MINNESOTA DEPARTMENT OF COMMERCE

Home Insurance Basics

This section is designed to help you understand home insurance policies—what they typically cover and don't cover, what affects their rates, and how and under what circumstance they can be cancelled or not renewed.

Common gaps in homeowners insurance

Homeowners policies vary company and homeowners can mistakenly assume common items and features are covered. When purchasing insurance coverage, talk with you insurance agent about your needs and be sure to mention the following items:

- Sump pumps
- Sheds and unattached enclosures
- Trampolines and pools
- Jewelry artwork, antiques (Depending on the value, you might want to consider adding an additional personal articles policy.)
- Home office or business (You will need an additional policy to protect your assets if a client is injured on your property or if merchandise is damaged or stolen.)

It pays to be proactive

When reviewing your policy options, considering the following factors can help guide you to the appropriate amount of coverage for your needs.

Determining adequate coverage

Creating a home inventory can help determine if you have enough coverage. If you have any special items like art, jewelry, consider if you need additional coverage. You also need to factor in coverage for a shed or pool. Those items might not be covered under your policy or might raise your liability.

Raising your deductible to lower premium costs

Ask your insurance agent whether there are discounts you qualify for and review if you could raise your deductible to decrease your premium costs.

Assessing your risks

Floods and earthquakes are often not covered by a standard homeowners or renters policy. Determine your risk for these types of disasters and ask about available options. Visit www.floodsmart.gov for details on flood insurance.

Determining your liability coverage

Coverage for $250,000 might sound like it would go a long way to protect your property, but once you factor in retirement accounts, savings, and your home's value you might need coverage beyond that amount. An umbrella policy can extend your liability coverage above the amount that you might find in a basic homeowner's policy.

Review your coverage annually

Insurance companies may change policy terms at renewal, but they must notify you first. Read all notices and information sent from your insurance company.

Prepare a home inventory

A home inventory can help in case you need to file an insurance claim after your belonging are damaged or stolen. Not only will an accurate and detailed inventory make the claims process easier, it can help ensure that you are adequately compensated. These tips can help you put together a comprehensive home inventory:

- Document each item as completely as possible, including brand, serial number, and model number. Taking pictures can help.

- Keep receipts to prove what you paid for each item.

- Review your insurance policy to know what is covered and whether your possessions are insured for actual cash value or replacement cost.

- For rare or valuable items such as jewelry, antiques, or art, you may want to consider adding additional insurance -- a rider -- to your policy.

- Update the list annually and keep it in a safe, fire-proof box, or store in online.

What's Covered?

Homeowner policies

Often termed HO by the insurance industry—come in a number of standard packages that are pretty much the same no matter where you live in the United States. The most common homeowner policies consist of two parts: the first is property coverage, which includes coverage of your dwelling, other structures on the property, and personal property. "Other structures" include the garage, as well as guest house, tool shed, or similar type buildings. Not included are buildings used for business or rented or leased to others. Personal property includes all household furnishings and your own personal belongings, including clothes. Among personal property usually excluded from coverage are your car or other motorized vehicle, pet dog or cat or other animal, computers or other equipment that are part of a small business run from your home.

The second part of your policy provides personal liability coverage, which pays damages if someone brings a claim or suit against you for bodily injury or damage to his or her property.

Property coverage

Three types of HO policies are commonly offered. The first two, usually termed HO-1 and HO-2, insure the dwelling, other structures, and personal property against a list of named "perils," or causes of loss, such as fire, lightning, etc. HO-1, a basic policy, commonly covers some 11 perils. HO-2 is broader, covering some five or six additional perils. A third policy, usually termed HO-3, includes an "all risk" clause that covers nearly all perils or causes of loss, with specified exceptions. The exceptions almost always include flood, earthquake, war, and nuclear hazard.

HO-3 is probably the most widely sold homeowner policy. Although the all-risk clause adds to the cost of the premium, without the clause, coverage is limited to damage caused by one of the named perils.

Liability

The liability portion of the homeowner policy protects against a claim or lawsuit brought by someone who is injured on your property or by something you do. The claim can also be for damage to that person's property, if it is caused by something you do or for which you are responsible. The liability portion of your homeowner's policy pays for damages when you are liable for the injury, pays the medical expenses if the person is injured, and provides legal expenses to defend you even in cases where the suit is not thought to be justified.

Other Types of HO Policies

Variations of these common homeowner policies are available for other types of dwellings. They include:

Renter's or tenant's policy

The standard renter's policy insures your personal property against the expanded list of perils named in the HO-2 policy, and also includes liability coverage; it does not, of course, cover the actual building or other structures, which are the responsibility of the owner.

Mobile home policy

This provides basically the same type of cover- age as the common HO policies described above. Premiums are usually higher because of the greater susceptibility of mobile homes to wind damage.

Condominium owner's policy

The condominium association buys insurance covering the building and other structures. The owner of the condominium unit, therefore, usually buys a policy similar to the renter's policy in that it principally provides personal property and liability coverage. You should check with the condominium association, however, to determine the extent of its cover- age. Typically, the association's insurance covers only the exterior walls, and damage to such items as bathroom fixtures, kitchen cabinets, and carpet would need to be covered by your policy.

Actual Cash Value coverage

Often termed HO-8 is similar to HO-1 in providing both property and liability coverage for some 11 named perils, but it differs from most HO policies sold today in that it covers repairs or reimburses based on Actual Cash Value—not replacement or rebuilding costs. This type of cover- age is often sold to cover older homes that have some architectural or other features that make their replacement cost significantly higher than their market value. It also is commonly sold to those who cannot afford or qualify for the more comprehensive HO policies described above.

Property Coverage

Coverage for the property portion of the homeowners' policy includes three parts that are often distinguished by the letters A, B, and C: Coverage A for the dwelling, Coverage B for the other structures, and Coverage C for personal property. A fourth type of coverage—sometimes termed Coverage D—compensates you in case you are forced to live elsewhere while your home is being repaired or rebuilt. All property coverage includes deductibles— the amount that you must pay before the insurance company pays the balance. A common deductible is $250.

Coverage A

The dwelling is usually based on the cost of replacing the house, subject to a maximum dollar amount. Minnesota law prohibits an insurance company from knowingly insuring a home for more than its replacement value. Typically, the minimum coverage is 80 percent of the replacement value of the house. A home with a replacement value of $120,000, for example, would typically be insured for $96,000.

Because of inflation, increases in construction costs, and other changes that cause the value of your property to go up, you may consider including an inflation guard clause in your policy. This automatically adjusts the amount of your coverage to reflect an increase in value. Not all companies offer this option.

Coverage B

The other structures on the property, is determined by the amount of Coverage A. The standard coverage limit is 10 per- cent of Coverage A, although this can be increased at your request. In the case of the example used above, the standard coverage would be limited to $9,600.

Coverage C

Personal property, compensates you for damage to or loss of your personal property, and is usually subject to a limit of 50 percent of Coverage A. In the example used, this limit would be $48,000. Many homeowners increase this coverage limit to 70 or 75 percent, but most policies set individual limits on certain types of property such as money, securities, jewelry, and watercraft. Check these limits; if you have some highly valuable possessions that would not be adequately covered under these limits, you might want to consider buying a special personal property endorsement or "floater" that would insure these items separately.

As noted in the opening paragraph of this guide, providing replacement cost coverage for personal property is an important feature, since policies that compensate based on Actual Cash Value are likely to prove inadequate. If the company's policy does not provide for replacement cost of personal property, Minnesota law requires the company to state this on the policy declarations page.

Minnesota law stipulates that if an insurance company limits Coverage B and C to a percentage of the dwelling (Coverage A) limit, it must also offer an option allowing policyholders to purchase lower or higher percentage limits; the company must also provide a rate credit for lower-than-standard limits.

Coverage D

Loss of dwelling use, pays additional living expenses if you are forced to live elsewhere while your home is being repaired or until you can move into a new dwelling. The amount of coverage is based on actual living expenses required to maintain your normal standard of living, or on the fair rental value of your dwelling, less any expenses that do not continue while the home is repaired. Payment is for the time it takes for the home to be repaired or for you to relocate.

Liability coverage

The second major part of your home insurance policy. The standard amount of liability coverage is $100,000, but this periodically increases. If you have a lot of assets to protect, you may want to buy a personal liability umbrella policy.

Umbrella policy

This type of policy provides additional liability coverage and is applied after the liability coverage on your homeowner policy runs out. Besides providing additional monetary coverage, it also expands coverage to include personal injury.

The standard homeowner policy covers bodily injury and property damage, with personal injury offered as an option. (Personal injury includes such actions as false arrest, defamation, and invasion of privacy.)

What Affects Rates?

Homeowner policy rates depend first of all, of course, on the extent and dollar amount of coverage: a policy with an "all risk" clause will cost more than a policy that covers damage resulting from a limited number of named perils; a policy that provides replacement cost coverage for a $300,000 home will cost more than for a $100,000 home; liability coverage of $300,000 will cost more than coverage of $100,000.

Ways to Reduce Rates

Lower Coverage B and C. In Minnesota, homeowners may reduce their rates by reducing the dollar limits of coverage for structures other than the dwelling (Coverage B) and for personal property (Coverage C). State law requires insurance companies to offer lower than standard limits for these types of property and to reduce the premium accordingly. If you choose to have lower limits, take care that you are not running the risk of being underinsured. Many people underestimate the replacement value of their personal property.

Higher deductibles

You can also lower the premium by raising your deductible—the amount of money you pay before your insurance company starts to pay for a loss. Doubling your deductible from the standard $250 can often reduce your rates about 12 percent; increasing the deductible to $2,500 can often save about 30 percent.

Safety and security systems

Some companies offer discounts for sprinkler systems, fire and burglar alarms, and similar systems. In the case of mobile homes, tie-downs or ground anchors, which reduce the risk of wind-caused damage, can lower rates.

Discounts and group rates

These are sometimes available to seniors, or members of a professional or business organization. Some companies also offer a discount if you have another policy with them— such as auto insurance—or if you have stayed with the same company for several years. If a company offers these packaged dis- counts to homeowners, it must also offer them to individuals having a renter's or a condominium owner's policy with the company.

Renovation

If a company offers a lower rate for a new home, it most also offer a rate reduction for renovated homes. As an example, a company may give credit for one or more of the fol- lowing: renovated electrical, heating or cooling, and plumbing systems, as well as roof or other part of the structure.

Non smokers receive reduced rates from some companies, since smoking accounts for a large number of residential fires each year.

What Cannot Affect Rates

Minnesota law prohibits insurance companies from adjusting rates based solely on:

- The geographic location of a town in which the home is located.
- The age of the home construction (unless identical credit is also offered for one or more renovated systems as noted above).
- Different zip code areas in the same town.
- The fact that the homeowner may have previously been denied coverage for the property unless it was for reasons stated in Minnesota Statute §65A.01 (https://www.revisor.mn.gov/statutes/?id=65A.01).
- The fact that the property has previously been insured under the Minnesota FAIR Plan.

Minnesota Department of Commerce

Rules and Regulations

On what grounds can a company refuse to insure a property, or cancel or not renew a home insurance policy? A large portion of the consumer calls received by the Minnesota Department of Commerce concern these questions.

Reasons for denial

Just as an insurance company cannot offer different rates based on any of the reasons cited above, neither can it refuse to offer or renew a policy for these reasons. In the case of the age of the house, a company can refuse to insure a property constructed before a certain date, but only if the electrical or other specified systems have not been renovated since that date. In other words, the age of the system or systems determine whether a company can refuse to insure a dwelling.

The property must also meet reasonable under writing standards; these include consideration of the property's proximity to an extraordinary hazard; access to fire protection; physical condition, including state of the heating and wiring; present use, such as vacancy or overcrowding; and other characteristics such as storage of rubbish or flammable materials that increase risk.

Grounds for cancellation

Once a policy has been in effect for at least 60 days, or has been renewed, it can be cancelled (that is, terminated during the period in which the policy is in effect) only for the following reasons:

- Nonpayment of the premium.
- A false statement or misrepresentation by the insured in applying for the policy or in presenting a claim.
- An increase in risk from what was originally accepted for coverage; the increase can be due to something the insured does or omitted to reveal in the application.
- If a physical change occurs that increases risk to the property after the policy is in effect, and the change has not been corrected within a reasonable time.
- Nonpayment of dues to an organization in which member- ship is required for the particular insurance policy.

Grounds for non-renewal

No insurance company can refuse to renew a policy at the end of its period except for the reasons for cancellation, cited above, and for the following reasons:

- Using the property for an illegal activity.
- Cancellation by the insurance company of its contract with an agent, unless the company assigns another agent to the
- policy. (The company must also transfer the policy to anoth- er agent if the insured requests it in writing before the non- renewal date; see notification required, below.)
- Violation of laws that increase the possibility of loss.
- Refusal of the insured to eliminate conditions which increase risk after being notified by the insurance company that the conditions must be removed.
- A change in the quality or availability of fire protection services.
- Two or more losses by the insured within the past three years, unless the losses were caused by lightning or other storm-related phenomenon, or they did not result in any payment by the insurance company, or 80 percent of the costs were recovered through another party.
- The company stops writing homeowners' insurance in Minnesota.
- The insured homeowner fails to provide information relating to the insurability of the property when requested by the company.
- Failure to pay property taxes on the insured property for two or more years.
- The homeowner no longer owns that particular property or no longer lives there.

Notification requirements

If a policy is cancelled during the first 59 days it is in effect, the company must notify the insured in writing at least 20 days before the cancellation date. Once a policy has been in effect for 60 days, or if it is a renewal policy, the company must give a written notice at least 30 days before the date on which the policy will be cancelled. The exception to this rule is when the premium has not been paid: in this case, the company may cancel at any time with 20 days' notice.

In some cases, two notices are required. If the nonrenewal is based on known conditions that increase risk, the company must send two notices notifying the homeowner that the policy will not be renewed unless the conditions are removed. If the company needs information about the property before it will renew the policy, it must send two written requests for the information and state why the information is needed. The second notice must inform the homeowner that the policy will not be renewed if the information is not received.

In all cases, a reason for the cancellation or nonrenewal must be stated in the notice and the homeowner advised of his or her right to send a letter of complaint to the Commissioner of Commerce. The homeowner must also be notified of the right to apply to the Minnesota FAIR Plan for coverage.

Opportunity for coverage through the FAIR Plan. A home- owner who has been denied insurance or had a policy cancelled or nonrenewed can apply for coverage hrough the FAIR Plan, or Minnesota Property Insurance Placement Facility.

The Minnesota FAIR Plan Act was passed to assure access to property and liability coverage for those who cannot obtain insurance through normal insurance markets. Anyone who has been rejected for coverage can apply for coverage through the FAIR Plan. All insurance companies authorized to sell property or liability insurance in the state must participate. If the Plan sustains an operating loss in any one year, the companies are assessed a dollar amount based on their share of the market. The FAIR Plan is administered by a board whose members include representatives elected by the insurers and members appointed by the Commissioner of the Department of Commerce.

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Home Inventory Tips and Tools

When choosing homeowners insurance, most consumers think more about the value of the home than about their prized possessions inside. When determining coverage needs, it is important to know all the "stuff" in your home that warrants special protection. Insurable items do not only include luxury items like jewelry and art, but also fun purchases that support personal passions. Whether it is gourmet cooking gadgets, designer handbags or high-end electronics, what you invest in personal passions can have a profound impact on your insurance needs.

One of the best ways to make sure your possessions are fully protected is to document them with a home inventory.

Now, creating a home inventory is easier than ever thanks to myHOME Scr.APP.book, an iPhone (https://itunes.apple.com/us/app/myhome-scr.app.book/id414273863?mt=8) and Android (https://play.google.com/store/apps/details?id=org.naic.scrapbook&hl=en) application from the National Association of Insurance Commissioners (NAIC). The free myHOME Scr.APP.book app lets you quickly photograph and capture images, descriptions, bar codes and serial numbers, and then stores them electronically for safekeeping. The app organizes information room by room, and even creates a back-up file for e-mail sharing.

If you prefer the low-tech way, download our Home Inventory Checklist (.pdf) **NEEDS LINK** which provides a room-by-room guide for your home inventory. You can fill it out, update it, and keep it as an on-going record of your possessions.

9 Steps to Complete a Home Inventory

1. Make a list of possessions, including "celebration" purchases such as jewelry and fine art.
2. Think about family heirlooms, collections and furniture. Also consider items related to everyday leisure time, from flat-screen televisions to custom guitars.
3. Take note of commonplace items such as toys, CDs and clothing. And do not forget items you may only use occasionally such as holiday decorations, sports equipment, tools and high-ticket items kept outside your home such as landscape art and swing sets.
4. Attach copies of original sales receipts and/or appraisal documents to your inventory. Be sure to note model andserial numbers.
5. Group your possessions into logical categories, i.e., by hobby, by room in your home.
6. Carefully photograph or videotape each item and document a brief description including age, purchase

price and estimated current value.

7. Remember to open drawers and closets to document what's inside.
8. Store your home inventory and related documents in a safe, easily accessible place such as a secured site/file online, a fire-proof box or in a safe deposit box. You may want to share a copy with your insurance provider so he or she can make necessary updates to your coverage.
9. Review and update your inventory annually and whenever you make a significant purchase.