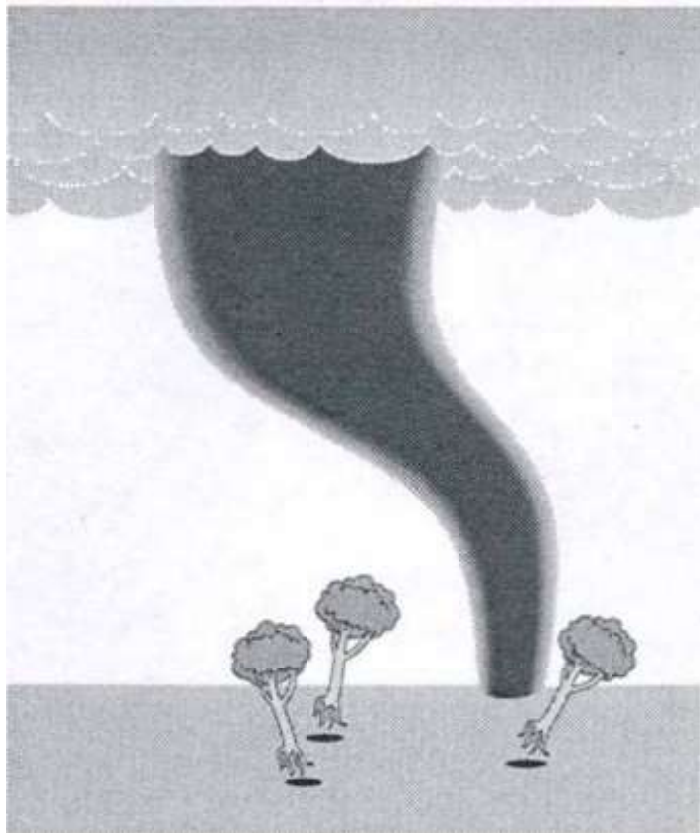


# **INSURANCE BEFORE AND AFTER A DISASTER**

**Information You Can Use  
Regarding Property Insurance**



John F. King  
Commissioner of Insurance  
Consumer Services Division

# **INSURANCE BEFORE AND AFTER A DISASTER**

## **Consumer Services Division Office of Commissioner of Insurance**

In Georgia, tornado season generally begins March 1 and extends to the end of May. Hurricane season begins June 1 and ends in November. From December to February, Georgia's weather is anyone's guess. Flooding, tornadoes and winter storms cause millions of dollars of property damage in Georgia each year.

Of course, insurance will not prevent a disaster but it will enable you to recover your property without depleting your financial resources. But, just purchasing insurance is not enough. You need to be sure that you have the right kind and amount of insurance. This brochure is designed to inform Georgia property owners of common insurance mistakes and coverage limitations which may be the difference between total and partial recovery. In addition, this brochure will familiarize you with insurance terms and with the insurance claims process.

### ***BEFORE A DISASTER***

Proper evaluation of your insurance needs requires a review of property you own and what kind of coverage, if any, your insurance policy provides.

Because the home is generally your largest investment, evaluation should begin here. Homeowners insurance is usually written under a package policy which means more than one type of coverage is provided under one policy or contract.

The standard homeowners policy insures the house, other structures, personal property, additional living expenses, medical payments and your liability to others. Because policies can vary, read your policy to determine what coverages are provided.

The following is a list of important coverage considerations which will help you evaluate the adequacy of your insurance policy.

#### ***1. Is the amount of insurance on the house adequate?***

The amount of insurance you buy should be based on rebuilding costs, not the market value as determined by a real estate agent or by the local property tax appraiser. Such assessments include the value of the land and only reflect what a buyer might be willing to pay for your home. The cost to rebuild your home by an independent contractor, i.e. materials, labor, profit and overhead, determines the proper amount of insurance you should carry on your home.

#### ***2. Be aware and beware of the Coinsurance clause.***

Most policies require the policyholder to insure the home to at least 80 percent of the cost to rebuild or replace the home. If you insure the home for less than 80 percent, you will become a coinsurer.

Coinsurance works like this: Assume the cost to rebuild your home is \$50,000.00.

You must insure your home for \$40,000.00 (\$50,000 x 80 percent) to be fully compensated for a covered loss up to the policy limit. If you insure your home for \$30,000.00 rather than \$40,000.00. You will become a coinsurer for an amount based upon the following formula:

$$\frac{\text{Amount of Insurance Carried (30,000)}}{\text{Amount of Insurance Required (40,000)}} \times \text{Amount of Loss}$$

Under this scenario, the insurer would pay three-fourths or 75 percent of the loss with the remaining 25 percent to be paid by you.

But, Beware, insuring your home for 80 percent of its replacement cost can leave you underinsured if you have a total loss. Again, assuming it would cost \$50,000.00 to rebuild your home and you have complied with the 80 percent coinsurance provision by insuring your home for \$40,000.00 (\$50,000 x 80 percent). You would be underinsured by \$10,000.00 if your house was totally destroyed.

So, you can see that by merely complying with the 80 percent coinsurance provision you may still have inadequate insurance and become a coinsurer. Determine what it would cost to totally rebuild your home and obtain insurance for that amount to avoid this costly mistake.

### **3. *Will your claim be settled on a Replacement Cost or Actual Cash Value basis?***

Replacement Cost means the insurer will pay the full cost to repair or replace your damaged house with new materials of the like, kind and quality that was damaged or lost. The insurer will pay the full cost of a new wood six panel door to replace your old wood six panel door.

Actual Cash Value means the insurer could pay less than the full cost to repair or replace your damaged property. The insurer is allowed to depreciate or reduce the replacement cost of a new wood six panel door based upon the age and condition of your old wood six panel door at the time of the loss.

### **4. *Consider Guaranteed Replacement.***

This coverage feature will pay the full cost to rebuild your home even if the reconstruction cost exceeds the policy limit. For example, you have insured your home for \$50,000.00 and it is totally destroyed. It is determined that the cost to

replace your home is \$60,000.00. Under Guaranteed Replacement Cost, the insurer will pay \$60,000.00. With standard replacement cost, the insurer will pay the policy limit of \$50,000.00.

**5. *Loss caused by Flood is not covered under your Homeowners policy.***

Contact your local government (county or city) to determine whether your house is in an area that could be flooded. Also, find out from your local officials whether your community has joined the National Flood Insurance Program. If so, then flood insurance is available and can be purchased through an insurance agent. If your community is not a member of the NFIP, flood insurance is not available.

**6. *If you live near the coast, check your policy to see if loss caused by wind is excluded under your Homeowners policy.***

Check your policy. If wind is not covered contact the Georgia Underwriting Association (Georgia Fair Plan) at (404) 923-7431 for coverage. Wind related losses are settled on an Actual Cash Value basis under policies issued by the Georgia Underwriting Association.

**7. *Increased construction costs caused by the enforcement of any law, ordinance or building code is not covered.***

For example, if your home was constructed when insulation was not required, building codes today would require the reconstruction of your home to include insulation. This additional cost is not covered but can be added by endorsement. If you own an older home, check with a building contractor to see what additional costs, due to changes in the building code, would be involved.

**8. *Is the amount of insurance on other structures adequate?***

The amount of insurance on other structures i.e., detached garage, fence, in ground pool, etc. is usually ten percent of the amount of insurance on the house. If your house is insured for \$50,000.00, the insurer will automatically extend \$5,000.00 of insurance for other structures. If it would cost \$10,000.00 to rebuild your detached garage you are underinsured. Coverage can be increased to reflect your exposure to loss at a modest premium.

**9. *Is the amount of insurance on your personal property adequate?***

Take the time to make an inventory of your personal property i.e., furniture, appliances, jewelry, clothing, etc. and estimate the cost to replace at current prices. Now check your policy to see if the amount of insurance for your personal property is adequate. If not, additional coverage can be purchased.

**10. *Do you have Replacement Cost coverage on your personal property?*** Just because you have Replacement Cost on your home does not mean that your

policy provides Replacement Cost on your personal property. Check your policy because it may only provide Actual Cash Value coverage for personal property.

The difference in the recovery amount under Replacement Cost and Actual Cash Value can be significant. For example, let's assume you purchased a TV five years ago for \$700.00. If that TV is destroyed today the insurer would pay you according to the loss paying terms of your policy. If you have Replacement Cost, the insurer will pay you the full cost to purchase a similar new TV which could be \$900.00. If you have Actual Cash Value, the insurer will depreciate your five year old TV and pay you according to its value at the time of the loss which could be \$350.00.

## ***AFTER A DISASTER***

### ***1. Be aware of your duties and responsibilities contained in your insurance policy.***

Some of the insured most important duties are:

- Report your claim promptly to your insurance company.
- Make reasonable and necessary repairs to protect your home and personal property from further damage.
- Maintain an accurate record including receipts for labor and material of repair expenses.
- Prepare an inventory of damaged personal property showing the quantity, description, date of purchase, replacement or repair cost and today's Actual Cash Value.
- Do not dispose of damaged property until examined by the insurance adjuster. - Provide records and documents pertaining to your loss as requested by the adjuster.

### ***2. Only the insured can authorize repairs to damaged property and choose which contractor does the work.***

The process of determining the cost of and who will perform the repairs often causes disagreement and delay. The insurance company will estimate the cost to repair or replace your damaged property based upon prevalent labor and material charges in your area. The insurer's estimate is valid only if a reputable contractor is willing to perform the work based upon the insurer's estimate. If you prefer a different contractor who is also willing to perform the work based upon the insurer's estimate, you should have no problem. However, if your contractor submits a substantially higher bid, the insurer will request a detailed and itemized estimate of work to be performed by your contractor. Difference in estimates occurs primarily for three reasons: (1) Difference in hourly wage charges (2) Difference in opinion regarding the extent of damage and

(3) What can be repaired versus replaced.

If these differences cannot be reconciled, refer to the Appraisal Clause of your contract. The Appraisal Clause permits you and the insurance company to present the claim to an independent umpire to decide what should be covered and how much should be paid.

### **3. Do I have coverage for fallen trees?**

The standard homeowners policy provides limited coverage for tree damage and tree removal. Tree damage is covered only if caused by certain perils, and unfortunately, wind is not one of the perils. Under the Debris Removal section of the policy the insurer will pay up to a maximum of \$500.00 for the removal of fallen trees caused by wind but only if the tree damages covered property, i.e. house or other structures. If the tree does no damage to covered property, there is no coverage.

### **4. How does additional living expense coverage work?**

Some of your living expenses will increase while others may decrease. Housing generally increases because in addition to your normal mortgage payment, which is not payable under your policy, the additional cost of renting a house or staying in a motel is payable. Likewise, eating out will generally cost more than a home cooked meal. The difference between the cost of eating out and eating at home is payable. Other expenses like utility bills and garbage pickup may decrease. The insurance adjuster will provide you with a worksheet to add together those expenses that increase and deduct those that decrease to arrive at a total settlement amount. Save documents and receipts for increased living expenses.

## **MOBILE HOME INSURANCE**

The Mobile Home Policy is similar to a Homeowners policy. It provides coverage for the mobile home, other structure, personal property, additional living expenses, medical payments and liability. Some mobile home policies provide coverage for flood which is an advantage over a Homeowners policy. However, the method of loss payment under mobile home policies is generally less favorable than the Replacement Cost features of the Homeowners policy. The mobile home policy may allow the insurer to settle a claim by paying the lesser of the following:

1. The cost of repairs.
2. The Actual Cash Value of the mobile home.
3. The cost to replace the mobile home with one of the same make, model, year and condition.
4. The amount of insurance on the mobile home.

This method of payment can leave the insured owing the finance company for the outstanding loan on the mobile home.

## ***RENTERS INSURANCE***

The owner of the property is responsible for insuring the building and for obtaining his or her own liability coverage. If you rent an apartment or house, you are responsible for insuring your personal property, liability and additional living expenses.

## ***CONDOMINIUM INSURANCE***

A Condominium or Unit Owner Policy is similar to homeowners, renters and mobile home policies. It will cover property not insured by the Condominium Association Policy which generally covers the building and all collective property. Examine your associations' policy to learn what coverage is provided.

### ***How can the Consumer Services Division (CSD) of the Office of Insurance Commissioner help you with insurance questions following a disaster?***

Investigators from the CSD of the Office of Commissioner of Insurance are available to assist Georgia citizens who have general questions or concerns about any phase of the insurance process including marketing, underwriting and claims. An investigator can advise you of the step by step process involved in settling a claim and what the insurers responsibilities are to you and what your responsibilities are to the insurer. If you are having difficulty in filing a claim or in obtaining a response from the insurer on a filed claim, a CSD investigator will contact the appropriate office to initiate the claims process. If a dispute arises between the insured and the insurer, a CSD investigator will investigate in an effort to resolve the dispute.

If you have any questions, contact the Consumer Services Division of the Office of Commissioner of Insurance at

(404) 656-2070.

Or write the details of your insurance question or problem to:

John F. King

Commissioner of Insurance

716 West Tower

2 Martin Luther King, Jr., Drive Atlanta, Georgia 30334

Attention: Consumer Services Division