



If disaster strikes will you be covered?

A homeowner's insurance guide to natural disasters



THE ACTUARIAL
FOUNDATION®



Dear Homeowner:

As you know, a home is more than just a major financial investment. Your home provides you and your family with shelter from the dangers of the outside world. Our goal is to help you ensure that this “shelter” is as safe as it can be, and that your insurance coverage is sufficient to protect your assets.

With these goals in mind, and as part of our ongoing commitment to safeguard families and homes from disasters, the Federal Alliance for Safe Homes, Inc. (FLASH®), in partnership with The Actuarial Foundation, is pleased to provide you with this informational resource promoting safety, and the financial security that comes from being properly insured.

As you know, home ownership comes with many responsibilities; the most important of which is protecting the financial investment you’ve made in your home. In this guide, you will learn about the major perils that threaten your property. You’ll gain a better understanding of different insurance products and forms, which vary for different types of disasters, as well as the many steps you can take to mitigate potential losses from natural disasters.

Moreover, this guide was designed to help you answer these important questions:

- What coverages are appropriate for my living arrangement?
- Who sells these coverages?
- What coverages do I need to purchase? Are they available?
- What perils are covered in the policy I purchase?
- What is the proper amount of insurance to purchase?
- Are there steps I can take to lower my premium?

It is our hope that you never have a reason to file a homeowners insurance claim. But should that day come, we want you and your family to be safe...and covered.

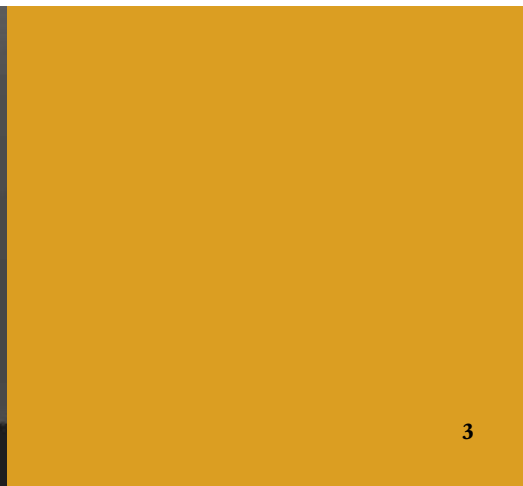
Sincerely,

Leslie Chapman-Henderson
President, CEO
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Courting Disaster:

Perils Discussed in this Guide

■ Earthquake

An earthquake is a sudden, rapid shaking of the Earth caused by the breaking and shifting of rock beneath the Earth's surface. The largest recorded earthquake in the U.S. was a magnitude 9.2 that struck Prince William Sound, Alaska, on Good Friday, March 28, 1964. Thankfully, not all earthquakes are of that magnitude. Whatever their intensity, these seismic events can cause damage to property from ground movement, fire, or even sprinkler leakage.

■ Flood

Devastating floods occur throughout the U.S. every year. Ninety percent of all presidentially declared natural disasters involve flooding. Several factors contribute to flooding. The two key elements are rainfall intensity and duration. Intensity is the rate of rainfall, and duration is how long the rain lasts. Topography, soil conditions, and ground cover also play an important role. According to the National Flood Insurance Program (NFIP), floods cause billions of dollars in property damage in the U.S. every year. Even more alarming, if you live in a high-risk area, your home has a 26% chance of being damaged by flooding during the course of your 30-year mortgage, compared to a 9% chance of fire.

■ Hail

The largest hailstone ever recorded in the U.S. was found after a thunderstorm that pounded south-central Nebraska on June 22, 2003. The stone, measuring seven inches wide and 18.75 inches around, was nearly the size of a soccer ball. Hail is the result of strong updrafts in the atmosphere that carry water droplets to heights where they then freeze and fall to the ground as chunks of ice, also called stones. The larger the stones, the more harm they can cause to people and property. Hail often occurs in violent thunderstorms, along with lightning and strong winds, but is also associated with tornadoes. Hail occurs most frequently in the southern and central plain states. However, since hail occurs with thunderstorms, the possibility of hail damage exists throughout the U.S. In an average year, hail causes nearly \$2 billion in damage.

■ Hurricane

A hurricane is a powerful tropical storm that measures several hundred miles in diameter. Hurricanes need warm tropical oceans, moisture and light winds above them. If the right conditions last long enough, a hurricane can produce violent winds, incredible waves, torrential rains and floods. Deadly as well as destructive, hurricanes pose a threat to life and property from wind, rain or flood. The list of the most well-known and destructive storms include: Hurricane Katrina in 2005, Hurricane Charley in 2004, and Hurricane Andrew in 1992.



Photo Courtesy PGT Industries

■ Lightning

Often the cause of fires or damage to electrical systems and other parts of a house, lightning is caused when storm clouds cool below a certain temperature, and positive and negative electrical charges in the clouds' water vapor separate from top to bottom. Negative electrical charges at the bottom of the cloud build in strength until a magnetic attraction causes those particles to 'jump' to positively charged particles accumulating at the ground. There are thousands of lightning strikes in each state every year, and each has the potential to do great harm to people and damage property.

■ Power Outage

Power outages can occur in several ways—weather related, or not. The short-circuiting of electrical wiring, as in a lightning strike or a power overload, may interrupt electricity in your home. Water seeping onto electrical wires or into junction boxes, or falling tree limbs breaking a power line can also cause an outage. Food spoilage is an obvious type of loss due to power outages.

■ Tornado

In an average year, about 1,000 tornadoes are reported across the U.S., resulting in 80 deaths and over 1,500 injuries. These violent storms can leave a swath of property damage and death behind them. Tornadoes occur most frequently in an area called "Tornado Alley," a strip of land running from Texas north to Minnesota. However, tornadoes can occur in any state, with wind speeds reaching 200+ miles per hour, torrential rain, hail and lightning.



■ Wildfire

A wildfire is an unplanned and uncontrolled fire that occurs in the areas where woods and homes overlap. These are not single home fires, but larger firestorms that can threaten multiple homes, and typically burn many acres of forest. In an average year, 140,000 wildfires burn an average of 14.5 million acres. Wildfires are not just a problem in California, Arizona, or Texas, where recent outbreaks have brought national attention. Wildfires have occurred in nearly every state in the country.

■ Winter Freeze

A lake-effect snowstorm in November 2000 dumped 25 inches of snow in 24 hours on Buffalo, New York. At its peak, snowfall rates of three inches per hour were reported. Winter freezes such as this can immobilize an entire region. Even areas that normally experience mild winters can be hit with a major snowstorm or extreme cold. The impacts include flooding, storm surge, closed highways, blocked roads, and downed power lines. Winter freezes can damage your home in several ways, from bursting water pipes to roof and wall damage resulting from ice dams in gutters.

Sources & Types of Homeowners Insurance: Know the Basics

■ Lines of Insurance – What’s Right For You?

Several lines of insurance are available to cover various perils. The most appropriate insurance for you depends primarily on your type of dwelling.

1. Owning a Home – If you own a home, there are two policy forms that are available to you: homeowners and dwelling forms. The main difference between these two types of forms is that the homeowners form combines property coverage with liability coverage. Dwelling forms only cover property losses. Both types of policy forms have the various peril coverage available for both your dwelling and your contents.

2. Owning a Manufactured Home – There are policy forms specifically designed to cover property for manufactured homes. This type of policy covers both dwelling as well as contents.

3. Owning a Condominium – Policies designed for condominium owners primarily cover contents. However, there is a small provision included to cover the portions of the dwelling that are your insurance responsibility as defined by the governing rules of the condominium. Generally, additional dwelling coverage may be purchased if the provision included in the package is not sufficient.

4. Renting a Residence – If you are renting a residence, coverage for your contents is available through renter’s insurance.

5. Owning a Home on a Farm – If your primary dwelling is on a farm or ranch, you may not qualify for standard homeowners insurance. A farm owners policy may be the most appropriate form to cover losses to your home as a result of tornadoes or hail. Additionally, a farm owners form provides coverage for both the personal and commercial exposure of farms, and contains both property and liability coverage.

Two exceptions worth noting – Earthquake and flood policies typically need to be purchased separately, or as additional endorsements to your standard policy, regardless of your dwelling type. The limits of these policies can match the homeowners or renters policy, or they can be set as separate limits. (For more information on exceptions to flood policies, see *Preparing for a Flood*, page 25.)

Buying Insurance in the Voluntary Markets

Generally, insurance may be purchased from property casualty insurance companies through the voluntary market, meaning that the insurance companies voluntarily provide coverage to customers who meet the underwriting requirements. Availability and types of coverage can vary across different states and companies, so consumers should research available coverage for specific perils in their particular area, similar to the research they do when purchasing other types of insurance coverage, such as auto.

There are four main distribution systems that are employed by property casualty insurance companies in the U.S.:

1. **Independent Agency System** – Independent contractors who are usually free to represent multiple insurance companies.
2. **Exclusive Agency System** – Independent contractors who may only represent a single insurance company.
3. **Direct Writer System** – Sales agents who are employees of the insurance companies.
4. **Direct Response System** – Insurance is sold through direct mail, telephone or Internet.

Buying Insurance in the Shared Market

Involuntary market mechanisms (sometimes referred to as “shared markets”) have been developed to provide coverage for entities that do not qualify for coverage in the voluntary market. There are many reasons why coverage may not be available through the voluntary market in a particular place. Living in a high-risk area, such as a designated brushfire zone, near a coastline or a recent catastrophic event, may lead to reduced availability of coverage. The following kinds of property market mechanisms exist in certain areas:

1. **Fair Access to Insurance Requirements (FAIR Plans)** – These plans make property insurance available to persons who could not otherwise obtain it through the voluntary market. Coverage provided varies from state to state.
2. **Joint Underwriting Associations (JUA)** – These plans exist in only a few states. How they are funded, and the available coverage will vary.
3. **Beach and Windstorm Plans** – These plans exist in the coastal states, in the hurricane belt of the Gulf, and along the South Atlantic coasts. Windstorm Plans provide the needed coverage that is often excluded from voluntary insurer policies. Each coastal state from Texas to North Carolina (except Georgia) has a beach and windstorm pool to provide windstorm coverage in the coastal areas. How these plans are funded and coverage provided varies by state.



Although it is not truly an involuntary market mechanism for earthquake coverage, the California Legislature established the California Earthquake Authority (CEA) as a privately financed and publicly managed risk bearer to help California residents protect themselves against earthquake losses. The CEA is the world's largest residential earthquake insurer, and it collaborates with other organizations that operate in the public interest to help achieve the CEA's goals.

In some states, market conditions have resulted in voluntary insurers not being able to provide coverage at a reasonable cost in an area. In those circumstances, coverage may be available through a FAIR plan. If, as a consumer, you find that you are unable to obtain insurance through the voluntary market, your insurance agent may work with you to help you find coverage through the involuntary market. Or you can contact the plans directly. Because operation of these types of mechanisms varies by locality, your state insurance department is a good source of information on how to obtain coverage through the involuntary market in your state.

Please visit www.naic.org/state_web_map.htm for your state's insurance department's contact information.

Insurance Coverage:

Know Your Choices

■ What is a Covered Property?

Generally, covered properties are divided into four separate categories. The definitions of the property, and the extent of coverage vary by state, company and product. So it is important for the consumer to understand the definitions of the covered property. The four separate categories for your home, as defined by insurance companies, are:

1. **Dwelling** – The structure of the house is considered a covered property.
2. **Other Structures** – These are structures that are separate from the house, or connected to the house by a fence, wire or other form of connection, but not otherwise attached to the dwelling, such as a tool shed or detached garage.
3. **Personal Property** – The contents of your home are your personal property. This includes furniture, appliances and clothing. Not all personal property is covered. Items more appropriately covered under different forms of insurance may have limited or no coverage for loss. These items include, but are not limited to, money, jewelry and firearms.
4. **Loss of Use** – When a loss occurs due to a covered peril and the dwelling becomes uninhabitable, the cost of additional living expenses is covered. Reimbursement of additional living expenses covers the cost to the insured for maintaining a normal standard of living.

■ “Open Perils” and “Named Perils” Coverage

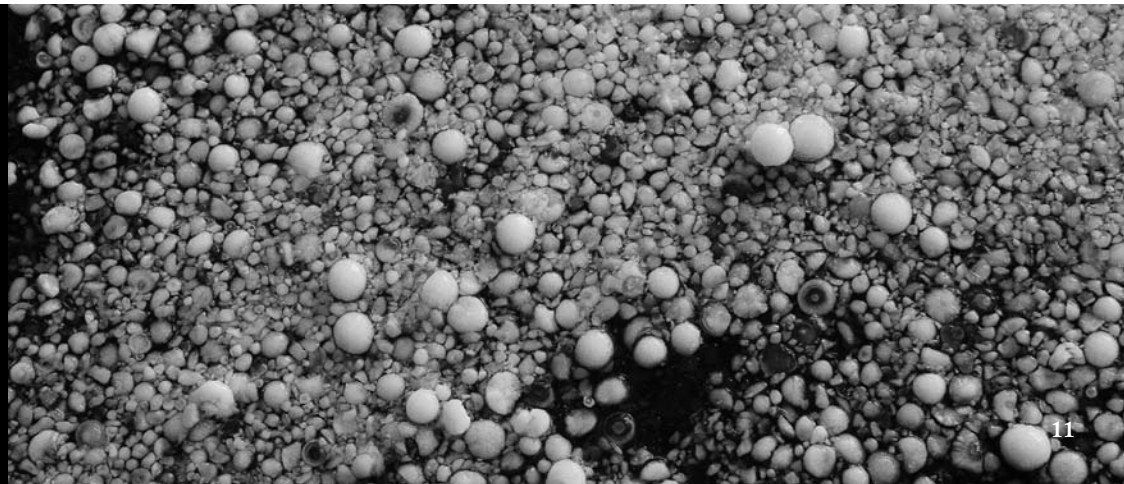
A peril, as referred to in an insurance policy, is a cause of loss, such as fire or theft. Coverage can be provided on an “all perils” basis, or a “named perils” basis. Named Perils policies list exactly what is covered by the policy, while Open Perils (or All Perils) policies will list what is excluded from coverage. Named Perils policies are generally more restrictive. A dwelling policy usually provides coverage for both the dwelling and contents on a named perils basis, while a homeowners policy usually provides coverage for the dwelling on an all perils basis, and for the contents on a named perils basis.

■ Package Versus Peril-Specific Coverage

A package policy provides coverage for multiple, but usually not all perils. A homeowners policy, for example, is a package policy typically providing coverage for the perils of fire, lightning, and extended coverage. Extended coverage includes coverage for the perils of windstorm, hail, explosion, riot, civil commotion, aircraft, vehicles, smoke, vandalism, malicious mischief, theft, and breakage of glass. Some policies, such as earthquake or flood policies, provide coverage for specific perils that are often excluded in package policies. Fire and sprinkler leakage damage as a result of an earthquake may be covered by a standard homeowners policy. To purchase the most appropriate insurance, it is important for you to consider what additional perils you may face. And, you should always verify what is covered in your specific policy.

■ Does My Policy Cover That?

- 1. Earthquakes** – Most property insurance policies exclude coverage for losses resulting from earthquakes (although they often cover losses related to fires following earthquakes). Separate policies are typically required to ensure coverage against losses from earthquakes. Some states with risk of loss from earthquakes have government mandated insurance plans that provide earthquake coverage to property owners who are unable to obtain insurance through the voluntary market. (See page 8 for explanation of voluntary and involuntary markets.)
- 2. Flood** – Most property insurance policies exclude coverage for losses resulting from flood. So unless you purchase a flood policy, you do not have coverage for flood losses. (For a more comprehensive discussion of flood insurance, please see *Preparing for a Flood*, page 25.)
- 3. Hail** – Most property insurance policies provide coverage for losses resulting from hail. Hail is a named peril, meaning for coverage to apply under a “Named Perils” policy, hail must be defined as a covered peril.
- 4. Hurricanes** – Most property insurance policies provide coverage for losses resulting from hurricanes, except for flood loss associated with the hurricane. (See *Preparing for a Flood*, page 25, for more information.) However, some policies only provide limited coverage for hurricanes, or require that a higher deductible be purchased specifically for the hurricane peril. Most states with risk of loss from hurricanes have government mandated insurance plans that provide hurricane coverage to property owners who are unable to obtain insurance through the voluntary market. (See page 8 for explanation of voluntary and involuntary markets.)
- 5. Tornadoes** – Most property insurance policies provide coverage for losses resulting from tornadoes (although they do not cover losses resulting from the peril of flood; see *Preparing for a Flood*, page 25, for insurance availability). While tornadoes may not be specifically mentioned as a covered form of loss, tornado losses are one event covered under the broader term windstorm. Windstorm includes tornadoes, straight-line winds and hurricanes. However, there may be instances where coverages and deductibles may apply specifically to hurricane and not to all windstorms.
- 6. Wildfires** – All property insurance policies provide coverage for losses resulting from fires. Depending on the level of exposure, you may need to consider a higher deductible to obtain coverage, or keep it affordable. Most states have coverage available via the FAIR plan, or a JUA, if the voluntary market is not willing to provide coverage.



■ How Much Insurance Is Enough?

Depending on the type of policy, the different dwelling coverage options could be:

1. **Replacement Cost Coverage**
2. **Actual Cash Value**
3. **Special Payment** - loss is paid before dwelling is repaired, rebuilt or replaced.
4. **Functional Replacement Cost or Market Value Coverage** - repairs are made using common, modern materials and methods without deduction for depreciation unless repairs are not made, and if a total loss, the payment amount will be the market value of the home.
5. **Stated Value** - a selected value is established by the insured, and this value is the limit of liability.

Depending on the coverage you select at the time of purchase of your policy, if you should incur a loss, the settlement of that loss will vary. A loss can be settled based on a replacement cost, repair cost, or actual cash value basis. Replacement cost is not the market value of your home, nor is it the tax-assessed value. It is the cost to replace the damaged property, with no reduction for depreciation of the damaged property. Actual cash value is the cost to replace the damaged property reduced by an allowance for depreciation. Functional cost or market value (also known as repair cost) is the cost to repair the damaged property with equivalent construction for similar use. An example of functional replacement would be to replace a plaster wall with drywall. If stated value coverage is selected, the maximum amount paid at the time of loss is the value of the policy, even if the loss amount is larger than the value of the policy.

■ Personal Property Coverage Choices

Depending on type of policy, the different personal property coverage options could be:

1. **Replacement Cost Coverage**
2. **Actual Cash Value**



What Does Insurance-to-Value Ratio Mean?

This is the relationship of the amount of insurance purchased to the replacement value of the property. It is important to have an accurate assessment of the replacement cost value of your home. If you do not, and then have a loss, the cost to actually replace your home may be more than your insurance policy will provide. That means you would be responsible for covering the difference. Major catastrophes, such as earthquakes, hurricanes, and wildfires can often create a demand surge for materials and labor, resulting in increased costs to replace damaged property. This must be considered when establishing the appropriate replacement cost for your property.

Most property policies require that the property be insured to at least 80% of the replacement cost, or loss payments will be reduced by a proportion of the insured value to 80% of replacement value. This is referred to as the coinsurance penalty.

It is also important to realize that other limits within your policy are a percentage of the dwelling coverage amount. For example, the limit of coverage for your personal property will usually be at 50% of the dwelling limit. Additional coverage is available via endorsement, and is typically increased if you purchase replacement cost coverage for your contents.

Replacement Cost Coverage

In order to qualify for replacement cost coverage, you will most likely be required to insure your property to at least 80% of the replacement cost. As long as this requirement is met, and if you have a total loss, your insurance policy will cover the total cost of replacing your home. Further, if the property is not insured to at least the 80% value, then the payment for partial losses may be reduced.

Additional Limits in Case of Total Loss

Many insurance companies offer an endorsement that will provide the full coverage to replace the property in the event of a total loss. Usually, the company requires that the property be insured to at least 100% of the replacement cost of the property in order to qualify for this additional coverage. As long as this requirement is met, if you have a total loss and it costs more to replace than your limit (from a misestimate or demand surge), your insurance policy will be increased. The amount of the increase depends on the endorsement purchased, and can be anywhere from 25% to 100%.

Optional Coverages

Additional coverages may either be included in your policy, or available for a separate price. Coverages like building code upgrades, which provide coverage for upgrades that the community requires for building codes when a home is being repaired or rebuilt as a result of a covered loss, may be available separately. Also, optional coverage for perils, such as earthquake insurance, is often purchased to supplement a homeowners policy.

Ways You May Be Able To Affect Your Premium

■ Adjust The Deductible

A deductible is the amount of loss paid by the policyholder before any loss is paid by the insurer. The larger the deductible, the lower the premium.

A policy may have different deductibles based on the peril of the loss. Many insurers are selling homeowners insurance policies with percentage deductibles for storm damage instead of the traditional dollar value deductibles that are used for other types of claims such as fire damage and theft. One of the more common percentage deductibles is the hurricane percentage deductible, which applies to damage solely from hurricanes. Therefore a policyholder may have a \$1,000 deductible for fire losses, but a 2% deductible for hurricane losses. Hurricane percentage deductibles can be very significant. An earthquake policy could add a third deductible that could very well differ from all deductibles in the homeowners policy for the same property.

Dollar Deductibles – The dollar value the insured must pay before the insurance company will pay the remainder of the claim. With a policy that has a \$500 standard deductible, for example, the policyholder must pay the first \$500 out of pocket. Some insurers are selling policies with higher dollar deductibles for hurricane and earthquake damage. The higher the deductible for a given policy, the lower the premium, since the insured is bearing more of the risk.

Percentage Deductibles – Percentage deductibles are based on the home's insured value. So if a house is insured for \$100,000 and has a 2% deductible, the first \$2,000 (or 2% of the insurance value of \$100,000) of a claim must be paid out of the policyholder's pocket. In many states, policyholders have the option of paying a higher premium if they would rather have a traditional dollar deductible instead of a percentage one, or if they prefer to have a lower percentage deductible. Percentage deductibles are sometimes mandatory. Note that with a percentage deductible, the dollar value changes as the insured value changes.



Qualify For Discounts

Discounts vary widely by state and insurer. It is recommended that homeowners check the prices of multiple insurance companies before choosing a company to provide insurance coverage. The following list of potential discounts is not intended to be complete:

1. Discounts may be offered for purchasing home and auto insurance from the same insurer.
2. Discounts may be available for homes with smoke detectors, burglar alarms, or dead-bolt locks.
3. Homes with sprinkler systems may also be eligible for discounts.
4. Discounts may be available for policyholders that are at least 55 years old and retired.
5. Some professional, alumni, and business groups qualify for discounts from some insurers.
6. Sometimes insurers give discounts for long-term policyholders.
7. The extent to which the homeowner has protected the structure from windstorm may make the home eligible for discounts for shutters, superior roof construction and connection, or other such mitigation techniques.

Take Care Of Your Home

1. **Prior Loss** – A “prior loss” is one that has occurred to the home prior to applying for insurance. The current owner of the home may or may not have been the owner of the home at the time of the loss. The treatment of prior losses varies widely by insurer. The treatment also varies widely by state. In certain areas, insurers may surcharge policies that have had a prior loss within a certain period of time.
2. **Repair of Existing Conditions** – Many insurers consider the existing condition of the home when determining the premium for the policy and also the availability of certain coverages or policies. Some insurers may provide a price break to policies where there has been a recent roof renovation. Different roof types may also be eligible for a discount. Complete renovations of plumbing or electrical systems may be eligible for lower premiums.
3. **Post Event** – It is the responsibility of the insured, and in the insured’s interest, to reduce further loss once an incident has occurred. For example, if a window is broken during a hurricane, the insured should cover the window to prevent rain from getting in the house. The costs for these actions are usually covered by the insurer.

Availability of Insurance

■ Location Can Affect Availability and Cost

The actual location of a property can be a primary determinant of insurance availability. Homes located in areas with a greater exposure to losses due to a particular peril pay a higher cost for coverage than areas not as exposed to that peril. For instance, homes in the Midwest pay a higher cost for tornado coverage, and those with greater exposure to wildfire, such as designated brush zones in California, may have difficulty finding coverage in the voluntary market.

Another thing that affects the availability of insurance is pending event. For example, in many cases, if a hurricane or a wildfire is approaching, insurance companies issue temporary moratoriums on binding coverage, and no new coverage can be written in that area threatened by the peril.

Exposure to Earthquakes

When living on or near major faults, homeowners are more exposed to earthquakes. Consequently, they may find fewer choices available to them for coverage against earthquakes. Also, the soil type in certain areas may be more susceptible to earthquake damages for homes built in these areas than for homes built in other areas. The closer an area is to a fault and the less stiff the soil is in an area, the fewer insurers may be willing to accept the risk of earthquake coverage in that area.

Recent earthquake activity can also be a determinant of earthquake insurance availability. As more earthquakes occur, more companies are likely to experience significant claims from earthquakes, and subsequently become financially distressed. These companies may find it difficult to provide coverage to the same volume of policyholders, and this can cause an overall availability problem. In certain areas, state associations are established to ensure insurance availability in times of need. These publicly run entities provide insurance coverage when availability and affordability problems arise. (See section on voluntary and involuntary markets on page 8.)

Exposure to Hurricanes

Homes in coastal areas in the southeast U.S. are more exposed to hurricanes than homes in other areas, so homeowners in these areas may find fewer choices available to them for coverage against hurricanes. The closer an area is to the coast and the further south that area is, the fewer insurers may be willing to accept the risk of hurricane coverage.

Similar to the effects earthquakes have had on insurance availability, storm activity can also be a determinant of hurricane insurance availability. As storm and subsequent claim activity rise, insurers may be inclined to write fewer policies. Here again, publicly run entities, created to fill the gap, provide insurance coverage when availability and affordability problems occur.



Photo Courtesy National Weather Service

■ Your Home's Features Can Affect Availability

An individual homeowner can encounter the same availability problems as mentioned above. Additionally, if a home has unusually hazardous features, insurance companies may be unwilling to provide coverage. Some of these features could be inferior construction, a hazardous roof shape (or covering, such as wood shakes), an unbolted frame, an unsecured chimney and/or water heater, external hazards such as awnings or other exterior ornamentation, certain older structures not up to current code, and a general lack of maintenance of the home.

■ Ensuring the “Insurability” of Your Home

Homeowners can ensure the insurability of their homes by keeping them up to the applicable building codes, by performing regular maintenance, and by implementing some of the loss mitigation measures mentioned in the following pages. Also, by keeping informed of the changes in the local insurance environment, homeowners can better evaluate the insurance options available.

Reduce Potential Damages and Premiums

■ For Every Peril, There's A Home Improvement

Earthquake

The main areas of a home that could be improved to help mitigate damages and losses in the event of an earthquake are foundation anchoring, water heaters, and cripple walls (if present). Earthquake loss mitigation efforts should typically attempt to minimize the ability of a structure to shift from ground movement. Keeping the walls and foundation stable, and preventing objects and fixtures from falling over are of utmost importance.

- 1. Foundation Anchoring** – Depending on the construction of the home, a variety of anchoring techniques are available to help secure the structure to its foundation in order to reduce the effects of ground movement. The sill plate of the house should be securely bolted to the foundation, and an assortment of “hold downs” exists to secure walls. Consulting the local building department is recommended before deciding what to do.
- 2. Water Heaters** – Unsecured water heaters are susceptible to falling over if not properly secured. Strapping the water heater to wall studs, and having flexible gas and water lines will significantly reduce risks of fire and water damage in the event of an earthquake.
- 3. Cripple Walls** – Cripple walls are walls less than a story in height typically found between the first floor of a building and its foundation. As these walls are often made of weak sheathing material, unbraced cripple walls can shift during an earthquake, and this could result in significant damage to the home and potential injury to the occupants. One way to reduce this exposure to damage is to brace the cripple walls by adding horizontal supports between the vertical studs at the top and bottom of the walls. Nails should be added to ensure that the supports are securely attached.

Hail

Hailstorms do not usually result in the catastrophic damage associated with windstorms or fire. However, hail does result in significant damage to homes. The main area of a home susceptible to hail damage is the roof. The following are ways that can help mitigate damage in the event of hail:

- 1. Roof Covering** – The condition and materials of the roof covering can improve the impact resistance. Worn asphalt shingles are especially vulnerable to hail damage. Impact-resistant roof coverings designed and tested to improve roof performance during hailstorms are available.

2. Roof Decking – The roof decking provides the structural support for the roof covering. Solid roof decking improves the impact resistance of the roof. Material and construction techniques can improve the stiffness of the roof decking and help reduce hail damage.

3. Roof Slope – Angling the roof reduces the force of impact from hail. Hail hitting the roof at a 90-degree angle causes more damage than hail hitting the roof at an angle that deflects the force of the hail.

Hurricane

The main areas of a home that could be improved to help mitigate damages and losses in the event of a hurricane are the roof, the windows, the doors, and garage doors (if present). Hurricane loss mitigation efforts should typically attempt to prevent a structure from being penetrated by the wind. Keeping the roof intact, and keeping the doors and windows sealed shut are of utmost importance.

1. Roof - The type and condition of roof can be a significant factor in the amount of damage sustained by a structure in a hurricane. For instance, gable roofs are more likely to suffer damage from the high wind generated by hurricanes. Also, the quality of the construction can affect the performance of the roof in high winds. When the roof decking is not properly attached to the roof frame, the roof may not survive high winds.

Loose shingles or tiles increase the susceptibility of the roof to high winds. Once the roof structure is compromised, the integrity of the roofing is weakened and the interior of the house and its contents become susceptible to water damage or even the collapse of the roof itself. Loose tiles and shingles also become dangerous projectiles in the high winds.

2. Windows/Doors – Impact-resistant windows and doors provide protection to the home’s envelope from the combination of flying debris and the continuous pressure from high winds. Installing impact-resistant windows and doors, or installing impact-resistant coverings like storm shutters, can prevent a breach of the home envelope, avoiding catastrophic loss.

3. Garage Doors – Garage doors can pose a special risk during high winds if they are not properly secured. Installing horizontal bracing, replacing weak hinges, and providing stronger center and end supports can reduce the likelihood of door failure in the event of a hurricane. It is also possible to install a stronger track for a garage door if the existing track is loose. Another option is to install impact-resistant coverings.



Photo Courtesy National Weather Service



Photo Courtesy National Weather Service

Lightning

Because lightning can strike anywhere, it is a good idea for every homeowner to consider electrical protection devices on the interior and exterior of their home. Exterior devices may require compliance with local building codes and ordinances. Interior devices, such as surge protectors, are simple and practical ways to mitigate damage to most of the electric appliances and electronics in your home.

- 1. Surge Protective Devices** – To protect your electronics and electrical appliances from all but the most severe electrical surges or direct strikes, a good electrical grounding system is essential. Surge protection devices should be installed at point-of-use to lessen the risk of damage.
- 2. Lightning Protection Systems** – These installations provide a direct path for lightning to follow to the ground, rather than through the house structure and its wiring. You should consult a qualified contractor for installation. Please note that lightning protection systems will not protect a home against electrical damage or fire from lightning that enters through the telephone, cable or electric lines to the house. Whole house surge protection devices are needed for this protection.
- 3. Whole House Surge Protection Systems** – These systems install on the electric meter or the electrical panel to help protect the appliances and electronic equipment in your house. Contact your local electric company for installation information. If the utility company does not offer the service, a qualified electrician can install this device.

Power Outage

There are numerous ways that your power can be disrupted. The best way to avoid losses due to power outages is to be prepared. Regular inspections of interior and exterior electrical wiring are a must. Although not inexpensive, alternate power sources, such as generators, are a good idea, especially for those who rely on electricity to pump water from their private wells.

- 1. Electrical Inspections** – To protect against power outages, look for potential hazards, such as tree limbs over power lines. An inspection by a licensed electrician or general contractor for potential short circuits or other types of power failures is another wise precautionary step.
- 2. Alternate Power Sources** – To prevent or lessen the impact of a power outage, buy a gas-powered generator. Just remember, it must remain outside the home due to the poisonous gases it generates. You can also use a battery-based power source. Batteries for radios and flashlights are an inexpensive and flexible power source.
- 3. Avoid Spoilage** – Food spoilage is a very common loss due to power outages. Your refrigerator should only be opened once when you need to take out food for a meal. Consuming refrigerated food before non-refrigerated food will reduce food spoilage. Packing frozen or other refrigerated foods into a cooler, and moving them to the refrigerator of a neighbor or relative who is unaffected by the power outage is also helpful. In winter months, snow in your yard can be compacted, or stacked, and used as a temporary freezer or refrigerator. But be aware that liquids and other food will freeze in snow.

Tornado

The main areas of a home that could be improved to help mitigate damages and losses in the event of high winds associated with tornadoes are the roof, the windows, the doors, and garage doors (if present). Tornado loss mitigation efforts should typically attempt to prevent a structure from being penetrated by the wind. Keeping the roof intact, and keeping the doors and windows sealed shut are of utmost importance.

- 1. Roof** - The type and condition of roof can be a significant factor in the amount of damage sustained by a structure in a tornado. For instance, gable roofs are more likely to suffer damage from the high wind generated by tornadoes. Also, the quality of the construction can affect the performance of the roof in high winds. When the roof decking is not properly attached to the roof frame, the roof may not survive high winds.



Loose shingles or tiles increase the susceptibility of the roof to high winds. Once the roof structure is compromised, the integrity of the roofing is weakened and the interior of the house and its contents become susceptible to water damage or even the collapse of the roof itself. Loose tiles and shingles also become dangerous projectiles in the high winds.

2. Windows/Doors – Impact-resistant windows and doors provide protection to the home’s envelope from the combination of flying debris and the continuous pressure from high winds. Installing impact-resistant windows and doors, or installing impact-resistant coverings like storm shutters, can prevent a breach of the home envelope, avoiding catastrophic loss.

3. Garage Doors – Garage doors can pose a special risk during high winds if they are not properly secured. Installing horizontal bracing, replacing weak hinges, and providing stronger center and end supports can reduce the likelihood of door failure in the event of a tornado. It is also possible to install a stronger track for a garage door if the existing track is loose. Another option is to install impact-resistant coverings.

Wildfire

The two main areas of a home that could be improved to help mitigate damages and losses in the event of a wildfire are the roof covering, and landscaping. Fire loss mitigation efforts should typically attempt to prevent a structure from catching fire. Proper landscaping can keep the fire from getting close enough to the structure to ignite it, while proper roof covering can help prevent ignition from floating embers.

1. Roof Covering – The type of roof covering will depend on the other perils a home faces. Concrete or tile roofs are very fire resistant, but can be prone to hail damage. An asphalt shingle with good fire rating is often the most cost-effective choice a homeowner has. Wood shakes or shingles are to be avoided for homes exposed to wildfire, as these roofs are the most fire prone.

2. Landscaping – Keep a clear fire zone around a home. An area free of brush, and with vegetation that is less prone to fire is a very effective way to protect the home from fire. The type of vegetation appropriate for fire safety will vary depending on the climate in your area of the country. It is also important to keep your yard free of dead brush and leaves.

Winter Freeze

The easiest and most effective way to reduce potential loss from winter freeze is to conduct regular maintenance on your home and property. You should be aware of the potential hazards of seasonal temperature changes, and protect your home accordingly. The major areas of concern should be gutters, outdoor faucets, the maintenance of appropriate indoor and attic temperatures, as well as those landscape and hardscape features whose proximity to your home might pose a winter freeze-related danger.

- 1. Gutters** – To prevent or lessen the possible impact of a winter freeze, gutters should be cleared of debris and flushed out with a garden hose. This will help prevent ice dams from forming at the base of the roof, and in the gutter area.
- 2. Outdoor Faucets** – The water supply to outdoor faucets should be shut off at a valve inside the home. Outside pipes should be drained of all water. Faucets should be kept open very slightly during extremely cold weather.
- 3. Indoor Temperature** – The heat should be maintained in the home, even when it is vacant during the day, or when you are away on vacation. This prevents the pipes from freezing. Your attic should be ventilated and remain nearly as cool as the outdoor temperature. This will prevent the melting of ice associated with ice dams. You should re-check the attic ventilation and temperature every year.
- 4. Other Freeze Hazards** – You should also walk around your home, looking for other sources of potential winter freeze problems. Be mindful of walls, gutters, fences, pipes, sheds, garages, trees, shrubs, and walkways.
- 5. Alternate Power Sources** – To prevent or lessen the impact of a power outage, buy a gas-powered generator. Just remember, it must remain outside the home due to the poisonous gases it generates. You can also use a battery-based power source. Batteries for radios and flashlights are an inexpensive and flexible power source.
- 6. Avoid Spoilage** – Food spoilage is a very common loss due to power outages. Your refrigerator should only be opened once when you need to take out food for a meal. Consuming refrigerated food before non-refrigerated food will reduce food spoilage. Packing frozen or other refrigerated foods into a cooler, and moving them to the refrigerator of a neighbor or relative who is unaffected by the power outage is also helpful. In winter months, snow in your yard can be compacted, or stacked, and used as a temporary freezer or refrigerator. But be aware that liquids and other food will freeze in snow.



■ Potential Premium Discounts For Loss Mitigation

Sometimes insurance companies reward loss mitigation efforts by offering premium discounts. Since loss mitigation may reduce the expected losses for the insurer, there may be a lower premium charged. Such discounts for wildfire mitigation are not common. With regard to earthquake coverage, companies will often offer premium discounts for frame anchoring, securely strapping a water heater in place, or bracing cripple walls. Similarly, for hurricane coverage, insurers may offer discounts for roof bracing, hurricane shutters and straps, and retrofitted doors.

Preparing for a Flood

Flood coverage is usually not provided by typical property insurance policies, so it is most likely that unless you've purchased a flood insurance policy, you do not have coverage for flood losses.

Flood insurance is available through many different insurance companies, but the federal government, through the National Flood Insurance Program (NFIP), alone bears the risk. According to the NFIP, a flood is a temporary overflow of inland or tidal waters onto normally dry land, or run-off water from rain, etc. Floods also include mudflows onto dry land, and water-caused erosion or collapse of land along a lake, pond, river or stream, which then results in the temporary overflow of water onto normally dry land. The flood insurance products that the NFIP offers are generally much more complicated than those offered by most other property insurers. The NFIP owns the premiums paid by the flood insurance customers and they pay the claims and expenses of the program. The NFIP establishes one set of policy terms and rates for the various flood insurance policies. As a result, comparison-shopping for flood insurance is not necessary, but a buyer should carefully discuss and review the conditions and requirements of the applicable flood insurance policy with his or her agent.

The NFIP has a Regular Program and an Emergency Program. A community can only participate in the Regular Program if the community has adopted all local ordinances. For example, a community will participate in the Emergency Program while it waits approval for participation in the Regular Program. The Emergency Program is only available for a limited amount of time and offers less coverage than the Regular Program. If the community has not adopted all ordinances by the end of the limited period of time, it can no longer participate in the NFIP. To find out if your community participates in the NFIP, contact an agent that writes flood insurance, or go to the Federal Emergency Management Agency (FEMA) website at www.fema.gov to see if your community (or county) is listed.

If you choose to purchase flood insurance, you should know that it takes a minimum of 30 days for your flood insurance policy to become effective, unless you are obtaining flood insurance in connection with purchasing a home or refinancing a mortgage. It is prudent, therefore, to purchase your flood insurance well before you need its protection. Also, depending on the type and location of the building being insured, you may have to complete certain flood insurance-specific forms, at least one of which (an Elevation Certificate) must be completed by a qualified individual such as an engineer.

Available Flood Insurance Policies

The NFIP offers three flood insurance policy forms. For each of the policies, contents coverage is provided if purchased. Policy types vary based on how a building is occupied.

1. Dwelling Form – Provides building coverage for residential buildings of no more than four families or single-family homes (including manufactured homes) including limited coverage for detached garages. The NFIP also has a Preferred Risk Policy (PRP), using the Dwelling Form, for those properties in low to moderate flood risk areas. In order to qualify for the PRP, the property must be located outside the Special Flood Hazard Areas (SFHAs) and have no repetitive flood losses. Due to the lower risk, premiums for PRPs are substantially lower than for the standard Dwelling Form.

2. General Property Form – Provides building coverage for nonresidential buildings, residential buildings of more than four families, manufactured homes, and residential condominium buildings if the named insured is the condominium association (and then coverage is provided only to the units owned in common by all unit owners).

3. Residential Condominium Building Association Policy (RCBAP) – Provides building coverage for the residential condominium building, including all units within the building and improvements made within the individual units. Owners of individual units can purchase building and contents coverage through the Dwelling Form.

How Flood Insurance is Sold

The NFIP sells flood insurance primarily through the private insurance industry. The Write Your Own (WYO) Program was established so that private insurers could sell flood insurance to their customers. This allows customers to have one point of contact for all of their property insurance needs.

Ask your current insurance agent if he or she writes flood insurance. If not, you can find an agent who writes flood insurance in your area by going to the Floodsmart website at www.floodsmart.gov, or by telephone (1-888-4FLOODS).



What Choices of Coverage Do You Have?

Coverage Overview

The NFIP was created to provide a fair way to protect individuals and businesses from financial loss due to flood damage. The NFIP covers direct physical loss to buildings and contents due to flood and costs associated with bringing a structure into compliance with local building ordinances, with limitations as explained below. Flood insurance coverage is subject to exclusions, limits, and conditions for eligibility. Property not covered, as well as losses not covered are explained in the policy. It is important to discuss the exclusions with your insurance agent to determine the need for additional or alternative insurance coverage.

What is Covered by Flood Insurance

Direct physical losses from flood are covered. But, other “flood” coverage is provided as well. For example, loss caused by flood related erosion is also covered. But, the erosion must be due to unusually high water currents or waves, an unusual tidal surge, a severe storm, or a flash flood. Overflow of water or mud is also covered. If in doubt about types of loss covered, refer to a flood policy, or ask your insurance agent.

Coverage Provided by Flood Insurance

Flood insurance policies are separated into four coverage sections:

Coverage A - Building; also provides limited coverage for attached structures. For example, for a garage to be covered, it must be functioning as a garage.

Coverage B - Personal Property; has limitations on property in the basement. Coverage for basement contents is only provided for items critical to the habitation of the dwelling, such as heaters, air conditioners, and oil tanks.

Coverage C - Other Coverage; costs incurred to protect the property from flood damage. (examples include: 1. Debris Removal, 2. Loss Avoidance; a. Sandbags, b. Supplies & Labor, and c. Transporting Property to Safety, and 3. Pollution Damage)

Coverage D - Increased Cost of Compliance; provides for the costs to comply with state and local regulations concerning repair and reconstruction of flood damaged properties. Liability under Coverage D is limited to \$30,000.

Exclusions (what is not covered by Flood insurance)

Property not covered by flood policies includes personal property outside the enclosed building, buildings or personal property in perilous locations affected by high tides, open buildings used to house boats, and numerous other types of property and vehicles. An important exclusion is loss resulting from earth movement, even if caused by flood. Exclusions are numerous, detailed, and include loss of revenues or profits, loss of use of the property, and business interruption losses. Again, remember to review your policy, to assure that you fully understand the coverage and limitations.

Deductibles (the portion of a claim that is not paid by insurance)

The standard deductibles are \$500 for most new construction and \$1000 for older construction (usually pre-1978). No deductibles apply to Coverage C and Coverage D. Other deductibles are available (\$5,000 for Residential, \$25,000 for RCBAP and \$50,000 for Nonresidential). Customers can select different deductibles for the building and the contents; the deductibles apply separately.

Coinsurance Provision (requirement to purchase a defined minimum amount of insurance)

The Residential Condominium Building Association Flood Policy requires that the insured purchase coverage of at least 80% of the replacement cost of the subject building, but no more than the maximum amount of insurance coverage available under the NFIP. This requirement does not apply to the Dwelling and General Property Forms. NFIP coinsurance provisions may differ from those in other property insurance policies, such as a homeowners insurance policy. Consult with your agent if you have any questions regarding coinsurance provisions.



Coverage Limits Available

The following table summarizes the maximum limits of coverage available under the Regular and Emergency Flood Insurance Programs. If additional coverage is needed, you should refer to your agent. The NFIP does not provide coverage above these limits.

Type of Coverage	Regular	Emergency
Residential Building	\$250,000*	\$35,000/ \$100,000**
Residential Contents	\$100,000	\$10,000
Non-residential Building	\$500,000	\$100,000
Non-residential Contents	\$500,000	\$100,000

*For RCBAP, total limit = \$250,000 x # of units
**The higher limit shown applies to Alaska, Hawaii, Guam and the U.S. Virgin Islands.

Claim Settlement Provision

Claims are settled on either a Replacement Cost Value (RCV) or Actual Cash Value (ACV) basis. Replacement Cost Value is the cost to replace the damaged property, with no deduction for depreciation of the damaged property. It is not to be confused with the tax basis valuation for tax assessments, nor is it the market value of your home. Actual Cash Value is the cost to replace your damaged property, reduced by an allowance for depreciation.

The applicable claim settlement provision for the building depends on the type of risk:

1. Single Family Homes:

Settled on a Replacement Cost Value basis if two conditions are met:

- a. **Primary Residence, and**
- b. **Insured to at least 80% of replacement cost, at the time of loss.**

Otherwise, settled on an Actual Cash Value basis.

2. Residential Condominium Building Association Policy:

Settled on a Replacement Cost Value basis. But if you're insured to less than 80% of replacement cost, the coinsurance clause reduces the amount of payment.

3. All Others:

Settled on an Actual Cash Value.

Actual Cash Value is the basis for adjusting all contents losses.

■ Ways You May Be Able to Affect Your Premium

Deductible

The deductible is the amount that must be paid by the policyholder before any payment is made by the NFIP. The larger the deductible you choose, the lesser your premium. However, you will bear a larger portion of any loss that may occur.

Community Rating System Discounts

The NFIP has a Community Rating System (CRS) that provides premium discounts in those communities that undertake floodplain activities beyond the basic requirements of the National Flood Insurance Program. These discounts can be as much as 45% for buildings in the floodplain and as much as 10% for buildings outside the floodplain. CRS discounts do not apply to Preferred Risk Policies.

■ Availability Of Insurance

What can Affect Availability of Flood Insurance in a Certain Area?

Flood insurance in the U.S., as provided by the NFIP, is available in over 20,000 participating communities through private insurance companies. Check with your insurance agent to find out if your community participates.

What can Affect Flood Insurance Availability for a Certain Home?

You can buy flood insurance if your home or business is located inside or outside of a floodplain, with very limited exceptions, as long as it is located in a participating community. The only homes restricted from purchasing flood insurance from the NFIP are newer homes located in certain environmentally sensitive coastal areas. Your insurance agent or local community official should be able to tell you if there is such an area in your community.



Other Ways to Reduce Your Exposure to Flood Losses

Summary of Loss Mitigation Devices/Home Improvements

The most important loss mitigation factor in reducing flood risk is the elevation of the structure. This means making sure that your home is at or above the projected flood elevation, a level that is commonly referred to as the “hundred-year flood level.”

Here are other things that can be done to help reduce future flood losses:

- 1. Preservation by elevation.** Raising the location of the main electrical switchbox, electrical outlets, and appliances above the lowest floor level protects against some flood losses. Placing a heater and furnace on blocks also reduces exposure to floods.
- 2. A finger in the dike.** If your sewer system doesn't have a backflow valve, hire a licensed plumber to install one. Also, ask the plumber to check the function of your floating floor drain plug, or to install one, if one doesn't already exist.
- 3. Anchors aweigh!** Fuel tanks, such as propane tanks, may float away, tip over, break, or otherwise cause additional damage due to flood waters. Check all tanks, and similar items that may float away and cause damage, and secure them in accordance with local building codes.
- 4. Take a look.** Other ideas may arise when you inspect low-lying areas of your property, which are exposed to flood waters. You might also pay a plumber or building inspector to do an inspection with an eye toward reducing flood damage.
- 5. Going up!** If you rent, move to an upper floor.

Visit the Federal Alliance for Safe Homes, Inc. (FLASH) website at www.flash.org for other information about reducing your exposure to flood damage.

How Do I File a Homeowner's Claim?

If any covered peril damages or destroys your home, you will need to file a claim with your insurance company. Promptly notify your agent in writing. Remember, an insurance policy is a contract between you and your insurance company. And, there are rules and procedures that you and your insurer must follow. Read your insurance policy to see what your responsibilities are.

1. If you are the victim of a theft or your home has been vandalized or burglarized, report it to the police. Get a police report and the names of all law enforcement officers that you speak with.
2. Insurance policies place a time limit on filing claims. Find out what the time limit is. Ask questions: Am I covered? Does my claim exceed my deductible? How long will it take to process my claim? Will I need to obtain estimates for repairs to structural damage?
3. Take reasonable steps to protect your property from further damage. Save receipts for what you spend, and submit them to your insurance company for reimbursement.
4. You are going to need to substantiate your loss. Avoid throwing out damaged items until the adjuster has visited your home. You should also consider photographing or videotaping the damage. Prepare a home inventory, make a copy for your adjuster and supply him or her with copies of receipts from damaged items.
5. If your home is severely damaged and you need to find other accommodations while repairs are being made, keep records of all additional expenses incurred. Most homeowners insurance policies provide coverage for the "loss of use" of their home. However, many policies do NOT provide coverage for the additional living expense if a mandatory evacuation is ordered and there is no loss to your home.
6. Once your insurance company has been notified of your claim, the company is required to send the necessary claim forms to you by the end of a specified time period. (The time period varies from state to state.) Return the properly filled-out forms as soon as possible in order to avoid delays.
7. Your insurance company will probably arrange for the adjuster to come and inspect your home. Cooperate with them as they gather information. The adjuster cannot approve your claim, but the insurance company, in the determination of your claim, often uses their report.

Once you and your insurance company agree on the terms of your settlement, state laws require that you be sent payment promptly. In most cases, your claim will be processed quickly. If you have any questions about the claim filing laws in your state, call your insurance agent or your state department of insurance.

Record Keeping

1. Keep the name and number of your insurance agent and/or company in a safe place.
2. Perform a detailed inventory of household items, including valuables.
3. Take photos of particularly valuable items for pre-loss value verification.
4. Keep a copy of your insurance policy in a safe place.
5. Read your insurance policy carefully, and understand what is and what isn't covered (deductibles, general and specific limits, flood coverage, etc.).
6. Put vital records in a fireproof safe or safety deposit box, and/or send copies of vital records to a trusted relative or friend in case disaster strikes and you can't get to your home right away.

If you must evacuate the area, notify your insurance company and verify your insurance policy for coverage for temporary lodging.

Some Final Thoughts

■ Know Your Insurance

It is extremely important for you to thoroughly understand your homeowners insurance policy. You should know what perils are covered, and whether the coverage amounts are sufficient in the event of a disaster. Your insurance agent should be more than willing to discuss your specific insurance needs, as well as recommend possible ways to reduce your premiums, or mitigate potential losses. But again, the responsibility is yours.

We hope you found this guide to be a helpful resource in better understanding your property insurance needs.

For more information, and other resources, please visit the Federal Alliance for Safe Homes, Inc. (FLASH) website at www.flash.org.

To view other Actuarial Foundation Consumer Education Initiatives please visit www.actuarialfoundation.org.





Learning the Language

Do you know the difference between a dwelling form and a homeowners form? Ever wonder about buying insurance on the voluntary market versus the shared market? How about the difference between open perils and named perils?

As with any endeavor, knowledge is power. The information provided in this guide gives you the power to properly assess your insurance needs, so in the event of a natural disaster, you and your family will not be left out in the cold. To that end, the following Glossary will define many of the key terms used in the insurance industry, and thus aid in your understanding of the information presented in this guide.

Glossary of Terms

Actual Cash Value – A claim settlement provision that pays damages equal to the replacement value of damaged property minus depreciation. (See Replacement cost.)

Availability – Reference to “insurance availability” generally means when insurance is obtainable by consumers in the general marketplace.

Beach and Windstorm Plans – State-sponsored insurance pools that sell property coverage for the peril of windstorm to people unable to buy it in the voluntary market because of their high exposure to risk. Seven states (AL, FL, LA, MS, NC, SC, TX) offer these plans to cover residential and commercial properties against hurricanes and other windstorms. Georgia and New York provide this kind of coverage for windstorm and hail in certain coastal communities through other property pools. Insurance companies that sell property insurance in the state are required to participate in these plans. Insurers share in profits and losses.

Claim Settlement Provision – The provision in your insurance policy that defines the method that will be used to determine the amount of money (claim payment) the insured will receive as a result of a claim. (See Actual Cash Value, Replacement cost).

Coinsurance Provision – A provision in the policy that affects the amount of total damage that will be covered in the event of a loss. For example, if the coinsurance provision is “80% coinsurance” that means that the property must be insured for at least 80% of the full estimated replacement value. If less insurance is purchased, there will be a deduction at the time of loss payment to reflect this.

Community Rating System Discounts – Provides premium discounts in those communities that undertake floodplain activities beyond the basic requirements of the National Flood Insurance Program.

Coverage – The extent of protection afforded by an insurance policy.

Deductible – The portion of loss paid by the policyholder. A deductible may be a specified dollar amount, a percentage of the insured amount, or a specified amount of time that must elapse before benefits are paid. The bigger the deductible, the lower the premium charged for the same coverage.

Direct Response System – Insurance sold through direct mail, telephone or Internet.

Direct Writer System – Sales agents who are employees of the insurance companies.

Dollar Deductible – The dollar value the insured must pay before the insurance company will pay the remainder of the claim.

Dwelling Form – A policy form that only covers building property losses.

Earthquake Insurance – Covers a building and its contents in the event of an earthquake. A special policy or endorsement exists because earthquakes are not covered by standard homeowners or most business policies.

Exclusive Agency System – Independent contractors who may only represent a single insurance company.



Exposure – Possibility of loss.

FAIR Plans – FAIR ACCESS TO INSURANCE REQUIREMENTS Plans. Insurance pools that sell property insurance to people who can't buy it in the voluntary market because of high risk over which they may have no control. FAIR Plans, which exist in 28 states and the District of Columbia, insure fire, vandalism, riot, and windstorm losses, and some sell homeowners insurance which includes liability. Plans vary by state, but all require property insurers licensed in a state to participate in the pool and share in the profits and losses.

Flood Insurance – Coverage for flood damage is available from the federal government under the National Flood Insurance Program but is sold by licensed insurance agents. Flood coverage is excluded under homeowner's policies and many commercial property policies. However, flood damage is covered under the comprehensive portion of an auto insurance policy.

Functional Replacement Cost – (Market value coverage) Repairs are made using common, modern materials and methods without deduction for depreciation; if a total loss, the payment amount will be the market value of the home.

Homeowners Form – Combines property coverage with liability coverage.

Homeowners Insurance – The typical homeowners insurance policy covers the house, the garage and other structures on the property, as well as personal possessions inside the house such as furniture, appliances and clothing, against a wide variety of perils including windstorms, fire and theft. The extent of the perils covered depends on the type of policy. The liability portion of the policy covers the homeowner for accidental injuries caused to third parties and/or their property, such as a guest slipping and falling down improperly maintained stairs. Coverage for flood and earthquake damage is typically excluded and must be purchased separately.

Hurricane Deductible – A percentage or dollar amount that must be paid by the policyholder in the event of a loss from a hurricane. Higher deductibles are instituted in higher risk areas, such as coastal regions. Specific details, such as the intensity of the storm for the deductible to be triggered and the extent of the high risk area, vary from insurer to insurer and state to state.

Independent Agency System – Independent contractors who are usually free to represent multiple insurance companies.

Insurance-to-Value Ratio – The relationship of the amount of insurance purchased to the replacement value of the property.

Involuntary Market Mechanisms – Sometimes referred to as "shared markets," these have been developed to provide coverage for entities that do not qualify for coverage in the voluntary market.

Joint Underwriting Associations (JUA) – Insurers which join together to provide coverage for a particular type of risk or size of exposure, when there are difficulties in obtaining coverage in the regular market, and which share in the profits and losses associated with the program. JUAs may be set up to provide auto and homeowner's insurance and various commercial coverages, such as medical malpractice.

Lines of Insurance – Types of insurance available for purchase; (for example, homeowners, auto, renters, boatowners).

Loss Mitigation – Measures taken to reduce damage to property.

Loss of Use – A provision in homeowners and renters insurance policies that reimburses policyholders for any extra living expenses due to having to live elsewhere while their home is being restored following a disaster.

Named Peril – Peril specifically mentioned as covered in an insurance policy.

National Flood Insurance Program – Federal government-sponsored program under which flood insurance is sold to homeowners and businesses.

Open Peril Policies – Policies will list what is excluded from coverage.

Package Coverage – A package policy, such as a homeowners or business insurance policy, that provides coverage against several different perils. It also refers to the combination of property and liability coverage in one policy.

Percentage Deductible – Percentage deductibles are based on the home's insured value.

Peril – A specific risk or cause of loss covered by an insurance policy, such as a fire, windstorm, flood, or theft. A named-peril policy covers the policyholder only for the risks named in the policy in contrast to an all-risk policy, which covers all causes of loss except those specifically excluded.

Peril-Specific Coverage – Coverage that will be provided only in the event of a specific peril. For example, earthquake coverage provides coverage only in the event of an earthquake.

Policy – A written contract for insurance between an insurance company and policyholder stating details of coverage.

Preferred Risk Policies – The NFIP has a Preferred Risk Policy (PRP), using the Dwelling Form, for those properties in low to moderate flood risk areas.

Premium – The price of an insurance policy, typically charged annually or semiannually.

Prior Loss – A loss that has occurred to the home or to the homeowner prior to applying for insurance.

Replacement Cost Coverage – Claim settlement provision that pays damages equal to the replacement cost of the damaged property with no deduction for depreciation (and subject to the limits of the policy limits).

Special Payment – Loss is paid before dwelling is repaired, rebuilt or replaced.

Stated Value – A selected value established by the insured, and this value is the limit of liability.

Voluntary Market – Refers to the insurance market that is available to everyone, at the consumer's choice.



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The Actuarial Foundation, a 501(c)(3) organization, was established in 1994 to help facilitate and broaden the profession's contribution to society. The Foundation explores innovative ways to apply actuarial skills in the public interest and brings together broad partnerships of individuals and organizations to address social problems in creative ways.

The Actuarial Foundation's mission is to develop, fund and execute education and research programs that serve the public by harnessing the talents of actuaries.

The nonprofit Federal Alliance for Safe Homes, Inc. (FLASH®) is an award-winning coalition of government agencies, professional associations, and private industry committed to strengthening homes, safeguarding families, and protecting economic well-being by promoting disaster preparedness. Based in Tallahassee, Fla., FLASH is the nation's fastest-growing disaster preparedness education organization. To learn more about FLASH and access free resources and referrals please visit www.flash.org or call toll free 877-221-SAFE.

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