

**INSURANCE FACTS**  
for Pennsylvania Consumers

Your Guide to  
**Homeowners**  
**Insurance**

**1-877-881-6388**  
Toll-free Automated *Consumer Line*

**[www.insurance.pa.gov](http://www.insurance.pa.gov)**  
Pennsylvania Insurance Department Web site

The Pennsylvania Insurance Department provides consumers with a variety of publications. “Your Guide to Homeowners Insurance” will help you compare the rates charged by various companies for homeowners insurance in ten geographic areas of the Commonwealth.

To help you understand homeowners insurance, the guide contains explanations of terms commonly used by insurance companies in writing homeowners policies. Also included are some money saving tips and answers to frequently asked questions.

An informed consumer can obtain more value for his or her insurance dollar. This guide provides some basic information to help you determine if you can lower the cost of your homeowners insurance and increase the value of the insurance you receive.

*There are five basic types of homeowners policies offered by most companies. They are generally referred to as Forms 2, 3 and 8 for homeowners; Form 4 for tenants or renters; and Form 6 for condominium owners.*

***However, it is important to note that not all companies offer the types of policies described in this brochure. Therefore, it is important to read your policy carefully.***

## Types of Homeowners Policies

### *Single dwelling homeowners policies*

This policy offers a comprehensive package of protection against losses or damage to your house and its contents caused by fire, windstorm, vandalism, theft and personal liability, among others. In addition to coverage to the structure, homeowners policies usually contain additional types of coverage: additional living expenses, personal liability and medical payments.

### *Condominium*

This type of policy insures for the contents and property not covered by the condominium association's policy.

### *Tenants or Renters Policies*

In addition to its availability to homeowners, similar protections are available to those who rent homes or apartments. If you are a renter, you do not need protection against damage to the building itself, but you do need protection against damage to or theft of your personal property and liability in the event someone falls or gets hurt on the part of the premises you rent.

### *Homeowners Basic Form (Form 1)*

Covers damage due to fire or lightning, windstorm or hail, vandalism or malicious mischief, theft, damage from vehicles and aircraft, explosion, riot or civil commotion, glass breakage, smoke, volcanic eruption, and personal liability.

### *Homeowners Broad Form (Form 2)*

Covers damage due to perils listed in Form 1, plus building collapse; freezing of or accidental discharge of water or steam from internal plumbing, heating, air-conditioning systems or domestic appliances, falling objects, weight of ice, snow or sleet, rupture or bursting of steam or hot water heating systems, and personal liability.

### *Homeowners Special Form (Form 3)*

Covers risk of direct loss to physical property except with certain specified exclusions, such as earthquake and flood, for damage to or loss of the home (dwelling) or other structures such as a garage; all perils covered by Form 2 for damage to or loss of personal property (damage to contents); and personal liability. Form 3 is more comprehensive and offers more protection than Form 2.

### *Tenants Homeowners or Cooperative Homeowners Form (Form 4)*

Offers coverage for personal property for all of the perils covered under Homeowners Form 2 including personal liability.

### *Homeowners Form (Form 5)*

Covers damage to physical property and contents, except with certain specified exclusions, such as earthquake and flood, for damage to or loss of the home (dwelling) or other structures such as a garage, and personal liability. Form 5 is more comprehensive and offers more protection than Form 3.

### *Condominium Homeowners Form (Form 6)*

Form 6 is designed for condominium owners to cover their personal property and liability, their portions of the building and loss of use from the same perils as Form 2.

***Homeowners Older Home Form  
(Form 8)***

Form 8 is for the owner of an older home who has trouble purchasing standard homeowners insurance. It resembles other homeowner policies, but provides limited theft coverage.

***Important Limitation of Losses  
Resulting from Freezing***

When water escapes from the heating system or the hot water heater ruptures as a result of freezing, the loss is covered on all homeowners forms (except Form 8) with one important limitation. Specifically, coverage does not apply if the premises are vacant or unoccupied when a loss occurs, and the insured has not taken reasonable care to maintain heat in the building or shut off the water supply and drain the system and appliances of water. Vacancy or unoccupancy does not mean a temporary absence if there is an intention to return, such as a 3-week vacation.

***Damage from Flood is Excluded from  
All Homeowners Forms***

An important exclusion in all homeowners policies is loss due to flood. The National Flood Insurance Program (NFIP) defines flood as a general and temporary condition of partial or complete inundation of normally dry land areas from: overflow of inland or tidal waters; unusual and rapid accumulation or runoff of surface waters from any source; mudslides (i.e., mudflows) which are proximately caused by flood, as defined above, and are akin to a river of liquid and flowing mud on the surface of normally dry land areas, as when earth is carried by a current of water and deposited along the path of the current; or the collapse of subsidence of land along the shore of a lake or other body of water as a result of erosion or undermining caused by waves or currents of water exceeding the cyclical levels which result in flood, as defined above.

Flood insurance can be purchased for any insurable property, even if it is not located in a flood plain. An insurance agent or broker can assist you purchasing flood insurance. You are encouraged to purchase this coverage if you live in an area prone to flooding. To obtain information on flood insurance, call the Insurance Department's toll-free automated consumer hotline at **1-877-881-6388** and request a copy of the "Flood Insurance Easy Reference Fact Sheet" or call the NFIP toll free at 1-800-638-6620. After reviewing the material, contact your homeowners insurance agent.

When natural running water seeps into the soil and erodes underground limestone or dolomite deposits, a cavern is formed. When the roof of the cavern caves in, a sinkhole is formed. Earth movement is categorized by

*Damage caused by sinkholes/earth movement is excluded from Homeowners Forms*

earth shifting, rising or sinking. Both occurrences are generally excluded from a homeowners insurance policy. Consumers may have the option of “buying back” coverage and should consult their insurance agent. Communities above old mines may fall victim to mine subsidence, the “caving in” of old abandoned mines. Residents in these communities can purchase mine subsidence coverage through the State by calling 1-800-922-1678.

*Coverage against damage to an unattached garage or other structures on your lot*

Usually, this coverage is limited to 10 percent of the amount of insurance on the house. For example, under a \$100,000 policy, the most you will receive to rebuild your damaged garage is \$10,000 unless you specifically request and obtain an increase as part of your homeowners policy.

*Coverage against damage to or loss of personal property (includes household contents and other personal belongings)*

Homeowners insurance policies (except Form 4 for tenants and Form 6 for condominium owners) include an additional amount of insurance for loss or damage to personal property (contents), based on 50 percent of the insurance on your house. For example, if your house is insured for \$100,000, your coverage for contents would be \$50,000.

The contents coverage usually is provided on an **actual cash value** basis, the amount of money it would take to replace or rebuild your home or repair damages with materials of similar kind and quality minus any depreciation (decrease in the value due to age, wear and tear since the time the structure was built or purchased), not **replacement cost**, the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality without deducting for depreciation. However, most companies offer a replacement cost option for your personal property at additional cost. The amount of the contents coverage can also be increased if you need additional protection.

On Tenants Form 4 and Condominium Owners Form 6, you must request and obtain the specific amount of coverage you need.

If you temporarily reside at another location while on business or vacation, your contents coverage at your principal home would continue to apply. Personal belongings brought with you to a temporary address are insured for 10% of your homeowners policy contents coverage unless you ask for a higher limit or \$1,000, whichever is greater.

For example, a son or daughter attending college would be provided with \$1,000 worth of insurance or 10% of your contents coverage (whichever is greater) for the personal property he or she takes to school.

## Components of a Homeowners Policy

***Important limitation on silverware, silver, jewelry and furs***

There generally is a limit of \$200 coverage on silver coins and silver other than silverware. Silverware and silver-plated ware are limited to \$2,500 for loss by theft. Theft coverage provided for jewelry and furs is limited to \$1,000. These coverages can be broadened and limits increased by adding a scheduled personal property endorsement, sometimes called a floater, to your policy. This endorsement lists each covered item and its insured value and provides coverage when added to the policy.

***Coverage for liability claims***

The personal liability coverage protects you against a claim or lawsuit resulting from (non-auto and non-business) bodily injury or property damage to others caused by your negligence. This coverage applies to you and all family members who live with you. Basic amounts of coverage are usually \$100,000 per occurrence. Check with your agent or insurance company to determine if the amount of personal liability coverage you have is sufficient.

***Coverage for medical payments***

The policy includes coverage for the medical expenses of others who suffer accidental injury at the insured location. This expense is paid regardless of your legal liability. Basic amounts of coverage are usually \$1,000 per person for medical payments. You can obtain additional amounts at minimal cost, if you request them.

***Coverage for additional living expenses***

The policy includes an additional amount of insurance to cover the necessary increased costs in living expenses to permit you to continue your normal standard of living during the time your house cannot be occupied due to a covered loss such as fire or lightning; windstorm or hail; vandalism or malicious mischief; theft; damage from vehicles or aircraft; explosion; riot or civil commotion; glass breakage; smoke; volcanic eruption; and personal liability. Amounts vary depending on the policy.

The following illustrates the amount of additional living expenses afforded for each form:

***Insure your home to replacement cost value***

- Forms 2, 3, and 5 -- 30% of insured value on home
- Form 4 -- 20% of insured value on personal property
- Form 6 -- 40% of insured value on personal property
- Form 8 -- 10% of insured value on home

### *Insure your home to replacement value*

It is important to insure your home to replacement cost value because under certain circumstances you may be subject to a recovery amount less than what it would cost you to restore your home to its pre-loss condition.

**Replacement cost** is the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality without deducting for depreciation.

**Actual cash value** is the replacement cost minus any depreciation (decrease in the value due to age, wear and tear since the time the structure was built or purchased.)

*It is recommended that 100% replacement coverage be carried to protect you in the event of a loss.*

The amount of coverage you carry is important in the event of a partial loss (a loss less than the total destruction of your home). Most people suffer a partial loss.

Homeowner policies specify the minimum amount of coverage a homeowner must purchase to be fully covered in the event of a loss. Most companies require that a homeowner purchase at least 80% of the replacement cost of the home. Some policies require that you purchase more than 80% coverage. The example in this brochure is based upon an 80% cutoff point.

If a homeowner fails to insure for at least 80% of the replacement cost, then the cost paid to replace a loss will be paid at a percentage of what the home is insured for or actual cash value, whichever is greater.

**Example:** If it costs \$100,000 to replace your home and it is insured for \$80,000 (80% of its replacement value), and a fire causes \$25,000 worth of damage, then your insurance company will pay the full \$25,000, less the deductible.

However, if your \$100,000 home is insured for \$60,000 (which is less than 80% of its replacement value), and if you suffer a \$25,000 loss, your company would pay for only part of the loss. You would have to pay the balance out-of-pocket. Your company would pay for damages based upon the following formula:

$$\left( \frac{\text{Amt. of insurance carried}}{\text{Amt. of insurance necessary}} \times \text{loss} \right) - \text{Deductible} \\ = \text{Recovery}$$

$$\left( \frac{\$60,000}{\$80,000} \times \$25,000 \right) - \$500 = \$18,250$$

*Therefore, you would have to pay \$6,750*

If actual cash value were used as the basis for calculating your insurance coverage, you would not receive the full amount it would take to replace the damaged building. For example, if your roof has a 20-year warranty and is 17 years old, there would be depreciation for the age and condition of the roof. As the numbers show in the above diagram, insuring your home for a minimum of 80% of its replacement cost is a wise decision to avoid paying out-of-pocket expenses should a loss occur.

### *Maintain adequate replacement coverage*

One way to help maintain your replacement coverage is to add an “*Inflation Guard Endorsement*” to your policy. **You should also check with your agent or insurance company at least once a year to make sure your policy provides adequate coverage.** Whether your home is insured for replacement or actual cash value, it is important to keep track of its value. For instance, home improvements and yearly inflation all increase the replacement cost of your home, while the actual cash value of the home may decrease over time.

## For your Protection

*Once you have selected the insurance coverages you need and an insurance agent or company, there are steps you can take to make certain you get your money’s worth.*

### *The Policy*

When you purchase home insurance, you will receive a policy. *A home insurance policy is a legal contract. Read the policy and make sure that you understand its contents.* It is written so that your rights and responsibilities, as well as those of the insurance company, are clearly stated. Keep your policy in a safe place and know the name of your insurer. If you have questions about your insurance policy, contact your insurance agent or company for clarification.

### *Unlicensed insurers*

It is illegal for unlicensed insurers to sell insurance. Business cards are not proof of a licensed insurance agent or company. If you do business with an unlicensed agent or company, you have no guarantee that the coverage you pay for will ever be honored. If you purchase insurance from companies not legally doing business within Pennsylvania, you will not be protected by the guaranty fund should the company become insolvent (fail).

If you have any questions about the legitimacy of your agent or company, call the Pennsylvania Insurance Department at one of the numbers listed on the back cover. By doing so, you may protect yourself and others from being victimized.

### *Shop and Compare*

Prices for nearly identical coverage can vary greatly among companies.

### *Deductibles*

Your policy contains a deductible, such as \$250, which means you must pay the first \$250 of each loss (except for the personal liability coverage of your policy for which there is no deductible). You may want to consider increasing this deductible, if you can afford the loss at the time, as this selection can save you money on your homeowners insurance premium. The higher your deductible, the lower your premium.

### *Premium Reductions*

Many companies give a premium reduction if you install a smoke detector, burglar alarm, dead bolt locks and fire extinguishers.

### *Discounts*

Discounts may be obtained if you purchase other policies through the same company.

### *Seek Unbiased Information*

Information is available to consumers from a number of unbiased sources. These sources include public libraries, consumer groups and consumer publications. The Pennsylvania Insurance Department has personnel available to answer questions regarding home insurance coverage. Please call our toll-free automated consumer hotline at **1-877-881-6388**.

### *Where to Shop*

When you begin to contact insurers, there are a few things you should know about how insurance companies market their products.

Most insurance companies and many agents advertise. Check the newspaper and yellow pages of the telephone directory for companies and agents in your area, as well as the world wide web. In addition, contact your neighbors, relatives and friends for recommendations on insurance companies and agents. Ask them about their experience regarding price and service. Specifically, ask them what kind of claim service they have received from the companies they recommend.

### *Price Quotations*

When asking for price quotations, it is crucial that you provide the same information to each agent or company.

To give you an accurate quote, the agent or company will usually request the following information:

- description of your house
- distance from the nearest fire department and fire hydrant
- square footage
- security devices
- a picture of your home
- coverages you want
- limits you want

Not all insurance companies use insurance agents to sell their product. Insurance companies generally use one of three methods to market their product: direct marketing, independent agents or exclusive agents. The type of marketing method may not meet all of the needs of a consumer due to the differences in the type of services offered. Therefore, consumers need to be aware of each of the three methods and may want to consider them in their purchase decision.

**Direct marketers** sell insurance through the mail and by telephone. In some cases, consumers can save money with direct marketers because these companies do not have to pay insurance agents commissions to sell their policies. Companies can pass along some of these savings to the consumer. However, some consumers prefer to pay an additional premium for the opportunity to have a local agent available to them.

**Independent agents** represent several companies therefore, you can get quotes for more than one company from one agent. This is considered an advantage to many consumers. If you decide to call agents for quotations, ask them how many companies they represent. Some insurance companies sell coverage through agents that only represent their company. These companies call their agents an exclusive agents force. **Exclusive agents** can only offer you coverage from the company they represent. Therefore, you can only get a quote from one company for each exclusive agent that you talk to.

Sometimes exclusive agents may work for a lower rate of commission than independent agents. This is because companies do not have to give the agent an incentive to write their product over another company's product. The lower commission structure, especially on commissions for renewal business, can represent significant cost savings to the insurance company and often a portion of that savings is passed along to the consumer in lower premiums.

## Understanding Your Insurance Coverage

### *Determine how much homeowners insurance you need*

- *Dwelling protection:* You should carry enough insurance to equal the replacement cost of your dwelling.
- *Self protection:* You need enough liability coverage to protect yourself and your assets from lawsuits resulting from your negligence.
- *Lender Requirements:* Your lender i.e., bank, may require you to cover the house for at least the amount of the mortgage. You are not required to purchase insurance from the insurer recommended by your lender.
- *Policy Requirements:* Insurers may impose some coverage requirements for replacement cost protection as described earlier in this guide.
- *Contents Protection:* You should carry enough insurance to cover the replacement of all your belongings including furniture, clothing, kitchen utensils, etc.

### *Characteristics that affect homeowners insurance prices*

- *Type of Construction:* Frame houses usually cost more to insure than brick.
- *Age of House:* New homes are usually less expensive to insure than old homes.
- *Local Fire Protection:* Your home's distance from a fire hydrant and the quality of your local fire department determine your fire protection class and affect your insurance costs.
- *Amount of Coverage:* The amount of coverage you buy for your house, contents and personal liability will affect the price you pay.
- *Deductible Amount:* Your choice of a higher deductible will reduce the price for home insurance.
- *Discounts:* Some insurers offer lower prices for things such as insuring your home and car with the same company and installing deadbolt locks or alarm systems.

### *Replacement Cost Coverage*

The item(s) must be replaced in order to receive the full replacement cost. For example, if a \$500 television is destroyed, the insurance company will pay the actual cash value amount, around \$300 as an estimate, until the television is replaced. When the television is replaced and the bill of sale is produced, the insurance company will pay the difference up to the replacement amount. This, of course, is subject to any limitations listed in the replacement coverage section of your homeowners insurance policy.

No matter how much insurance you carry, no insurance policy can adequately compensate you for all your pain, trauma and inconvenience following a fire or theft. To avoid these things from happening, or at least to minimize disruption in the event of a loss:

- Install appropriate smoke detector(s). These can give you early notice of a fire and may save your life. Cost is minimal.
- Practice home fire drills. This will let your entire family, particularly your children, know deposit box or the home of a relative. In the event of a fire or theft, such documentation will be very beneficial in filing your claim.
- Consider purchasing flood insurance. Runoff water undermining home foundations is not covered on a homeowners policy. Flood insurance will protect this type of loss.

## Where to Purchase Homeowners Insurance

### *Licensed Insurance Companies*

There are over 200 licensed insurers that sell homeowners policies in Pennsylvania. A licensed company has met the financial requirements established by the Pennsylvania Insurance Department that are designed to ensure that the carrier can meet its obligations to policyholders now and in the future.

### *The Pennsylvania Fair Plan*

All Pennsylvania residents are guaranteed the availability of basic fire and crime insurance at comparable rates through the Pennsylvania “FAIR Plan.” Coverages are available through any insurance agent or broker. You may also call the FAIR Plan toll-free at 1-800-462-4972 for information.

### *The Surplus Lines Market*

The surplus lines market is an alternative for homeowners who are unsuccessful in obtaining coverage from insurers licensed to do business in Pennsylvania. Surplus lines companies are permitted to issue policies to Pennsylvania residents, but are not licensed by the Department. Surplus lines policies are subject to all the same insurance laws and regulations as are the licensed insurers. However, you will not be protected by the guaranty fund should the company become insolvent.

## Commonly Asked Questions

***My homeowners policy was cancelled because I did not pay my premium on time. Is this legal?***

Yes. Pennsylvania insurance law does not require companies to extend a grace period for premium payments. If payment is not received by your due date, the company is permitted to cancel for nonpayment of the premium.

***How does a rate increase differ from a surcharge?***

A rate increase is an increase in premiums applied to all policies issued by an insurance company and must be approved by the Insurance Department prior to use. A surcharge is an increase in premium to be charged to a policy meeting a certain condition. An example of a surcharge may be losses which occur within a certain period of time.

***What should I do if I receive a cancellation or nonrenewal notice from my insurance company?***

First, contact your agent or your insurance company for specific details regarding the action. Pennsylvania law allows companies to cancel or nonrenew policies for certain reasons. If you still are not satisfied with your company's explanation, submit your notice along with a statement detailing the reasons you disagree with the action to the Pennsylvania Insurance Department. The statement must be received by the Insurance Department within 10 days of your receipt of the notice.

***Is the purchase of homeowners insurance mandatory in Pennsylvania?***

No. Pennsylvania insurance law does not require that an individual carrier homeowner's insurance. However, a lender may require, as part of a mortgage agreement, that certain insurance and coverage be maintained in order to qualify for funding.

***Is it legal for my insurance company to nonrenew my homeowners insurance because I have too many claims?***

No. Pennsylvania insurance law prohibits an insurance company from terminating a homeowners insurance policy for "claims" or "loss history". However, if a similar type claim is re-occurring, the insurance company may request improvements to correct the problem causing the loss. Failure to comply with recommendations may result in termination.

***Does my homeowners insurance cover damage caused by flooding?***

No. It is important to be aware that a standard homeowner's or renter's policy does not cover damages resulting from a flood. Flood insurance is a federally regulated program. Additional information is available through the National Flood Insurance Program at 1-888-CALL-FLOOD.

***How can I protect my personal property if I am a renter?***

Contact your agent and request information on applying for a tenants homeowners or cooperative homeowners policy (Form 4). This type of policy provides coverage for personal property damaged due to: fire or lightning, windstorm or hail, vandalism or malicious mischief, theft, damage from vehicles and aircraft, explosion, riot or civil commotion, glass breakage, smoke, volcanic eruption, building collapse; freezing of or accidental discharge of water or steam from internal plumbing, heating, air-conditioning systems or domestic appliances; falling objects; weight of ice, snow or sleet; rupture or bursting of steam or hot water heating systems.

***What should I do if I disagree with the amount the insurance company has offered to settle my claim?***

First, contact your insurance company for specific details regarding the offer and to attempt to negotiate the claim. If you still are not satisfied with your company's offer, you have the right to activate the appraisal clause of your policy. By doing so, you agree to allow two independent appraisers, one on your behalf and one on behalf of the insurance company, to determine the amount of damages.

***What are the risks in changing insurance companies?***

You should be aware that an insurance company has 60 days to underwrite and investigate your application. The company has the right to refuse or cancel your coverage for various reasons within the first 60 days. However, the company may not refuse someone because of age, marital status, occupation or any other unfair discriminatory reason.

***Why should I insure my home to replacement cost value?***

It is important to insure your home to replacement cost value because under certain circumstances you may be subject to a recovery amount less than what it would cost you to restore your home to its pre-loss condition.

If you have questions or problems concerning your homeowners insurance, please call your agent. For unresolved problems or questions, contact the Pennsylvania Insurance Department's toll-free automated *Consumer Line* at **1-877-881-6388**. Consumers may also visit our website at **[www.insurance.pa.gov](http://www.insurance.pa.gov)** or any of our offices.

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