Claims 101

Your Single Biggest Mistake

Education Series

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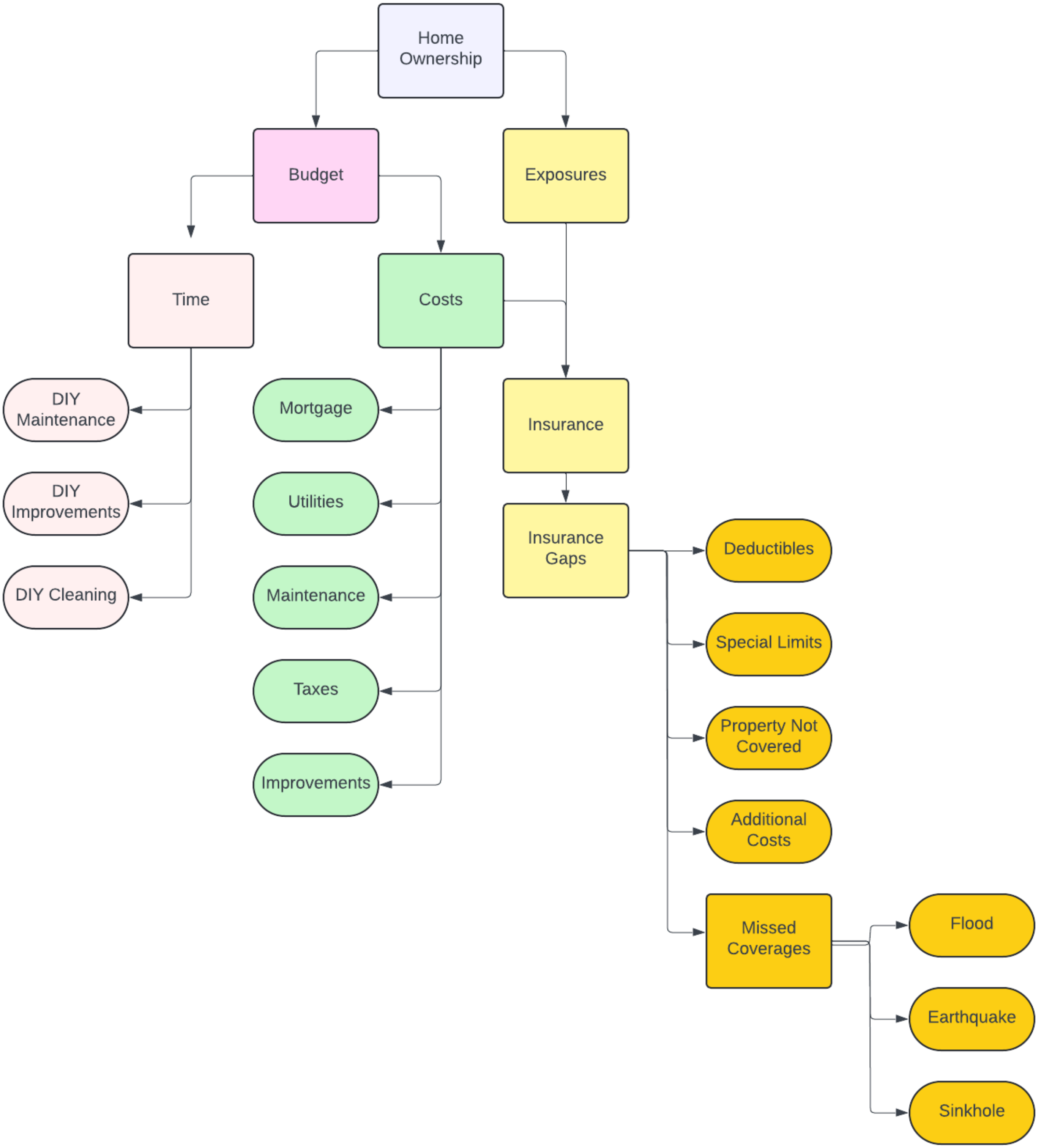

Your home is most likely the single largest investment you'll ever make. Prior to purchase you also likely engaged in some preliminary financial assessment to make sure you could afford it. Some thoughts also went into improvements you envisioned and the time it would take to maintain your home appearance. Visions of a new mower or a Roomba may have been a part of the equation. What likely never entered your mind was insurance, outside being able get a policy in time for closing.

This could turn out to be one of the single biggest mistakes you ever make!

Lots of homeowners and businesspeople view insurance as a necessary evil whose costs need to be minimized. Before you allow yourself to fall into that camp, consider this: you only need insurance after your home is damaged. By that time, it's too late to make changes and you're stuck with what you have. It's also the exact moment you realize you may not have enough coverage to reimburse your loss and may not have the cash to cover the uninsured expenses.

IT'S ALWAYS THE INSURED'S INTENTION TO HAVE PURCHASED THE MAXIMUM AVAILABLE COVERAGE AFTER THE LOSS.
James Evan

In the diagram at the beginning of this paper, you find yourself on the left side concerned with Costs and Time and unconcerned with exposures. The time to. change that is before the damage occurs rather than after. So, let's look at the exposures and potential costs associated with those exposures.

Before we begin, keep in mind that knowing an exposure is not the same as insuring against exposure. You may understand a potential exposure and not be able to insure against it or want to insure against it.

Deductibles

A deductible is the amount of money you must pay before the insurance company is obligated to respond. A deductible for common causes of loss such as fire, theft, vehicle damage and so on can be $1,000 or more. Hurricanes, earthquakes and sinkholes or mine subsidence losses are generally percentages of the Coverage A (dwelling) limits and can be tens of thousands of dollars. If you do not have this money already set aside to pay for repairs, you can find yourself financially strapped in a time of greatest need.

A way to begin accumulating a cash reserve is to open a savings account at a bank you normally don't do business with and begin making deposits on a regular basis. Try not to link that account electronically to any other account, because it makes accessing those funds too tempting. Your mantra here is: There Is No Such Thin g As Savers Remorse.

Special Limits

Keep cash on hand? Got jewelry or silverware or firearms? Each of these types of property, and more, are subject to special limits of liability. Those special limits are the most an insurance company will pay regardless of the value of the damaged or stolen property. A list of property subject to Special Limits can be found in your insurance policy under the part titled Coverage C – Personal Property (your policy's nomenclature may be different).

You may or may not want to insure for this exposure as the coverage can be expensive, but you will want to prepare financially to be able to replace these items if damaged or stolen.

Property Not Covered

Like Special Limits of Liability, your homeowner's policy lists categories of property it does not cover. These categories are usually found within the same general area as the Special Limits. However, you should also be aware that your policy will likely not cover a detached garage that is rented, unless used solely as a garage. The same applies if the garage is used to operate a business or store business property. You can obtain coverage for these exposures should you choose to insure against them.

Additional Costs

Insurance losses cost money and generally lots of it. Further, it's not your insurance company's responsibility to serve as your bank. That responsibility falls to you.

Suppose your home is damaged to the point you can't live in it? Do you have the money to pay for a hotel? How about first, last and security for an apartment, plus renting temporary furniture? In cases of significant loss, your insurer may offer to handle temporary housing for you via a corporate housing company. These companies may have expensive overhead. They front the expenses and wait for insurer reimbursement. That's ok if you have sufficient Additional Living Expense coverage. But if you don't these administrative expenses can add up and deprive you of the needed funds.

An insurer has the right to insist that you front your living expenses and then seek reimbursement. They know if you do not have access to money your out-of-pocket expenses will be less than what would otherwise be paid. Having ready access to cash provides options that an empty bank account does not.

Missed Coverages

Floods are not covered by a homeowner's policy. Earthquakes are not covered by a homeowner's policy. Sinkholes and mine subsidence may not be covered by a homeowner's policy depending upon the state you live in. Each of these can result in a total loss to your home. Can you afford to pay off your mortgage while still incurring living expenses? For most of us the answer is no. The politics of global warming notwithstanding, the fact is tropical like downpours are becoming more common. Flood is the one coverage out of these three you really want to consider, with earthquake close behind.

Conclusions

The feeling that you need to set aside large sums of money to prepare for loss is daunting. You don't actually need to do this. Begin setting aside a small amount and stick with it. Over time it will build up and even if you have a loss and find yourself short on funds, you'll be glad you set aside the money you did. Remember… There Is No Such Thing As Savers Remorse.

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