PART 5
FINANCIAL PROTECTION

There are two ways to protect your property from natural hazards. The proactive way is to strengthen your house to address the individual hazard. If, however, there is still damage, insurance can provide resources to aid recovery. Unfortunately, many homeowners do not know what is covered through their insurance policies, let alone what perils are included for coverage. This chapter will discuss the types of insurance available to homeowners, the information to navigate, what to do after an event, and how to properly rebuild.

This section will teach you four basic rules for properly insuring your home:

1) Know your risks
2) Know your policy
3) Know your coverage
4) Know your deductible

PART 5.1

UNDERSTANDING AND OBTAINING GOOD INSURANCE

Homeowners insurance (HO) covers both damage to your property and your liability or legal responsibility for any injuries and property damage you or members of your family cause to other people. Homeowners insurance will cover damages caused by many disasters, including fire and burglary, but there are exceptions. You must buy a separate policy for damage from floods, termites, pests, and earthquakes. When a policy specifically lists or names the perils that it insures against, it is said to be using the "named perils" approach. If damage is caused by a peril not specifically named, it will not be covered. Whereas, an "all-risk" insurance policy offers you coverage and protection from all risks or perils that could damage your home or contents and personal property unless the risks are excluded specifically in the policy wording. To add, there are many carriers that provide insurance, and markets often change, which makes finding the right company and coverage a daunting task. Here are the steps to keep in mind with purchasing insurance.

Step 1: Know your risks and costs of assets
Step 2: Select agents and insurance companies
Step 3: Request quotes and complete applications
Step 4: Compare quotes
Step 5: Purchase the policy

INSURANCE TIP:
When purchasing coverage for the structure of your home, remember this simple guideline: Purchase enough coverage to rebuild your home.

A homeowners policy is a package policy because it bundles both property and liability insurance into a single policy for convenience and economy. Besides covering the principal dwelling and other structures, it also includes coverage for additional living expenses, personal property, and medical payments. There are two major sections of the HO policy. Part I is for property coverage, and Part II is for liability. Part II liability coverage is always the same for homeowners policies.

Most homeowners policies are written on Insurance Services Offices (ISO) forms and expressed as "HO" followed by a number. Each of these ISO forms covers property in a different way or covers property of different types. Some companies may have their own proprietary forms; however, they usually mirror ISO standard forms to a large extent. **A knowledgeable insurance agent is critical to helping understand what each carrier's policy covers.**

Here are the forms currently in use:

- **HO-2** is also known as the Broad or "cheap" form but provides more coverage than HO-8.
- **HO-3**, the Special Form, is the most common; it is the middle-of-the-road form.
- **HO-4**, called the Contents Broad Form, is the tenants' form and is a special, contents-only policy for renters.
- **HO-5** provides the best coverage and is considered the high-end form.
- **HO-6** is the Condominium Form for condominium owners.
- **HO-8**, the Modified Coverage Form, gives more limited coverage than other forms.

5.1.1 SHOPPING FOR YOUR INSURANCE

For many people, the task of getting the right insurance seems daunting, and the perceived rewards are too small to warrant such effort. However, the market for homeowners insurance changes frequently as new companies enter and existing companies decide not to insure coastal wind risk. If it has been more than a few years since you shopped for insurance, or if you have never shopped beyond your current agent or insurance company, you could be paying too much or not getting the right coverage.

When shopping around, be sure to ask these 10 questions to be sure you get the insurance coverage you deserve and can afford.

1) How much coverage did you quote on my house, and does this include detached structures (e.g., garage, workshop, etc.)?
2) How much coverage is provided for my personal property (my stuff)?
3) Are my contents insured for replacement cost or actual cash value (ACV)?
4) Is my house insured for replacement cost or actual cash value (ACV)?
5) Do I have sewer and water coverage?
6) How much is my deductible in dollars? How about my wind deductible?
7) Do I have (or did you quote) a separate Wind/Hail policy?
8) Do I have coverage for Additional Living Expenses?
9) How much Ordinance and Law coverage do I have?
10) Do I have (or did you quote) a Flood Policy? What is my flood zone?

Learn more by downloading this Insurance Shoppers Guide developed by the University of Alabama: *aciir.culverhouse.ua.edu/wp-content/uploads/sites/26/2018/12/ShoppersGuide_Online_8.5x11_2018_Update.compressed.pdf*.

5.1.2 DETERMINING HOW MUCH INSURANCE YOU NEED

Standard homeowners policies provide coverage for natural disasters, such as damage due to fire, lightning, hail, and explosions. Those who live in areas with flood or earthquake risks will need coverage for those disasters since standard policies don't usually include these. You want the limits on your policy to be high enough to cover the cost of completely rebuilding your home. Keep in mind that there will not be economies of scale when rebuilding as there are for builders when creating a new subdivision and that other items, such as debris removal, must be considered when selecting the proper coverage amount.

The price you paid for your home—or the current market price—may not be the cost to rebuild. You'll want to consider the cost of rebuilding to current building code. And if the limit of your insurance policy is based on your mortgage (as some banks require), that also might not cover the cost of rebuilding.

While your insurer will provide a recommended coverage limit for the structure of your home, it is a good idea to educate yourself as well. To make sure your home has the right amount of structural coverage, consider:

- Factors that impact the rebuilding costs for your home
- Specific styles and features of your home
- Whether or not your home is up to code

You will also be required to select coverage for "Other Structures," which are structures not attached to the main dwelling, such as sheds and detached garages. Typical coverage ranges from 10% to 25% of the dwelling limits depending on the size of the structure and its contents.

Most homeowners insurance policies provide coverage for your belongings at about 50% to 70% of the insurance on your dwelling. However, that standard amount may or may not be enough. To learn if you have enough coverage:

- **Conduct a home inventory of your possessions**
- **Take stock of expensive items**
- **Make a visual record with photos/video**, have copies of receipts and an itemized list with details for high-value items, update annually/after major purchases, store safely

Additional Living Expenses (ALE) is a very important feature of a standard homeowners insurance policy. If you cannot live in your home due to a fire, severe storm, or other insured disaster, ALE pays the additional costs of temporarily living elsewhere. It covers hotel bills, restaurant meals, and other living expenses incurred while your home is being rebuilt.

Liability portion of homeowners insurance covers you against lawsuits for bodily injury or property damage that you, family members, or pets cause to other people, as well as court costs incurred and damages awarded. You should have enough liability insurance to protect your assets, which typically ranges from $100,000 to $500,000.[56]

PART 5.2

INSURANCE FOR WIND EVENTS

In 19 states, a wind insurance policy is separate from your homeowners policy, will have a different deductible, and covers specific damages or losses. These "shared markets" are state-run programs that provide insurance to high-risk individuals and properties that do not qualify for private insurance. Since they are designed to cover such high amounts of risk, they rely on the backing of the government, which spreads the cost among all the insurers in the state.

Residual Market insurance programs are considered a last resort option for consumers. They are expensive, and they often require applicants to prove that they have been rejected by a number of private insurers before issuing coverage.

In Florida, the Citizens Property Insurance Corporation is the shared market for residential properties. Visit their website to learn more: *www.citizensfla.com.*

Homeowners vs. Dwelling: The basic difference between dwelling insurance and homeowners insurance is that dwelling insurance covers property only, not liability (although some liability protection is available by endorsement).

Deductibles: There are two kinds of wind damage deductibles: hurricane deductibles, which apply to damage solely from hurricanes, and windstorm or wind/hail deductibles, which apply to any kind of wind damage. Key facts to remember about deductibles:

- **Deductibles apply to every property loss.**
- **Dollar deductibles are a specified amount that you choose** (subject to a company-specific minimum).
- **Percentage deductibles are a percentage of the amount of coverage on the house.** When applied, they are translated into a dollar amount based on the dwelling limit and applicable percentage. Small changes in percentages can translate into large dollar differences; consult your insurance agent to learn more.
- **The deductible is subtracted from the amount of loss,** not the amount of coverage.

Actual Cash Value: This is the cost to replace damaged or destroyed property with new property of like kind and quality minus the value of its physical depreciation. Essentially, the "used up" value of the property is subtracted from the loss payment. The policy does not provide payment for the entire cost to repair or replace your house.

Replacement Cost Value (RCV): The insurance policy pays to repair or replace damaged property with NO deduction for depreciation. Importantly, there are other clauses in RCV policies that can limit coverage, but this generalization largely holds true.

Ordinance and Law: This is an endorsement to the policy that will pay extra money on your claim for the increased cost of construction due to local building standards and codes.

Additional Living Expenses: If your house suffers major damage due to a covered peril, you may not be able to live in your house while it is being repaired. This creates additional living expenses, such as rent and utilities for an apartment. A decrease in revenue, such as lost income from renting out a section of your home, is also included in additional living expenses. Some insurance policies cover additional living expenses, and some do not.

PART 5.3

INSURANCE FOR FLOOD EVENTS

Flooding is the most common natural disaster in the U.S. Flood insurance is recommended for those who live near coastlines, rivers, stream systems, or any other body of water. On average, just 1 inch of water could cause $25,000 in damages to a home. All homeowners policies specifically exclude coverage for flood. You must purchase a separate flood policy if you want to be insured for losses caused by flood damage, typically from the National Flood Insurance Program, but there are now more options from private insurance companies.

FIGURE 5-1- SOURCE: FEMA

Maintaining flood insurance is mandatory if you have a mortgage and live within a Special Flood Hazard Area (SFHA). Outside this area, insurance is not required, but many people have policies because flooding can occur. For example, **FEMA estimates that nearly 1 in 4 of all federal flood claims occur outside of high-risk areas.**[57] The rates for properties outside the SFHA are very affordable, as they qualify for the lowest rates that are offered by the National Flood Insurance Program (NFIP) and are "priceless" if a flood should occur. If you are a first-time applicant for flood insurance from the NFIP, know that there is a 30-day waiting period before a flood insurance policy goes into effect. Additionally, new policies will not be written and existing policies cannot be modified when a hurricane is predicted or approaching your area.

You can purchase flood coverage from either NFIP or from a private flood market. Private carriers who specialize in covering flood risk may offer competitive rates as well; consult your insurance agent to learn more. The NFIP form is generally much less expensive because the rates and thus premiums are subsidized by the government.[58]

Key facts to know about flood insurance:

- All homeowners insurance policies exclude flood.
- Homeowners use the NFIP Dwelling Form.
- Flood coverage in the Dwelling Form is provided on a replacement cost basis on two conditions:
  - The house is insured to 80% of its replacement cost or the maximum the NFIP ($250,000), and
  - You live in the house at least 80% of the year.
- Flood policies are subject to a maximum limit ($250,000 on the dwelling and $100,000 on personal property). If the replacement cost of your house exceeds $250,000, additional limits are available from private companies.

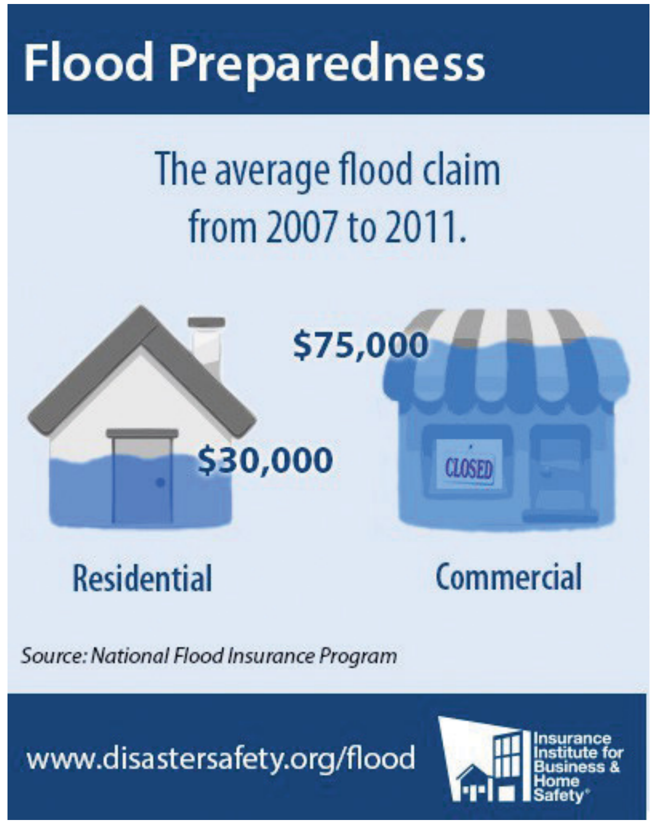

FIGURE 5-2 - SOURCE: IBHS

- Separate deductibles apply to the dwelling and personal property.
- Be sure to get coverage for BOTH dwelling and contents as they are sold individually.
- There are many instances where people thought they had purchased coverage for both and found out they had only coverage for their structure.The flood policy covers direct loss only, not additional living expenses.
- Regardless of the "Flood Zone" in which your house is located, you should purchase flood coverage.
- Flood coverage has a 30-day waiting period (unless for a loan closing or a few other reasons). Because of this, you should plan coverage well in advance, not waiting for a storm.

Five pieces of information are generally needed to get a flood quote/policy:

- An elevation certificate (not always required)
- The flood zone in which your house is located
- The year your house was built
- The year of the initial flood insurance
- Flood insurance rate map (FIRM) for your area

INSURANCE TIP:

Use this tool to see historical flooding risk and potential costs by county. Select "Florida" in the drop-down menu.

www.fema.gov/data-visualization-floods-data-visualization

5.3.1 NATIONAL FLOOD INSURANCE PROGRAM

In 1968, the U.S. Congress enacted the National Flood Insurance Program (NFIP), primarily because flood insurance was nearly unavailable from the private insurance market. The federal government had been providing most of the funding for recovery after flooding events, but this system was not sustainable. Under the NFIP, homeowners pay premiums that contribute to their recovery should there be a flooding event. Communities must decide to join the NFIP, but the individual premiums vary according to the location of the property. Homeowners must also maintain certain requirements, such as elevating or floodproofing structures. Homeowners can learn more about flood insurance, perform an address-based risk assessment, and locate an insurance agent serving their address at *www.FloodSmart.gov*, a website maintained by the NFIP.

FIGURE 5-3 - SOURCE: FEMA NFIP

A **preferred risk policy (PRP)** is available for a property located in a low-risk area (e.g., B, C, and X zones) in a community that already participates in the NFIP. The PRP premiums are lower than those for standard policies. If your property was mapped into a low-risk flood zone you may still be eligible for a PRP.

Talk to your insurance agent. Previous and current flood zone documentation for your property must be validated for eligibility. Likewise, your property must meet certain loss history requirements, even if you are the new owner. The requirements involve the number of flood claims and the cost of the claims. You can also decide between two types of policies: building-and-contents coverage or contents-only coverage.

5.3.2 COMMUNITY RATING SYSTEM

The Community Rating System (CRS) is a program that rewards communities for floodplain management activities that exceed the minimum NFIP requirements. Individual insurance premium rates are discounted to reflect the reduced flood risk resulting from those activities. You can contact your local floodplain manager or insurance agent for more information. The three goals of the CRS program are:

- Reduce flood damage to insurable property
- Strengthen and support the insurance aspects of the NFIP
- Encourage a community's comprehensive approach to floodplain management

5.3.3 INCREASED COST OF COMPLIANCE (ICC) COVERAGE

Flood damage to homes can vary greatly for different reasons. Sometimes the damage is far greater than a homeowner can afford with a direct loss insurance claim, especially when the homeowner must upgrade the home to meet current codes and requirements. Increased Cost of Compliance (ICC) coverage may fulfill the gap between repairing your house to its pre-existing condition and complying with current codes and requirements.

For example, flooding causes $200,000 of damage to Jane's house. After speaking with her insurance adjuster and the local building inspector, she finds out that she needs to elevate the house to meet new floodplain requirements. Jane can file for her direct loss claim and ICC coverage if she needs the additional financial assistance. The ICC coverage will provide no more than $30,000 (for any policyholder). Also, the combined amount of the claim and the ICC coverage cannot exceed $250,000 (the maximum limit of coverage for any residence).[59]

Your community's building department must determine the extent of damage and what is necessary to bring your home up to compliance with current codes and requirements (whether you file for ICC or not). The department must then give you a written letter with those terms, which you will turn in to process your claim and ICC coverage.

There are four options to help you reduce future flood damage. You can use one of these or a combination of these measures. You should speak with your local floodplain administrator to help you decide which option is best for your property.

1. **Elevation:** Raises your home or business to or above the flood elevation level adopted by your community.
2. **Relocation:** Moves your home or business out of the risk area.
3. **Demolition:** Tears down and removes flood-damaged buildings.
4. **Floodproofing:** Available primarily for non-residential buildings. Floodproofing makes a building watertight through different adjustments or additions of features to the building that reduces the risk of flood damage.

FEMA TERMS TO LEARN

BEFORE FILING INSURANCE CLAIMS

Repetitively Damaged (or Repetitive Loss - RL) means the building must have had flood damage on at least two occasions during a 10-year period, and the cost to repair the flood damage, on average, equaled or exceeded 25 percent of the market value of the building on each occasion.

Substantially Damaged (SD) means damages of any origin sustained by a structure in which the cost of restoring the structure to its before-damaged condition would equal or exceed 50 percent of the market value of the structure before the damages occurred.

Substantial Improvement (SI) means any reconstruction, rehabilitation, addition, or other improvement of a structure, the cost of which equals or exceeds 50 percent of the market value of the structure (or smaller percentage if established by the community) before the "start of construction" of the improvement. This term includes structures that have incurred "substantial damage," regardless of the actual repair work performed.

PART 5.4

MAKING A CLAIM AFTER RECEIVING A LOSS

Being able to file a claim is why we pay for insurance. If your home or property is damaged, follow these steps to file successfully, negotiate your claim, and get your damage fixed correctly.

As soon as you receive your policy, conduct a mock run-through for filing a claim, so you are familiar with the process and know what pieces of information from your deck pages will be needed. Save your claim number once you first file the claim. This will be used as a reference number for all future communication with the insurance company. Start taking notes on everything you do and correspondence you have. Include date and time. If at any time you have difficulties contacting or working with your insurance company through the claims process, then use your Florida Division of Insurance Agent and Agency Services (*myfloridacfo.com*) as a resource for help. **Also, save everything to a flash drive or a cloud drive like Google, Amazon, iCloud, or Dropbox or email it to yourself.**

More detailed steps include:

- **Follow your policy's guidelines.** Most insurance policies have a section that details how to file a claim. Follow what it says to make it easy for yourself. It should detail where to find and submit forms and the ways you can file them.
- **File your claim immediately.** Filing a claim quickly is a good idea for several reasons, including expedited handling before a rush of claims comes through that require prioritization by your carrier.
  - Your insurer will be able to help you with your claim and give you advice.
  - They will schedule an adjuster to come and visit your property.
  - You can start your claim by phone or online with many insurers.
  - You may also be eligible for additional incentives, such as Ordinance and Law to build back to the newest building code.
  - You should also ask about building back better by using certain standards, like FORTIFIED Home, or options to elevate your home to avoid the next flood.
  - Your choices will vary based on your policy and your insurer.
- **Take pictures.** Get out your phone or camera and take pictures of the damage before you start cleaning up. You cannot take too many pictures. Get different angles, wide shots, and close-ups. Make sure to get very detailed photos where the most damage occurred.

These will help you negotiate your claim with your insurance adjuster. Be sure to include:

  - The serial and model numbers of electronics and appliances.
  - Down your hallways, into bedrooms, looking out of rooms, outside, inside, of the floors.
  - Inside of your cabinets – your cookware, serving pieces, flatware, baking ware, small appliances, everything!
  - Clothes and shoes in your dressers and closets, including labels.
  - Food in your refrigerator and freezer.
- **Take videos.** If possible, conduct a walk-through of each room in the house and narrate what is in it.
  - Zoom in on each big-ticket (expensive) item's serial number, brand, etc.
- **Find or create a home inventory.** The more detailed your list, the more accurate your insurance claim payout will be when you work with your adjuster. Often, your insurance company will ask for an inventory of damaged items (usually providing a form). This practice will save you time and ensure accuracy.
  - If you have a home inventory, secure it or make it digital by taking pictures of it.
- **After documenting, begin cleanup** as soon as it's safe to do so and make temporary repairs to prevent further damage (e.g., tarping a damaged roof, boarding up damaged windows, drying out home to prevent mold growth). Insurance won't cover additional damage that you could have reasonably prevented.
  - Damaged items can be hauled outside to facilitate cleanup, but it is recommended not to have them hauled away until after your inspector has seen them (except for health hazards, such as spoiled food). Be sure to take photos of the removed items.
  - In the case of flood damage, it is recommended to preserve a waterline on a wall or window and save samples/swatches of carpet, flooring, drapes, etc. to show the adjuster.
- **Save your receipts.** Save receipts from every expense from the day of the damage until your home is back to normal. If you have old receipts of purchases, take pictures of them.
  - Digital pictures do not fade, receipts do. Plan to do this with any receipts you get for future purchases too.

- **Work with your adjuster**. Have a copy of your photos, home inventory, and the damaged items ready to share. Make sure you are home during the inspection and walk them through the damage you see. Take note if they are thorough with the inspection, such as getting on the roof, taking lots of photos, and recording measurements.
- **You can negotiate your claim.** Once you receive your initial claim proposal, you can negotiate with the adjuster.
  - Use your home inventory and damage checklist as proof of what you lost and ensure the replacement costs are correct.
  - If you have Ordinance and Law coverage in your homeowners policy, make sure that was taken into account.
- **Use any contractor bids for repair work** to justify the costs needed to fix the damage.
  - These bids can also be used to negotiate your claim.
  - Bringing your home up to code will add additional costs to the job.
- **Use your payments wisely.**
  - Spend your money according to the claim. Otherwise, you may be ineligible to receive your recoverable depreciation.[60]

DIGITAL TIP:

Save photos before and after to a cloud-based format, then you'll have records and can easily share them with adjusters and your insurance agency.

INSURANCE TIP:

How do I file my flood claim?

floodsmart.gov/flood/how-do-i-file-my-flood-claim

PART 5.5

CHOOSE A QUALIFIED CONTRACTOR AND AVOID SCAMS

Now that you understand the components of a home and how to strengthen it, this section will help you make decisions about choosing the right contractor to build or retrofit your home. This is especially important in the busy and often chaotic environment following a disaster.

Unfortunately, after a disaster, some individuals choose to take advantage of people while they are displaced. Likewise, others will prey on people after they have returned home and are assessing their damage and beginning repairs.

5.5.1 TIPS TO CHOOSE A QUALIFIED CONTRACTOR

- **Get at least three bids from qualified contractors.** Do not give a price range or let them know what you have received from your insurance claim.
- **Make sure they have (and get copies of or take pictures of):**
  - A Contractor's License (General or Roof) or Home Builder's License, depending on the amount of work. Verify that their license/registration is valid by checking the Florida Division of Business and Professional Regulation (*www.myfloridalicense.com*) licensing registry when looking for the appropriate contractor.
  - General Liability insurance.
  - Workman's Comp Insurance for their staff.
  - A bond to fix any lousy work they refuse to fix, just in case.
  - At least three local references you can call.
  - Examples of recently completed projects.
- **Get everything you want to be done in written bids on company letterhead.** Do not leave anything out and ask that they plan for additional costs, such as replacing rotted wood or other typical items they think they could find. You may not end up paying for these but having them in the contract protects you from "surprise" costs.
  - Ideally, work with local, reputable companies and contractors.
  - Once you select a contractor, get your contract in writing with everything you want and agreed to on company letterhead; do not forget

- It is okay for contractors to request a certain percentage of the costs up front if you have researched them and are under contract. 10-25% is common. Some states have limits on the amount contractors can request. Contact the Florida Division of Consumer Services (FDACS) at *freshfromflorida.com/Divisions-offices/Consumer-Services*.
- Never pay in cash, and never pay in full upfront. The contract should include a schedule for payments in installments as work is satisfactorily completed. Issue the final payment only after all work has been completed to your satisfaction and passes any required code inspection. Upon receipt of final payment, the contractor should sign a lien waiver/release of lien indicating they have been fully paid and give up any rights to place a lien on your property in the future.

- **Ensure the contractor pulls all necessary permits for your job (check with local building department on what's required) and that all are properly closed out once the job is complete.**[61]

5.5.2 AVOID BEING A VICTIM OF A FRAUD

The demand for qualified contractors after a disaster exceeds the supply, and many reliable, honest, and licensed contractors can be booked solid for a long time. Homeowners who are eager to get their property back in shape may not take the needed precautions when hiring contractors. Fraudulent contractors know this and flock to disaster-struck communities to fool homeowners into thinking they are paying for good work.

These fraudulent contractors overcharge, provide subpar services, or use faulty materials when working on homes. A homeowner who is unfamiliar with contractor jargon and has no knowledge of building systems can easily be fooled and taken advantage of. Here are some tips to follow to protect yourself from fraudsters and identity theft:[62]

- Ask contractors for references and proof of insurance. Check with those references regarding the contractor's dependability and quality of work.
- Get written estimates with a description of work to be done, time schedules, and payment schedules.
- Get estimates from more than one contractor.
- Read and understand all contracts before you sign. Never sign any forms with blanks.
- Keep copies of everything you sign.
- Do not sign an AOB (Assignment of Benefits). You are essentially turning over your rights on your insurance claim.
- Never pay a contractor in full until the work is complete and acceptable.

- Check your bank and credit card statements for purchases you have not made. If you suspect you are the victim of identity theft, report it immediately to your bank, credit card company, and local law enforcement.

Follow the "SBP 7 Tips to Avoiding Contractor Fraud" on their website at *sbpusa.org/public/uploads/pdfs/SBP_ContractorGuide_20181024.pdf*, and use their Contractor Fraud Checklist to avoid being scammed. Learn more and download additional disaster recovery and homeowner resources at *sbpusa.org/start-here*.

More resources:

nicb.org/prevent-fraud-theft

iii.org/insurance-basics/disasters-preparedness/weather

nerdwallet.com/blog/insurance/home-inventory-insurance-claims/