

Homeowners Insurance

Homeowners Insurance

A home is usually a person's most expensive possession. Protecting it — and what's in it — is extremely important. Whether you own your home or rent a place to live, you'll need to purchase insurance. The average homeowners premium in Michigan is \$721, according to a report by the National Association of Insurance Commissioners (NAIC).

Types of policies

The two most common types are HO-2 and HO-3. The **Broad Form** (HO-2) covers damage to the dwelling and possessions from specific perils such as explosion, fire, lightning, windstorm, hail, riot, civil commotions, theft, vandalism, falling objects, smoke, and damage from a vehicle or aircraft.

A **Special Form** (HO-3) covers damage to personal property from the same perils as the Broad Form. The structure is covered against **all perils**, except a specific few. There is also a policy to meet the specific needs of condominium owners — HO-6.

Do renters need insurance?

Yes. Renters should not overlook the need for insurance. If a renter's building is destroyed, the landlord or property owner's policy will cover the structure only. To recover for the loss of personal belongings, the renter must have his/her own policy.

There is a policy tailored to fit the needs of renters. The renters policy, or HO-4, covers damage to possessions which result from certain causes. It is similar to the policy purchased by the owner of a house. The primary difference is that the renters policy does not include coverage on the building.

The average renters premium in Michigan is \$170, according to the NAIC.

What other coverages are provided?

A homeowners or renters policy provides more than just financial protection for the property and/or contents. The policy also includes liability coverage. This coverage applies to you as well as any family members living in the household.

This portion of the policy provides coverage for legal liabilities if someone is injured on the premises. It also includes the cost of defending you in the event of a lawsuit.

Coverage is also provided for: 1) medical expenses resulting from minor injuries to others occurring on the property, and 2) damage that you or a family member might cause accidentally to another person's property.

Do homeowners policies provide coverage for personal property?

A homeowners insurance policy **does** cover personal belongings as well as the home itself. Coverage for personal property located on the premises is usually 50% of the insurance on the dwelling.

However, both homeowners and renters policies usually provide limited amounts of coverage for certain types of personal property. Those items, which are susceptible to loss include cash, securities, jewelry and firearms. Coverage for cash has a \$200 limit, while coverage for other valuables varies between \$1,000 and \$2,500. For an additional premium, the consumer can purchase an endorsement that describes and insures each item for a certain dollar value.

Homeowners and renters insurance policies may cover contents on an **actual cash value** basis. That means the insurance company will pay the replacement cost, less depreciation.

However, a policy can be purchased to cover contents on a **replacement cost** basis. If personal property is destroyed, the insurance company will pay if you repair or replace it — without deducting for depreciation.

What is the difference between a replacement cost policy and a repair cost policy?

A **replacement cost** policy is the most common type of dwelling insurance. It pays for replacing, rebuilding or repairing the dwelling to its original condition with materials of like kind and quality. Another option offered by some insurance companies is the **repair cost** policy. This type of policy pays to replace, repair or rebuild damaged dwellings to a similar condition, using contemporary materials.

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Factors That Determine The Cost Of Home Insurance Premiums

For most people, their home is their most valuable asset. It represents not only a major investment of money, but also an accumulation of a lifetime's worth of possessions and memories. For a fairly modest amount of money, homeowners can protect both their home's structure and its contents in case of damage from a variety of causes.

How much an individual pays to insure his or her home depends on a number of factors that reflect the risk of damage to the home and the cost of the insurance company to repair or rebuild the home.

Michigan's Essential Insurance Act provides that rates shall not be excessive, inadequate or unfairly discriminatory. It further limits the factors an insurance company can use to determine the price of a homeowners policy. Following are just some of the classifications used.

Amount and type of insurance coverage.

Homeowners can usually select from good-value, basic policies that will reimburse for the depreciated value of the home up to a deluxe policy that will guarantee to rebuild the home and replace its contents no matter what the cost. Coverage can also be added that is not a part of the regular insurance policy, such as coverage for a home business. The more coverages that are selected, the more expensive the policy will be.

Safety and security. Installation of dead-bolt locks, smoke detectors and fire extinguishers are loss prevention and loss reduction items which can help decrease the cost of a homeowners policy. The availability of law enforcement or crime prevention services also play a part in determining the homeowners policy premium.

Location of the home. Where a home is located has a significant impact on the cost to insure it, for several different reasons. Insurance companies will determine if the home is at risk for hail, tornado or other unusual damage; if the home is located within a reasonable distance from a fire service; if the home is located in an area of the country with high costs of

construction; and if there is unusually high or low incidence of theft and arson where the home is located.

Type of home. A home's size, type of construction, building material components and number of units are just some of the important factors which determine a home's insurance costs because they affect what it would cost the insurance company should they have to rebuild the home.

Saving Money on Homeowners Insurance

Shop around. Prices vary from company to company, so it pays to shop around. Get at least three price quotes. You can call companies directly or access information on the Internet. Check the financial health of insurance companies by calling the Insurance Information Hotline at 800-777-8005.

Raise your deductible. A deductible is the amount of money you have to pay toward a loss before your insurance company starts to pay a claim. The higher your deductible, the more money you save on your premium. Consider a deductible of at least \$500.

Buy your home and auto policies from the same insurer. Most companies that sell homeowners insurance also sell auto insurance policies. Some insurance companies will reduce your premium by 5 percent to 15 percent if you buy two or more insurance policies from them.

Ask about other discounts. You can usually get discounts of at least 5 percent for a smoke detector, burglar alarm or dead-bolt locks. Some companies may cut your premiums by as much as 15 or 20 percent if you install a sophisticated sprinkler system and a fire and burglar alarm that rings at the police, fire or other monitoring stations. Before you buy one, find out what kind your insurance company recommends, how much the device would cost and how much you'd save on premiums. Seek out other discounts for being in a group or being a senior citizen.

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Average Homeowners Insurance Premiums By State - 2007

<u>State</u>	<u>Average Premium</u>
Alabama	\$905
Alaska	861
Arizona	634
Arkansas	762
California	825
Colorado	826
Connecticut	929
Delaware	559
District of Columbia	1,089
Florida	1,534
Georgia	724
Hawaii	850
Idaho	422
Illinois	700
Indiana	647
Iowa	610
Kansas	904
Kentucky	578
Louisiana	1,400
Maine	596
Maryland	692
Massachusetts	1,023
Michigan	721
Minnesota	800
Mississippi	1,019
Missouri	726
Montana	700
Nebraska	807
Nevada	695
New Hampshire	699
New Jersey	776
New Mexico	667
New York	936
North Carolina	674

North Dakota	771
Ohio	540
Oklahoma	1,054
Oregon	496
Pennsylvania	689
Rhode Island	950
South Carolina	808
South Dakota	618
Tennessee	723
Texas	1,448
Utah	505
Vermont	704
Virginia	683
Washington	506
West Virginia	646
Wisconsin	491
Wyoming	656
Countrywide	\$822

Source: National Association of Insurance Commissioners



Top Writers of Home Insurance in Michigan

<u>Company/Group</u>	<u>Written Premium</u>	<u>Market Share</u>
1. State Farm	\$421,914,000	19%
2. Home-Owners	299,298,000	14%
3. Auto Club	226,910,000	10%
4. Citizens	203,399,000	9%
5. Allstate	115,445,000	5%
6. Farm Bureau	105,810,000	5%
7. Fire Ins. Exchange	58,085,000	3%
8. Frankenmuth	52,909,000	2%
9. Pioneer	51,906,000	2%
10. MEEMIC	43,976,000	2%

Source: Michigan Office of Financial and Insurance Services

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Premium Dollar Breakdown In the United States - 2007

PREMIUMS EARNED: **\$100**

CLAIMS:

Property Damage:

Fire and lightning	\$23	
Wind and hail	10	
Water damage and freezing	12	
All other property damage	5	
Theft	2	
Subtotal		\$52

Liability:

Bodily injury and property damage	\$2	
Medical payments and other	1	
Cost of settling claims	8	
Total claims		\$63

EXPENSES:

Commissions, other selling expenses	\$22	
General expenses	5	
State taxes, licenses and fees	3	
Total expenses		\$30

Claims and expense total **\$93**

BOTTOM LINE:

Investment gain	\$10	
Pretax income (\$100-\$105+\$8)	15	
Tax	5	
Income after taxes		\$10

Source: Insurance Information Institute estimate based on data from ISO and the National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data LLC.

Renters Insurance

Renters shouldn't overlook the need for insurance.

If a renter's building is destroyed, the insurance policy purchased by the landlord or property owner will cover the structure only. To recover for the loss of personal items, including furnishings, a renter must have purchased a policy.

However, a study released by the Independent Insurance Agents and Brokers of America indicated that nearly two-thirds of those living in U.S. rental properties are uninsured.

There is a policy tailored to fit the needs of renters. The renter's policy or HO-4 covers damage to possessions which result from perils such as explosion, fire or lightning, windstorm or hail, riot or civil commotion, theft and vandalism. It is similar to the package policy which is purchased by the owner of a house.

The average cost of a renter's insurance policy in Michigan is \$170 annually.

Although the renter's policy covers personal belongings such as furniture, appliances, clothing and jewelry, there are limitations on the amounts of coverage for certain types of personal property which are especially susceptible to loss. For example, coverage for cash generally has a \$200 limit. Dollar limitations for other valuables, such as jewelry, furs, firearms and silverware vary between \$1,000 and \$2,500 for loss by theft. Also, most renter's policies provide limited or no coverage for home computers. For an additional premium, consumers can purchase a policy endorsement which specifically describes each item and includes its dollar value.

The renter's policy usually includes several other coverages, such as additional living expenses which might be incurred if the residence is temporarily uninhabitable following a loss; personal liability insurance if someone is injured in your residence; and alterations or improvements the renter has made to the building at his/her own expense.

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Michigan Basic Property Insurance Association

Michigan Basic Property Insurance Association was established on October 29, 1968, along with 27 other state FAIR Plans (Fair Access to Insurance Requirements). The FAIR Plans were a result of the Federal Omnibus Housing Bill, passed on August 1, 1968.

The Omnibus Bill passed by the federal government provided for riot reinsurance if insurance companies would join together in statewide pools to offer basic property insurance to those who were ineligible in the voluntary market. The bill gave the responsibility of the formation of FAIR Plans and their operations to individual states.

Michigan Basic's purpose is to provide fair access to property insurance at standard rates regardless of property location.

Flood Insurance

In 1968 Congress created the National Flood Insurance Program (NFIP) in response to the rising cost of taxpayer-funded disaster relief for flood victims and the increasing amount of damage caused by floods.

The NFIP makes federally-backed flood insurance available in communities that agree to adopt and enforce floodplain management ordinances to reduce future flood damage.

Currently, about 797 Michigan communities participate in the federal program, and over 26,654 policies are in force with coverage of nearly \$4 billion. Under the NFIP, a flood is defined in part as a general and temporary condition of partial or complete inundation of normally dry land areas from overflow of inland or tidal waters, or from the unusual and rapid accumulation of runoff of surface waters from any source.

It is important to note that this flood definition covers general street flooding that enters a home, and not

just from a river. In the standard flood insurance policy, direct physical losses by flood are covered. Also covered are losses resulting from erosion caused by waves or currents of water exceeding anticipated cyclical levels or erosion accompanied by a severe storm, flash flood, abnormal tidal surge, or the like. Basement flooding is a covered hazard under the NFIP policy. However, homeowners should be aware that personal property is not covered in a basement location. Losses from water seepage, sewer backup, or hydrostatic pressure are covered only when they occur in conjunction with a general condition of flooding.

To purchase flood insurance under the program, residents must live in one of the participating communities. Coverage can be obtained through most licensed property/casualty insurance agents. If you would like more information about the NFIP, please contact the Michigan Department of Environmental Quality, Land and Water Management Division, P.O. Box 30458, Lansing, MI 48909, by email to thomasl@michigan.gov, or by telephone at 517-335-3448.

Tornadoes In Michigan

An average of 15 tornadoes occur in Michigan each year. Since 1950, 242 persons have been killed due to tornadoes. During this same time, Michigan has experienced 920 tornadoes.

Most tornadoes occur during the months of May, June, July and August in the late afternoon and evening hours. However, tornadoes can occur anytime of the day or night in almost any month during the year.

A tornado/severe thunderstorm **watch** is issued whenever conditions exist for severe weather to develop. Watches are usually for large areas about two-thirds the size of Lower Michigan and are usually two-to-six hours long. Watches give you time to plan and prepare. A tornado **warning** is issued whenever a tornado has been sighted or Doppler Radar indicates a thunderstorm capable of producing a tornado. If a **warning** is issued, take cover immediately.

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Tornadoes in Michigan

Tornadoes By County - 1950-2009

<u>County</u>	<u>1950-09</u>	<u>2009</u>
Alcona	11	0
Alger	6	0
Allegan	26	1
Alpena	14	0
Antrim	9	0
Arenac	7	0
Baraga	2	0
Barry	18	0
Bay	12	0
Benzie	4	0
Berrien	28	0
Branch	15	0
Calhoun	15	0
Cass	14	0
Charlevoix	4	0
Cheboygan	6	0
Chippewa	6	0
Clare	8	0
Clinton	17	0
Crawford	10	0
Delta	11	0
Dickinson	7	0
Eaton	25	0
Emmet	5	0
Genesee	41	0
Gladwin	9	0
Gogebic	3	0
Grand Traverse	4	0
Gratiot	14	0
Hillsdale	23	0
Houghton	1	0
Huron	12	0
Ingham	27	0
Ionia	17	0
Iosco	11	0
Iron	5	0
Isabella	13	0
Jackson	17	0
Kalamazoo	25	2
Kalkaska	7	0

Kent	31	0
Keweenaw	2	0
Lake	2	0
Lapeer	20	0
Leelanau	3	0
Lenawee	31	0
Livingston	24	0
Luce	2	0
Mackinac	5	0
Macomb	18	0
Manistee	2	0
Marquette	6	0
Mason	5	0
Mecosta	9	0
Menominee	7	0
Midland	8	0
Missaukee	8	0
Monroe	28	0
Montcalm	11	0
Montmorency	6	0
Muskegon	7	0
Newaygo	12	0
Oakland	31	0
Oceana	5	0
Ogemaw	14	0
Ontonagon	2	0
Osceola	16	0
Oscoda	5	0
Otsego	3	0
Ottawa	18	0
Presque Isle	6	0
Roscommon	8	0
Saginaw	21	0
Sanilac	14	0
Schoolcraft	3	0
Shiawassee	25	0
St. Clair	20	0
St. Joseph	9	0
Tuscola	17	0
Van Buren	18	0
Washtenaw	24	0
Wayne	28	0
Wexford	7	0

Source: Michigan Committee for Severe Weather Awareness

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Fire In Michigan

The number of fires reported in Michigan in 2009 were 31,500, compared to 32,965 in 2008.

<u>County</u>	<u>2009</u>	<u>\$ Loss</u>
Alcona	48	\$379,900
Alger	31	864,100
Allegan	268	3,064,200
Alpena	84	880,655
Antrim	76	1,726,149
Arenac	27	253,600
Baraga	15	9,500
Barry	233	3,795,739
Bay	374	4,180,042
Benzie	62	816,200
Berrien	503	165,146,240
Branch	203	2,569,013
Calhoun	197	2,400,758
Cass	197	799,475
Charlevoix	52	581,600
Cheboygan	87	2,425,210
Chippewa	95	741,750
Clare	162	370,395
Clinton	134	1,774,710
Crawford	69	827,910
Delta	120	2,049,420
Dickinson	29	86,710
Eaton	283	3,204,892
Emmet	71	880,650
Genesee	789	13,459,204
Gladwin	107	1,467,300
Gogebic	49	350,000
Grand Traverse	273	2,315,651
Gratiot	137	420,000
Hillsdale	205	1,367,704
Houghton	102	1,404,150
Huron	81	2,360,100
Ingham	828	3,077,460
Ionia	203	1,837,955
Iosco	65	960,400
Iron	93	509,300
Isabella	190	746,650
Jackson	480	12,508,967
Kalamazoo	683	9,134,375
Kalkaska	53	798,805

<u>County</u>	<u>2009</u>	<u>\$ Loss</u>
Kent	1,376	14,936,963
Keweenaw	14	1,000
Lake	58	2
Lapeer	182	3,062,540
Leelanau	58	518,150
Lenawee	311	2,242,595
Livingston	347	3,286,414
Luce	not reported	not reported
Mackinac	34	422,500
Macomb	1,663	18,012,150
Manistee	73	2,027,250
Marquette	161	1,857,550
Mason	108	1,534,051
Mecosta	75	559,150
Menominee	72	1,053,500
Midland	217	3,401,415
Missaukee	51	2,221,100
Monroe	301	2,469,995
Montcalm	250	3,734,700
Montmorency	33	194,600
Muskegon	674	2,285,825
Newaygo	105	602,200
Oakland	2,051	54,742,552
Oceana	90	358,477
Ogemaw	109	492,450
Ontonagon	19	325,000
Osceola	119	1,133,850
Oscoda	43	423,300
Otsego	89	594,040
Ottawa	499	4,990,613
Presque Isle	89	579,205
Roscommon	107	1,513,756
Saginaw	884	6,159,050
St. Clair	361	4,439,133
St. Joseph	228	3,725,900
Sanilac	67	2,011,500
Schoolcraft	40	176,500
Shiawassee	109	938,138
Tuscola	168	2,087,200
Van Buren	331	2,726,400
Washtenaw	727	6,792,289
Wayne	11,383	310,537,443
Wexford	66	43,300
TOTAL	31,500	\$721,760,585

Source: Michigan Bureau of Fire Services