Maryland
INSURANCE ADMINISTRATION

Homeowners Insurance

Understanding the Basics of Homeowners Insurance

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What is the Maryland Insurance Administration?

The Maryland Insurance Administration (MIA) is the state agency that regulates the business of insurance in Maryland. The MIA:

- Licenses insurers and insurance producers (agents and brokers)
- Examines the business practices of licensees to ensure compliance
- Monitors solvency of insurers
- Reviews and approves insurance policy forms
- Reviews rates to be sure they are not inadequate, excessive or unfairly discriminatory
- Investigates consumer and provider complaints and allegations of fraud

How can the Maryland Insurance Administration help?

If you feel that your insurer or insurance producer acted improperly, you have the right to file a complaint. The MIA can investigate complaints that an insurer or insurance producer has:

- Denied or delayed payment of all or portions of a claim
- Improperly terminated your insurance policy
- Raised your insurance premiums without proper notice or in excess of what the law allows
- Made false statements to you in connection with the sale of insurance or the processing of insurance claims
- Overcharged you for services, including premium finance charges

What is homeowners insurance?

Homeowners insurance can help you manage the financial risks of homeownership. Homeowners insurance may:

- Help you recover financially following a covered loss to your :

  a. Dwelling
  b. Personal Property (contents)
  c. Other Structures

- May protect you financially if someone is hurt or their property is damaged because of something you did or something that happens on your property by providing liability coverage and/or paying for medical payments.

What are the basic parts of a homeowners insurance policy?

The terms and amount of coverage for a particular loss will depend upon the terms of your policy. Generally, homeowners policies include the following parts:

- **Dwelling Coverage** –provides protection if a covered peril damages or destroys your home.
- **Other Structures –** provides protection if a covered peril damages or destroys detached outbuildings and structures, like fences, that are not part of your dwelling.
- **Personal Property (contents) –**provides protection if your personal property is lost, damaged or destroyed by a covered peril.
- **Additional Living Expenses (ALE)** – may pay for additional expenses you incur when you cannot live in your home because of damage or loss that is covered by your policy. Generally, coverage will only pay for living expenses that are not "normal and customary".
- **Liability Coverage** – may provide protection if you or a member of your family are legally responsible for an injury to another person or cause damage to another person's property.
- **Medical Payments** – provides payment up to a specified amount for reasonable and necessary medical expenses incurred by people injured in an accident in your home regardless of fault (**does not apply to you or member of your household**). This provision will pay covered medical expenses for a minimum of up to three years from the date of injury or accident.

What is homeowners insurance?

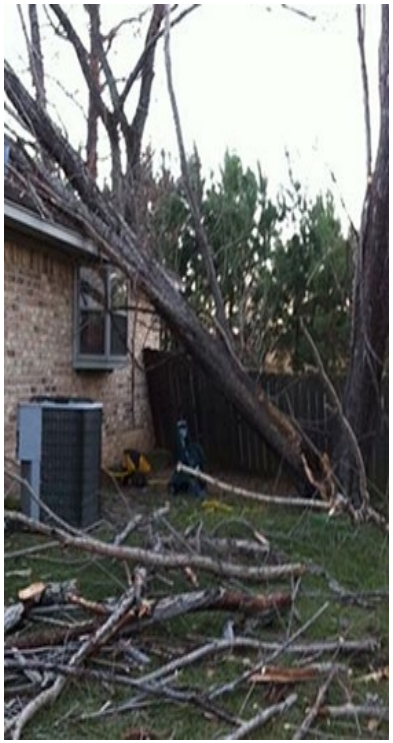
Perils

Homeowners insurance policies protect you from loss, damage, or injury due to covered perils (causes of loss). Your policy may cover named perils only (such as fire, windstorm, hail, vandalism or theft); or, it may be an “open peril” policy (sometimes called an “all risks policy”) – meaning it covers all causes of loss unless the cause of loss is specifically excluded. A policy may also be a combination of both.

What are the basic parts of a homeowners insurance policy?

- **Trees, Shrubs, and Plants** – This part of your policy provides limited protection against damage to greenery on your property. The coverage on trees, shrubs, and plants is provided only against certain perils and may have a dollar limit as well. For example, damage to greenery caused by windstorm or ice is not usually covered, even if you buy an open peril policy.

What are the basic parts of a homeowners insurance policy?



- **Debris Removal** – This part of your policy generally pays to remove debris of damaged property following a covered loss. Your policy may also pay to remove fallen trees that cause damage to your covered property.

It is important to remember that even if the loss, damage or injury is covered by your policy, your policy will only pay up to the policy limits you purchased.

What coverage options do I need?

- Do you want replacement cost value or actual cash value for your belongings?
- Do you need additional coverage for valuable belongings?
- What deductible should I choose?
- How much liability coverage do I need?
- What about water/sewer back up and building ordinance coverage?

What coverage options do I need?

Know the difference between ACV and RCV

Actual Cash Value (ACV) is the cost to replace the damaged property with "like kind or quality" minus depreciation for age and use.

Replacement Cost Value (RCV) is the cost to replace the damaged property with "like kind or quality," at full cost without depreciation, less the amount of your deductible.

- **It's important to remember you may not receive the full replacement cost until you actually repair or replace the damaged property.**

What coverage options do I need?

- Coverage for certain types of personal property may be capped at lower limits. If you keep things that are particularly susceptible to loss like cash, securities, jewelry, furs, manuscripts, and stamp or coin collections, to name a few, in your home, you may need to increase the included limits at additional cost.

- Additional amounts of insurance can be purchased separately. Ask your insurer or insurance producer for information about scheduling valuable items separately and the cost of the additional coverage.

What coverage options do I need?

Additional Coverages – Water/Sewer Backup Coverage

- Water that backs up through sewers or drains when this backup is not due to the negligence of the insured is typically not covered under a standard homeowners policy, but you can purchase water/sewer backup coverage. **This coverage protects your home when water overflows a sump pump or sewage enters your home through pipes designed to carry it away.** Most insurers offer several different coverage limit options.

What coverage options do I need?

Additional Coverages – Ordinance or Law Coverage

- Be familiar with your local building codes.
- If your home is damaged during a disaster, you may be required to perform expensive upgrades to your property to comply with your county's current building codes.
- Ask your insurance producer if the insurer offers building ordinance or law coverage.

What factors affect the cost of my homeowners insurance policy?

Prior Claims – Some insurers may review not only your loss history, but the loss history of the property when making a decision on whether to insure you.

Some factors they may use to quote premiums using prior claims are:

- **Date(s) of prior claims**
- **Nature of Claim**
- **Amount paid by insurer for claim(s)**

PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

What factors affect the cost of my homeowners insurance policy?

Some factors that may affect your premium include:

- ✓ Construction type of home (frame, brick, modular, etc.)
- ✓ Age of home and home's systems (electrical, plumbing, HVAC, roof, etc.)
- ✓ Access to & quality of local fire protection
- ✓ Discounts (ex., installing deadbolt locks or alarm, and having multiple policies)

What factors affect the cost of my homeowners insurance policy?

Deductibles

- You may have many options when choosing a deductible. If you choose a policy with a $500 deductible – there must be $500 of covered damage to your home or personal property for each claim before you are entitled to collect any money from your insurer. Your insurer will deduct $500 from the total amount of covered damage.

- Higher deductibles reduce your premium. Choose a deductible that you will be able to afford to pay out of pocket if you have a claim.

- You can ask your insurer or insurance producer how much your premium will be reduced by increasing the amount of your deductible.

What factors affect the cost of my homeowners insurance policy?

Deductibles (continued)

- Some homeowners policies contain special percentage deductibles for losses caused by specific perils such as wind, hurricanes or other storms. The insurer may automatically include these deductibles or make these deductibles available at the option of the policyholder. Always ask your insurer or insurance producer if your policy has a flat deductible or a percentage deductible. Percentage deductibles are based on your dwelling coverage limit, not the amount of your loss.

Example: If your dwelling is insured for $100,000, and your policy has a 2% deductible for certain perils, your deductible would be $2,000.

What types of losses are NOT covered?

Most homeowners insurance policies exclude the following types of losses:

- ✓ Mudslide
- ✓ Earth Movement
- ✓ Groundwater or seepage
- ✓ Flood

Flood insurance may be available as an endorsement to your homeowners, renters, or condominium insurance policy, or as a separate policy. While some insurers offer flood policies, flood insurance can also be purchased from the National Flood Insurance Program (NFIP). For more information, contact your insurer, insurance producer, or go to the NFIP's website, www.floodsmart.gov.

Be Prepared

- Create an inventory of all your possessions and keep it updated. The NAIC's checklist is available at: https://www.naic.org/documents/index_disaster_section_inventory_checklist.pdf.

- Photograph and/or video each room and the exterior of your home.

- Safeguard your records – insurance policies, inventory list.

- Keep handy your insurance producer's name, telephone number, and your policy number(s).

- Know how to shut off the gas, electricity and water. Be prepared to board up vulnerable places around the house.

Publications Available on MIA's Website

Check out the following publications for more information

- **Consumer Guide to Homeowners Insurance**
www.insurance.maryland.gov/Consumer/Documents/publications/homeownersinsguide.pdf

- **Tips on Shopping for Homeowners Insurance**
www.insurance.maryland.gov/Consumer/Documents/publications/homeownersshoppingtips.pdf

- **Shopping for Homeowners Insurance Company/Policy Comparison Worksheet**
www.insurance.maryland.gov/Consumer/Documents/publications/hoshoppingworksheet.pdf

- **Understanding your Homeowners Declarations Page**
www.insurance.maryland.gov/Consumer/Documents/publications/understandinghodeclarationspage.pdf

- **Homeowners & Renters Insurance a Comparison Guide to Rates**
www.insurance.maryland.gov/Consumer/Documents/publications/HORateGuide2020.pdf

- **Insurance Preparedness for Natural Disasters Page**
www.insurance.maryland.gov/Consumer/Pages/InsurancePreparednessNaturalDisasters.aspx

Contact Information

Maryland Insurance Administration
1-800-492-6116 or 410-468-2000
www.insurance.maryland.gov

National Flood Insurance Program
877-336-2627
www.floodsmart.gov

Maryland Home Improvement Commission
1-888-218-5925 or 410-230-6169
www.dllr.state.md.us/license/mhic/

Questions?