

A Shopping Tool for
**Homeowners
Insurance**



National Association of Insurance Commissioners



A Shopping Tool for
Homeowners Insurance

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About the NAIC ...

The National Association of Insurance Commissioners (NAIC) is the oldest association of state government officials. Its members consist of the chief insurance regulators in all 50 states, the District of Columbia and five U.S. territories. The primary responsibility of the state regulators is to protect the interests of insurance consumers, and the NAIC helps regulators fulfill that obligation in a number of different ways. This guide is one example of work done by the NAIC to assist states in educating and protecting consumers.

Another way the NAIC lends support to state regulators is by providing a forum for the development of uniform public policy when uniformity is appropriate. It does this through a series of model laws, regulations and guidelines, developed for the states' use. States that choose to do so may adopt the models intact or modify them to meet the needs of their marketplace and consumers.

The NAIC's mission is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost effective manner, consistent with the wishes of its members:

- Protect the public interest.
- Promote competitive markets.
- Facilitate the fair and equitable treatment of insurance consumers.
- Promote the reliability, solvency and financial solidity of insurance institutions.
- Support and improve state regulation of insurance.



A Shopping Tool for **Homeowners Insurance**

I need homeowners insurance.

What do I need to do?

You probably know that homeowners insurance coverage and premiums vary by insurance company. You want homeowners insurance that meets your needs, whether you are buying insurance for the first time or shopping to get better coverage than you have now. You also want to get the best price you can for the coverage you need. Informed shoppers are more likely to get the best possible coverage at the best possible price. Before you shop, you need to know where to look for insurance, what questions to ask and what information you need.

The information in this guide will help you be an informed shopper. It will help you understand the type of coverage you would like to buy. It also will help you understand the types of information you will need to get a quote for that coverage. Quotes are estimates of what your premiums will be for a particular coverage with a particular insurer. It is a good idea to get at least three quotes before you buy insurance.

Do not worry if you do not have all of the suggested information; pull together what you can and an agent or insurance company representative may be able to help you with the rest. The suggested questions to ask an agent or insurance company will help you be sure you get the coverage you want.

Once you are ready, you can contact an agent or an insurance company directly. Look online or in your local phonebook. Some insurers do not use agents and deal with customers directly online or via toll-free numbers. Some agents represent more than one insurance company. You should contact more than one agent or insurance company. A great resource to find an agent or insurance company is to ask your family and friends for recommendations.

This guide will prepare you to buy homeowners insurance so you get the coverage you want and can afford.

What's in this guide:

- The information an agent or insurance company will need from you.
- Coverage descriptions to help you choose the best coverage for you.
- Basic insurance terms.
- Questions to ask about coverage.
- Keys to understanding your declarations page and your coverage.
- Other consumer information and resources.



The Information an Agent Will Need from You

You will need a lot of information to get a premium quote. You may be asked for your date of birth, Social Security number, contact information, marital status and information about your job. You also may be asked about others living with you and about your current insurance coverage and claims history.

You will also be asked a number of questions about the home you want to insure. With the answers, the agent or insurance company representative can give you an estimate of the cost to rebuild your home. If you get more than one quote, you will also get more than one estimate of the cost to rebuild. Although not a guarantee, current estimates can help you avoid being underinsured.

You should choose a coverage limit that is based on the estimated cost to rebuild your home - not its purchase price or current market value. Your mortgage lender will want you to have at least enough insurance to pay off your loan.

Insuring your home for less than the cost to rebuild it means you may have to pay thousands of dollars out of pocket to rebuild your home if it is destroyed. That's why it is so important to be sure your insurance policy provides enough coverage.

Below are some questions you may be asked; use this worksheet to write your answers. Do not worry if you do not have all of the answers. Insurers also may use outside sources to get other information about you, such as a credit based insurance score or a CLUE (Comprehensive Loss Underwriting Exchange) report.

Information about You (the "Insured")

- How long have you lived in the home?
- Will anyone live with you who is not related?
- Does anyone in the home smoke?
- How many dogs do you have and what breed(s)?
- Do you run a business from your home?
- Do you have any exotic pets or other animals?
- What kind of business do you have?

Insurance Information

Do you have homeowners or renter's insurance now? ☐ YES ☐ NO

Have you had homeowners or renter's insurance in the past? ☐ YES ☐ NO

If "Yes":

- With which homeowners insurance company (if applicable)? _____
- Policy number (if applicable): _____
- Policy expiration date (if applicable): _____
- How many years have you been insured? _____

Do you have auto insurance? ☐ YES ☐ NO



A Shopping Tool for Homeowners Insurance

Information about the Home to Be Insured

Year Home Was Built: _____ Year You Bought Your Home: _____

If there is a mortgage on the home, who is the lender?

Name: _____

Address: _____

City/State/ZIP: _____

If there is a second mortgage or home equity loan, who is the lender?

Name: _____

Address: _____

City/State/ZIP: _____

TIP:

Your home appraisal or real estate listing may have some of this information.

Square feet of living area in the home: _____

Roof type: _____

Approximate age of roof: _____

Style of home (ranch, two story): _____

Flooring (hardwood, tile, carpet): _____

Exterior (brick, siding, stucco): _____

Kitchen finishes (custom cabinets, granite counters): _____

Bath finishes (marble, Jacuzzi tub, heated floors): _____

Are there swimming pools, trampolines or playscapes on the property?

☐ YES ☐ NO

Home Systems: Approximate age of system:

Plumbing _____

Electrical _____

Heating _____

Air conditioning _____

Septic system _____

Well _____

Sump pump _____

TIP:

A way to estimate the cost to rebuild your home is to call a local builder or real estate agent and ask for the average new construction cost per square foot in your community for a similar home.



Information about the Home to Be Insured

Supplemental Heating Sources:	Number	Fuel Source
Fireplaces	_____	_____
Heating stoves	_____	_____
Other	_____	_____

Distance to the fire department _____

Distance to fire hydrant or other water source _____

Protective Devices	Age or Service Provider
Smoke detector	_____
Carbon monoxide detector	_____
Deadbolt locks	_____
Alarm	_____
Security system	_____

Information about Your Personal Property (the “Contents”):

Valuable collectibles and personal property	Approximate Value	Appraisal?
Jewelry	_____	☐ YES ☐ NO
Guns/firearms	_____	☐ YES ☐ NO
Furs	_____	☐ YES ☐ NO
Antiques	_____	☐ YES ☐ NO
Artwork	_____	☐ YES ☐ NO
Musical instruments	_____	☐ YES ☐ NO
Photography equipment	_____	☐ YES ☐ NO
Computer equipment	_____	☐ YES ☐ NO
Yard/garden equipment	_____	☐ YES ☐ NO
Sports/leisure equipment	_____	☐ YES ☐ NO
Other valuable collectibles	_____	☐ YES ☐ NO

TIP:

To help you keep track of your personal property and valuables, check out the NAIC’s free home inventory smart phone app, myHOME Scr.APP.book:



A Shopping Tool for Homeowners Insurance

Target Your Coverage!

Use this worksheet to compare offers from insurance companies.

(See the "Basic Insurance Terms" section for definitions.) Fill in company name (above) and amounts (below) to compare policies.			
Company Name			
Dwelling limits			
Actual cash value (ACV) or replacement cost value (RCV) coverage?	☐ ACV ☐ RCV	☐ ACV ☐ RCV	☐ ACV ☐ RCV
Personal property limits			
ACV or RCV coverage?	☐ ACV ☐ RCV	☐ ACV ☐ RCV	☐ ACV ☐ RCV
Personal liability protection			
Medical payments			
Ordinance or law coverage			
Additional living (loss of use) expenses			
Deductible(s): Flat dollar deductible? Percentage deductible? Hurricane, wind/hail deductible? Separate deductible for roof?			
Compare the coverages: Check ☒ what each company offers (below). (These are the most common policies. Ask the agent/company about other options.)			
Company Name			
Basic form homeowners policy (HO-1)			
Broad form homeowners policy (HO-2)			
Special form homeowners policy (HO-3)			
Comprehensive policy (HO-5)			
Modified coverage form (HO-8) (for older homes)			
Other policy form			



Optional and increased limits of coverage (ask for a quote)

Company Name			
Sewer, drain, sump pump backup			
Jewelry and firearms			
Art, collectibles and antiques			
Ordinance or law coverage			
Equipment breakdown			
Other coverage			
Other coverage			

Annual premiums – by company

Company Name			
Premium			

Separate policies for what is NOT covered (ask for a quote).

Company Name			
Flood insurance			
Earthquake insurance			
Umbrella liability insurance			



Basic Insurance Terms

Below are common insurance terms with basic explanations of what each term means. Remember: Each insurance company may define these terms differently in an insurance policy. Ask the agent/company about differences in definitions.

Types of Homeowners Insurance Policies

Basic Policy Form – Covers your home and personal property, but only if damage or loss is caused by fire, smoke, wind, hail, lightning, explosion, vehicles, civil unrest, theft or vandalism. This policy is sometimes called the HO-1 policy form. It is the most basic homeowners insurance coverage and costs less than coverage under other policy forms. This policy covers your home and personal property for their actual cash value.

Broad Form Policy – Covers your home and property, but only if damage or loss is due to perils specifically listed in the policy. This policy is sometimes called the HO-2 policy form or named peril policy form. It covers slightly more than the basic policy form. This policy covers your home for its replacement cost value and your personal property for its actual cash value.

Special Form Policy – Covers your home against all perils except those specifically listed as exclusions in the policy. It also covers your personal property, but only if damage or loss is due to perils specifically listed in the policy. This policy is sometimes called the HO-3 policy form or special cause of loss form. It is the most common type of homeowners insurance coverage and covers more than the basic policy form but less than the comprehensive policy. This policy covers your home for its replacement cost value and your personal property for its actual cash value.

Comprehensive Policy – Covers your home and personal property against all perils except those specifically listed as exclusions in the policy. This policy is sometimes called the HO-5, premier or open peril policy form. It provides the most coverage of any of the policy forms but may cost more. This policy covers your home and personal property for their replacement cost value.

Modified Coverage Form Policy – Covers your home and personal property but only if damage or loss is due to perils specifically listed in the policy. This policy is sometimes called the HO-8 policy form. It is for older homes, where the cost to rebuild is greater than the market value. It is similar to the basic policy form but covers less than the broad form policy and comprehensive policy. This policy covers your home and personal property for their actual cash value.



Other Insurance Terms

Actual Cash Value (ACV) – The value of your home or personal property considering its age and wear and tear (depreciation). ACV coverage pays for your loss, but often does not pay enough to fully replace or repair the damage.

Deductible – The money you have to pay out-of-pocket on a claim before the policy pays the loss. Deductibles can be a dollar amount or a percentage; the declarations page may identify the deductibles on your policy. Your policy will explain how the deductibles work.

Depreciation – The decrease in home or property value due to age and wear and tear.

Equipment Breakdown Coverage – Coverage that pays to repair or replace a home system that breaks down, such as a water well pump, hot water heater and central air or heating systems.

Exclusion – A part of an insurance policy that takes away coverage for certain losses or personal property. Common exclusions in homeowners insurance policies include damage from floods, earthquakes and mold.

Limits – The maximum amount an insurance company will pay if or when an insured event occurs.

Ordinance or Law Coverage – A type of coverage that pays the extra cost to rebuild your home to meet new or updated building codes or ordinances that did not exist when your home was first built. It is also called building code upgrade coverage.

Peril – The cause of a loss. A few examples are wind, fire and theft.

Personal Liability Protection – A part of an insurance policy or a separate policy that covers your financial loss (including your legal costs if you are sued) if someone makes a claim against you and you are legally responsible for bodily injuries or damages to someone else's property.

Replacement Cost Value (RCV) – The cost to rebuild your home or repair damages using materials of a like kind and quality. This is different from your home's market value, which includes the price of land and depends on the real estate market.

Umbrella Liability Insurance – A separate insurance policy that increases your liability coverage above the levels in your homeowners, automobile or other liability insurance coverage. This type of insurance coverage is usually sold with policy limits of \$1 million or more.



A Shopping Tool for Homeowners Insurance

The Difference between Replacement Cost and Actual Cash Value

Knowing what a policy does, or does not, cover is an important part of shopping for homeowners insurance. It is also important to understand how a claim will be paid if you have a loss.

There is a big difference in how a claim will be paid if the policy covers your home or personal property for its actual cash value (ACV) or its replacement cost value (RCV). Policies that pay claims based on RCV give you more protection than policies that pay based on ACV, but the premiums will also likely be more. Below is information to help you understand the differences so you can buy the coverage you want.

Your Home (also called “Dwelling Structure”)

(These levels of coverage are listed in order of the least to the most coverage.)

ACTUAL CASH VALUE COVERAGE pays the costs to repair or replace the damaged or destroyed home, minus a deduction reflecting the home's age and wear and tear (depreciation). If your home is completely destroyed, this coverage pays the fair market value of the home at the time of loss. In either case, this coverage only pays for costs up to the limits set in your policy. ACV coverage pays you for your loss, but often does not pay enough to fully replace or repair the damage to your home.

FUNCTIONAL REPLACEMENT COST VALUE COVERAGE pays the cost to repair or replace the damaged or destroyed home with similar kind and quality materials. An example of “similar kind and quality” would be replacing damaged plaster walls with (less expensive) drywall. Functional RCV coverage provides less coverage than RCV coverage, but the premiums are lower than other types of replacement cost coverage.

REPLACEMENT COST VALUE COVERAGE pays the cost to repair or replace the damaged or destroyed home, with materials of like kind and quality. An example of “like kind and quality” would be damaged plaster walls repaired or replaced with plaster. Many policies pay only the home's ACV until you begin or complete repairs or reconstruction. RCV coverage only pays replacement costs up to the limits set in your policy.

There are different types of RCV coverage. Many policies cap the amount of the coverage. Many policies pay only the home's ACV until you begin or complete repairs or reconstruction.



EXTENDED REPLACEMENT COST VALUE COVERAGE pays the cost to repair or replace the damaged or destroyed home, without a deduction for depreciation. Extended RCV coverage provides coverage above the dwelling limits in your policy, for the damage caused to your home, up to a set percentage or dollar amount.

GUARANTEED REPLACEMENT COST VALUE COVERAGE pays the full cost to repair or replace the damaged or destroyed home for a covered peril, even if it costs more than the limits shown on the policy declarations page. Ask if there is a cap on the coverage. Very few insurers offer this coverage.

Your Personal Property (also called “Contents”)

Almost all policies include specific dollar limits on certain personal property that is particularly valuable, such as jewelry, art, silverware, antiques, computers or firearms. Often, you can buy more coverage for these types of property, but you may need to itemize or list out the property for the insurance company. Ask the agent/company if you have questions about covering any valuable property you have.

ACTUAL CASH VALUE COVERAGE pays the fair market value of the item at the time of loss. This value will usually be the cost to repair or replace the personal property, less depreciation. As with your home, ACV coverage pays you for your loss, but often does not pay enough to fully replace or repair the damage to your property.

REPLACEMENT COST VALUE COVERAGE pays the cost to repair or replace damaged or destroyed personal property with that is like kind and quality, without a deduction for depreciation. Many policies only pay the ACV of the personal property until you actually repair or replace the personal property. If you do not repair or replace the personal property, the insurance company may only pay you its ACV.



A Shopping Tool for **Homeowners Insurance**

Ask the Agent/Company about Insurance Options

Questions About Coverage

- Can you help me estimate what it would cost to repair or rebuild my home if it were damaged or destroyed?
 - Will the coverage limits for my home or personal property automatically increase over time with inflation? If not, what do I need to do to make sure my home is insured for the right amount?
 - What is NOT covered by this policy?
 - Does this policy cover:
 - ☐ Water damage from my sewer, drains or sump pump backup?
 - ☐ Damage from mold, wind, flood, sinkholes, mine subsidence or earthquakes?
 - ☐ Food spoilage and other damages from a power outage?
 - ☐ Equipment breakdown?
 - ☐ Damage from deterioration, such as foundation settling, wear and tear?
- If not, can I buy this coverage?

Questions About How Claims Are Paid

- If my home is damaged, will this policy pay to rebuild my home the way it was before the damage?
- Is there just one deductible in this policy or is there more than one deductible? Is the deductible a flat dollar amount, a percentage of coverage or damage, or a combination of both types?
- I have an older home and repair would require using obsolete or vintage materials. How will this policy pay to repair or replace my home?
- When I have a claim, how will my claim be settled? Will I receive the full replacement cost upfront or only after I begin or complete repairs or replacement?
- If I will receive the ACV of my damaged property, how is that value decided?
- How does this policy cover my roof? Are there any limits of coverage for my roof?
- Will my home be covered if I rent it to someone else?
- If I am away from my home for a long period of time, how does that impact my insurance coverage?



Questions About How Personal Property is Covered

- Can I buy more coverage (increase the policy limits) for my personal property? Does this policy cover my personal property that is stored away from my home?
- My child(ren) is/are away at college. Will this policy cover their personal property while they are at school?
- Are there any sublimits on some kinds of personal property, such as jewelry, antiques or guns?
- Can I buy extra coverage or increase my limits?
- Do I need to have an appraisal for any of my personal property?
- Should I have an inventory list of my personal property?

Questions About Other Coverages

- What does my liability coverage protect me against?
- Does my liability coverage also cover my college-age children while they are at school?
- Does this policy cover damage to my trees?
- Does this policy cover me if I run a business from my home, such as a daycare? Do I need additional liability coverage?
- Does this policy pay for any additional living expenses I may have if I cannot live in my home after it has been damaged or destroyed?
- How does the policy cover increased costs to rebuild my home, such as to meet new building codes?

Questions About Discounts, Rating and Service

- What discounts are available through the insurance company?
- Am I eligible for coverage with the insurance company if:
 - I had a prior homeowners claim with another insurance company?
 - The home I am buying had damage and a claim filed by a previous owner?
 - I have had any auto claims?
 - I have a dog?
 - I have a swimming pool, trampoline or solar panels?
 - I have a wood burning stove or heating oil tank?
- Will you or the insurer visit my home and inspect or photograph it before or after insuring it?
- Does the company look at my occupation, education and/or credit score to determine my premium?
- How much can I save by increasing my deductible?
- Is there anything I can repair or improve in my home to lower my premium?
- Does the company require me to use preferred contractors for repairs?



A Shopping Tool for Homeowners Insurance

What Is a Declarations Page?

You've reviewed your options. You've chosen an agent and an insurance company and bought an insurance policy. Once you buy insurance, you'll receive a policy. Read the policy and ask your agent about anything you don't understand. Keep your policy in a safe place and know the name of your insurance company. Here's a quick tip on how to read your insurance declarations page to check that you've received the coverage you wanted.

Understanding your declarations page

A declarations page provides specific policy details. Know how to read this page to better understand your coverage.

1 Policy limits:
The most you will be paid for claim

2 Policy period:
When coverage begins & ends

3 Deductible: The part of the insurance claim you are responsible for.

Your Insurance Company
3535 Second St.
Company Town, USA 54321

Policy number XX-XXXX-XX

2 Policy period: 12 months
Effective date: May 1, 2012
Expiration date: May 1, 2013

Homeowners Policy <SAMPLE>

Automatic renewal: If policy period is shown as 12 months, this policy will be renewed automatically subject to premiums, rules and forms in effect for each succeeding policy period. If policy is terminated, we will give you and Mortgagee/Lienholder written notice in compliance with policy provisions or as required by law.

1 Coverages & property	
SECTION I	
A Dwelling	\$250,000
B Other structures (detached garage)	\$30,000
C Personal property	\$150,000
D Loss of use	Actual loss sustained
SECTION II	
E Personal liability (each occurrence)	\$300,000
Damage to property of others	\$1,000
F Medical payments to others (each person)	\$2,000

Liability limits

3 Deductibles - Section I	
Earthquake	10%
Hurricane/wind	10%
Other losses	\$500

Other deductibles that apply to your policy will be listed here.

Loss of settlement provisions (see policy)

A1: Replacement cost - Similar construction
B1: Limited replacement cost - Coverage B

6 Forms, options and endorsements	
Replacement cost coverage	XX-XXXX
Mold, fungus, wet rot, dry rot or bacteria	XX-XXXX
Ordinance or law coverage: 10% of Coverage A	XX-XXXX
Earthquake excl. masonry veneer	XX-XXXX
Sewer, water backup coverage: \$10,000/\$500 deductible	XX-XXXX
Increase dwelling up to \$50,000	Option XX
Jewelry and furs \$5,000 each	Option YY

4 Policy premium \$1,000

Earthquake premium (included)

Discounts applied

Home/Auto
Home protection (burglar and fire alarms, smoke detectors)
Claim record/Customer longevity
Age of customer

Your policy consists of this page, any endorsements and the policy form. Keep together.

Extra coverage: Not every policy includes these coverages. They can be added to give you more protection, sometimes at a higher cost. Ask your agent about these coverages.

4 Total premium: Your cost for policy period

5 Discounts: Number of discounts applied to policy



Other Consumer Information and Resources:

There is much more information available about homeowners' insurance. If you still have questions or want more information about homeowners' or other types of insurance, you can:

- Talk with your insurance agent or insurer representative. They will help you navigate the insurance shopping process and the insurer's process to make a claim. If you have questions or problems with your insurance coverage, call your agent or insurance company.
- Visit insurance companies' websites. Many companies' websites have information about homeowners' insurance coverage.
- Contact your state department of insurance. Most departments have toll-free numbers you can call and talk with insurance department staff who can answer general questions and give you more information. Look in your local phone book for the department of insurance.
- Visit your state department of insurance website. Most state insurance department websites have consumer information. Some state insurance departments post information on consumer complaints filed against insurance companies and agents. To find the website of your state department, visit the National Association of Insurance Commissioners (NAIC) website at www.naic.org/state_web_map.htm and select your state on the map.

The National Association of Insurance Commissioners (NAIC) also has a number of online resources available for consumers on homeowners' insurance as well as other types of insurance. You can find the NAIC's Consumer Resources webpage at: www.naic.org/consumer_home.htm



A Shopping Tool for **Homeowners Insurance**

In addition to consumer news and alerts about insurance, the NAIC's Consumer Resources include:

- A Consumer's Guide to Home Insurance. A comprehensive consumer guide on homeowners' insurance, which provides a more detailed review of homeowners' insurance coverage, why you need it, how it works, how your premiums are determined and your responsibilities as a policyholder: http://www.naic.org/documents/consumer_guide_home.pdf
- A Consumer's Guide to Earthquake Insurance. This is a detailed consumer guide on earthquake insurance, which explains what earthquake insurance is, what areas of the country can be affected by earthquakes, how claims are paid and disaster mitigation tips: http://www.naic.org/documents/consumer_guide_earthquake.pdf
- NAIC Insure U Website – Creating a Home Inventory. A home inventory can be invaluable when you decide how much insurance coverage you need to help you be sure you have enough protection if you need to file a claim. Visit this webpage to download a smart phone app so you can easily put together a home inventory: http://www.insureuonline.org/home_inventory_page.htm
- The Consumer Information Source. Do you want know more about the insurance companies you're comparing? This website gives you access to information about insurance companies including information on consumer complaints against insurance companies. <https://eapps.naic.org/cis/>

Other Resources:

Most homeowners' insurance policies do NOT cover damage from floods. To cover your home and personal property for damage caused by flooding, you need to buy a flood insurance policy. Ask your agent about flood insurance coverage. You also can review information at the National Flood Insurance Program website www.floodsmart.gov





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