

Frequently Asked Questions Homeowner's Insurance

OFFICE OF THE COMMISSIONER OF INSURANCE

PI-232 (R 03/2018)

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Buying Homeowner's Insurance

Do I have to buy homeowner's insurance?

Wisconsin law does not require homeowner's insurance, but if your home is mortgaged, most financial institutions require insurance for at least the outstanding balance of the loan. If your lender requires coverage, you may choose your own insurance company. You are not required to purchase coverage from the insurance company the lender recommends.

What coverage is provided in a homeowner's insurance policy?

Homeowner's insurance is a package policy combining more than one type of insurance coverage in a single policy. There are four types of coverage contained in a homeowner's policy: dwelling and personal property, personal liability, medical payments, and additional living expenses.

Property coverage pays for damage to your home, garage, and other structures as well as damage to or loss of your personal property. Personal liability coverage provides coverage for your liability for nonautomobile accidents on or off your property if the injury or damage is caused by you, a member of your family, or your pet. Medical payments coverage pays for reasonable medical expenses if someone outside your family is injured at your home—regardless of fault. Additional living expenses coverage pays for reasonable and necessary expenses if it is necessary for you to move into a motel or apartment temporarily because of damage caused by a peril covered by your insurance policy.

What affects the cost of homeowner's insurance?

The cost of homeowner's insurance depends on the type of construction, location of the home, and amount of insurance. A brick structure, for example, is more fire-resistant than a wood framed structure and it sometimes costs more to insure a wood framed structure. Many insurers also charge less to insure a newer home than

an older one because newer homes are less likely to sustain damage in storms and fires. The structure's location also affects the cost of coverage because some communities have better fire protection than others. Some areas may also have greater crime and vandalism problems.

Most insurance companies divide the state into rating territories. Each city and locality in Wisconsin is given a fire protection classification ranging from 1 to 10, depending on the amount of fire protection in the area. These rating classes depend on such factors as water pressure, access to a fire department, and the training and skills of firefighters. Most of the larger cities in Wisconsin are in classes 1-4, the lowest rating classes. Small towns and rural areas have higher fire protection classes and generally higher prices.

What is the difference in coverage between replacement cost and actual cash value?

Replacement cost is the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality. In order to qualify for replacement cost coverage, the dwelling is required to be insured to at least 80% of the replacement cost.

Actual cash value is the value of your property when it is damaged or destroyed. This is usually figured out by taking the replacement cost and subtracting depreciation. Contents coverage (i.e., furniture, computers, television sets, and appliances) is usually calculated on an actual cash value basis. For example, a \$500 chair may have a reasonable "life span" of 20 years. If it is destroyed after 10 years, due to depreciation its actual cash value will be much less than \$500.

Most policies pay for losses to your contents on an actual cash value basis, but a better option is replacement cost coverage. Although the cost is higher, in most cases, the extra protection may be worth it. Replacement cost coverage is available for an additional premium.

I am confused about the amount of homeowner's insurance coverage I should buy for my home. How much is enough?

When determining the amount of insurance to purchase, there are several different limits to consider. The policy limit that is generally selected first is the amount of

insurance on your house. This amount should equal the cost of rebuilding your home in the event it is destroyed and may be less than the market value of your home, since the market value includes the value of the land. Because land values are not insurable under a homeowner's policy, the policy limits should not include the value of the land. *Your agent will be able to assist you in determining the appropriate amount of insurance for your home.*

The limits of insurance on other structures and on the contents of your home are generally expressed as a percentage of the limit on your house. You should check with your agent as to what those amounts are. The other significant policy limit to consider is the liability limit. This limit should be high enough to protect you from lawsuits resulting from your negligence.

What is a deductible?

The deductible is the amount you agree to pay out of your pocket for losses before your insurance policy begins to pay. The higher the deductible the lower the premium on your policy will be. A policy with a \$100 deductible will cost more than one with a \$250 deductible. Only you can decide how high a deductible to choose, because only you can judge what you can afford to pay for an unexpected loss. *When you shop for coverage, be sure to ask the agents who give you premium quotes how a larger deductible would affect the cost of the policy you are considering.*

Does my policy automatically pay the limit?

Many people misunderstand the meaning of a limit. A limit is the most your insurance policy will pay for a loss. Your loss may not be as high as the limit itself. In this case, your policy covers only the amount of your actual loss. You must also be prepared to provide proof of what you have lost.

How much liability coverage is reasonable?

You may want to consider purchasing enough to cover the value of all your financial assets—home, savings, etc., which are vulnerable to a lawsuit. Remember, your insurance company is liable only up to the limits of your policy. You would be personally liable for anything above that. Most policies are sold with a fixed amount of liability coverage. However, you can purchase more than the standard amount if you choose. *Discuss with your insurance agent what would be an appropriate amount of liability coverage in your situation.*

Do I need to purchase an umbrella liability policy?

Although homeowner's policies provide liability coverage for injuries or property damage for which you are legally liable, this coverage is limited. An umbrella li-

ability policy adds significant protection for your assets from a variety of possible liabilities and exposures to lawsuits. An umbrella policy supplements the liability coverage you already have through your home and automobile insurance and provides an extra layer of protection. Umbrella policies kick in after the liability insurance in your homeowner's and automobile policy runs out. Umbrella policies are sold with a variety of limits, commonly \$1 million or \$5 million.

Cancellation/Nonrenewal

I shopped carefully before picking a new homeowner's insurance company. Two months later, I received a cancellation notice. Can the company do this?

An insurance company will evaluate an application to determine if it qualifies under its guidelines for new business. When a policy first becomes effective, the insurance company may cancel that policy any time within the first 60 days without providing you with a reason for the cancellation. The cancellation is not effective until at least ten days after the insurance company mails or delivers a written notice of cancellation to you.

I recently moved out of my house. Can the insurance company cancel my homeowner's policy? Do I currently have coverage on my home?

The insurance company can cancel the homeowner's policy if your home has been vacant for more than 60 days. Even if the company does not cancel or nonrenew the policy, depending on your policy, certain coverages may be suspended after your home has been vacant for more than 60 days. For example, a claim for vandalism or malicious mischief occurring after your home was vacant for 61 days could be denied if that coverage ceases after 60 days of vacancy.

Last month our family dog bit a neighbor, and I turned the claim over to my insurance company. Now I have received a notice from my insurance company stating they are going to nonrenew my homeowner's insurance. Can they do this?

Under most circumstances companies are free to nonrenew insurance policies. If someone has had multiple claims or the potential for additional claims, the insurance company will often nonrenew a policy. If an insurance company pays an insurance claim as a result of the actions of an animal kept on the premises, it may require the animal to be removed as a condition of continuing insurance. In most cases, if an insurance company is going to nonrenew a policy, *it must provide at least 60 days' notice prior to the nonrenewal date.*

May I cancel my homeowner's insurance policy whenever I want to?

As the policyholder, you may cancel your coverage at any time. You would want to cancel if you sell your home or change companies. If you cancel during the policy period, the insurance company will refund you any unearned premium according to your policy language. However, some companies charge a penalty for canceling prior to expiration. Companies doing so must provide proper notice regarding this potential penalty. Check with your insurance company or agent to understand what the charge will be, if any.

My homeowner's policy is coming up for renewal but the insurance company says it will drop me if I do not replace my leaky roof. Is this legal?

An insurance company may refuse to renew a policy because of a home's condition. This can include a worn-out roof. If an insurer does not want to renew your policy, it must mail or deliver to you a nonrenewal notice at least 60 days before the policy's expiration date. Some insurance companies may give you six months to one year to make repairs. If your roof needs replacement because of a storm or other covered loss, the insurance company must pay for the cost to repair or replace the portion of the roof *damaged by the covered loss* (minus your deductible). If the roof is just worn out and there is no covered damage involved, you are responsible for paying to replace it.

I plan on taking an extended vacation for the summer. Will my insurance company keep my insurance policies active while we are gone?

Unlike health insurance policies, property and casualty policies, including homeowner's policies, do not have a required grace period. The premium is due on the date identified on the premium notice. If the premium is not received by that date and the notice states the policy will be canceled for failure to pay the premium when it is due, the policy terminates as of the due date. Insurance companies are not required to give you any special treatment due to you being on vacation. *You should pre-pay any premiums due during your planned vacation.*

What if I am rejected by an insurance company or lose my insurance coverage?

If you try several insurers and cannot find coverage, you most likely can be insured through the Wisconsin Insurance Plan (WIP). WIP is a risk-pooling arrangement in which all companies selling property insurance

in the state share the risk of property owners who have difficulty securing insurance from usual market sources. The premiums charged by WIP are higher than those charged by regular insurance companies. WIP is homeowner's insurance of last resort. Consider WIP only if you cannot obtain insurance from any other insurance company. For more information, contact:

Wisconsin Insurance Plan
E-mail: planmanager@wisinsplan.com
600 West Virginia Street, Suite 101
Milwaukee, WI 53204
(414) 291-5353
www.wisinsplan.com

Claims

During a storm, a tree from my neighbor's yard fell and destroyed my fence. Does my homeowner's policy pay for the damage or does my neighbor's policy?

Generally your own policy should cover such a loss. The owner of the tree will only be responsible if you can prove the owner was negligent in causing the damage. Insurers often deny these types of liability claims. Your homeowner's insurance policy may have a limited amount of coverage available to remove your neighbor's tree (or your tree) that was blown over by wind and damaged an insured structure on your property. This will be explained in the Additional Coverages section of your homeowner's policy.

Is my insurance company required to pay for cosmetic damage, such as scratches and dents, to my aluminum or vinyl siding?

It depends on the policy. While most homeowner's policies will cover cosmetic damage, some policies contain special rules, such as requiring a certain amount of damage per square foot before they will pay. You should check with your insurance company or agent before purchasing the policy if your house has aluminum or vinyl siding. The insurance company is only required to pay for the damaged portion of the siding and is not obligated to ensure the replacement siding matches the existing siding.

If my roof was partially damaged by wind, does my insurance company have to replace my whole roof?

The insurance company is required to pay for the replacement of the part of the roof damaged by the wind. The insurance company is not required to replace the part of the roof not damaged.

My home was recently broken into and I do not have sales receipts for the stolen items. What will the insurance company accept for proof of ownership?

If the actual receipts are not available, insurance companies generally will accept photos, warranties, owner's manuals, canceled checks, credit card receipts, bills, servicing agreements, or video tapes, as proof of ownership. It is very helpful to prepare some type of inventory of your possessions. You might consider taking pictures or videotaping your possessions before something happens to them.

Several items I used for my business were stolen from my home. Why did my insurance company only pay part of my claim for my loss?

Most homeowner's policies will cover business items up to \$2,500 in your home or \$250 away from your home, subject to your deductible. There are some exceptions to this limitation on business items, but it is important you check your policy in each case. You should also be aware there are other policies available that specifically cover business equipment. You should contact your agent to determine the cost of the coverage for these items.

My boat was stolen and now my insurance company will not pay the claim on my homeowner's policy. Can they deny my claim?

Theft to watercraft, including furnishings, equipment and outboard motors, is typically excluded if the theft occurs outside your residential premises. To adequately cover your boat and its accessories, you should contact your agent regarding a separate policy covering the boat.

My wedding ring was recently stolen from my home. I have replacement insurance on my personal property. The insurance company only wants to pay me \$1,000 for my ring. It will cost \$1,500 to replace it. Can they do this?

Most homeowner's insurance policies limit the amount of theft coverage they pay for certain items such as jewelry, furs, and guns. You will need to read your policy to determine what the limit is. However, most insurance companies offer an endorsement for an additional premium allowing you to schedule your personal property (list the items individually and their value). You may need to provide the company with an appraisal of the jewelry.

What should I do if I disagree with my insurance company on the value of my loss?

If you believe the insurance company's adjuster has not offered you a fair settlement value, contact the

insurance company. Provide the insurance company with information to support your view of what you feel your claim is worth. For complete information on how to make and support a claim for damage to property, see the OCI publication "Settling Property Insurance Claims" at oci.wi.gov/Documents/Consumers/PI-084.pdf.

Is sewer backup covered under a homeowner's insurance policy?

Sewer backup is typically not covered under your homeowner's insurance policy. Sewer backup coverage is an endorsement available through most homeowner insurance companies, but it may not be offered to property owners when purchasing coverage if you do not ask for it. It is very important to read the sewer backup endorsements purchased on a homeowner's policy. Some of the endorsements restrict coverage to a set dollar amount or bar coverage where there is a flood. *It is important to discuss these coverage questions with your insurance company or insurance agent.*

Flood Insurance

How do I buy flood insurance?

The best person to help you buy flood insurance is the agent or the insurance company from whom you obtain your homeowner's or automobile insurance. Flood insurance may be bought through any licensed property or casualty insurance agent in Wisconsin.

Some companies actually issue the Standard Flood Insurance Policy, in partnership with the federal government, as a service and convenience for their policyholders. In these instances, the insurance company handles the premium billing and collection, policy issuance, and loss adjustment on behalf of the federal government. These insurance companies are called Write Your Own (WYO) insurers. If your agent or insurance company is not in the WYO Program you may be referred to another agent or insurance company involved in the program. Your agent may also order the policy for you directly from the federal government.

For more information about the federal government's flood insurance program, contact:

National Flood Insurance Program
E-mail: FloodSmart@dhs.gov
1-888-379-9531
www.floodsmart.gov

Can I buy flood insurance immediately before or during a flood?

You can purchase flood coverage at any time. There is a 30-day waiting period after you have applied and paid the premium before the policy goes into effect. There are two exceptions:

1. If the initial purchase of flood insurance is in connection with the making, increasing, extending or renewing of a loan, there is no waiting period. The coverage becomes effective at the time of the loan, provided the application and payment of premium are made at or prior to loan closing.
2. If the initial purchase of flood insurance is made during the 13-month period following the revision or update of a Flood Insurance Rate Map for the community, there is a one-day waiting period.

Credit Information

Is it legal for an insurance company to look at my credit information without my permission?

Yes. Under federal law, the Fair Credit Reporting Act, states insurance companies have a "permissible purpose" to look at your credit information without your permission. Insurance companies must also comply with state insurance laws when using credit information in the underwriting and rating process.

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