

Misunderstandings about about homeowners policies, NAIC says

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A large percentage of U.S. homeowners mistakenly believe that standard homeowners insurance protects them from a wide array of perils, according to new research by the National Association of Insurance Commissioners (NAIC).

In fact, typical property and liability policies don't cover home damage from floods, earthquakes, water line breaks, termites, mold, and several other perils, large and small.

The survey found that 33% of U.S. heads of household, who own a home and have homeowners insurance, incorrectly believe flood damages would be covered by a standard homeowners or property and liability policy, despite extensive media coverage on Hurricane Katrina victims whose claims were denied because they lacked flood insurance.

"Many homeowners learned the hard way that their insurance policies did not provide flood protection," said Walter Bell, NAIC President and Alabama insurance commissioner. "As we enter the 2007 hurricane season, we strongly encourage consumers in flood-prone areas to check whether they are properly covered."

According to the NAIC, flood insurance policies generally are available from the National Flood Insurance Program (NFIP) and are often sold by agents that sell homeowners policies.

"There are some limitations in flood insurance policies that differ from standard homeowners policies," Bell said. "Excess flood insurance is often available from private insurers when people seek to insure high-value homes that exceed the limits offered by the NFIP."

The NAIC survey also revealed other homeowner misunderstandings relating to common loss situations -- none of which are covered by standard homeowners insurance policies -- such as:

* 68% of those surveyed think vehicles such as cars, boats and motorcycles stolen from or damaged on their property are covered.

* 51% think damages from a break in the water line on their property supplying water to their home are covered.

* 37% think damages due to a break in the sewer line on their property that connects to their municipal sewer system are covered.

* 35% think damages from earthquakes are covered.

* 34% think damages from mold are covered.

* 31% think damages from termites or other infestation are covered.

* 22% think pets stolen from or injured on their property are covered.

"Many homeowners could be seriously harmed financially by misunderstandings about their insurance," Bell said. "It's critical that consumers look closely at their policies and ask their insurance agents detailed questions to become fully aware of what is, and what is not, covered."

The NAIC survey revealed another type of potential consumer misunderstanding. Twenty-four percent of respondents indicated their policies insured their homes for the actual cash value, while 64% said their policies covered the replacement cost. Another 12% said they did not know which type of coverage -- actual cash value or replacement cost -- they purchased.

Actual cash value is the amount it would take to repair or replace damage to a home and its contents after depreciation. Replacement cost is the amount it would take to replace or rebuild a home or repair damages with materials of similar kind and quality, without deducting for depreciation.

"It's important that consumers understand this distinction," Bell said. "In the event of a covered loss, an actual cash value payout could be thousands of dollars lower than a benefit calculated at the replacement cost."

The NAIC survey also uncovered a growing concern among homeowners about being sued. Twenty-eight percent of respondents reported they were more concerned today than they were five years ago about being the target of a lawsuit.

"Consumers can better protect themselves from lawsuits by adding umbrella liability coverage to their homeowners policy," Bell said. According to the NAIC survey, a majority of homeowners -- 63% -- lack this umbrella coverage.