

REFLECTIONS
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Homeowners Insurance in US

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Executive Summary

Insurance business plays a very crucial role in the US economy. Insurance market in the US is the biggest in the world. In USA, we can't buy a home without insurance. Homeowners insurance is a part of Property & Casualty Insurance. Homeowners insurance provides financial protection against disasters.

Homeownership is at a record high between 1990 to 2003*. Because you can't buy a home without insurance, insurance is clearly available and affordable, including to millions of Americans of modest means and all ethnic groups.

Homeowners insurance is a package policy. It covers both damage to your property and your liability or legal responsibility for any injuries and property damage you or members of your family cause to other people. This includes damage caused by household pets also. Earthquakes and floods are not covered under a standard homeowners policy. We can add earthquake coverage to your homeowners policy by endorsement. Flood insurance is a separate policy written through the National Flood Insurance Plan.

About the Author

Working as an Associate Consultant with IBEXI, currently rendering my services to Max New York Life, Gurgaon.

Introduction

Homeowners insurance protects from financial losses caused by storms, fire, theft, and other events outlined in the policy. It is important to know what's in the policy.

A standard homeowners insurance policy includes four essential types of coverage. They include:

1. Coverage A (Dwelling) – It covers the house itself.
2. Coverage B (Other Structures) - It covers structures such as a garage or shed.
3. Coverage C (Personal Property) - It covers your personal belongings such as TV's, stereos, furniture, and clothing.
4. Coverage D (Loss Of Use) - It covers you in case you had a house fire and need to live in a hotel and eat meals in a restaurant.
5. Coverage E (Personal Liability) - It covers you in case you were found negligent for someone slipping and falling on your property.
6. Coverage F (Medical Payments) - This portion of the policy will pay medical expenses for someone getting injured on your property.

A person who owns a home would have a different policy from someone who rents. Policies also differ on the amount of insurance coverage provided. The different types of homeowners policies are fairly standard throughout the country.

Individual states and companies may offer policies that are slightly different or go by other names such as “standard” or “deluxe”.

	Dwelling & personal property		Dwelling	Personal property			Dwelling & personal property
	Basic HO-1	Broad HO-2	Special HO-3	Special HO-3	Renters HO-4	Condo/ Co-Op HO-6	Modified HO-8
Perils							
1. Fire or lightning	x	x	x	x	x	x	x
2. Windstorm or hail	x	x	x	x	x	x	x
3. Explosion	x	x	x	x	x	x	x
4. Riot or civil commotion	x	x	x	x	x	x	x

5. Damage caused by aircraft	x	x	x	x	x	x	x
6. Damage caused by vehicles	x	x	x	x	x	x	x
7. Smoke	x	x	x	x	x	x	x
8. Vandalism or malicious mischief	x	x	x	x	x	x	x
9. Theft	x	x	x	x	x	x	x
10. Volcanic eruption	x	x	x	x	x	x	x
11. Falling object		x	x	x	x	x	
12. Weight of ice, snow or sleet		x	x	x	x	x	
13. Accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning, or automatic fire-protective sprinkler system, or from a household appliance.		x	x	x	x	x	
14. Sudden and accidental tearing apart, cracking, burning, or bulging of a steam or hot water heating system, an air conditioning or automatic fire-protective system.		x	x	x	x	x	
15. Freezing of a plumbing, heating, air conditioning or automatic, fire-protective sprinkler system, or of a household appliance.		x	x	x	x	x	
16. Sudden and accidental damage from artificially generated electrical current (does not include loss to a tube, transistor or similar electronic component)		x	x	x	x	x	
All perils except flood, earthquake, war, nuclear accident, landslide, mudslide, sinkhole and others specified in your policy. Check your policy for a complete list of perils excluded.			x				

The one exception is the state of Texas, where policies vary somewhat from policies in other states.

Types of policies sold in Texas:

- **HO-A** policies provide extremely limited actual cash value coverage of your home and its contents. Only the types of damage specifically listed in the policy are covered. The HO-A is a standardized Texas policy.
- **HO-A amended policies** provide more extensive coverage than the base HO-A policy but less coverage than an HO-B. HO-A amended policies are not standardized. Coverage provided by these policies may differ by company.

- **HO-B** policies provide replacement cost coverage for most types of damage, except those specifically excluded in the policy. The HO-B is a standardized Texas policy.
- **HO-C** policies provide the most extensive coverage, but they are more expensive than other types of policies. The HO-C is a standardized Texas policy.
- **Approved alternative policies** offer varying levels of coverage. Companies can sell alternative policies only if the Commissioner of Insurance approves the policy form in advance. These policies are not standardized. Coverage may differ considerably from one company to another and from the coverage provided in the standardized Texas homeowners policies.

What Homeowners Policies Do and Don't Cover

Most Policies Cover Losses Caused by	Most Policies Do Not Cover Losses Caused by
Fire and lightning	Flooding
Aircraft & vehicles	Earthquakes
Vandalism and malicious mischief	Termites
Theft	Insects, rats, or mice
Explosion	Freezing pipes while your house is unoccupied (unless you turned off the water or heated the building)
Riot and civil commotion	Wind or hail damage to trees and shrubs
Smoke	Losses if your house is vacant for 60 days or more
Windstorm, hurricane, and hail	Wear and tear or maintenance
Sudden and accidental water damage	Water damage resulting from continuous and repeated seepage

The most popular policy is the HO-3, which provides the broadest coverage. Owners of multi-family homes generally purchase an HO-3 with an endorsement to cover the risks associated with having renters live in their homes.

HO-1: Limited coverage policy

this “bare bones” policy covers you against the first 10 disasters. It's no longer available in most states.

HO-2: Basic policy

It provides protection against all 16 disasters. There is a version of HO-2 designed for mobile homes.

HO-3: The most popular policy

This “special” policy protects your home from all perils except those specifically excluded.

HO-8: Older home

Designed for older homes, this policy usually reimburses you for damage on an actual cash value basis that means replacement cost less depreciation. Full replacement cost policies may not be available for some older homes.

HO4-Renter

Created specifically for those who rent the home they live in, this policy protects your possessions and any parts of the apartment that you own, such as new kitchen cabinets you install, against all 16 disasters.

HO-6: condo/co-op

A policy for those who own a condo or co-op, it provides coverage for your belongings and the structural parts of the building that you own. It protects you against all 16 disasters.

LEVEL OF COVERAGE

A homeowners coverage have the following three options:

Regardless of whether you are an owner or renter, you have the following three options:

1. **Actual cash value**

This type of policy pays to replace your home or possessions minus a deduction for depreciation.

2. **Replacement cost**

The policy pays the cost of repairing/rebuilding your home or replacing your possessions without a deduction for depreciation.

3. **Guaranteed or extended replacement cost**

This policy offers the highest level of protection. A guaranteed replacement cost policy pays whatever it costs to rebuild your home as it was before the fire or other disaster – even if it exceeds the policy limit. This gives you protection against sudden increases in construction costs due to a shortage of building materials after a widespread disaster or other unexpected situations. It generally won't cover the cost of upgrading the house to

comply with current building codes. You can, however, get an endorsement (or an addition to) your policy called Ordinance or Law to help pay for these additional costs. A guaranteed replacement cost policy may not be available if you own an older home.

Some insurance companies offer an extended, rather than a guaranteed replacement cost policy. An extended policy pays a certain percentage over the limit to rebuild your home. Generally, it is 20% to 25% more than the limit of the policy. For example, if you took out a policy for \$100,000, you could get up to an extra \$20,000 or \$25,000 of coverage.

Even though a guaranteed/extended replacement cost policy may be a bit more expensive, it offers the best financial protection against disasters for your home. This coverage, however, may not be available in all states or from all companies.

“Surveys show 67% of Americans feel they have just about the right amount of insurance but, incredibly, 62% also feel they don't understand their policies very well”.

FACTS AND STATISTICS

AVERAGE EXPENDITURES FOR RENTERS AND HOMEOWNERS INSURANCE, UNITED STATES, 1996-2002

Year	Homeowners (1)	Percent Change	Renters (2)	Percent Change
1996	\$440	5.3%	\$167	7.1%
1997	455	3.4	169	1.2
1998	481	5.7	170	0.6
1999	488	1.5	171	0.6
2000	508	4.1	175	2.3
2001	536	5.5	178	1.7
2002	593	10.6	186	4.5

(1) Based on the HO-3 homeowner package policy, see next chart.

(2) Based on the HO-4 renters insurance policy for tenants, see next chart.

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AVERAGE PREMIUMS FOR RENTERS AND HOMEOWNERS INSURANCE, BY STATE, 2002

State	Renters		Homeowners		State	Renters		Homeowners	
	Average premium (1)	Rank	Average premium (2)	Rank		Average premium (1)	Rank	Average premium (2)	Rank
Alabama	\$182	19	\$533	27	Montana	\$152	35	\$547	23
Alaska	167	28	668	8	Nebraska	145	43	596	17
Arizona	215	8	543	24	Nevada	220	6	531	28
Arkansas	213	9	616	13	New Hampshire	150	40	482	37
California (3)	260	3	660	11	New Jersey	173	25	538	25
Colorado	183	18	660	10	New Mexico	200	13	490	36
Connecticut	193	15	652	12	New York	207	11	661	9
Delaware	150	38	390	49	North Carolina	164	30	527	30
District of Columbia	165	29	697	5	North Dakota	121	49	528	29
Florida	217	7	786	4	Ohio	155	33	410	47
Georgia	210	10	517	31	Oklahoma	269	1	800	3
Hawaii	201	12	565	20	Oregon	158	31	398	48
Idaho	150	39	382	50	Pennsylvania	141	45	477	39
Illinois	182	20	516	32	Rhode Island	176	22	606	15
Indiana	174	24	508	33	South Carolina	176	23	604	16
Iowa	139	46	450	43	South Dakota	119	50	469	42
Kansas	172	26	684	6	Tennessee	193	16	536	26
Kentucky	155	32	480	38	Texas (4)	269	2	1,238	1
Louisiana	244	4	840	2	Utah	150	41	416	45
Maine	128	48	416	46	Vermont	138	47	493	35
Maryland	145	42	477	40	Virginia	142	44	476	41

Massachusetts	198	14	611	14	Washington	168	27	501	34
Michigan	184	17	577	19	West Virginia	154	34	447	44
Minnesota	151	37	590	18	Wisconsin	107	51	340	51
Mississippi	240	5	668	7	Wyoming	152	36	551	21
Missouri	177	21	550	22	Countrywide	\$186		\$593	

(1) Based on the HO-4 renters insurance policy for tenants. Includes broad named-peril coverage for the personal property of tenants.

(2) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1-4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings, broad named-peril coverage on personal property, and is the most common package written.

(3) California data were provided by the California department of Insurance.

(4) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms.

Note: Average Premium=Premiums/Exposure per House-Years. A House-Year is equal to 365 days of insured coverage for a single dwelling.

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LEADING WRITERS OF HOMEOWNERS INSURANCE, 2003

Company/Group	Direct premiums written (1) (\$000)	Market share (%)
State Farm Mutual Group	\$11,091,598	22.7%
Allstate Insurance Co. Group	5,424,791	11.1
Farmers Insurance Group	3,566,711	7.3
Nationwide Group	2,285,231	4.7
United Services Automobile Association Group	1,807,194	3.7
Travellers Property Casualty Corp. & Affiliates	1,748,715	3.6
Liberty Mutual Group	1,462,480	3.0
Combined Federal Ins. Co. & Affiliates (Chubb)	1,371,752	2.8
American Family Insurance Group	1,245,278	2.6

(1) Before reinsurance transactions, excluding state funds.

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

HOMEOWNERS LOSSES, 1999-2003 (1)

Year	Water damage and freezing		Total homeowner losses	
	Claim frequency (2)	Claim severity (3)	Claim frequency (2)	Claim severity (3)
1999	2.27	\$2,809	9.33	\$3,509
2000	2.45	3,140	8.82	3,823
2001	2.33	3,302	8.66	3,999
2002	1.90	3,683	7.57	4,251
2003	2.06	4,024	7.85	4,642
Average (4)	2.20	3,371	8.44	4,025

(1) For homeowners multiple peril policies. Excludes tenants and condominium policies.
 (2) Claims per 100 house years (policies).
 (3) Accident year incurred losses, excluding loss adjustment expenses, i.e., indemnity costs per accident year incurred claims.
 (4) Weighted average.

Source: ISO.

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