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Insurance Commissioner Recommends That Consumers Review Homeowners Insurance Policy for the New Year

As 2012 begins, it is a good time for you to review your homeowners insurance policy to make sure you understand what is covered and what is excluded from coverage. Insurance Commissioner Therese M. Goldsmith recommends that you pull out your homeowners insurance policy, call your insurance producer (agent), or call your insurance company and find out the answers to these questions:

1. What type of homeowners policy do I have?

Policies generally cover loss from specific perils (such as fire, windstorm, hail, theft) or from all perils except those specifically excluded (this is referred to as an "open peril" policy). Remember, if your home is damaged by a peril that is not covered, for example, flooding, your insurance company will not pay for the damage. While an "open peril" policy typically provides more coverage than a "named peril" policy, it still will not cover everything.

2. Will the claims be paid on a replacement basis or on an actual cash value basis?

If you have Replacement Cost Value (RCV) coverage, your policy will pay the cost to repair or replace your damaged property without deducting for depreciation. If you have Actual Cash Value (ACV) coverage, your policy will pay the depreciated cost to repair or replace your damaged property. The amount deducted for depreciation may be significant, especially if the damaged property was at or near the end of its useful life. For example, if your 20 year old roof is destroyed by a storm and must be replaced, the policy that pays RCV will cover the full cost to replace the roof; however, the policy that provides for ACV settlements will pay twenty percent of the cost to replace, since the useful life of a roof is generally considered to be 25 years. Under an RCV or ACV policy, the payment for the damage to the structure is paid under your dwelling coverage and is subject to the policy limit.

When you purchase an RCV policy and present a claim for a covered loss, the insurer initially may pay only the ACV for your damage; however, once you present evidence that the damaged property has been repaired or replaced, the insurer will pay the difference (referred to as "recoverable depreciation") up to the replacement cost.

3. What are my policy limits and how are they established?

Policy limits for a dwelling are based on the cost to replace the dwelling using like kind and quality materials. Policy limits for other structures, contents and additional living expenses generally are percentages of the coverage on the dwelling. Additionally, coverage is limited to lesser amounts for certain types of property that are particularly susceptible to loss from theft such as cash, securities, jewelry, furs, manuscripts, and stamp or coin collections. You may receive a total of only \$1,500 for all furs or jewelry stolen in a single theft. A \$500 limit usually applies to all securities, receivables, travel tickets, and stamp collections. A coverage limit of only \$100 is typical for all money, coins, or bank notes regardless of the actual amount lost. You should ask your producer or insurer for information about scheduling valuable items (insuring items separately by listing them on the policy and paying an additional premium for this coverage) and the cost of additional coverage.

4. Are my coverage limits appropriate?

To ensure your home is appropriately covered, you should contact your insurance producer or company to inquire how the replacement cost was determined and request a review of your policy limits and coverage. For an additional premium, increased coverage and limits may be available.

5. What is excluded under my policy?

Knowing what is not covered may be more important than knowing what is. For example, flooding is not covered by a homeowners policy; however, you can purchase a separate flood policy. Review all exclusions with your insurance producer or company, so there will be no surprises if there is a loss.

6. What is my deductible?

A deductible is the dollar amount you agree to be responsible for in the event of a covered loss (e.g. wind, hail, accident, fire, or vandalism) to your house or personal property. If you select a high deductible, you pay more out-of-pocket for any covered loss; however, by agreeing to pay more when claims arise, your premium should be lower.

7. Is there a separate deductible for wind, hurricanes or other storm losses, and if so, how is it calculated and applied?

Some homeowners policies contain a special deductible for losses caused by wind, hurricanes or other storms. These deductibles are applied separately from any other deductible on the homeowners policy. Some insurers automatically include a deductible for wind, hurricanes or other storms, while other insurers make this deductible available at the option of the policyholder. Some deductibles for wind, hurricanes or other storms are written as a flat amount, such as \$1,000, while others are applied to the loss as a percentage of the insurance coverage on the dwelling. For example, assume a hail storm causes \$3,000 damage to your house, and your dwelling is insured for \$100,000. If you had a \$1,000 deductible for wind, hurricanes or other storms on your policy, your insurer would pay \$2,000 toward the damage. If your policy has a 2 percent wind, hurricanes or other storms deductible, the deductible would be \$2,000, and the insurer would pay \$1,000 toward the damage.

8. If I had a major loss, would I be able to provide the insurance company with a list of the

contents of my home?

Your insurance policy requires you to provide proof of your loss. Preparing an inventory of the items in your home and photographing them before a loss is an easy way to help you recover.

9. How can I keep my premiums manageable?

To help keep your premium down, ask about discounts the company offers. For example, premium reductions may be granted if you buy your homeowners and auto insurance from the same insurer, or if you install a security system and smoke detectors. Some companies offer discounts to senior citizens, members of groups or associations, and nonsmokers.

These are just a few of the questions that are important to ask. For a complete guide and explanation about your homeowners policy, refer to *A Consumer Guide to Homeowners Insurance* at www.mdinsurance.state.md.us or contact us at (800) 492-6116 to obtain a copy.

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