New Jersey Department of

BANKING AND INSURANCE

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Insuring Your Home

A consumer guide to Homeowners, Renters and Condominium Insurance

The New Jersey Department of Banking and Insurance (NJDOBI) prepared this Guide to help you understand the sometimes complex world of Homeowners, Renters and Condominium Insurance.

If you are like most people, your home and the things inside it make up one of the biggest financial investments you have. This can be just as true for renters as homeowners. All those clothes, furniture, appliances, tools, toys, and electronics can really add up. If your home and its contents are not protected by any insurance, where will you get the money to replace your possessions if disaster strikes? Could you afford to protect yourself if someone fell on your property and decided to sue you for injuries?

Generally if you own a home, your homeowner's policy covers your home and its contents as well as personal liability, (the amount you are legally responsible to pay for injuries or damages to others), medical payments to others, and additional living expenses in the event you cannot stay in your home (called loss of use). If you rent, a renter's policy (also sometimes called tenants insurance) covers your personal belongings, personal liability, medical payments to others, and additional living expenses. A condominium policy provides protection for your personal property, improvements, additions and items that are not covered by the condominium association's master policy, personal liability, medical payments to others, and additional living expenses. These coverages are explained in greater detail in this guide.

With the help of this Guide you can:

- Identify the kind of coverages homeowner policies offer so you can buy what you really need.
- Learn the information you need to shop for coverage in order to find the best values.
- Understand how homeowners insurance works, and how NJDOBI can help you.

Please take a few moments to review this Guide. The answers to many questions can be found here, or on our website at www.dobi.nj.gov. If you have questions, please don't hesitate to contact our Consumer Inquiry and Response Center (CIRC) at 609-292-7272 or 800-446-7467.

Homeowner Insurance Basic Coverages

Homeowner insurance policies provide protection for several different things all in one policy. The coverage parts of a homeowner policy are listed below. Keep in mind that your policy may provide more or less coverage depending on your needs and the type of policy you purchase. For example, a renter's policy will not provide Coverage A – Dwelling, since you do not own the property where you live. Your insurance agent or insurance company can help you determine which coverage and homeowner policy form is right for you.

- **Coverage A – Dwelling**

This coverage protects you for insured damages to your home, including plumbing, wiring and permanently installed heating and cooling systems as well as attached structures.

- **Coverage B – Other Structures**

This coverage provides protection for unattached structures like sheds or fences. Usually, coverage is limited to 10 percent of the amount of your Coverage A limits; however it may be possible to purchase additional coverage.

- **Coverage C – Personal Property**

This coverage offers protection for the contents of your home and items belonging to other family members residing with you. The personal property coverage limit is typically 50 percent of the dwelling limit (Coverage A), but you may be able to purchase more coverage. Generally, Personal Property coverage pays the Actual Cash Value (ACV) of the damaged item unless you have purchased a replacement cost coverage endorsement. Actual Cash Value means the value of the item as it is now, considering its age and condition.

- **Coverage D – Loss of Use**

If a covered peril, such as a fire, forces you to live elsewhere temporarily, this coverage provides assistance for additional living costs beyond what you would normally pay, including reasonable hotel costs and additional expenses for meals or laundry. It is important that you maintain receipts and documentation of the additional

expenses for your insurance company to review. Loss of Use coverage is usually limited to 20 percent of Coverage A –Dwelling.

- **Coverage E –Personal Liability**

This coverage provides protection if you or a family member residing in your household is legally responsible for injuries sustained by someone who visits your home. Coverage is provided for legal defense as well as liability. There are certain exclusions to this coverage and the policy has a limited dollar value for liability, such as $100,000 or $500,000.

- **Coverage F –Medical Payments to Others**

This coverage provides limited amounts for payment of medical bills for others if they are hurt on your property and in some circumstances, sustain an injury caused by you away from your home. It does not cover you or any relative living with you. Coverage is generally limited to $1,000 per person but additional limits may be purchased.

Additional Coverages

Your homeowners policy provides additional coverages including:

- **Credit Card Coverage** Personal property coverage extends to credit cards. Most policies will pay up to $500 to cover the unauthorized use of your credit cards.
- **Debris Removal** The policy covers the expense of having debris left as a result of a covered loss removed from the premises. For example, the policy would pay for the removal of burned materials after a fire. The limit for this coverage is part of the overall property damage limit.
- **Trees, Plants and Shrubs** For damages as a result of fire, lightning, explosion, vandalism, riot, and falling aircraft; trees, plants and shrubs around the house are usually covered for up to 5 percent of the insurance on the house, up to $500 per item. However, in the event of damage to your trees as a result of a windstorm or hurricane, coverage is provided for removal of damaged trees up to $1,000 per event with

no more than $500 for any one tree or shrub.

You may also wish to consider buying additional protection through coverage endorsements. Endorsements make changes to the original terms of your policy. Here are some common endorsements that may be beneficial:

- Personal Property Replacement Cost: This endorsement extends replacement cost coverage rather than Actual Cash Value for personal possessions. An example of how this can benefit you is explained in the section "Actual Cash Value and Replacement Cost."
- Scheduled Personal Property Endorsement: Your policy generally only provides limited coverage for furs, jewelry, silver, and certain other valuables. You can usually purchase additional coverage, or schedule these items, for added premium. Your insurance company may require recent appraisals of the items you wish to schedule individually on your policy.
- Sewer Backup or Sump Pump Overflow – Some limited coverage may be available separately as an additional endorsement. Ask your agent or company if they provide this coverage, which is usually limited to $5,000. This is an important endorsement to consider since downed power lines in a storm may cause sump pumps to stop working, resulting in damage.

Common Exclusions

All homeowners policies include a list of exclusions, or things the policy will not cover. It is important to be familiar with the exclusions itemized in your policy.

Homeowners policies **exclude** water damage caused by **flood.** The National Flood Insurance Program (NFIP) provides flood coverage to residents of designated communities that comply with the federal guidelines for flood prevention. You do not have to live in a flood zone to obtain flood insurance, but you do have to live in a community that participates in the National Flood Insurance Program. Your agent or insurance company can help you in applying for flood insurance. For more information about the federal flood insurance program, call 888-379-9531 or visit www.floodsmart.gov

Most homeowner's policies also do NOT provide coverage for:

- Damage caused by normal wear and tear.
- Loss of animals, birds or fish.
- Damage from Sewer Backup or Sump Pump Overflow. Limited coverage may be available separately as an endorsement which is usually limited to $5,000.
- Damages resulting from war, nuclear hazard, neglect, earth movement (earthquake), or power failure from an off premise source, such as a downed power line.
- Additional cost of repairs due to changes in building codes or local laws enacted since the home was built. Some coverage may be available as an added endorsement.
- Home based business. Most homeowner policies only provide limited coverage for business related property and do not provide liability coverage for a home based business or business interruption coverage.
- Watercraft. If you own a boat, you should ask your agent or insurer if it is covered. Some policies will cover small motorboats and sailboats, but not larger ones.
- Oil tank liability. Coverage may not be provided to clean up fuel oil or other pollutants from your property (1st party coverage) or from neighboring property (3rd party coverage). Some policies provide the option to purchase 1st party or 3rd party coverage, or both. If you have an active or even inactive fuel tank on your property, you may want this coverage.

Shopping for Homeowners Insurance

Not all insurance companies offer the same products and different companies charge different rates or offer different levels of customer service. So it pays to shop around to find the best company for your needs.

Some companies sell insurance directly to applicants. These companies are called direct writers. You can contact them by phone or often via the internet to apply for coverage. Other companies offer insurance through insurance agents, also called insurance producers. Exclusive agents write for only one company while independent agents may represent several different insurance companies.

You can obtain information on companies that currently write homeowner insurance in the Consumer section of the Department's website www.dobi.nj.gov or by calling the Department at 609-292-7272 or 800-446-7467. You can also check to be sure the agent or company you are contacting is currently licensed with us by calling or visiting our website.

In order to compare your choices, it is important to ask for the same coverages, policy limits and deductibles and to check to see if you are eligible for any policy discounts. To give you an accurate quote, the agent or insurance company will usually request information including: a description of your house; how it was constructed (brick, wood, etc); its age; size; distance to the nearest fire department and fire hydrant; any security devices; the policy limits; and the deductibles you want. Ask for information in writing so you can compare your options.

Underwriting Guidelines/Rules

Insurance companies have underwriting guidelines or rules to determine the types of risks they will accept. Things such as prior claim history, the condition and location of your home and property, whether you own any pets that might cause an increased liability risk, whether you have an in home business, and the presence of a swimming pool or an oil tank can have an impact on whether a company will insure you or will renew your policy. The New Jersey Department of Banking and Insurance's regulations state that underwriting guidelines cannot be arbitrary, capricious or unfairly discriminatory. Ask your agent or insurance company to review with you the underwriting guidelines of any policy you may be considering so that you understand its limitations.

Surplus Lines Insurance

In some cases, insurance companies licensed and regulated in New Jersey (also known as the admitted market) will not write certain risks. Perhaps a home has a very high value or is unoccupied, or is located right on the beach and no insurer will provide coverage. In such situations, New Jersey law allows some non-admitted insurance companies, called eligible surplus lines insurers, to provide coverage for the risk.

Surplus lines insurers are not regulated to the same degree as admitted insurance companies and many insurance laws and regulations do not apply to these companies. Surplus lines policies may

offer different coverages and policy limits than found in voluntary policies and rates will usually be higher.

If you wish to check whether an insurance company is eligible as a surplus lines insurer, you can view the list of eligible surplus lines insurers online at www.state.nj.us/dobi/division_insurance/sleo.htm or call the Department at 609-292-7272.

FAIR Plan

If you have been unsuccessful at obtaining coverage for your property in either the admitted or the surplus lines market, you may be able to obtain coverage through the New Jersey Insurance Underwriting Association, known as the FAIR Plan. A property owner may apply to the FAIR Plan directly or through any licensed agent/producer. The plan insures homes, mobile homes, rental units, most commercial buildings and business property. The FAIR Plan provides basic property coverage, such as fire, lightning, wind and smoke, but the basic policy does not provide theft or personal liability coverage. Optional theft coverage is available as an endorsement.

Consider the FAIR Plan only if you cannot obtain insurance from any other source.

For more information about the FAIR Plan, contact:

New Jersey Insurance
Underwriting Association
744 Broad Street
PO Box 32609
Newark, NJ 07102

Telephone: 973- 622-3838
Web site: www.njiua.org

Factors that Affect the Cost of Your Homeowner Policy

Insurance companies consider several factors when determining the cost of homeowners coverage. These factors include:

- **The location of your home** – Some areas such as coastal locations may be more prone to wind or storm damage. Some areas tend to experience higher crime rates and some homes are far from a fire department or fire hydrant so they pose more of a fire threat.
- **The cost to rebuild your home** – This is not necessarily the same as the amount you paid when you bought your home or the current price you would get on the market. It is important to insure your home to its replacement cost. Most

policies contain a provision if you are underinsured and suffer a loss, where a co-insurance penalty will apply. This means that even for a minor loss, you may incur additional out of pocket expenses.

- **The type of construction** – Homes made of brick can withstand wind and fire better than those made of wood, so construction type can impact premium.
- **The age and condition of your home** – Premiums are often higher for older homes or homes in need of updating. New homes may qualify for discounts.
- **Your claim history** – If you have filed homeowner claims in the past it could impact your rates or your insurability.
- **The coverages you choose-** **A**dded endorsements like replacement cost coverage for personal property or itemized coverage for jewelry or art increase premiums.
- **The deductible you select** – A higher deductible, the portion of each covered claim you are responsible for paying, will result in lower premiums.
- **Insuring your home and cars with one company** – Some companies offer discounts for having both policies with them.

Actual Cash Value and Replacement Cost

Before buying a policy, it is important to understand the difference between replacement cost and actual cash value. Typically, homeowner policies provide replacement cost coverage for the dwelling and Actual Cash Value on personal property.

Actual Cash Value (ACV) means the value of the item as it is now, considering its age and condition. Replacement cost is the amount it would take to repair or replace with materials of like kind and quality at today's prices.

Many insurers offer an option to purchase an endorsement for replacement cost coverage on personal property. Although this coverage will result in some increase in your premium, you may wish to consider this option. For example, a three year old computer damaged by lightning could have an actual cash value of only $650 today, but it would cost $1,100 to replace it. With a replacement cost endorsement, the insurer will pay you the

current replacement cost once you have purchased a similar new computer.

Windstorm or Hail Deductibles

An optional separate deductible can be selected for the perils of windstorm or hail. This deductible is separate from the policy all peril deductible and reduces your premium. The windstorm or hail deductible can be selected for a fixed dollar amount or a percentage of the Coverage A limits up to 10 percent. If you would like to have the optional windstorm or hail deductible, contact your agent.

Hurricane Deductibles

Many policies also have hurricane loss deductibles that apply only to losses that occur during a hurricane, which is an event that is designated as a hurricane by the National Weather Service, and only if sustained wind speeds of 74 mph have been measured anywhere in New Jersey.

There are several types of hurricane deductibles available in the market, but a common type is determined as a percentage of the policy's Coverage A amount. These percentages can be 1 percent, 2 percent, 5 percent, or even 10 percent of the Coverage A amount. For example, a $200,000 home with a 2 percent hurricane deductible would have a $4,000 deductible; a $500,000 home with a 5 percent deductible would have a $25,000 deductible.

Because of variations in the hurricane deductible programs, be sure you understand how any deductible on your policy would apply in your situation. Ask questions and shop carefully. If you are subject to a hurricane deductible, discuss with your agent or insurance company if you can reduce or eliminate the deductible by making changes that make your property less susceptible to hurricane damage, such as adding hurricane shutters.

Important: Generally, it is not possible to purchase new homeowners insurance, or to request upgrades to an existing policy, within a specific time period of an approaching hurricane.

Credit Information

An insurer may request consumer credit reports when writing new or renewal policies. Some companies use credit information as an indicator of the frequency and severity of future claims.

The federal Fair Credit Reporting Act gives consumers certain rights. If adverse

action is taken (such as rejecting your application for insurance) because of information in your credit report, you have the right to review the report at no charge. You must request a copy of the report directly from the credit agency. Your insurance company will provide you with the credit agency's name, address, and telephone number.

Reducing the Cost of Insurance

Homeowner insurers offer discounts to attract particular customers. Typical discounts you may wish to ask about when purchasing a policy include:

- Multiple policy discounts - For example, the company will offer a discount if you insurer both your home and auto with them.
- Credits for protection devices - This may include smoke detectors, alarm systems and sprinkler systems.
- Nonsmoker discounts if all family members in the home do not smoke.
- Long-time policyholders - If you have maintained coverage with the same insurer for several years, you may qualify for special discounts.

In addition to discounts, you may want to consider increasing the policy deductible. Higher deductibles lower the premium. It is important to consider, however, whether you can afford to cover the deductible in the event of a loss.

Price and Service

While the price you pay is important, buying the cheapest policy may not always be the best choice. An insurance policy that sounds too good to be true probably is just that. Consider the following when you choose an insurance company and a policy:

- Premium cost
- Benefits including exclusions and limits
- Service - How do I make a claim? How easy is it to make changes to my policy or to reach customer service?
- Renewability - How can I be cancelled or nonrenewed?
- Financial strength and reliability of the company - Will the insurance company be around in the future if I have a loss?

Lender Requirements

If you have a mortgage on your home, your lender will require you to have homeowner insurance and to name the lending institution as a loss payee (they will be listed as a co-payee along with you on any checks the insurer writes to pay for damage to the dwelling). You are not required to buy insurance from any company that may be recommended by your lender.

If you fail to keep your homeowner policy in force, the lender may purchase coverage on your property and you will be responsible for paying the premiums. This is called "lender placed" insurance and it is generally more expensive than a regular homeowner policy and only protects the interest of the lender.

Loss Prevention and Other Helpful Tips

Taking steps to prevent losses is just as important as buying insurance to cover them.

- Install smoke, heat and carbon monoxide detectors in your home and especially near sleeping areas.
- Keep your house or apartment clear of accumulated trash, oily rags and combustible materials.
- Check lamps, cords, and light switches, making sure there is no faulty wiring.
- Practice home fire and emergency drills, making sure that everyone, especially children, knows what to do in case of a fire or other emergency.
- Keep matches away from children; make sure smokers do not smoke in bed.
- Install adequate locks and take precautions, such as not letting papers or mail accumulate when you go away.
- If you use candles in your home, never leave them unattended.

Other tips:

- A homeowner's insurance policy is a legal contract. When you purchase homeowner's insurance, you will receive a policy contract. Read the policy carefully, and make sure that you understand it. If you have any questions, contact your agent or insurance company for clarification.

- Keep your policy in a safe place and know the name of your insurance company and agent.
- Make sure you pay your premiums on time so your coverage does not cancel. If you have an escrow account and your lender pays the insurance, make sure your insurer receives payment.
- Keep all your insurance related paperwork together and in a safe place. Maintain contact information for your insurance company and agent so you have it in the event of a loss.
- Make a home inventory. Go through every room and list your possessions. Take pictures or videos of everything. Store your inventory in a safe place somewhere else, like work or a relative's home or saved on a portable device or in a safe deposit box. Review the inventory every year and update it whenever you acquire new items. The National Association of Insurance Commissioners (NAIC) has a home inventory application for certain smart phones. The myHOME Scr.APP.book app lets users capture images, descriptions, bar codes and serial numbers of personal possessions. The app organizes information by room and creates a back-up file for email sharing. To download the free app, go to the iTunes® or Android® Market app stores and search "NAIC." The NAIC also offers a downloadable home inventory checklist and tips for effectively cataloguing your possessions. Both are available online at http://home.insureuonline.org.

Filing a Homeowner Insurance Claim

Call your agent or insurance company as soon as possible to report your loss. Have your policy number ready along with any information that may be relevant, and have paper and pen to record the claim number, contact information for the assigned claim representative and any important information about your claim. Ask your agent or insurance company what documentation you will be need to provide to them. If you have any questions, your agent or insurance company will assist you.

If your property has been damaged, it is important to make any necessary temporary repairs to protect the property

from further loss or damage. For example, if windows are broken, have them boarded up to protect against vandalism or weather. Be sure to save all receipts or bills to submit for your claim.

Your insurance company will assign a claim adjuster to inspect the damages and determine coverage. You should cooperate with the adjuster and keep written notes about conversations regarding your claim. The company should provide you with a copy of the damage estimate and if you request it, give you the name of a contractor who will do the work at the price estimated. You are not required to use the company's recommended contractor. If all or part of the loss is not covered, the company must explain how coverage is excluded under your policy.

If you and the insurance company do not agree, first try to resolve your issues with the company. Sometimes it helps to have your contractor speak directly with the claim adjustor.

If you cannot resolve the dispute with your insurance company, you have several options:

- Contact the New Jersey Department of Banking and Insurance at 609-292-7272 or 800-446-7467, or file a complaint online at www.state.nj.us/dobi/consumer.htm.
- Request that the company's Internal Appeals Panel review your claim. The company generally will ask you to submit your dispute in writing, including any documentation you have to support your position. If you are dissatisfied with the decision of the company's Internal Appeals Panel, you can appeal to the Office of the Insurance Claims Ombudsman at the New Jersey Department of Banking and Insurance.
- You can request to have independent appraisers evaluate your loss. See the appraisal clause of your policy to learn how this process works.
- You can hire an attorney to represent your interests.

Policy Cancellations and Nonrenewals

When a new policy first takes effect, the insurer has a right to cancel coverage any time within the first 60 days for any reason not otherwise prohibited by law. The cancellation is not effective until at

least 10 days after the insurance company sends you written notice.

A mid-term cancellation is the termination of a policy before the policy expiration or renewal date. An insurer can cancel coverage if you do not pay premiums or for other reasons stated in your policy. There is no grace period for paying for your insurance, so it is important to pay the premium due on time. All mid-term cancellations require a written notice before the termination date of the policy.

Non-renewal of a policy refers to the termination of a policy at its expiration date without an offer by the insurer to continue or renew coverage. If the insurance company decides that it does not want to renew your policy, it must provide you with written notice explaining the reason for nonrenewal at least 30 days before the expiration date of your policy.

If your policy is going to be cancelled or nonrenewed, your agent may be able to help you obtain replacement coverage. It is important to act quickly so you do not face a lapse in coverage.

How We Can Help

The Consumer Assistance Unit of the Division of Insurance wants to help you with your insurance questions and complaints. If you have a question, we will do our best to provide you with guidance. If you have a complaint, we cannot act as a substitute for a court or making determinations on questions of fact, but we can contact the insurance company or agent and determine if they are acting in accordance with the terms of your policy as well as New Jersey insurance laws and regulations. You can reach us by phone at 609-292-7272 or 800
-446-7467.

If you wish to file a complaint, you can do so online at
www.state.nj.us/dobi/consumer.htm.

or write to us at:

New Jersey Department of
Banking and Insurance
Consumer Assistance
PO Box 329
Trenton, NJ 08625-0329

Make sure you include details about your problem, the name of your insurance company and/or agent, policy number and claim number where appropriate, and any documents that may assist us.

For more information visit our website

www.dobi.nj.gov