

Ultimate Guide to Understanding Homeowner's Insurance

Your home is likely one of your largest assets. So when it comes to protecting that asset, how can you ensure it is fully covered in the event of a major loss?

In this blog, you will learn about home insurance and why it is the one of the best ways to preserve your property.

Why Homeowners Insurance?

Homeowners insurance is the best way to protect what might be one of your largest assets. Instead of paying out of pocket for expenses incurred because of a major loss to your home, insurance provides the coverage for that loss. Though not required for all homeowners, it is required for those with mortgages on their homes. The lender further requires their company be listed on the policy as a mortgagee [4].

Homeowners Insurance Protects Against Perils

Insurance provides coverage against [perils](#) that might cause damage to your home. According to the National Association of Insurance Commissioners, a peril is “an insurance term for a specific risk or reason for a loss.” In other words, it is anything that causes damage or “loss to your home, yourself, or your belongings,” [4]. There are several types of homeowners policies, and the perils covered in each depend on the type of policy you have. Below are some of the homeowners forms and perils covered. The first four include coverage for the dwelling and the contents (whatever is inside the home). The last two just include coverage for the contents [4].

- [Dwelling Fire Form](#): fire, lightning, hail, windstorm, vehicles, civil unrest, explosion, smoke.
- [Basic Form or Modified Homeowners Form](#): same perils as dwelling fire form plus theft and vandalism
- [Broad Form](#): same perils as basic form plus trees and other falling objects, weight of snow, ice, sleet, freezing, rupturing or sudden accidental overflow of a plumbing, heating, AC or fire-sprinkler system or household appliance
- [Special Form](#): any peril except flood, earthquake, war, and nuclear accident, and other perils specifically excluded
- [Tenants Form \(Renter's Form\)](#): same perils as the broad form
- [Condominium Unit Owners Form](#): same perils as the broad form

Damage caused by floods and earthquakes are not typically included in the covered perils [4].

If you are looking for the specific coverage areas under a typical homeowners policy, jump ahead to the [limits of coverage](#) section.

Dwelling and Homeowners Forms

Dwelling Fire Form

The Basics

A dwelling fire form is for buildings that are not eligible or well suited to a homeowners policy [3]. Homes insured under the dwelling policy can be owner-occupied but are often seasonal dwellings or those rented out to others. They have similar coverages to homeowners policies but personal property, medical payments, and liability for an accident on your property are often not included [5].

Form Types

There are three form types: *basic, broad, and special*.

The basic dwelling form provides coverage on a “named-peril basis, meaning any perils named on the insurance policy are covered in the event of a loss.” It also usually includes a provision for water damage up to a certain amount, personal property coverages, and other coverages similar to a homeowners form. The biggest difference, however, is the loss being paid out as actual cash value instead of [replacement cost value](#) [5].

Actual cost value: The current value of the property minus its depreciation (wear and tear over time) [4]. This type of valuation is usually less expensive, but it does not pay out as much as replacement cost after a loss [7].

The broad dwelling form also covers the perils mentioned above as part of the dwelling fire form. Losses from this form are paid out at replacement cost value [5].

The special dwelling provides coverage on an “open peril” basis, meaning any peril not specifically excluded is covered. Personal property is also covered on a “named-peril basis.” It is also typically paid out on a replacement cost basis [5].

Homeowners Forms

Basic Form

The basic homeowners form corresponds closely to the basic dwelling fire form. It covers the least amount of perils than other homeowners forms and pays out losses at [actual cash value](#) [3].

Additional Perils:

- Weight of snow and ice
- Accidental overflow or discharge of water or steam
- Freezing of plumbing, air conditioning
- Bulging or cracking caused by a sudden and accidental event
- Falling objects
- Sudden, accidental damage caused by artificially generated electrical current

Homeowners Basic Perils:

- Fire or lightning
- Windstorm or hail
- Explosion
- Riot or civil commotion
- Damage caused by aircraft
- Damage caused by vehicles
- Smoke
- Vandalism or malicious mischief
- Theft
- Volcanic eruptions

Broad Form

The homeowners broad form adds coverage for several additional perils (as listed to the left). It also provides separate coverages for the dwelling, personal belongings, medical payments to others, liability, and additional living expenses.

Special Form

One of the most common homeowners forms is the special form. It is an “open peril” form. Some of the exclusions that apply are earthquake and

flooding, power failure, war, negligence, deterioration due to weather conditions. For personal belongings, the special form provides coverage against the 16 perils listed above. “Jewelry, furs, watches, goldware, silverware and firearms are covered if damaged or stolen [3]. Special homeowners forms include coverages for the dwelling, other structures, personal belongings, medical payments to others, liability, and additional expenses [3].

Tenant (Renters) Form

The tenant form protects the belongings of those renting an apartment or home. The perils against which it protects are the same 16 perils listed above. The form also includes coverage for liability and additional expenses. A dwelling fire policy purchased by the landlord will cover the structure of the rental. [3]

Comprehensive Form

The comprehensive form offers extended protection with the same open-peril coverage and exclusions as the special homeowners form. Instead of the dwelling being paid out at actual cash value, this form provides coverage at [replacement cost](#). “Jewelry, furs, watches, goldware, silverware and firearms” are likewise covered more extensively. Instead of being protected only against the 16 named perils, the comprehensive form provides coverage against any peril not specifically excluded. It also expands protection to include valuable items that are damaged, stolen, lost, and misplaced [3].

Condominium Form

In the same way that the landlord covers the structure of the building in the case of a tenant, the homeowners association or similar entity typically owns the structure of a building. The form, therefore, covers anything inside the walls of the condominium. This includes renovations made to the condo, medical payments, liability, additional living expenses, and personal belongings [3]. The condominium form covers against the perils found in the broad form [2, 4].

Modified Form

A modified homeowners form is for older homes. This separate form is necessary because the cost to replace an older home is usually more than it is worth. The modified form replaces the home with comparable yet more modern materials in the event of a loss. It also provides coverage for personal property, liability, medical payments, and additional living expenses - these coverages will be described in the next section. In the event of a loss, personal belongings are replaced at actual cost value. [3].

Additional insurance forms not listed include those for townhouses, mobile homes, and farms [4].

Limits of Coverage

Within the above forms, there are various limits of coverage. Typically designated by letters A-F, the limits of coverage indicate how much will be paid out in the event of a loss.

Coverage A: Dwelling

The largest limit of coverage is Coverage A. If your homeowners form offers full replacement cost in the event of a loss, the coverage amount should match the “cost to rebuild your house based on

“Replacement cost is the cost to rebuild your home or repair damages using materials of similar kind and quality.” [4]

local labor and material costs,” [3]. As mentioned above, some homeowners forms pay losses out at actual

cost value while others pay out at replacement cost value. If you are unsure how much it would cost to replace your home, your insurance agent will be able to help you. Many insurance companies can generate an estimated value for Coverage A during the quoting process. The estimators base their coverage off the features and quality of the house you are insuring. You can also speak with your insurer about adjusting the coverage up or down, depending on your needs [4].

Coverage B: Other Structures

The second limit of coverage, Coverage B, is 10% of the dwelling coverage. It protects against damage caused to other structures on the property. Other structures include sheds, barns, detached garages, walls, fences, and even a [swimming pool](#) or trampoline. The limit can also be adjusted as needed [7].

Coverage C: Personal Property

Personal Property coverage is 50%-70% of the Coverage A limit, though it can be increased or decreased depending on the value of the personal property [3]. Other than personal possessions, this coverage also provides protection for appliances, heating and cooling systems, furniture, clothing, and other items. Additional coverage for high-value items like jewelry can be insured with a separate form or [endorsement](#) [7].

Coverage D: Additional Living Expense

Additional Living Expense, also called Loss of Use, is typically 20-30% of Coverage A [3]. It provides monies for living expenses in the event the home is damaged, destroyed, or temporarily unlivable. Examples of costs that a homeowner could incur are hotel costs, restaurant bills for eating out, and parking. Oftentimes, there are rules and limitations to this coverage that depend on the individual insurer [7].

Coverage E: Personal Liability Protection

Homeowners can select their preferred level of coverage for Coverage E: Personal Liability Protection. It pays out medical expenses in the event of an injury on the homeowner's property. Additionally, Coverage E covers legal fees if the injury and associated incident lead to a lawsuit [7].

Coverage F: Medical Payments

Like personal liability protection, the homeowner chooses how much coverage to apply towards medical payments. Coverage F provides payment for medical costs within a year of an accident on the homeowner's property. It does not, however, apply to immediate household members. There is typically a pre-set limit for this coverage, but like the coverages previously listed, it can be adjusted as needed [7].

The following chart shows the breakdown of coverage. Coverages B-D are a percentage of Coverage A, the dwelling limit. [3, 4]

Name	Coverage	Percentage
Coverage A – Dwelling	Dwelling (house structure)	100%
Coverage B – Other Structures	Shed, barn, other structures on the property	10%
Coverage C – Personal Property	Electronics, clothes, furniture, jewelry	50% -70%
Coverage D – Additional Living Expenses	Cost for living expenses if a peril prevents occupancy of the home (meals out, hotel, extra gas)	20% - 30%
Coverage E – Personal Liability	Payments to others	You choose
Coverage F – Medical Payments	Payments to others for injuries	You choose

Endorsements

If you desire more coverage than what the homeowners forms alone offer, consider endorsements. Endorsements are optional coverages that extend existing limits or add further coverages.

The following are some common endorsements as surveyed by US News and World Report:

According to US News and World Report, “endorsements increase coverage limits, extend protection to items not covered in the base policy, or add new coverage for particular risks.”

Scheduled Personal Property

Scheduled personal property is higher-value personal property that would be contained in the home, such as jewelry, arms, collectibles, etc. Oftentimes, an appraisal is required to determine the proper coverage amount [4].

Water/Sewer Backup

The water/sewer backup endorsement protects against damage caused by a water backup or sump pump overflow [4].

Earthquake

The earthquake endorsement will cover damages caused by an earthquake and the aftermath of the event. It pays for rebuilding costs, replacement of damaged personal property, and temporary living expenses. Depending on where you live, however, an endorsement might not be available. In some states, earthquake coverage could require a separate policy altogether [4].

Windstorm

A windstorm endorsement provides coverage for losses occurring as the result of a windstorm. Like the earthquake endorsement, it pays for rebuilding costs, replacement of damaged personal property, and temporary living expenses [4].

Flood Insurance

Flood insurance covers the dwelling or the contents of the affected building. [US News and World Report] Oftentimes, protection against floods requires a separate policy, especially in coastal or hurricane-prone areas. You can purchase flood insurance from a private insurer, the National Flood Insurance Program or NFIP, or in some states, from a state flood insurer. [Fliegelman]

Identity Theft

This endorsement provides preventative protection and recovery in the event of identity theft. The endorsement pays for the costs associated with recovering one’s identity, including the “fees for replacing identification and social security cards, auditing, and costs associated with obtaining a civil judgment,” [4].

Law/Ordinance

The law/ordinance endorsement provides coverage if a state or local ordinance/law requires repairs or renovations to your home to meet a state or local code [4].

Homeowner Responsibilities

Even with insurance, homeowners still have an important role to play in protecting their assets.

According to the NAIC, the homeowner should embrace several responsibilities after entering into an insurance agreement. The NAIC recommends understanding the contract you are signing, retaining in your records any communication between you and your agent, paying your premiums on time, and maintaining your home. It also recommends keeping an inventory of your assets and their approximate values.

Premium: A premium is an amount (often charged monthly) paid to an insurer in exchange for their promise of the insurance company to cover your asset.

In the event of a major loss, homeowners must:

- provide proof of the loss to the insurance company
- protect their home against further loss
- take an inventory
- cooperate with insurers, and
- provide additional evidence as needed

Deductibles are out-of-pocket payments made prior to the issue of payment on a claim. The higher the deductible, the lower the premium.

They also must pay their policy's deductible before the insurer will issue payment for a loss.

The NAIC recommends keeping photo evidence of belongings and the dwelling in a secure location outside the home, like in a safety deposit box or at work. Included in the documentation should be estimates of the replacement cost of items.

Claims

Factors that Impact the Claims Process

In the event of a loss to your home (whether partial or the entire home), you must file a claim. You should contact your agent promptly after a loss. A claim details the damage to the insurance company and provides the process for money to be paid out [4]. After the claim is filed, the company will send out an adjuster to determine the amount to be paid for the loss. The time it takes to process a claim and receive a payout depends on the complexity of the loss. For example, if the claim is a total loss as the result of a tornado, it will take much longer to process and verify the claim than it would for a smaller incident [4].

Adjuster: An adjuster is an independent representative or employee of the insurance company who assesses the damages during the claims process and determines the amount to be paid out [4].

According to US News and World Report, disputes during the claims process can also lengthen the time it takes to pay out a claim. If there is a disagreement about the amount either party believes should be paid out for a loss, either party can ask for an appraisal. Further, you can also hire a public adjuster or lawyer to help resolve the dispute. To help the claims process go smoothly, provide sufficient documentation to the insurer and retain copies of your communications.

Responsibilities When Filing a Claim

As mentioned above, part of your responsibilities in the claims process involve presenting evidence of the loss and protecting your property from further damage. Before filing a claim, you should read the policy to see if the loss is covered and if it is worth it to file the claim. The number of claims you file and how often you file can impact your insurability. Your deductible might be more expensive than the pay for repairs out-of-pocket. The complexity of the claim can also impact your premium [4].

Cancellation or Nonrenewal of Insurance

Though one hopes not to have their policy cancelled or nonrenewed by the insurer, it does happen.

Cancellation can be initiated by the insurer or the insured. Within the first 60 days, an insurer can cancel your insurance without a significant reason. If your policy is cancelled on the insurer's side after 60 days, it will be due to failure to pay premiums, misrepresentation of key data on your application, or significant changes to the risk. You can cancel the policy anytime on your end.

Nonrenewal of a policy is when the company "refuses to renew the policy after it expires." Like cancellation, nonrenewal can be initiated by either party. In the case of the insurer, they must give 30 days' notice. You can also ask the reason for nonrenewal if it is not provided [4].

What Determines the Rate of Insurance

In addition to the number of claims filed, there are several factors that determine the rate of homeowners insurance. Some additional determinants are the characteristics of the house, its location, and protective devices. Characteristics of the house that affect insurability are the age of the house, the condition of the roof, its structure type, the wiring, and whether it has a garage. The exposure of the house to hazards also affects the rate of insurance. The distance from a fire department, location in a disaster-prone area, and being in a neighborhood that is more prone to theft are all factors that can increase insurance rates. Protective devices like smoke alarms, burglar alarms, dead bolt locks, and others also influence the insurance rate [6].

The current market's rates are much higher than they have been in years past due to the increasing occurrence of natural disasters and the resulting losses to insurers. Insurers in areas that are prone to catastrophes have suffered more losses recently than in the past. In some states with significant losses like California and Florida, insurers have withdrawn their presence in the market altogether. The organization that helps absorb some of those losses, the National Federal Insurance Program, has also suffered significant losses and incurred debt [1].

Conclusion

The purpose of homeowner's insurance is to protect one of your greatest assets. The way insurance protects your home is by paying the damages on your behalf when losses are incurred. There are many forms to choose from, but the homeowners special form is the most common form. It protects the dwelling against all perils unless they are specifically excluded. When damage to the property does occur, a policy can pay out the loss in actual cash value or replacement cost value [4, 3]. Endorsements can also be added to increase protection of the home.

Beyond insurance's protections, you also have a responsibility to help safeguard your property. To do this, you should seek to protect your home from losses, comply with duties during the claims process, and pay premiums and deductibles. In addition to these obligations, homeowners must seek to maintain their home and prevent foreseeable losses from occurring. In the event that a loss does occur, homeowners must comply with the duties of the claims process which include inventorying the items lost, preventing further damage from occurring, cooperating with the adjuster, and other duties [4].

There are several determinants that impact the rate of insurance such as characteristics of the house, location, and devices. The increase in natural disasters in the past couple of years has also dramatically impacted the insurance industry and the price of homeowners insurance. To help you navigate the complex market, you need an experienced, [independent insurance agent](#). Mid State Insurance offers a combined total of over 50 years of experience to your homeowners insurance hunt.

To receive a free quote, visit our [website](#), give us a call at 931-388-8332, or visit our office near downtown Columbia.

Bonus:

Helpful Questions/Tips

Q: What should I look for when shopping for homeowner's insurance?

A: Select an insurance company that has good customer service, is licensed, and has stable financials. According to the NAIC, a complaint index can give you a good idea of the level of customer service. You can also check with the state insurance department to ensure the agent/agency you are working with is legitimate. You can check the financial status of an insurance company by searching them with "Standard and Poor's, A.M. Best, and Moody's [4].

Q: Based on your experience, what factors play the biggest role in determining the rate of insurance?

A: In the current market, the condition of a roof plays a significant role in getting one's home covered. The newer the roof, the better the rate of insurance and likelihood of coverage. The number of claims also affects one's insurance rate.

Q: How can I know which is the best insurance for me?

A: As independent agents with a combined total of over 50 years of experience, we have the market knowledge and the carrier mix to help find the best homeowners insurance for you. Click on the quote tab to receive an [instant quote](#), give us a call, or come visit us to get the right homeowners insurance for you.

Q: What if I am unable to find insurance?

A: If you are unable to find insurance, there might be additional resources available. Your state might have a “FAIR Plan, wind pool, or other residual market mechanism information or market assistance program available,” [4].

Q: How does the quoting process work?

A: First, present the same limits of liability and coverages to each agency to be quoted. This will allow you to make a more even comparison between companies. Second, be prepared to answer questions about your home. Questions an agent might ask include where your home is located, the type of construction, when your roof was replaced, if you have pets, the general condition of your home, etc) [4]. To have some questions ready to ask in return, read page 9 in “[A Consumer’s Guide to Home Insurance](#) [4].”

Q: What are some discounts that I can apply to my homeowners insurance?

A: Some discounts available for homeowners insurance include bundling your home and auto, protecting against storms or other natural disasters, updating a home’s electrical or plumbing systems, getting a new roof, or installing protective devices, Protective devices include smoke alarms, burglar alarms, deadbolts, a sprinkler system, etc [4].

Sources:

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