

Many homeowners confused about insurance

by [AP Associated Press](#) - Jul 02,2007

If your house is flooded during a hurricane, is the damage covered by your homeowners insurance policy? Will it cover a motor scooter stolen from the backyard? Or your son's possessions when he moves into his college dormitory?

The answer to all those questions is generally "no," though a surprising number of homeowners don't know that, according to a study by the National Association of Insurance Commissioners. That means many homeowners may not be carrying the right insurance to protect themselves from storms, fire and other perils.

The association, which represents state insurance regulators, asked nearly 700 homeowners who carry insurance about their policies and found widespread misunderstanding about what's covered and what isn't.

"We were surprised at some of the misperceptions," said Cathy Weatherford, NAIC's chief executive officer. "But it will help us create better consumer education programs."

The study found that despite all the media coverage of Hurricane Katrina and its aftermath, one-third of those surveyed incorrectly believe flood damages would be covered by standard homeowners insurance policies.

"After so many reports from New Orleans about flood damage not being covered, about homeowners unable to collect, I would have thought all of us would have gone back to check with our insurance companies and our agents," Weatherford said.

While most homeowners policies cover rain damage, most specifically exclude flood damage. But flood coverage is available separately through the National Flood Insurance Program, which can provide protection for up to \$250,000 for the structure of a home and \$100,000 for contents. The flood policies, which are sold by insurance agents, also can be purchased by renters to cover up to \$100,000 of their belongings.

Homeowners policies also routinely exclude earthquake damage, which requires special coverage through state-sponsored entities such as the California Earthquake Authority or riders offered by some private companies.

Another misconception held by more than two-thirds of policyholders is the belief that cars, boats or motorcycles stolen from their property or damaged on their property are covered by homeowners policies, Weatherford said.

"They figure that if they're in the garage or in the back yard and a tree falls on them, their homeowners (policy) covers it," she said. "In fact, vehicle coverage covers vehicles, homeowners coverage covers the home and outbuildings."

As for the son heading off to college, his property in the dorm likely won't be covered by his parents' policy so the family should consider purchasing separate coverage, NAIC said.

A recent MetLife survey of some 1,200 homeowners and renters also found confusion about insurance coverage.

"There were a lot more incorrect and 'not sure' answers than we would like to see," said Matthew Cullina, director of product management for MetLife Auto & Home, which is based in Warwick, R.I.

The MetLife study found that nearly one-third of those surveyed believe their homeowners policy would reimburse them for the market value of their homes if they were destroyed by fire or in a storm.

In fact, the payout will reflect the cost of rebuilding, also known as replacement cost. It's generally capped at a lot less than the market value because it doesn't take the cost of the land into consideration, Cullina said.

A homeowner can determine a rough replacement cost equivalent by "asking a contractor in your area the cost per square foot for building a home" and running the calculation for your own residence.

Meanwhile, some 72 percent of those surveyed said they expected their insurance to cover the full cost to replace personal belongings destroyed in a fire or natural disaster.

When it comes to contents, the standard homeowners policy covers actual cash value, which is the cost of an item minus depreciation, Cullina said.

"You have to ask for replacement cost coverage, but I think it's worth the extra money," he said. Replacement cost is today's market value, without deducting for depreciation.

Homeowners also need to think about coverage for special items, such as jewelry and fur and fine art and heirlooms, he added.

Most policies put limits on payouts for special items like these, Cullina said.

"If you've got something special, say your grandparents silver, and it's valuable, you may want to get a rider" to cover the items, he said. Often such items must be appraised by a professional, and the customer and insurance company reach an "agreed value" for coverage, he said.

Cullina suggested that consumers "do some research online" to educate themselves about coverage. He also suggests they ask insurance agents "What isn't covered? Where are the gaps?" so they know what extra protection is needed