

# Time for a Coverage Checkup?

by Sue C. Quimby, CPCU, AU, CIC, CPIW, DAE

Most people try to take care to have regular health checkups. But when was the last time your clients had a checkup on their insurance coverage? Over time, needs change, and, more importantly, there may be penalties for being underinsured. Improper or inadequate coverage can lead to devastating uninsured losses, and unhappy clients. Helping clients review their policies and maintain proper coverage is another value-added service of the professional insurance agent.

Standard homeowners policies include first party property coverage for the dwelling, other structures, personal property (contents) and additional living expenses which is coverage to pay expenses to temporarily live elsewhere after a loss. Third party liability for damage or injury to others is also included. Although some may think that a limit to cover the mortgage is sufficient, this can lead to reduced payments in the event of a claim. Dwellings covered under a replacement cost basis must be insured to at least 80 percent of the cost to replace the dwelling – not market value. Renovations and upgrades can significantly impact the replacement cost. A 2015 survey by Marshall, Swift, Boeckh estimated that 60 percent of U.S. homes are underinsured. ([www.insurancebusiness.com](http://www.insurancebusiness.com))

Typically, the other property limits are determined as percentages of the dwelling value: 10 percent for other structures, 50 (or often 60) percent for personal property, and 20 percent for additional living expenses. For example, if the dwelling limit is \$400,000, other structures will be \$40,000, personal property is \$200,000 (using 50 percent basis) and additional living expense is \$80,000. The other structures and personal property limits may be woefully inadequate.

Other structures coverage is an often-overlooked area of concern. Other structures coverage applies to a variety of items including detached garages, sheds, barns, gazebos, fences, greenhouses and in ground pools. The cost to replace these items can easily exceed the standard limit on the policy. It is a common misunderstanding that the coverage limit only needs to be enough to replace the most expensive structure. This is not the case and can lead to a coinsurance/underinsurance penalty in the event of a loss. Wind is one of the most common causes of loss. A windstorm/hurricane/tornado could easily take out one or all of the other structures. With multiple structures it is important to carry coverage limits sufficient to replace all of them, not just the most expensive one. An important point to remember is that, unless specifically addressed, damage to structures that are used for business, such as a repair shop in the garage, or a separate residence, will be excluded under the standard homeowners policy.

In addition to checking for adequate coverage limits for personal property, there are limitations on certain classes of property. This usually includes such property as jewelry, furs, and fine arts. Theft is a common restriction for such property, with dollar limitations on the amount of recovery available. In addition, there are valuation considerations and deductibles. Floater coverage is available that offers a valued limit on property such jewelry, thereby elimination reductions due to depreciation. Such floaters typically do not have a deductible.



Recent years have seen an increase in the number of people who work from home. This presents potential coverage gaps, as property used in business is excluded under most standard homeowners policies. Depending on the type of business, proper coverage can be written as an endorsement to the homeowners or a separate business policy.

Additional areas to consider include special deductibles and exclusions. Wind/hurricane deductibles are becoming more and more common, and some are mandatory. These are often included as a percentage of the dwelling limit, separate from the main policy deductible. Many companies now exclude certain breeds of dogs and trampolines, for example. While the lower premium associated with a larger deductible may be attractive at the time the policy is purchased, it must always be low enough for the insured to afford at the time of loss.

As with all aspects of life, insurance needs change frequently. Helping clients assess and manage their changing coverage needs is another sign of the true insurance professional.

*Previously published in the Insurance Advocate®*



For more information call (800) 935-6900 or visit us online at [msonet.com](http://msonet.com)