Top 10 Homeowners Insurance Mistakes
(and How to Avoid Them)

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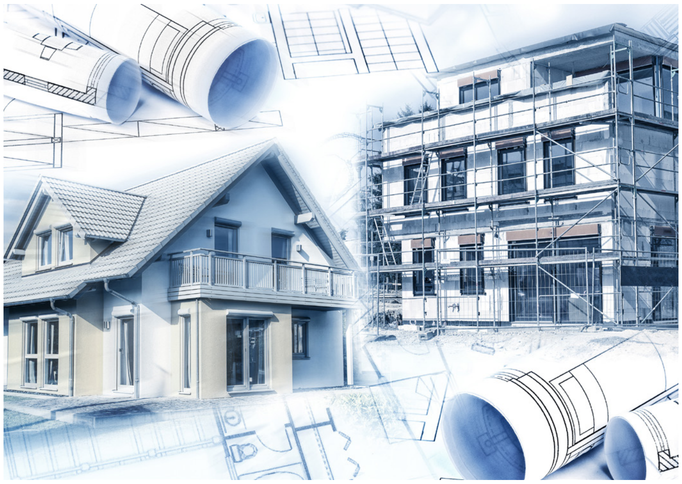
Top 10 Homeowners Insurance Mistakes

For most people, their primary residence represents the single largest purchase they'll ever make. That investment becomes even greater for owners of small residential properties, whether or not they choose to live on premises. In every case, having the right property owners insurance is critical for protecting these valuable assets.

Stu Cohen and his team at the City Building Owners Insurance program have helped home and building owners in the greater New York City area find the right coverage at the best price for more than 40 years. This guide includes ten of the most common insurance mistakes and offers advice on how to correct them.

1. Insuring a property for market value, not replacement costs

Many property owners assume that the amount of building coverage should equal either the purchase price or the mortgage value. Banks often require homeowners to carry enough insurance to cover the mortgage, at a minimum. Insuring the mortgage amount will protect the bank's interest,, but it may not allow the homeowner to rebuild.



Depending on the purpose, property value can be determined in different ways.

- Market value reflects the amount for which the land and building will likely sell in the current real estate market.
- Replacement value reflects the cost of rebuilding the structure in a total loss. This figure doesn't include the land value—only the structure(s) to be replaced.

A homeowners policy should be based on replacement costs. Moreover, property owners should revisit replacement value with their insurance partner at renewal since construction labor and materials increase over time.

2. Ignoring flood insurance if not federally required

Federally regulated and insured lenders require flood insurance when issuing mortgages for properties in high-risk flood areas, according to the flood maps published by the Federal Emergency Management Agency (FEMA). In fact, some lenders require flood coverage for homes in moderate- to low-risk areas.

Even for properties outside of identified flood zones, owners should consider purchasing this coverage, typically excluded from homeowners insurance. Flooding is the most common natural disaster in the United States, and more than 20% of flood claims come from properties outside high-risk areas. According to FloodSmart.gov, one inch of water in a home can cause more than $25,000 in damage.

3. Waiting to correct a problem, such as mold or water damage

The adage "a stitch in time saves nine" also applies to insurance claims. The sooner an issue is corrected, the less it will cost to fix. Not surprisingly, many policies have time limits for reporting a claim.

While homeowners may want to wait before filing a claim—to research repair options, for instance—waiting too long may disqualify them from receiving benefits. Property owners should be aware of any time limits in their policies to ensure a full range of options in case of a loss.

4. Skipping the home inventory process

Making a comprehensive list of personal possessions can seem daunting. Tackling this task over a series of weekends, for instance, will prevent additional, unnecessary stress in the aftermath of a catastrophic loss.

Many people underestimate the amount of stuff they accumulate over the years. Taking the time for a home inventory will not only make it much easier to replace (or receive compensation for) possessions after a loss, but it will also help homeowners purchase the right amount of insurance coverage. Once an inventory has been taken, updating the list on an annual basis and after major purchases requires minimal effort.

5. Purchasing a basic, no-frills insurance policy

Basic insurance policies have lower premiums, but such savings often have high costs at claims time. Common issues with bare-bones policies include the following:

- **Basic or Broad Form Coverage.** These policy types only cover perils that are specifically listed. Everything else is excluded.
- **Coinsurance Clause.** This clause requires homeowners to insure a specific percentage of the building replacement cost. If a property is underinsured at the time of loss, the insurance company will reduce the payout—even on partial losses.
- **Actual Cash Value.** Policies that use actual cash value to establish the value of insured property pay claims based on an item's depreciated value, often much less than replacement cost.

6. Failing to notify the insurance agent of life, or property, changes

Some life changes—like getting married or having a child—naturally prompt a call to one's insurance agent. Others—like adopting a dog—seem pretty minor and common-place, but insurance partners are still very interested. Dog bites and other dog-related injuries rank among the most common homeowner liability claims. And some insurance companies have refused coverage if property owners failed to notify them of a new dog.

In addition, homeowners need to alert their agent to any changes affecting the property, such as renovations or name changes on the deed. Property upgrades may increase the insurance premium, but owners will be able to restore their homes to their updated conditions. Also, some property improvements may qualify for discounts.

If a change might affect insurance coverage, a quick phone call will provide peace of mind—and proper protection.

7. Maintaining only minimum liability protection

Standard homeowners policies include some form of liability coverage, which protect owners against legal claims resulting from injuries that occur on the property. Liability insurance also protects policyholders if they or their family members—including the four-legged kind—injure someone or damage their property.

Most people don't think about increasing their liability coverage, but the minimum levels may not provide adequate protection. Homeowners should review liability limits with their insurance partner and consider whether an umbrella policy makes sense.

8. Assuming a policy includes water or sewer backup coverage

Many homeowners experience water damage from overflowing sewers or broken sump pumps. Unfortunately, many of these owners discover upon filing a claim that their policy excludes water backup coverage (also known as sewer backup coverage). Property owners need to review their policies and look for this specific protection.

Better yet, it's a good idea to consult with an insurance expert to ensure that this coverage is included and provides adequate protection, based on such factors as electronics, flooring materials and furniture that might be damaged by water backup. Some policies include water backup liability protection, which pays for damage to neighboring property—especially common, and useful, in an urban environment.

9. Setting a deductible too high or too low

One of the most common homeowners insurance mistakes is setting a deductible too low. Instead of maintaining a deductible of $500 or $1,000, property owners should increase their deductibles and bank the money saved in premiums to self-insure smaller claims.

Insurance should cover those risks that property owners can't pay out of pocket. Higher deductibles offer the benefit of lower premiums, but they only make sense if the owner has the resources to cover those losses that fall below the deductible. A seasoned insurance partner can provide guidance on the right deductible level, based on the owner's resources.

10. Automatically renewing a policy without evaluating options

While some people make a habit of comparison-shopping everything in search of the best deal, many property owners buy their initial homeowners policy and put it on auto-pilot for years. But things change. The cost of construction materials and labor go up. Income levels often increase, as do the quantity and quality of home contents. And the insurance market itself changes. New insurance companies enter an area, introducing discounts for properties that meet a specific profile. Other players leave, eliminating their programs and discounts.

To ensure proper protection—and the best value for their insurance premiums—homeowners should shop their policies at least every three years. An experienced insurance partner will often do this on behalf of owners every year, upon completing an annual review to discuss any life or property changes during the previous twelve months.

If an agent is not reviewing policies with homeowners on an annual basis, then it's time to find a new partner.

Choosing the Right Broker, Coverage and Insurer

Know the financial strength and status of your insurance carriers. Make sure any insurance company with which you do business is licensed in the state where your building is located (and therefore backed by the state's Guaranty Fund, which protects you if an insurer is financially unable to pay claims). Ask for a copy of its rating by A.M. Best & Co., Standard & Poor's or Duff & Phelps from your broker or the company itself.

Choose a year-round insurance broker. Use a qualified, licensed insurance broker who works with you all year to help you manage risk and save money. Insurance agents represent a single company, but brokers have the ability to shop insurance carriers for the best coverage at the lowest cost. Brokers represent you, not the insurance company.

Work with an insurance broker who specializes in real estate insurance. To ensure you get the coverage you need at the best price, work with a specialist who knows your business, the ins and outs of real estate, property management, risk management and insurance.

Homeowners Insurance Checklist

Use the following checklist to guide you in understanding your insurance policy and reviewing your policy with your insurance partner.

Check your policy for the following:

- [ ] How much is your current home replacement value?
  $ ________________
- [ ] What is the current deductible for your homeowners policy?*
  $ ________________
- [ ] Does your policy include a coinsurance clause?
  - ○ Yes, Coinsurance % ________________
  - ○ No
- [ ] Do you have any of the following special coverages in your policy?
  - ○ Flood
  - ○ Water or sewer backup
  - ○ Other ________________
- [ ] What is the insured value of your home contents?
  $ ________________
- [ ] What are your current liability limits?
  $ ________________
- [ ] How does your policy establish the value of insured property in a loss?
  - ○ Actual Cash Value (ACV)
  - ○ Replacement Cost Value (RCV)
- [ ] What type of coverage does your current policy have?
  - ○ Basic Form ○ Broad Form ○ Special Form

☐ Discuss the following with your insurance partner:

- ○ Will the home replacement value in your current policy protect you against a total loss?
- ○ Will your current level of contents coverage protect you against a total loss?
- ○ What savings will you realize by raising your deductible? What deductible makes sense for your financial situation?
- ○ Should you add special coverages, like flood insurance, to your policy?
- ○ Have you made any improvements to your property?
- ○ Do your current liability limits provide sufficient protection?

REMINDERS:

- ○ Conduct a comprehensive home inventory, and store it off-site.
- ○ Update your inventory every year and whenever you make major purchases.
- ○ Notify your insurance partner of any life or property changes (*e.g.*, new dog, swimming pool installation, kitchen upgrade).

** Note: Special protections, such as flood or earthquake insurance, often have separate deductibles.*