www.insurance.wa.gov](http://www.insurance.wa.gov) and click on "Publications" to view our full library of publications.

# Need more help?

Call our Insurance Consumer Hotline!

# 1-800-562-6900

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 Statewide Health Insurance Benefits Advisors (SHIBA) HelpLine volunteers can help you understand your rights and options regarding health care coverage, prescription drugs, government programs, and more.

Call our Insurance Consumer Hotline  
**1-800-562-6900**

