

# Claims 101

Understanding Your Homeowner's  
Policy - Part 2

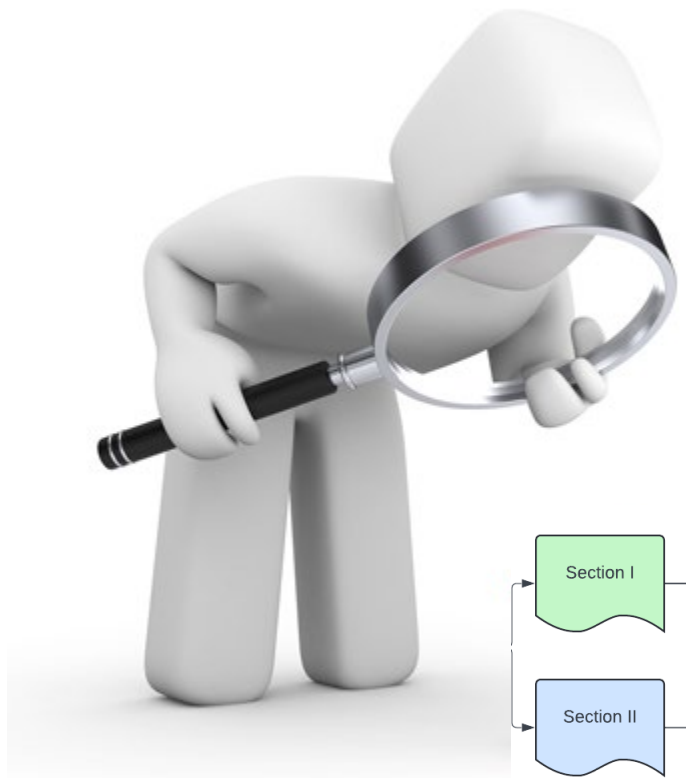
*Education Series*



**Strategic *A*djusting *S*ervices, Inc.**

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P.O. Box 546108  
Surfside, FL 33154  
[www.SASclaim.com](http://www.SASclaim.com)



Before diving deeper into Section I of the policy, I'd like to expand on two key sections: **Insuring Agreement** and **Definitions**, as well as discuss a critical missing component of your policy. Let's start with the Insuring Agreement.

A typical Insuring Agreement reads as follows:

#### **AGREEMENT**

*We will provide the insurance described in this policy in return for the premium and compliance with all applicable provisions of this policy.*

Implicit in this language is the assumption that you already understand what insurance is and what it does—which is often not the case. Black's Law Dictionary defines insurance as:

*A contract by which one party (the insurer) undertakes to indemnify another party (the insured) against risk of loss, damage, or liability arising from the occurrence of some*

*specified contingency.*

The essential point here is that insurance is an agreement between two parties—the insurer and the insured. Property insurance does not insure property, auto insurance does not insure autos, life insurance does not insure lives, and health insurance does not insure health.

So, if insurance doesn't insure these things, what does it insure? In simple terms: *YOU*. It protects you against financial loss stemming from specific risks detailed in the policy. Once you understand this, a key component in claims becomes clear: *The insured has the obligation to demonstrate the value of their loss*. While the insurance company typically assists by assigning an adjuster to assess the loss, relinquishing this responsibility often comes with a cost. As a result, you may end up with only the minimum amount to which you're entitled.

Whenever the insurance company wants to define terms precisely, they do so in the **Definitions** section of the policy. Terms in "quotation marks" signal that a specific definition is provided there. If a word is not defined within the policy, you can refer to a standard dictionary for clarification.

One crucial component you will not find in the policy is instructions on *how to make an insurance claim*. You are instructed to notify the company in the event of a loss, contact the police if a crime occurred, prepare inventories, separate damaged from undamaged property, and cooperate, among other duties. However, these actions are not *making an insurance claim*; they are simply fulfilling your duties following a loss.

To make an insurance claim, you must formalize your demand for payment against the insurance policy—not against the insurance company. This distinction may be subtle, but it is important. For now, we’ll leave it at that.

## Section I – Property Coverages

Section I of your policy is subdivided into four primary parts. (See Chart on the right.)

### Coverage A – Dwelling

Coverage A covers the “residence premises,” including materials and supplies on or next to the “residence premises” used to construct, alter, or repair the dwelling or other structures on the “residence premises.” It’s important to note that “residence premises” is enclosed in quotation marks, indicating a specific definition provided in the Definitions Section of the policy. Additionally, land, including the land on which the dwelling is located, is explicitly not covered under Coverage A – Dwelling.

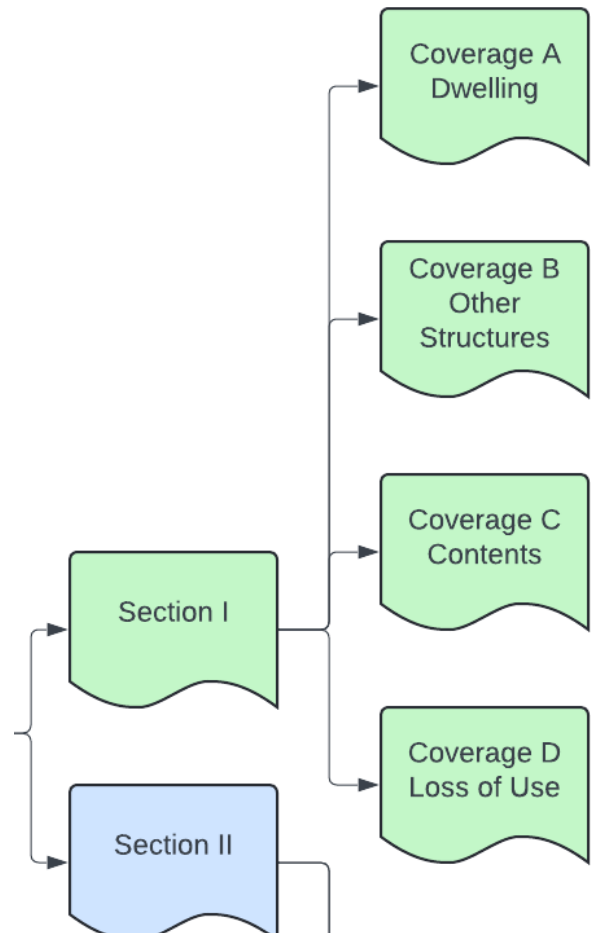
### Coverage B – Other Structures

Coverage B insures other structures on the “residence premises” that are separated from the dwelling by a clear space. This includes detached garages, storage sheds, fences, swimming pools, etc. Land is not covered, nor are other structures rented or held for rental to anyone who is not a tenant of the dwelling. An exception applies to a garage rented and used solely as a garage. There is no coverage for structures used for “business” purposes or to store “business” property. Note that “business” is also in quotation marks, signaling a specific definition in the policy. Limits for Coverage B are typically 10% of the Coverage A limits, although you can purchase higher limits and broader coverage if, for example, you have a rental garage apartment.

### Coverage C – Personal Property

This coverage, sometimes referred to as *Unscheduled Personal Property* or *Contents*, provides coverage for personal property anywhere in the world. However, if the property is at a location you own or regularly rent, coverage is limited to 10% of the Coverage C limit of liability. You may also request coverage for the personal property of others (e.g., a live-in maid) or a guest’s property, provided it is located on the “residence premises” where an “insured” resides.

Coverage C also includes property at storage facilities, although it is limited to 10% of the Coverage C limit of liability. Within this section, you’ll find a list of items with special liability limits. These often include money, securities, watercraft and their trailers, other types of trailers, jewelry, firearms, and silverware (especially in cases of theft). Coverage may also limit “business” property, electronic equipment, antennas, or other media when stored in a vehicle. Review this section carefully to understand how these limitations may affect you personally.



Coverage C excludes some personal property, such as items already separately insured (e.g., a scheduled diamond ring), animals, “motor vehicles,” aircraft, hovercraft, drones, property of roomers or boarders, property in a portion of the dwelling regularly held for rental, and “business” data and credit cards. As policies vary, be sure to review your policy to understand its specific terms.

### **Coverage D – Loss of Use**

Coverage D is divided into three parts: Additional Living Expenses, Fair Rental Value, and Civil Authority. When your home is uninhabitable, the insurance company will cover the additional expenses needed to maintain your standard of living, but only the amount over your normal expenses. The adjuster will consider your usual expenses, so it’s essential not to overestimate them. An accurate estimate can prevent unintended deductions.

Fair Rental Value reimburses you for lost rent if your home, or a portion regularly held for rent, becomes uninhabitable. You must demonstrate that it was rented or held for rental before the loss and is now uninhabitable.

If a local, state, or federal authority prohibits occupancy due to damage to a neighboring property (if that damage is covered by your policy), you may claim additional living expenses for relocation under the Civil Authority provision. This coverage typically has a time limit of around two weeks. For example, if a neighboring property fire displaces you, relocation costs would qualify. However, if the neighboring damage were from a flood, the costs would not be covered because flood is not a covered peril under your policy. This same analysis applies to Fair Rental Value losses under Civil Authority.

### **Additional Coverages**

The Additional Coverages section outlines the policy’s response to specific types of losses.

#### **Debris Removal**

This coverage provides additional insurance beyond policy limits. If a total loss occurs, and the combined cost to rebuild and remove debris exceeds policy limits, this provision typically increases the payable amount by 5%.

#### **Reasonable Emergency Repairs**

Not all policies include this provision. When present, it generally limits emergency repair costs to \$3,000 unless approved by the adjuster. This can create a conflict with the policy’s duty to mitigate damages, and professional assistance may be necessary to resolve these situations.

#### **Trees, Shrubs, and Other Plants**

These items are covered on a named-peril basis, though windstorm damage is typically excluded. Coverage is limited to \$500 for each tree, shrub, or plant and is often considered additional insurance.

#### **Fire Department Service Charge**

In some areas, municipalities charge for fire suppression services, especially in rural locations. Coverage for this is typically limited to \$500 and often considered additional insurance.

#### **Property Removed**

If you move your property to protect it from an imminent covered loss, this provision extends coverage for up to 30 days. Although personal property coverage is typically on a named-peril basis, the Property Removed clause provides broader protection, covering any cause of damage within this period. This is not additional coverage.

### **Credit Card Losses**

Your policy may cover losses from unauthorized use of your credit card, fund transfer card, or counterfeit currency. Details vary, so review the policy to see if your situation is covered. This is additional insurance.

### **Loss Assessment**

For those in planned communities, this provision may cover assessments issued to address shortfalls in association funding, up to \$1,000, with higher limits available for purchase. This is considered additional insurance.

### **Collapse**

Though generally excluded as a cause of loss, coverage for collapse is provided under tightly defined circumstances. As coverage language varies by policy, review yours carefully. This is not additional insurance.

### **Glass or Safety Glazing Materials**

If your home contains non-safety glass, the policy may pay to upgrade it to safety glass, with specific stipulations, such as vacancy. This is not additional insurance.

### **Landlord's Furnishings**

Coverage for landlord's furnishings is excluded under Coverage C – Personal Property but is reinstated here, usually with a sub-limit of \$2,500 and specific restrictions. This is not additional insurance.

### **Ordinance or Law**

Older homes face significant financial risks with ordinance and law requirements. This provision provides additional insurance up to 25% of Coverage A limits for compliance-related costs. As an incurred coverage, you may need to pay for repairs upfront and seek reimbursement. Some insurers may offer flexibility with these expenses.

### **Grave Markers**

This provision reimburses up to \$5,000 for damage to family grave markers caused by an insured peril. This is not additional coverage.

### **“Fungi,” Wet or Dry Rot, or Bacteria**

Coverage for “fungi,” wet or dry rot, or bacteria is excluded under standard homeowner policies, though restricted coverage is available here. This includes testing, which can be costly and reduces the amount available for recovery. This is not additional insurance.

In the next section, we'll discuss Perils Insured Against and the distinctions between Open Peril Coverage and Named Peril Coverage.

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