

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 severe weather. Our goal in this guide is to help you ensure that your home is as safe and strong as it can be, and that your insurance coverage is sufficient to protect you and your belongings inside.

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 that promotes safety and the financial security that comes from being properly insured.

As you know, homeownership 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 weather perils that threaten your property. You'll gain a better understanding of different insurance products and forms, which vary for different types of disasters. And you will learn many steps you can take to mitigate potential losses from natural disasters.

This guide is 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?

Hopefully you will never have a reason to file a homeowners insurance claim. But should that day come, we want you, your family, and your belongings to be safe and covered.

Sincerely,

Leslie Chapman-Henderson  
President/CEO  
FLASH, Inc.

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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 March 28, 1964. Thankfully, not all earthquakes are of that magnitude, but whatever their intensity, these seismic events can cause damage to property from ground movement, fires, or water damage from burst pipes to a fire sprinkler leakage.

### Flood

Devastating floods occur throughout the U.S. every year, and ninety percent of all presidentially-declared natural disasters involve some degree of flooding. Several factors contribute to flooding, and 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 in flooding.

According to the National Flood Insurance Program (NFIP), floods cause billions of dollars in property damage in the U.S. every year. 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 10% chance of being damaged by house fire.

### Hail

Hail is the result of strong updrafts in the atmosphere that carry water droplets to heights where they freeze and fall to the ground as chunks of ice, also called stones. The larger the stones, the greater harm they may cause to people and property. Hail often occurs in violent thunderstorms, along with lightning and strong winds. It is also associated with tornadoes.

The largest hailstone ever recorded in the U.S. was found after a thunderstorm that struck Vivian, South Dakota on July 23, 2010. The hailstone, measuring eight inches wide and 18.62 inches around, was nearly the size of a soccer ball.

Hail occurs most frequently in the southern and central plain states. However, since hail often occurs in conjunction with thunderstorms, the potential for hail damage exists throughout the U.S. In an average year, hail causes nearly \$1 billion in property and related damage.

### Hurricane

A hurricane is a powerful tropical cyclone that forms over warm ocean waters in a moist, unstable atmosphere, and low wind shear. A hurricane can measure several hundred miles across, producing violent winds, devastating storm surge, tornadoes, and inland flooding. Deadly as well as destructive, hurricanes pose a threat to life and property from wind, rain, and flood. Several infamous and destructive storms include:

Hurricane Sandy in 2012, Hurricane Katrina in 2005, Hurricane Charley in 2004, and Hurricane Andrew in 1992.



## Lightning

Lightning occurs 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 grow in strength until a magnetic attraction causes those particles to 'jump' to positively charged particles accumulating at the ground.

Thousands of lightning strikes occur every year, and each strike has the potential to injure people and damage property by fires that damage electrical systems and other parts of a home. Approximately 90 deaths and 400 injuries are caused by lightning in the U.S. each year.

Lightning is the cause of thunder in rainstorm clouds that generate lightning, and, infrequently, lightning occurs during hurricanes, intense forest fires, and heavy snowstorms.

## Microbursts

A microburst is a small, straight-line path wind associated with thunderstorms, limited in duration and geographic area. Despite their limited size, microbursts may cause property damage similar to the more powerful circular winds of tornadoes and hurricanes. Homes, automobiles, trees, sheds, fences, windows, and other property may be seriously damaged by microbursts. Microbursts are covered by homeowners insurance the same way as thunderstorms.

## Power Outage

Power outages can occur in several ways—weather related or not. The short-circuiting of electrical wiring, such as during a lightning strike or a power overload, can interrupt electricity in your home. Water seeping onto electrical wires or into junction boxes, or falling tree limbs breaking a power line also can cause outages.

Natural causes generate approximately 44% of all power outages. The top causes measured by the average number of affected utility customers include earthquakes, hurricanes, ice, and tropical storms. The number of power outages is increasing primarily due to aging power grid facilities and the increased frequency of severe weather events.

## Tornado

In an average year, approximately 1,200 tornadoes are reported across the U.S., resulting in 75 deaths and more than 1,200 injuries. These violent storms typically leave a swath of property damage and death behind. Most U.S. tornadoes occur in an area called "Tornado Alley," a strip of land running north from Texas to Minnesota. However, tornadoes can occur in any state, and can bring wind speeds above 200 miles per hour as well as torrential rain, hail, and lightning.

## Wildfire

A wildfire is an unplanned and uncontrolled fire that most often occurs in areas where woods and homes coexist. These are not single home fires, but larger firestorms that threaten multiple homes, and typically burn many acres of forest. In an average year, more than 60,000 wildfires burn an average of 6.6 million acres across the United States. However, wildfires are not just a problem in the western U.S., where recent outbreaks have brought national attention; wildfires have occurred in nearly every state.

## Winter Freeze

The Groundhog Day blizzard of 2011 resulted in record snowfall totals in Boston and Baltimore, with 27.5 inches and 28.2 inches, respectively. Winter freezes can immobilize an entire region, and even areas that normally experience mild winters can be hit with a major snowstorm or extreme cold. Winter storms can block roads, close highways, down power lines and cause flooding and storm surge. Winter freezes can damage your home in several ways, from freezing water that bursts water pipes to creating ice dams that cause water penetration in roofs and walls.

During the winter and early spring of 2013-2014, the “North American Cold Wave” generated low temperature, precipitation, and snowfall records across many geographic areas causing more than a dozen deaths, countless power outages, and an estimated \$5 billion damage to commercial and personal property. Flooding due to melting snow and ice is not covered under standard homeowners policies, so flood insurance is critical for those exposed to winter freeze conditions that may cause flood damage.



# Sources & Types of Homeowners Insurance: Know the Basics

## ■ Types of Insurance Policies – What’s Right For You?

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

**1. Owning a Home** – If you own a home, there are two available policy forms: homeowners and dwelling forms. The main difference between these two types of forms is that the homeowners form combines property coverage with liability coverage, while the dwelling form only covers property losses. In addition, a dwelling form is more typically used for a dwelling that an insured person owns but does not live in, or only lives in during part of the year. Both types of policy forms have the various peril coverage available for both the dwelling and its contents.

**2. Owning a Manufactured Home** – There are policy forms specifically designed to insure manufactured homes. This type of policy covers both the dwelling and contents and provides liability protection.

**3. Owning a Condominium** – There are policy forms specifically designed to cover condominiums, which typically cover contents (i.e. your personal property) and liability. A small amount of dwelling coverage is provided to cover the portions that you are responsible for, as defined by the governing rules of the condominium association. This may include condominium common areas, and you can purchase additional dwelling coverage if the protection included in the package is insufficient.

**4. Renting a Residence** – There are renter’s insurance policy forms specifically designed for you if you are renting and do not own your residence. These forms provide coverage for your contents and liability.

**5. Owning a Home on a Farm** – Farm owner’s policy forms are specifically designed to cover farms or ranches which may not qualify for standard homeowners insurance. This policy may be the most appropriate form to cover property losses to your home, and other structures such as barns and silos, from the damage of tornadoes, hail, and other perils. Farm owner’s policies also cover both the personal and commercial exposure of farms, along with 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 26.)



## 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 property coverage for specific perils in their particular area just as they research different automobile insurance buying options.

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

- 1. Independent Agency System** – Independent contractors who typically 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** – No agents are used and insurance is sold through direct mail, telephone, or the 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. For example, living in a high-risk area, such as a designated wildfire zone, near a coastline, or in the area affected by a recent catastrophic event, may lead to reduced availability of coverage.

The following kinds of property insurance market mechanisms exist in certain areas:

- 1. Fair Access to Insurance Requirements (FAIR Plans)** – Insurance pools that sell property insurance to people who cannot buy it in the voluntary market because of high risk over which they may have no control. 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.
- 2. Joint Underwriting Associations (JUA)** – Insurers that 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 may share in the profits and losses associated with the program.
- 3. Beach and Windstorm Plans** – These plans exist in the coastal states, in the hurricane zones of the Gulf, and along the South Atlantic coasts. Windstorm Plans provide the coverage that is often excluded from voluntary insurer policies. Each coastal state from Texas to North Carolina has a beach and windstorm pool to provide windstorm coverage in the coastal areas. The way these plans are funded and coverage provided varies from state to state.



Although there is no truly involuntary market mechanism for earthquake coverage, the California Legislature established the California Earthquake Authority (CEA) as a privately-financed, publicly-managed risk bearer to help California residents obtain earthquake insurance. The CEA is California's largest residential earthquake insurer.

Market conditions in some states have made it difficult for voluntary insurers to provide affordable coverage. Under those circumstances, coverage may be available through a FAIR plan. If you find that you are unable to obtain insurance through the voluntary market, your insurance agent may help you find coverage through the involuntary market, or you may be able to contact the plans directly. Because these entities vary greatly by locality, your state insurance department is likely the best source of information on how to obtain coverage through the involuntary market in your state.

Visit [www.naic.org/state\\_web\\_map.htm](http://www.naic.org/state_web_map.htm) to find your state's insurance department.

# Insurance Coverage: Know Your Choices

## ■ What is a Covered Property?

Generally, covered properties are divided into four categories. The definitions of the property and the extent of coverage vary by state, company, and product so it is important to understand the definitions. Insurance companies define four coverage categories for your home, and they are:

- 1. Dwelling** – The structure of the house is considered a covered property and is referred to in the policy as the “dwelling.”
- 2. Other Structures** – Other structures that are separate from the house or linked by a fence, wire, or other forms of connection, are referred to in the policy as “other structures.” Examples include tool sheds or detached garages.
- 3. Personal Property** – Your belongings and the contents of your home are referred to in the policy as “personal property”. Personal property includes, but is not limited to, appliances, clothing, electronics, and furniture. As not all personal property is covered or may have coverage limits, some items will be covered under different forms of insurance. Some examples of 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 a dwelling becomes uninhabitable, the cost of additional living expenses are covered and defined as “Loss of Use”. Loss of Use coverage reimburses additional living expenses, up to a stated limit, that the insured incurs to maintain a normal standard of living after a covered loss.

## ■ “Open Perils” and “Named Perils” Coverage

A peril, as referred to in an insurance policy, is a cause of damage that results in an insured loss of property 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, extended coverages, and personal liability. Extended coverage include 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 always verify what is covered in your specific policy. Consult with your insurance agent when in doubt about perils you may be exposed to, and what perils are covered by a 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), so separate policies are typically required to ensure earthquake coverage. 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 9 for an explanation of voluntary and involuntary markets.)

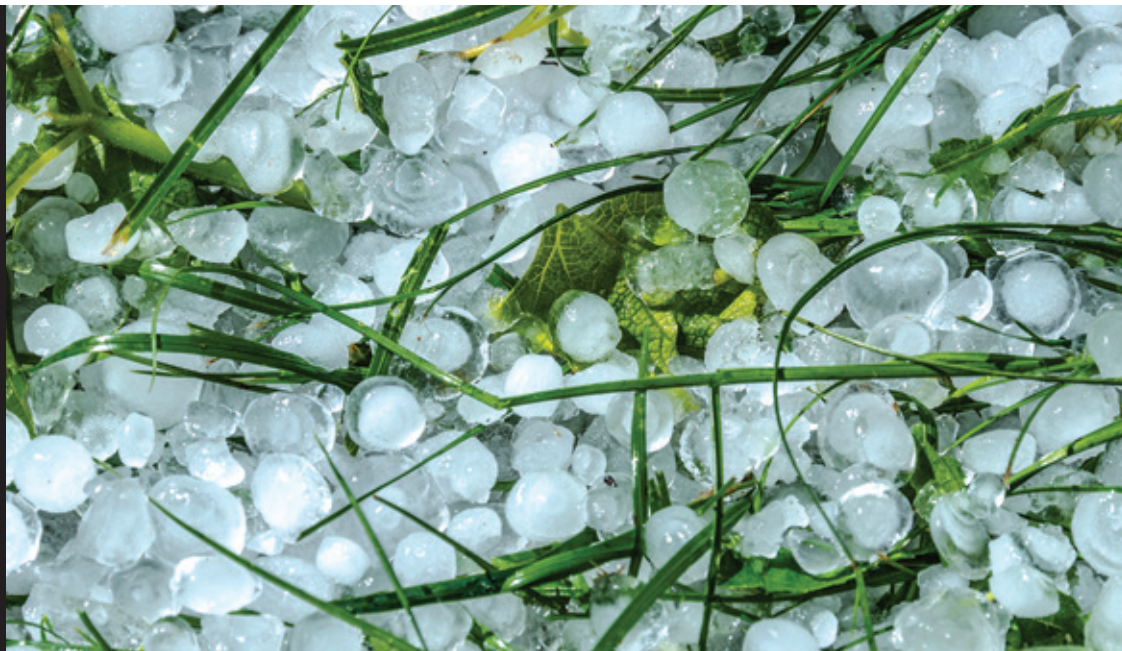
**2. Flood** – Most property insurance policies exclude coverage for losses resulting from flood. Unless you purchase a flood policy, you do not have coverage for flood losses. (For a more comprehensive discussion of flood insurance, please see Preparing for a Flood, page 26.)

**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 listed as a covered peril, but it is generally included under the broader peril of windstorm. Windstorm coverage includes hail, hurricanes, tornadoes, and straight-line winds. However, there may be instances where coverages and deductibles apply specifically to one of these perils, for example, hurricanes, and not to all windstorms.

**4. Hurricanes** – Most property insurance policies provide coverage for losses resulting from hurricane under the windstorm coverage, although flood loss associated with hurricanes is excluded. (See Preparing for a Flood, page 26, for more information.) Most states with risk of loss from hurricanes have government-mandated insurance plans that provide windstorm coverage to property owners who are unable to obtain insurance through the voluntary market. (See page 9 for an explanation of voluntary and involuntary markets.)

**5. Tornadoes** – Most property insurance policies consider tornadoes a covered peril (although they do not cover losses resulting from the peril of flood; see Preparing for a Flood, page 26, for insurance availability). While tornadoes may not be specifically mentioned as a covered form of loss, tornado losses are one event covered under the windstorm peril.

**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 to 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: replacement cost coverage, actual cash value, special payment, functional replacement cost or market value coverage, or stated value.

The settlement of a loss will vary depending on the coverage you select at the time of purchase of your policy.

- 1. Replacement Cost Coverage** - Replacement cost is not the market value of your home, nor is it the tax-assessed value. It is the current cost to replace the damaged property, with no reduction for depreciation of the damaged property.
- 2. Actual Cash Value** - Actual cash value is the cost to replace the damaged property reduced by an allowance for depreciation.
- 3. Special Payment** – Loss is paid before dwelling is repaired, rebuilt, or replaced.
- 4. Functional Replacement Cost or Market Value Coverage** - Functional replacement cost or market value (also known as repair cost) is the cost to repair or replace the damaged property with equivalent construction for similar use, without deduction for depreciation. An example of functional replacement would be to replace a plaster wall with drywall. If it is a total loss and repairs are not made the payment amount will be the market value of the home.
- 5. Stated Value** - 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. In other words, a selected value is established by the insured, and this value is the limit of liability.

## Personal Property Coverage Choices

Depending on the type of policy, the different personal property coverage options could be: replacement cost coverage or actual cash coverage, as those terms are discussed above.

## What Does Insurance-to-Value Ratio Mean?

Insurance-to-Value ratio 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 replace your home may be more than your insurance policy will provide. This 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 coverage limits within your policy are set as 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. It is important to note that if the house is insured to at least the 80% value, your policy will cover the loss at replacement cost, although for a total loss to be paid, the property should be insured at 100% of the replacement cost.

## 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), the coverage under your insurance policy will be accordingly increased. The amount of the increase depends on the endorsement purchased, and can range from 25% to 100%.

## Additional and Optional Coverages

Additional coverages may be included in your policy. One example includes building code upgrade coverage which provides 10% coverage for upgrades required by the community to meet building codes when a home is being repaired or rebuilt as a result of a covered loss. Optional coverage for perils, such as earthquake insurance, may be available to purchase separately and can often 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 your deductible is, the lower your premium will be – however, it is critical to note that a larger deductible also means more out-of-pocket payment by you when a loss occurs.

A policy may have different types and amounts of deductibles based on the peril. Many insurers offer homeowners insurance policies with percentage deductibles for windstorm damage instead of the traditional dollar value deductibles used for other types of claims, such as fire 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, often making the hurricane percentage deductible a significant part of the policy. An earthquake policy with an additional third deductible could differ from all other deductibles for the insured property as well.

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

**Percentage Deductibles** – Percentage deductibles are calculated based on the home's insured value. For example 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 by the policyholder. In many states, policyholders have the option of paying a higher premium if they prefer a traditional dollar instead of a percentage deductible or if they prefer to have a lower percentage deductible. Percentage deductibles are sometimes mandatory. It is important to remember that the dollar value of a percentage deductible will change as the insured value changes.

## Qualify For Premium Discounts

Premium 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 burglar alarms, dead-bolt locks, or smoke alarms.
3. Discounts are typically provided for homes with fire sprinklers.
4. Discounts may be available for policyholders who are at least 55 years old and retired.
5. Certain professional, alumni, and business groups may qualify for discounts.
6. Sometimes insurers give discounts for long-term policyholders.
7. Homes that are constructed using current, model building codes or that have been retrofitted against hail or windstorm may be eligible for credits or discounts. Examples of qualifying characteristics include hurricane shutters, impact-resistant roof covering, superior roof connections, wind-resistant garage doors, or more.

## Take Care of Your Home

1. **Prior Loss** – A “prior loss” is one that has occurred to the home before you apply for insurance, whether or not the current homeowner was the owner at the time of the loss. The treatment of prior losses varies widely by insurer, and 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 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 it is 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 to prevent greater damage are usually covered by the insurer.





# Availability of Insurance

## ■ Location Can Affect Availability and Cost

The location of a property can be a primary factor 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 less exposed to that peril. For instance, insurance premiums for homes in the Midwest may reflect the higher cost due to tornado coverage. Those with greater exposure to wildfire, such as designated brush zones in California, may have difficulty finding available or affordable coverage in the voluntary market.

Another factor affecting the availability of insurance is a pending event. For example, if a hurricane or a wildfire is approaching, insurance companies will often issue a temporary prohibition on issuing coverage, and no new coverage can be written in the area threatened by peril until the threat passes.

### Exposure to Earthquakes

Homeowners who live on or near major faults are exposed to earthquakes, and the soil type in certain areas may be more susceptible to earthquake damage as well. As a result, the closer a home is to a fault line, or sits on soil types with greater exposure to loss in an earthquake, the more limited insurance options may be because of the extreme risk of earthquake loss.

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 the companies may 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 constricted markets. These publicly-run entities provide insurance coverage when availability and affordability problems arise. (See section on voluntary and involuntary markets on page 9.)

### Exposure to Hurricanes

Homes in coastal areas of the U.S. are more exposed to direct hurricane impacts than homes further inland. As a result, homeowners in these areas may find fewer hurricane insurance choices. Like earthquakes, frequent storm activity can constrict hurricane insurance availability and markets. Also as with earthquakes, publicly-run entities typically fill gaps in the market and may provide insurance coverage when availability and affordability problems occur.



## Home Features Can Affect Availability

Homeowners can encounter insurance availability problems due to location as described above for earthquake and hurricane zones. However, if a home has unusually hazardous features, insurance companies may be unwilling to provide coverage regardless of location.

Some of the features considered hazardous could include inferior construction, a low performing roof shape or roof covering, an unbolted frame, an unsecured chimney, and/or water heater or structurally weak features such as awnings or other exterior ornamentation. Further, older homes that do not meet current building codes and poorly maintained homes may be difficult to insure.

## Ensuring the “Insurability” of Your Home

Homeowners can ensure the insurability of their homes by keeping them current to local and modern, model building codes, by performing regular home maintenance, and by implementing the loss mitigation measures described in the following pages. Homeowners may also evaluate their available insurance options by staying informed of changes in the local insurance marketplace.

# Reduce Potential Damages and Premiums

## ■ For Every Peril, There's a Home Improvement

### Earthquake

The main structural improvements that mitigate earthquake damages and losses are foundation anchoring, cripple wall bracing, and water heater bracing to prevent gas leaks and fires. Earthquake mitigation steps minimize the ability of a structure to shift from ground movement and help prevent objects and fixtures from falling. Keeping the walls and foundation stable and securing furniture, shelves, overhead lighting, wall art, and gas appliances is essential.

**1. Foundation Anchoring** – Depending on the construction of the home, a variety of anchoring techniques can help secure the structure to its foundation and reduce the effects of ground movement. The sill plate of the house should be securely bolted to the foundation, and hold downs can be used to secure walls. These construction steps are required by newer building codes in many seismic zones, but can also be done a licensed professional as retrofits.

**2. Cripple Walls** – Cripple walls are walls less than a story in height and are typically found between the first floor of a building and its foundation. Unbraced cripple walls made of weak material can shift during an earthquake and cause significant damage to the home, injuries to the occupants, or even death. According to FEMA, one way to reduce this potential is to brace the cripple walls by adding horizontal supports between the vertical studs at the top and bottom of the walls. Metal connectors should be added to ensure the supports are securely attached. The next step is to nail plywood or oriented strand board to the cripple wall's interior face.

**3. Water Heaters** – Unsecured water heaters are susceptible to falling or toppling over and can break free from gas lines. Strapping the water heater to wall studs, and installing flexible gas and water lines reduces the risk of fire and water damage in the event of an earthquake.

If you are unsure of your home's ability to perform in an earthquake, you may hire a licensed contractor or structural engineer to perform an assessment. Local building departments may be able to recommend professionals or provide seismic assessments in your community.

### Hail

Hailstorms do not usually result in the catastrophic level of damage associated with earthquakes, wildfires, or windstorms; however, hail can cause costly damage to homes, especially roofs. The following home improvements can mitigate damage in the event of hail:

**1. Roof Covering** – The condition and materials of the roof covering will determine its impact resistance, and worn asphalt shingles are especially vulnerable to hail damage. Impact-resistant roof coverings designed and tested to improve roof performance during hailstorms are widely available in a variety of product options from asphalt shingles to concrete tiles.

**2. Roof Decking** – Roof decking provides the structural support underneath secondary water barrier membranes and the roof covering. Decking made from 5/8” plywood improves stiffness and performance, and using 8d ring shank nails in a pattern of 6 inches on center can keep the decking secure.

**3. Roof Slope** – Angling the roof reduces the force of impact from hail because 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

Home improvements to mitigate hurricane damage generally focus on the roof coverings, roof system, windows, doors, garage doors, and overall structural connections. Loss mitigation efforts should keep the roof system intact, prevent a structure from being penetrated by the wind or wind borne debris, and prevent the home from sliding off its foundation. Although floods are insured under a separate standalone policy, it is important to consider the effects of flooding during a hurricane.

**1. Roof** – In evaluating the potential of hurricane damage to your home, roof type and condition matter. Unbraced gable-end roofs are more likely to suffer high-wind damage than hip-shaped roofs because they are weaker against uplift forces. Roof construction quality affects high-wind roof performance as well. When the roof decking is not properly attached to the roof frame, it may lift up, detach, and eventually fail. Roof decking and coverings (shingles or tiles) secured with too few nails or nails that are too small decrease roof performance in high winds as well. Once the roof-to-wall connections, roof structure, or roof coverings are compromised, the system is weakened and the home, interior, and contents are susceptible to water damage, progressive damage, or complete roof collapse. Loose tiles and shingles then can become dangerous wind-borne projectiles.

**2. Windows/Doors** – Installing impact-resistant windows, impact-resistant shutters, or other covering provide protection for your home’s openings from the combination of flying debris and the continuous pressure from high winds. Installing impact-resistant windows and doors can help prevent wind and debris from breaching the home and causing internal pressurization and progressive damage.

**3. Garage Doors** – Garage doors can pose a special risk during high winds as they protect the largest and weakest opening on the home. Using an impact-resistant garage door, maintaining tight door tracks and roller hinges, or retrofitting older doors with bracing and stronger center and end supports can reduce the likelihood of door failure. Garage doors may also be protected with impact-resistant coverings, like armor screens, during a hurricane.



## Lightning

Because lightning can strike anywhere, it is beneficial for homeowners to consider electrical and surge protection devices on the interior and exterior of the home. Interior devices include surge protectors that can mitigate damage to many of the electric appliances and electronics in your home. Exterior devices include whole-house surge protectors and lightning protection systems. These devices provide the highest level of protection, require compliance with local building codes, and require professional installation.

- 1. Surge Protection Devices** – A good electrical grounding system can protect electronics and electrical appliances from all but the most severe electrical surges or direct strikes. Surge protection devices are typically installed at point of use.
- 2. Lightning Protection Systems** – These systems use rods and cables to create a direct path for lightning to follow to the ground instead of moving through the house and its wiring. Consult a qualified contractor for installation, but note that lightning protection systems will not protect against lightning or power surge that enters through the telephone, cable, or electric lines to the house.
- 3. Whole House Surge Protection Systems** – This device is usually installed on the electric meter and helps protect appliances and electronic equipment in your house. If your local utility provider does not offer installation services, a qualified electrician can install this device.

## Power Outage

For the individual homeowner, loss of electrical power is not only inconvenient, but can cause unhealthy and unsafe conditions or even additional building damage. Keeping the air conditioning functional will help prevent mold growth inside the home during warm months, and heating systems are essential for safety during winter.

Loss of electrical power in a neighborhood can also affect the sewage and water systems. Sewage check valves and back flow preventers can be used on homes to guard against contamination from systems that might not operate normally after a disaster.

You can minimize your risk of power outage by having an annual electrical inspection to identify potential short circuits or other problems. Your utility provider can also help reduce your risk of power outages by keeping trees trimmed near power lines, placing power lines underground, and upgrading power grids.

**1. Electrical Inspections** – To protect against power outages, look for potential hazards, such as tree limbs over power lines near your home. Licensed electricians should periodically inspect your home electrical wiring to identify potential problems.

**2. Alternate Power Sources** – If used properly, portable and standby generators are affordable, popular, and safe. Battery, solar, and hand-crank power sources are effective and widely available as well.

**3. Avoid Spoilage** – Food spoilage is a very common loss due to power outages. To minimize spoilage, you should limit opening and closing the refrigerator so as to not lose cooling. Also, try to consume refrigerated food before food that does not require refrigeration. In winter months, snow can be compacted, stacked, and used as a temporary freezer or refrigerator, but liquids and other food may freeze in the snow.

## Tornado

Property damage to homes from lower level tornadoes, including EF0, EF1 and EF2, can be mitigated by focusing on the roof, windows, doors, and garage doors as well as the overall connections, including roof-to-wall and wall-to-foundation. Keeping the roof intact, keeping the roof secured to the walls, protecting windows and doors, and keeping wind out is of the utmost importance.

**1. Roof** - As in hurricanes or any type of high-wind event, a structure's roof type and condition is a critical factor in the amount of damage sustained. Unbraced gable end roofs are more likely to suffer high-wind damage than hip shaped roofs because they are weaker against uplift forces. Roof construction quality affects high-wind roof performance as well. When the roof decking is not properly attached to the roof frame, it may lift up, detach, and eventually fail. Roof decking and coverings (shingles or tiles) secured with too few nails or nails that are too small decrease roof performance in high winds as well. Once the roof-to-wall connections, roof structure, or roof coverings are compromised, the system is weakened and the home contents are susceptible to water damage, progressive damage, or complete roof collapse. Loose tiles and shingles also become dangerous projectiles in the high winds.



Photo courtesy National Weather Service

**2. Windows/Doors** – Impact-resistant windows and doors can provide protection for the home’s envelope from the combination of flying debris and the continuous pressure from high winds. Installing impact-resistant windows and doors can prevent wind and debris from breaching the home and causing internal pressurization and progressive damage.

**3. Garage Doors** – Garage doors can pose a special risk during high winds as they protect the largest and weakest opening on the home. Using an impact-resistant garage door, maintaining tight door tracks and roller hinges, or retrofitting older doors with bracing, a stronger center, and end supports can reduce the likelihood of door failure.

It is essential to note that the ultimate life safety protection in any tornado, especially those above EF2, is a properly constructed or fabricated, tested, and approved tornado safe room or shelter.

### Wildfire

Home improvements to help mitigate wildfire damage focus on roof coverings, landscaping, and the area around the home. Wildfire mitigation activities should reduce or remove fuels (for example, building components and landscaping), because wildfire can only ignite when air, heat, and fuel are present. Replacing combustible roofing materials, wood decking, and fire-prone plant varieties will help prevent and reduce losses.

**1. Roof Covering** – Roof covering should be chosen based on the risks in your location, and combustible wood shake shingles are no longer used in high wildfire risk areas. Asphalt shingles with good fire ratings are often the most cost-effective choice, and regularly clearing the roof and gutters of fuels like leaves, branches, pine needles, and other flammable debris is an essential maintenance activity.

**2. Outside** – Keep a defensible zone around your home that is planted with water-based vegetation and free of dead brush, dried leaves, and undergrowth. Store firewood away from the home, identify alternate water sources for the fire department to use like pools and lakes, and ensure that your house number is clearly visible from the street.

## Winter Freeze

The simplest and most effective winter freeze mitigation steps are part of regular home and property maintenance. Adequate indoor temperature and attic ventilation will help prevent ice dams. Clean gutters will move water away from the home and prevent ice buildup. Insulating outdoor faucets and pipes with foam or covers will prevent burst pipes, and regularly trimmed trees will not freeze, become heavy, and fall on roofs and vehicles.

- 1. Indoor Temperature/Ventilation** – Keep a constant temperature in the home even when it is vacant to prevent pipes from freezing. Attics should be ventilated so that temperatures remain nearly as cool as the outdoor temperature. This will prevent a cycle of ice build-up and melting that creates ice dams. Regularly caulking and flashing windows and doors will help eliminate drafts and increase energy efficiency too.
- 2. Gutters** – Clear gutters of debris by flushing them out with a garden hose and install mesh gutter screens to reduce future maintenance. This will help keep leaves and plant debris out and prevent ice dams from forming at the base of the roof and in the gutter area.
- 3. Outdoor Plumbing** – Drain water from all outside hoses, and insulate all exposed faucets and pipes with foam sleeves or covers. Drip faucets during extremely cold weather.
- 4. Outdoor Hazards** – Avoid winter freeze problems outside by keeping trees trimmed, maintaining fences and sheds, and avoiding water ponding and retention in the landscaping.
- 5. Alternate Power Sources** – If used properly, portable and standby generators are affordable, popular, and safe. Battery, solar, and hand-crank power sources are effective and widely available as well.
- 6. Avoid Spoilage** – Food spoilage is a very common loss due to power outages. To minimize spoilage, you should limit opening and closing the refrigerator so as to not lose cooling, and should consume refrigerated before non-refrigerated food. Snow can be compacted, stacked, and used as a temporary freezer or refrigerator, but liquids and other food may freeze in snow.





## Potential Premium Discounts for Loss Mitigation

Insurers sometimes offer lower premiums to homeowners with home mitigation features because the features can reduce losses. The most common property insurance discounts are provided for dead bolt locks, fire sprinklers, and smoke alarms; however, disaster-specific discounts are also available in many states. Mitigation features that qualify for premium credits or discounts range from foundation anchoring, water heater strapping, and cripple wall bracing in earthquake zones to use of high-wind shingles in hurricane zones and impact-resistant roofing in the hail belt.

Your community's building codes also may affect your insurance premiums. Building Code Effectiveness Grading Schedule (BCEGS) classification, a program of the Insurance Services Office, Inc. (ISO)®, is a tool used to measure the effectiveness of a jurisdiction's building code enforcement. The BCEGS program measures the adoption and enforcement of a community's building codes with special emphasis on reduction of losses from natural hazards.

Communities benefit from a favorable BCEGS classification. For example, a favorable BCEGS classification may positively impact jurisdictions in one or more of the following ways:

- Result in better homeowners and commercial insurance rates
- Allow the community to apply for a better class rating in the Community Rating System (CRS), which may in turn result in lower flood insurance premiums
- Reflect and further incentivize better building practices that strengthen a community's resilience against disasters

**For more information about the BCEGS program, call ISO at (800) 444-4554, email [bcegsupdate@verisk.com](mailto:bcegsupdate@verisk.com), or visit <http://www.isomitigation.com/bcegs/building-codeclassification.pdf>.**

# Preparing for a Flood

Floods are not covered under typical property policies, so you must purchase a separate flood insurance policy to ensure you have coverage for flood losses. Flood insurance can be purchased through private market insurance agents and companies, but the federal government underwrites the risk through the National Flood Insurance Program (NFIP) and bears all costs.

The NFIP defines flood as a temporary overflow of inland or tidal waters onto normally dry land, or run-off water from rain. 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 NFIP receives the premiums paid by the flood insurance customers and pays out 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 or company.

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. Often, a community will participate in the Emergency Program while it awaits 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 who writes flood insurance, or visit [www.floodsmart.gov](http://www.floodsmart.gov) to see if your community is listed.**



There is a mandatory 30 day waiting period before a new flood insurance policy becomes effective, unless you are obtaining flood insurance in connection with a home purchase or mortgage refinancing.

Therefore, it is prudent 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 (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 can be 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 limited 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 less than 75 percent is for residential use (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 and a program called the “Write Your Own” (WYO) Program. WYO was established so that private insurers could sell flood insurance to their customers, providing customers with one point of contact for all of their property insurance needs.

**If your insurance agent does not sell flood insurance, you can find one in your area at the FloodSmart website at [www.floodsmart.gov](http://www.floodsmart.gov), or by calling (800) 427-2419.**



## ■ 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. Note: Contents coverage under a standard flood insurance policy must be purchased separately.

**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. Review your policy to ensure that you understand the coverage and limitations.

### **Deductibles (self-insurance or the portion of a claim that is not paid by insurance)**

The standard deductibles are \$500 for most newer buildings. Older buildings (usually pre-1974) will have a \$1,000 deductible in high-risk areas. No deductibles apply to Coverage C and Coverage D. Other deductibles are available (\$5,000 for Residential, \$25,000 for Residential Condominium Building Association Flood Policy (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)**

To avoid a co-insurance penalty at the time of loss, the RCBAP 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. RCV is the cost to replace the damaged property, with no deduction for depreciation of the damaged property. RCV is not the same as tax basis valuation for tax assessments, nor is it the market value of your home. ACV 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 lower your premium. However, choosing a larger deductible to reduce premium will make you responsible for more of the financial loss should a flood 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 Affects Availability of Flood Insurance in a Certain Area?**

The NFIP provides flood insurance in more than 20,000 participating communities in the U.S. through private insurance companies, however community leaders must opt-in and follow applicable rules and regulations to participate.

### **What Affects 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 you are in such an area.



## Other Ways to Reduce Your Exposure to Flood Losses

### Summary of Loss Mitigation Devices/Home Improvements

The first and most important information you need to know before you can mitigate flood risk is the elevation of the structure. All flood mitigation is focused on keeping your home and belongings above the water line or projected flood elevation. Projected flood elevation is commonly referred to as the “base flood elevation” or BFE, and BFE is the projected level of flooding for a 100-year flood event or event for which there is a one percent probability in any given year.

Below are some mitigation steps to help reduce flood losses:

- 1. Elevate.** Elevating the location of the main electrical switchbox, electrical outlets, and appliances above the BFE can reduce flood losses. Likewise, placing appliances like washer/dryers, furnaces and heaters above the BFE or above the lowest floor level will also reduce losses.
- 2. Avoid backflow.** If your sewer system doesn't have a backflow valve, hire a licensed plumber to install one. Install a floating floor drain plug and have a plumber regularly inspect it to ensure it is functioning properly.
- 3. Anchor appliances.** 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. Understand your land.** Inspect low-lying areas of your property that are exposed to flood waters to evaluate how water flows around your home and make sure that all gutters and drains are working properly.
- 5. Get to high ground.** Choose a home or apartment outside of low lying areas or on an upper floor if you reside in a multi-family building.

Visit the Federal Alliance for Safe Homes - (FLASH®) website at [www.flash.org](http://www.flash.org) for animations, information and videos on how to reduce flood damage.

**Note: The flood insurance deductibles and policy limits included in this Guide were accurate at the printing; however, you should check with a flood insurance agent, visit [www.floodsmart.gov](http://www.floodsmart.gov) or call (888) 379-9531 to verify current rates.**



# How Do I File a Homeowner's Claim?

If your home is damaged by a covered peril, you will need to notify your insurance company as soon as possible. All companies have toll-free telephone numbers for claims reporting, and most have company websites with online claims reporting options as well. Remember, an insurance policy is a contract between you and your insurance company, so there are rules and procedures that you and your insurer must follow. The best way to understand your role is to read your insurance policy.

1. If you are the victim of a theft or your home has been vandalized or burglarized, report it to the police. Get the case number and share it with your company insurance adjuster.
2. Insurance policies place a time limit on filing claims, so always report promptly. 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. Preserve damaged items until your adjuster has visited your home. Photograph or videotape the damage, and prepare a home inventory for your adjuster along 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. Be aware that 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 you have notified your insurance company about 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 arrange for an adjuster to work with you to handle your claim either through the telephone or by visiting your home, depending on the size of your loss. Once you and your insurance company agree on the terms of your settlement, state laws require that you are 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 insurance department.

# Record Keeping

1. Keep the name, telephone number, email, and web address of your insurance agent and/or company in a safe place, including your home computer or smartphone.
2. Perform a detailed, annual inventory of household items, including valuables and keep the inventory online and backed up to a cloud server if available.
3. Take photos of particularly valuable items for pre-loss value verification.
4. Keep paper and electronic copies of your insurance policy or policies in a safe place, including your home computer or smartphone.
5. Read your insurance policy carefully, and understand what is and what isn't covered (deductibles, general and specific limits, flood coverage, etc.).
6. Keep vital records in a fireproof safe or safety deposit box, and/or send copies them to a trusted relative or friend in case disaster strikes and you can't get to your home right away. Scan and store all records electronically and backup up on a cloud server if possible.

If you must evacuate the area, notify your insurance company and verify what your insurance policy will cover 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 can 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 – (FLASH) website at [www.flash.org](http://www.flash.org).**

**To view other Actuarial Foundation Consumer Financial Education Initiatives please visit [www.actuarialfoundation.org](http://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 defines many of the key terms used in the insurance industry, and will aid in your understanding of the information presented in this guide.

## Glossary of Terms

**Actual Cash Value** – is the cost to replace the damaged property reduced by an allowance for depreciation.

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

**Building Code Effectiveness Grading Schedule (BCEGS)** – A program of the Insurance Services Office, Inc. (ISO)®, is a tool used to measure the effectiveness of a jurisdiction’s building code enforcement. The BCEGS program measures the adoption and enforcement of a community’s building codes with special emphasis on reduction of losses from natural hazards.

**Beach and Windstorm Plans** – These plans exist in the coastal states, in the hurricane zones of the Gulf, and along the South Atlantic coasts. Windstorm Plans provide the coverage that is often excluded from voluntary insurer policies. Each coastal state from Texas to North Carolina has a beach and windstorm pool to provide windstorm coverage in the coastal areas. The way these plans are funded and coverage provided varies from state to state.

**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** – No agents are used and insurance is sold through direct mail, telephone, or the 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** – 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.

**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 to automobiles is covered under the comprehensive portion of an automobile 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 voluntary 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** – When a loss occurs due to a covered peril and a dwelling becomes uninhabitable, the cost of additional living expenses are covered and defined as “Loss of Use”. Loss of Use coverage reimburses additional living expenses, up to a stated limit, that the insured incurs to maintain a normal standard of living after a covered loss.

**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** – Prior loss is one that has occurred to the home before you apply for insurance, whether or not the current homeowner was the owner at the time of the loss. The treatment of prior losses varies widely by insurer, and state. In certain areas, insurers may surcharge policies that have had a prior loss within a certain period of time.

**Replacement Cost Coverage** – Replacement cost is not the market value of your home, nor is it the tax-assessed value. It is the current cost to replace the damaged property, with no reduction for depreciation of the damaged property.

**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.

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

**Stated Value** – 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. In other words, a selected value is 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.





## A Joint Project of The Actuarial Foundation and The Federal Alliance for Safe Homes, Inc. (FLASH®)

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 mission of The Actuarial Foundation is to enhance math education and financial literacy through the talents and resources of actuaries. Our vision is an educated public in pursuit of a secure financial future.

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, please visit [www.flash.org](http://www.flash.org) or call toll free 877-221-SAFE.

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