

## Frequently Asked Questions Homeowner's Insurance

OFFICE OF THE COMMISSIONER OF INSURANCE

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### Buying Homeowner's Insurance

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

Homeowner's insurance is a package policy that combines more than one type of insurance coverage in a single policy. There are four types of coverages that are contained in the 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 nonauto 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. If it is necessary for you to move into a motel or apartment temporarily because of damage caused by a peril covered by your policy, your insurance company will pay for reasonable and necessary additional living expenses.

#### Do I have to buy homeowner's insurance?

Wisconsin law doesn't 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 aren't required to purchase coverage from the insurance company the lender recommends.

#### 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 building, for example, is more fire-resistant than a frame building and it sometimes

costs more to insure a frame building. Many insurers also charge less to insure a newer home than an older one because newer homes are less likely to sustain damages in storms and fires. Some areas have greater crime and vandalism problems than others.

The building's location affects the cost of coverage because some communities have better fire protection than others. 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.

#### 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 that 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 amount of insurance that is appropriate 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 take, 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're 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 that case, your policy covers only the amount of your actual loss. You must also be prepared to substantiate 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 that 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 liability 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 auto insurance and provides an extra layer of protection. Umbrella policies kick in after the liability insurance in your homeowner's and auto policy runs out. Umbrella policies are sold with a variety of limits, commonly \$1 million or \$5 million.

### **If I am injured on someone else's property, does the homeowner's liability coverage cover the cost of my injuries?**

Only if your injuries were caused by the negligence of the homeowner. If the homeowner is not negligent, then coverage is available only under the medical payments coverage provision of the policy. This would cover only necessary and reasonable medical expenses incurred up to a limited dollar amount. It would not cover payment for pain and suffering, lost income, etc.

## **Renter's Insurance**

### **I have often heard the term "renter's insurance." What is it and who needs to purchase it?**

Anybody who rents his or her residence, whether it is an apartment, house, manufactured house or condominium may want to consider purchasing renter's insurance. Renter's insurance provides protection for your personal property, such as furniture, electronic equipment and clothing. It also provides liability protection for you should you injure someone or damage that person's property. Your landlord or the owner of the property is responsible for insuring the building and for his/her own liability coverage.

### **Does renter's insurance cover all my belongings?**

It depends. Some possessions such as jewelry, furs, coins, computers, antiques, artwork, silverware and other items that may exceed your standard renter's policy are often subject to a theft limit. When shopping for renter's insurance, ask about the various property limits and how they apply to expensive items you may own. You might be able to purchase an endorsement, providing additional coverage for specific items not included in your basic policy.

### **Why would I need a renter's policy if my landlord carries insurance?**

The insurance your landlord carries covers the building structure but does not cover your personal belongings—your furniture, wardrobe, appliances, television—anything that you've moved into the building. You need a renter's policy to cover your personal possessions.

## **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 (10) days after the insurance company mails or delivers to you a written notice of cancellation.

**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 that occurred after your home was vacant for 65 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 got a notice from my insurance company stating that 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 that the animal 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 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. 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 6 months to a 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, 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 that the policy will be canceled for failure to pay the premium when it is due, the policy terminates as of that 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 WIP at [planmanager@wisinsplan.com](mailto:planmanager@wisinsplan.com), 600 West Virginia Street, Suite 101, Milwaukee, WI 53204, call (414) 291-5353, or visit their Web site at <http://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 is blown over by wind and damages an insured structure on your property. This will be explained in the Additional Coverages section of your homeowner's policy.

**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 that was damaged by the wind. But the insurance company will not be required to replace roofing that was 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 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 video taping your possessions before something happens to them.

**Several items that 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 that you check your policy in each case. You should also be aware that 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 are 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 which allows 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.

**I have specifically insured antique items listed on my homeowner's insurance policy. If I have a total loss, would the insurance company pay me their insured value?**

Your insurance company would first confirm the value of the items with one or more independent antique dealers. You should then be paid a dollar value based on the dealer(s) estimate of the worth of the antique items. The limit shown for each item is the most the insurance company would pay in the case of loss or damage to the item. If you disagree with the settlement offered by your company, then you can follow the dispute resolution process outlined in your policy. You should also keep your appraisals up to date and adjust the insured value accordingly.

## **Flood Insurance**

**This spring I began to get water in my basement. Is this covered on my homeowner's policy?**

If the water is coming from seepage through the basement walls, this is commonly excluded. *Homeowner's insurance has very limited water damage coverage.* Water damage caused by flood or water which backs up through sewers or drains or overflow from a sump are excluded. However, for an additional premium you may purchase a limited amount of coverage for sewer backup or overflow of a sump. *You may want to contact your agent or insurance company to see if your policy has these coverages.*

**What flood losses are covered in a flood insurance policy?**

The Standard Flood Insurance Policy forms contain complete definitions of the coverages they provide. Direct physical losses by "flood" are covered. Also covered are losses resulting from flood-related erosion caused by waves or currents of water activity exceeding anticipated cyclical levels, or caused by a severe storm, flash flood, abnormal tidal surge, or the like, which result in flooding, as defined. Damage caused by mudslides (i.e., mudflows), as specifically defined in the policy forms, is covered.

**What coverage is available in basements and enclosed areas beneath the lowest elevated floor?**

Coverage is provided for foundation elements, including posts, pilings, piers, or other support systems for elevated buildings. Coverage also is available for basement and enclosure utility connections, certain mechanical equipment necessary for the habitability for the building, such as furnaces, hot water heaters, clothes washers and dryers, food freezers, air condi-

tioners, heat pumps, electrical junctions, and circuit breaker boxes. Finished structural elements such as paneling and linoleum, and contents items such as rugs and furniture are not covered. The Standard Flood Insurance Policy has a complete list of covered elements and equipment.

### **How is basement defined?**

The National Flood Insurance Program's definition of "basement" includes any part of a building where all sides of the floor are located below ground level. Even though a room may have windows and constitute living quarters, it is still considered to be a basement if the floor is below ground level on all sides.

### **What is covered in my basement?**

Flood insurance covers your home's foundation elements and equipment that's necessary to support the structure (for example a furnace, water heaters, circuit breakers).

It's important to note that some items in your basement are covered under building coverage (like a furnace, hot water heater and circuit breaker), and others are covered under contents coverage (for example, your washer and dryer, or your freezer and the food in it).

The National Flood Insurance Program encourages people to purchase both building and contents coverage for the most complete protection. Flood insurance does not cover basement improvements, such as finished walls, floors, ceilings, or personal belongings that may be kept in a basement.

### **Is sewer backup covered under a flood insurance policy?**

Flood insurance does not cover sewer backup since flood is defined in the Standard Flood Insurance Policy, in part, as: A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is your property) from overflow of inland or tidal waters, from unusual and rapid accumulation or runoff of surface waters from any source, or from mudflow.

Sewer backup is also 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 don't 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's important to discuss these coverage questions with your insurance company or insurance agent.*

### **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've 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 presentment 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.

### **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.

More information about the National Flood Insurance Program is available on their Web site at <http://www.floodsmart.gov/floodsmart/>.

### **Credit Information**

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

Yes. A federal law, the Fair Credit Reporting Act, states that 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.

### **Why are some insurance companies using credit information?**

Some insurance companies believe there is a direct statistical relationship between financial stability and losses. They believe that, as a group, consumers who show more financial responsibility have fewer and less costly losses and, therefore, should pay less for their insurance. Conversely, they believe that, as a group, consumers who show less financial responsibility have more and costlier losses and, therefore, should pay more for their insurance. Not all insurance companies operating in Wisconsin use credit information.

### **How are insurance companies using credit?**

Companies are using credit in two ways:

**Underwriting**—deciding whether to issue you a new policy or to renew your existing policy. Some states prohibit insurance companies from refusing to issue a new policy or from nonrenewing your existing policy based *solely* on information obtained from your credit report. In addition, some states' laws prohibit insurance companies from using your credit information as the *sole* factor in accepting you and placing you into a specific company within their group of companies.

**Rating**—deciding what price to charge you for your insurance, either by placing you into a specific rating tier or level, or by placing you into a specific company within their group of companies. Some insurance companies use credit information along with other more traditional rating factors such as motor vehicle records and claims history. Where permitted by state law, some insurance companies may use credit alone to determine your rate.

### **How do I know if an insurance company is looking at my credit?**

Some agents and companies will ask for your social security number to obtain consumer information, background information, or an insurance bureau/credit score. When an application for insurance is submitted, *consumers should ask their agent or insurance company about whether and how credit information will be used in the underwriting and rating process.*

### **Can credit history be used as a reason to nonrenew my homeowner's insurance?**

Insurers may use credit information as one of the criteria they consider when underwriting personal lines insurance. However, it is the position of the Wisconsin Office of the Commissioner of Insurance that insurers should not use credit information, whether they use credit reports or credit scoring mechanisms, as the sole reason to refuse an application, cancel a new insurance policy in its first 60 days of coverage, or nonrenew an existing policy.

State of Wisconsin  
Office of the Commissioner of Insurance  
P.O. Box 7873  
Madison, WI 53707-7873

OCI's Web Site:  
[oci.wi.gov](http://oci.wi.gov)