What you need to know

HOME INSURANCE

Minnesota Department of Commerce

A consumer information publication

The Minnesota Department of Commerce has prepared this guide to help you better understand home insurance. It gives you information on what is typically covered by home insurance policies and on Minnesota rules and regulations regarding denial or loss of coverage.

The Minnesota Department of Commerce regulates insurance agents, agencies, adjusters, and companies operating in Minnesota. If they are licensed to do business in the State, they are responsible for adhering to the laws and rules that govern the industry. This guide does not list all of these regulations. If you have a question about your insurance, please contact the Department's Consumer Response Team at 651-296-2488, or toll free 800-657-3602.

Duplication of this guide is encouraged. Please feel free to copy this information and share it with others.

Department of Commerce

A home is often a person's most valuable possession, yet many homeowners have only a vague idea of what their home insurance policy covers. And too often, it is not until disaster strikes that they find their insurance coverage is inadequate.

A recent case: After tornadoes badly damaged or destroyed many homes in St. Peter and other Minnesota communities, some homeowners found that their policies compensated them for their personal property loss based on the depreciated value (termed Actual Cash Value by the insurance industry) of the property, and not on its replacement cost. The cost of replacing a sofa, for example, is usually much higher than the Actual Cash Value of the sofa.

Still other homeowners do not find out until after water has inundated their home that home insurance policies do not cover floods.

This guide is designed to help you understand home insurance policies—what they typically cover and don't cover, what affects their rates, and how and under what circumstance they can be cancelled or non-renewed. It also tells you how to seek help in case you have a dispute with an insurance company.

Standard HO Policies—What's Covered

Common Homeowner Policies

Homeowner policies—often termed HO by the insurance industry—come in a number of standard packages that are pretty much the same no matter where you live in the United States. The most common homeowner policies consist of two parts: the first is property coverage, which includes coverage of your dwelling, other structures on the property, and personal property. "Other structures" include the garage, as well as guest house, tool shed, or similar type buildings. Not included are buildings used for business or rented or leased to others. Personal property includes all household furnishings and your own personal belongings, including clothes. Among personal property usually excluded from coverage are your car or other motorized vehicle, pet dog or cat or other animal, computers or other equipment that are part of a small business run from your home.

The second part of your policy provides personal liability coverage, which pays damages if someone brings a claim or suit against you for bodily injury or damage to his or her property.

Property coverage. Three types of HO policies are commonly offered. The first two, usually termed HO-1 and HO-2, insure the dwelling, other structures, and personal property against a list of named "perils," or causes of loss, such as fire, lightning, etc. HO-1, a basic policy, commonly covers some 11 perils. HO-2 is broader, covering some five or six additional perils. A third policy, usually termed HO-3, includes an "all risk" clause that covers nearly all perils or causes of loss, with specified exceptions. The exceptions almost always include flood, earthquake, war, and nuclear hazard. (See Appendix 1 on page 12)

HO-3 is probably the most widely sold homeowner policy. Although the all-risk clause adds to the cost of the premium, without the clause, coverage is limited to damage caused by one of the named perils.

Liability. The liability portion of the homeowner policy protects against a claim or lawsuit brought by someone who is injured on your property or by something you do. The claim can also be for damage to that person's property, if it is caused by something you do or for which you are responsible. The liability portion of your homeowner's policy pays for damages when you are liable for the injury, pays the medical expenses if the person is injured, and provides legal expenses to defend you even in cases where the suit is not thought to be justified.

Other Types of HO Policies

Variations of these common homeowner policies are available for other types of dwellings. They include:

Renter's or tenant's policy. The standard renter's policy insures your personal property against the expanded list of perils named in the HO-2 policy, and also includes liability coverage; it does not, of course, cover the actual building or other structures, which are the responsibility of the owner.

Mobile home policy provides basically the same type of coverage as the common HO policies described above. Premiums are usually higher because of the greater susceptibility of mobile homes to wind damage.

Condominium owner's policy. The condominium association buys insurance covering the building and other structures. The owner of the condominium unit, therefore, usually buys a policy similar to the renter's policy in that it principally provides personal property and liability coverage. You should check with the condominium association, however, to determine the extent of its coverage. Typically, the association's insurance covers only the exterior walls, and damage to such items as bathroom fixtures, kitchen cabinets, and carpet would need to be covered by your policy.

Actual Cash Value coverage (often termed HO-8) is similar to HO-1 in providing both property and liability coverage for some 11 named perils, but it differs from most HO policies sold today in that it covers repairs or reimburses based on Actual Cash Value—not replacement or rebuilding costs. This type of coverage is often sold to cover older homes that have some architectural or other features that make their replacement cost significantly higher than their market value. It also is commonly sold to those who cannot afford or qualify for the more comprehensive HO policies described above.

How Much Coverage?

Property Coverage

Coverage for the property portion of the homeowners' policy includes three parts that are often distinguished by the letters A, B, and C: Coverage A for the dwelling, Coverage B for the other structures, and Coverage C for personal property. A fourth type of coverage—sometimes termed Coverage D—compensates you in case you are forced to live elsewhere while your home is being repaired or rebuilt. All property coverage includes deductibles—the amount that you must pay before the insurance company pays the balance. A common deductible is $250.

Coverage A, the dwelling, is usually based on the cost of replacing the house, subject to a maximum dollar amount. Minnesota law prohibits an insurance company from knowingly insuring a home for more than its replacement value. Typically, the minimum coverage is 80 percent of the replacement value of the house. A home with a replacement value of $120,000, for example, would typically be insured for $96,000.

Because of inflation, increases in construction costs, and other changes that cause the value of your property to go up, you may consider including an inflation guard clause in your policy. This automatically adjusts the amount of your coverage to reflect an increase in value. Not all companies offer this option.

Coverage B, other structures on the property, is determined by the amount of Coverage A. The standard coverage limit is 10 percent of Coverage A, although this can be increased at your request. In the case of the example used above, the standard coverage would be limited to $9,600.

Coverage C, personal property, compensates you for damage to or loss of your personal property, and is usually subject to a limit of 50 percent of Coverage A. In the example used, this limit would be $48,000. Many homeowners increase this coverage limit to 70 or 75 percent, but most policies set individual limits on certain types of property such as money, securities, jewelry, and watercraft. Check these limits; if you have some highly valuable possessions that would not be adequately covered under these limits, you might want to consider buying a special personal property endorsement or “floater” that would insure these items separately.

As noted in the opening paragraph of this guide, providing replacement cost coverage for personal property is an important feature, since policies that compensate based on Actual Cash Value are likely to prove inadequate. If the company’s policy does not provide for replacement cost of personal property, Minnesota law requires the company to state this on the policy declarations page.

Minnesota law stipulates that if an insurance company limits Coverage B and C to a percentage of the dwelling (Coverage A) limit, it must also offer an option allowing policyholders to purchase lower or higher percentage limits; the company must also provide a rate credit for lower-than-standard limits.

Coverage D, loss of dwelling use, pays additional living expenses if you are forced to live elsewhere while your home is being repaired or until you can move into a new dwelling. The amount of coverage is based on actual living expenses required to maintain your normal standard of living, or on the fair rental value of your dwelling, less any expenses that do not continue while the home is repaired. Payment is for the time it takes for the home to be repaired or for you to relocate.

Liability Coverage

Liability coverage is the second major part of your home insurance policy. The standard amount of liability coverage is $100,000, but this periodically increases. If you have a lot of assets to protect, you may want to buy a personal liability umbrella policy.

Umbrella policy. This type of policy provides additional liability coverage and is applied after the liability coverage in your homeowner policy runs out. Besides providing additional monetary coverage, it also expands coverage to include personal injury. The standard homeowner policy covers bodily injury and property damage, with personal injury offered as an option. (Personal injury includes such actions as false arrest, defamation, and invasion of privacy.)

The Cost of Coverage — What Affects Rates

Homeowner policy rates depend first of all, of course, on the extent and dollar amount of coverage: a policy with an “all risk” clause will cost more than a policy that covers damage resulting from a limited number of named perils; a policy that provides replacement cost coverage for a $300,000 home will cost more than for a $100,000 home; liability coverage of $300,000 will cost more than coverage of $100,000.

Ways to Reduce Rates

Lower Coverage B and C. In Minnesota, homeowners may reduce their rates by reducing the dollar limits of coverage for structures other than the dwelling (Coverage B) and for personal property (Coverage C). State law requires insurance companies to offer lower than standard limits for these types of property and to reduce the premium accordingly. If you choose to have lower limits, take care that you are not running the risk of being underinsured. Many people underestimate the replacement value of their personal property.

Higher deductibles. You can also lower the premium by raising your deductible—the amount of money you pay before your insurance company starts to pay for a loss. Doubling your deductible from the standard $250 can often reduce your rates about 12 percent; increasing the deductible to $2,500 can often save about 30 percent.

Safety and security systems. Some companies offer discounts for sprinkler systems, fire and burglar alarms, and similar systems. In the case of mobile homes, tie-downs or ground anchors, which reduce the risk of wind-caused damage, can lower rates.

Discounts and group rates are sometimes available to seniors, or members of a professional or business organization. Some companies also offer a discount if you have another policy with them—such as auto insurance—or if you have stayed with the same company for several years. If a company offers these packaged discounts to homeowners, it must also offer them to individuals having a renter's or a condominium owner's policy with the company.

Renovation. If a company offers a lower rate for a new home, it most also offer a rate reduction for renovated homes. As an example, a company may give credit for one or more of the following: renovated electrical, heating or cooling, and plumbing systems, as well as roof or other part of the structure.

Non smokers receive reduced rates from some companies, since smoking accounts for a large number of residential fires each year.

What Cannot Affect Rates

Minnesota law prohibits insurance companies from adjusting rates based solely on —

- The geographic location of a town in which the home is located.
- The age of the home construction (unless identical credit is also offered for one or more renovated systems as noted above).
- Different zip code areas in the same town.
- The fact that the homeowner may have previously been denied coverage for the property unless it was for reasons stated in Minnesota statutes 65A.01 (see page 8).
- The fact that the property has previously been insured under the Minnesota FAIR Plan (see page 10).

Denial or Loss of Coverage; What Are the Rules and Regulations?

On what grounds can a company refuse to insure a property, or cancel or not renew a home insurance policy? A large portion of the consumer calls received by the Minnesota Department of Commerce concern these questions.

Reasons for denial. Just as an insurance company cannot offer different rates based on any of the reasons cited above, neither can it refuse to offer or renew a policy for these reasons. In the case of the age of the house, a company can refuse to insure a property constructed before a certain date, but only if the electrical or other specified systems have not been renovated since that date. In other words, the age of the system or systems determine whether a company can refuse to insure a dwelling.

The property must also meet reasonable underwriting standards; these include consideration of the property's proximity to an extraordinary hazard; access to fire protection; physical condition, including state of the heating and wiring; present use, such as vacancy or overcrowding; and other characteristics such as storage of rubbish or flammable materials that increase risk.

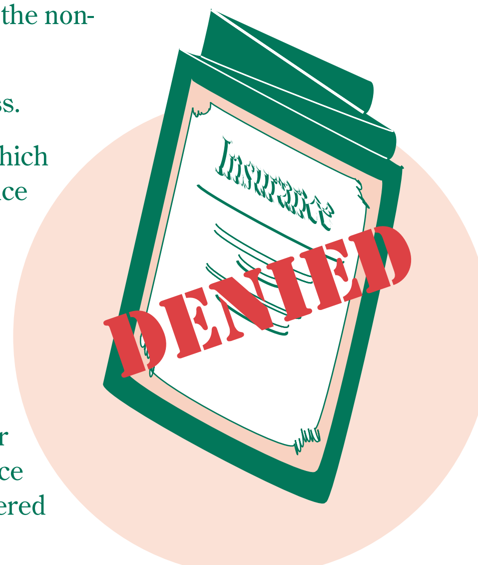
Grounds for cancellation. Once a policy has been in effect for at least 60 days, or has been renewed, it can be cancelled (that is, terminated during the period in which the policy is in effect) only for the following reasons:

- Nonpayment of the premium.
- A false statement or misrepresentation by the insured in applying for the policy or in presenting a claim.
- An increase in risk from what was originally accepted for coverage; the increase can be due to something the insured does or omitted to reveal in the application.
- If a physical change occurs that increases risk to the property after the policy is in effect, and the change has not been corrected within a reasonable time.

- Nonpayment of dues to an organization in which membership is required for the particular insurance policy.

Grounds for nonrenewal. No insurance company can refuse to renew a policy at the end of its period except for the reasons for cancellation, cited above, and for the following reasons:

- Using the property for an illegal activity.
- Cancellation by the insurance company of its contract with an agent, unless the company assigns another agent to the policy. (The company must also transfer the policy to another agent if the insured requests it in writing before the nonrenewal date; see notification required, below.)
- Violation of laws that increase the possibility of loss.
- Refusal of the insured to eliminate conditions which increase risk after being notified by the insurance company that the conditions must be removed.
- A change in the quality or availability of fire protection services.
- Two or more losses by the insured within the past three years, unless the losses were caused by lightening or other storm-related phenomenon, or they did not result in any payment by the insurance company, or 80 percent of the costs were recovered through another party.
- The company stops writing homeowners' insurance in Minnesota.
- The insured homeowner fails to provide information relating to the insurability of the property when requested by the company.
- Failure to pay property taxes on the insured property for two or more years.
- The homeowner no longer owns that particular property or no longer lives there.



Notification requirements. If a policy is cancelled during the first 59 days it is in effect, the company must notify the insured in writing at least 20 days before the cancellation date. Once a policy has been in effect for 60 days, or if it is a renewal policy, the company must give a written notice at least 30 days before the date on which the policy will be cancelled. The exception to this rule is when the premium has not been paid: in this case, the company may cancel at any time with 20 days notice.

In some cases, two notices are required. If the nonrenewal is based on known conditions that increase risk, the company must send two notices notifying the homeowner that the policy will not be renewed unless the conditions are removed. If the company needs information about the property before it will renew the policy, it must send two written requests for the information and state why the information is needed. The second notice must inform the homeowner that the policy will not be renewed if the information is not received.

In all cases, a reason for the cancellation or nonrenewal must be stated in the notice and the homeowner advised of his or her right to send a letter of complaint to the Commissioner of Commerce. The homeowner must also be notified of the right to apply to the Minnesota FAIR Plan for coverage.

Opportunity for coverage through the FAIR Plan. A homeowner who has been denied insurance or had a policy cancelled or nonrenewed can apply for coverage through the FAIR Plan, or Minnesota Property Insurance Placement Facility.

The Minnesota FAIR Plan Act was passed to assure access to property and liability coverage for those who cannot obtain insurance through normal insurance markets. Anyone who has been rejected for coverage can apply for coverage through the FAIR Plan. All insurance companies authorized to sell property or liability insurance in the state must participate. If the Plan sustains an operating loss in any one year, the companies are assessed a dollar amount based on their share of the market. The FAIR Plan is administered by a board whose members include representatives elected by the insurers and members appointed by the Commissioner of the Department of Commerce.

FAIR Plan homeowner policies provide the coverage described under Actual Cash Value coverage (HO-8) on page 3. Applicants for the FAIR Plan must meet reasonable underwriting standards, which means that the condition of the property must not expose it to a high fire risk or other type of loss. The neighborhood or area in which the property is located, or any environmental hazard beyond the control of the owner, cannot be a factor in declining coverage.

For more information on the FAIR Plan, call the Department of Commerce at 651-296-2488 or 1-800-657-3602.

Filing A Claim

When a loss occurs, the homeowner should notify the insurance company or agent immediately, and within 60 days give a written notice that states the amount of the loss. The company can require the insured to fill out a proof of loss form.

Denial of claim. A company can refuse to pay for a loss if it finds that the insured has misrepresented the facts regarding the loss or has not been forthright about risks to the property. Nor is the company required to pay a fire or lightning claim if the property has been vacant or unoccupied beyond a period of 60 consecutive days.

Amount of claim and method of payment. If the terms of the policy are for payment of loss based on replacement cost, the company will reimburse this amount, subject to the limits of the policy. Payment is done in one of two ways: you can replace or repair the insured property immediately, submit a receipt, and be reimbursed for that amount. Or you can initially collect the Actual Cash Value of the loss from the company; later, when you submit a receipt, the company will pay you for the difference between the payment and the replacement or repair cost. Usually, you must submit the receipt for replacement or repair within 180 days of receiving the initial payment.

In the case where the insured and the company do not agree on the amount of loss, Minnesota statute provides for resolving the dispute through an appraisal process.

Appendix 1: Causes of Loss Commonly Covered

The 11 named causes of loss or perils commonly covered by the most basic homeowner policy (HO-1) are:

- Fire or lightening
- Windstorm or hail
- Explosion
- Riot or civil commotion
- Aircraft
- Vehicles
- Smoke
- Vandalism or malicious mischief
- Theft
- Falling objects
- Weight of ice, snow, or sleet

Additional named perils covered by the next level of homeowner policy (HO-2):

- Breakage of glass that is part of the building (both replacement of the glass and repair of any damage to the building caused by the broken glass).
- Accidental discharge or overflow of water or steam from plumbing, heating or cooling system, automatic fire protective sprinkler system, or household appliance.
- Sudden and accidental tearing apart, cracking, burning, or bulging of any of the above.
- Freezing of any of the above.
- Sudden and accidental damage from an electrical surge.
- Volcanic eruption other than that caused by an earthquake.

Extended coverage (HO-3) includes all perils stated above plus any other peril except for those specifically excluded. These exclusions commonly include flood, earthquake, war, and nuclear hazard. In Minnesota, state law also requires some coverage for costs incurred as a result of the application of a building ordnance or law.

Appendix 2: Floods—a Peril Not Covered

House inundated by flood waters? Your homeowner's insurance policy will not pay for the damage. Floods—along with earthquakes, wars, and nuclear hazards—are among the perils not covered by homeowners' policies.

Flood insurance is available to most Minnesotans, however, through the National Flood Insurance Program. About 90 percent of Minnesota residents live in areas participating in this program. Other flood insurance facts:

- Flood insurance is often available through your local insurance agent.
- Flood insurance is affordable; premiums vary, but most policies cost about $300 a year.
- Floods can be caused by snowmelt, heavy rains, and water backup from overloaded drainage systems, as well as other causes.
- Flood insurance pays even if there is no official disaster declaration. Federal disaster aid is only available if the President declares a disaster. According to the Federal Emergency Management Administration, more than 90 percent of all disasters in the United States do not receive that declaration.
- Some types of property not covered by flood insurance include most contents and finishing materials in basements.

Appendix 3: Did You Know . . .

. . .the following facts about home insurance?

- If you operate a day care center in your home, an insurance company cannot deny, cancel, or nonrenew your homeowner's policy based on your operating a day care. Prior to 1996, many insurers were refusing to accept applications for, or were non-renewing or canceling, a homeowner's policy based on an increase in risk due to day care operations in the home, even though the homeowner had liability insurance covering day care. In 1996, a law was passed excluding coverage (unless purchased specifically) for any loss or damage resulting from operation of a day care facility in the home, thereby eliminating any risk an insurer might perceive as a cause for denying, nonrenewing, or canceling a policy. The standard amount of coverage required for a licensed day care is $100,000 per person and $250,000 per occurrence. State law allows you to carry less than that amount of coverage provided you notify parents and keep a written acknowledgement of their understanding of this on file.

- Fido may be like a member of the family, but dog ownership can make it more difficult or costly to get homeowner insurance. Insurance companies are allowed to write policies that exclude coverage of any animal bites. If your dog or pet bites someone and files a claim with your insurance company, your policy will probably be nonrenewed on the basis of an increase in risk. (The company must comply with nonrenewal procedures described on page 9.) The increased risk is based on the belief that once a dog has bitten, it is likely to bite again. At the very least, an insurance company may offer to add an exclusionary endorsement that exempts the company from paying any future bite claims. Such an offer to exclude future claims, however, is not required by law. Although a company can require a dog that has bitten to be removed from the home to prevent nonrenewal, it does not have the authority to require a pet to be destroyed.

- Trees, shrubs, and other plants on your property are covered for replacement cost (within limits) from such perils as fire or lightening and vandalism, but not from wind (although removal of a tree toppled by the wind is covered.) If, however, wind topples a tree causing damage to your house or other buildings on the property, your policy will pay for building repairs as well as tree removal.

- The property of an unrelated individual living with an insured will not be covered in the case of loss unless the individual is listed as an additional insured. The term "insured" normally means yourself and residents of your household who are your relatives or under the age of 21 and in the care of an insured.

- The number of claims you make can result in your policy not being renewed. If, within a three-year period, you make two or more claims, the company can choose not to renew your policy. There are exceptions, however: claims cannot be counted if they were caused by natural causes such as wind, hail, or lightening; if they resulted in no money being paid by the company; or if the company recovered 80 percent or more of the cost from another party.

- Before a company can nonrenew a policy based on your loss experience (two or more losses in a three-year period), the company must send a notice after the first claim informing you that any future losses may result in the nonrenewal of the policy. This notice is generally included with the documents sent to you at the time of a loss.

- If your policy is canceled or not renewed and you think the action is unjustified, you should call the Department of Commerce Consumer Response Team at 651-296-2488 or 1-800-657-3602

- A medical payment (med pay) provision is included in all homeowners' policies which pays for injuries to others (but not you) on your insured property. Payment under this coverage will not exceed the "per person" limit specified in the policy and is not an admission of liability on the part of an insured or the company. A med pay should not be confused with a liability claim, which may end up in court to determine whether the insured was legally responsible.

- Policies do not state a specific time period in which you must file a claim. Policy provisions read "as soon as is practical," "give prompt notice," or "upon discovery of a loss." You can notify the insurance company or your agent. This time frame should not be confused with the 180 days in which you are required to repair or replace damaged property following receipt of the initial Actual Cash Value payment from the company (see page 11).

- Minnesota law allows a minimum of two years in which an insured can sue an insurance company over the handling of a property claim.

- Water damage from a burst pipe or appliance is covered by your policy, but damage from water coming from an overflowing drain or sewer or seeping in from outside is not covered.

- Damage resulting solely from a power failure is usually not covered, unless the power failure takes place on the premises and is not part of a general disruption in utility service. Payment for the loss of refrigerated or frozen food may be available as an optional coverage.

- An older home may have special features that are difficult to replace. If, for example, you have a home with stained glass windows, cove ceilings, or built-in cabinets made of fine grain wood, the cost of replacing these features can be very high and standard policies will not guarantee this type of replacement. You most likely will have to settle for replacement based on "like kind and quality."
- If you are building a home, you will want to have a builder's risk or appropriately amended homeowner's policy in effect from the time construction begins.

Have a Complaint or Question about Your Homeowner's Policy?

Call the Minnesota Department of Commerce at 651-296-2488 or 1-800-657-3602.

Department of Commerce Consumer Contacts

Enforcement Division : 651-296-2488 (800-657-3602)

Helps resolve conflicts between consumers and the following industries:

- Insurance
- Financial Services
- Securities
- Real Estate
- Notaries
- Residential Building Contractors
- Cosmetologists
- Appraisers
- Abstractors

Licensing Division: 651-296-6319 (800-657-3978) or email: licensing.commerce@state.mn.us

Provides confirmation of license status for individuals in the industries we regulate.

Unclaimed Property Division: 800-925-5668

Call to find out if you are the rightful owner of any of Minnesota's unclaimed property.

Energy Information Center: 651-296-5175 (800-657-3710)

Energy experts answer questions and distribute information about:

- Home energy conservation practices
- Residential Building Energy Code requirements
- Minnesota's alternative energy sources

Telecommunications Division: 651-296-7107

Answers questions or complaints about:

- Minnesota's Telecommunications companies and services
- Minnesota's Telecommunications Regulatory Policy

TACIP (Telecommunications Access for Communication Impaired Persons)

The following two programs administered by the DOC utilize "communication specialists" to transliterate telephone conversations between hearing or speech impaired individuals and other non-impaired individuals.

- Minnesota Relay Service (for hearing impaired): 800-627-3529
- Speech-to-Speech (for speech impaired): 877-627-3848

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