



OVERVIEW OF TEXAS HOMEOWNERS POLICY COVERAGE

INTRODUCTION

Texans have been shifted from more comprehensive policies that offered coverage for all risks to your dwelling to those that only cover risks specifically named in the policy. And coverage for many devastating losses is vanishing, including: damage to your foundation or slab caused by a covered water leak; damage resulting from construction defects; sudden and accidental leakage from plumbing, heating, or air conditioning; and backup of sewers or drains. Meanwhile, our rates remain the highest in the nation despite so-called insurance reforms passed in 2003.

Simply put, we're paying a lot more for a lot less.

Homeowner policies can be complicated documents and most consumers don't realize exactly what is – and more importantly, what is not – covered in their policies until they suffer a catastrophic loss and have to file a claim with their insurance company. Now is a good time for consumers to sit down and examine the level of coverage provided in their homeowners policy before it comes up for renewal. This overview discusses the different types of coverage available to homeowners in order to give them a better understanding of their options.

CHANGES IN COVERAGE FOR TEXAS HOMEOWNERS

Before 1997, the state set policy forms for use by insurance companies. Three major policy coverages were offered to Texans: the HO-A, HO-B, and HO-C forms. Most homeowners had the comprehensive HO-B form, which provided replacement cost coverage and covered most losses. (For a more detailed discussion of these policy forms, please see below.)

In 1997, legislation was passed that allowed insurance companies to parcel out types of coverage and protections available to consumers. Today, according to the Texas Office of Public Insurance Counsel's website, there are over thirty homeowners policy forms available in the state, while the comprehensive HO-B form is being offered by fewer and fewer companies.

According to the Texas Department of Insurance, "By the middle of FY2003, enhanced HO-A policies and the national homeowners policy forms of individual companies and service organizations had all but replaced the HO-B. In March 2003, the HO-B accounted for only 14.7 percent of the policies issued in that month, compared to 62 percent in March 2002 and 95 percent in March 2001" (emphasis added). This trend makes it increasingly difficult for consumers to access broad coverage. And the varying levels of coverage offered in these different policies can complicate the comparison-shopping process.

HOW TO ENSURE YOU GET THE BEST COVERAGE AT THE BEST RATES

It can be confusing and overwhelming to determine exactly what your homeowner policy does and does not cover. The following tips are intended to help you gain a better understanding of your policy and alert you to consumer resources developed by the Texas Department of Insurance (TDI) and the Office of Public Insurance Counsel (OPIC), which are very useful guides for Texas homeowners.

1. Read your policy carefully

- Policies can be extremely dense, making it very important to read your policy carefully. Call your agent or company if you have any questions about what coverage is provided or need clarification on policy terms.
- OPIC has put together a list of questions to ask your homeowners agent, including questions on coverage. You can access it by going to <http://www.opic.state.tx.us/homeowner.php> and clicking the "Important Questions to Ask Your Homeowners Agent" link on the left side of the page.

2. Assess your options and shop around

- You can find a list of companies offering homeowners insurance in Texas, as well as the policies they provide, by accessing the "Help Insure" website developed by the Department of Insurance, <http://www.helpinsure.com/lcenter/providers.html>.
- The Department of Insurance also has several guides that address homeowner insurance issues. Visit <http://www.tdi.state.tx.us/consumer/cb025.html> for information on different types of insurance and various discounts. To see their rate guide, which lists sample rates, the type of policy offered, and frequency of complaints for companies in each county, go to, http://www.tdi.state.tx.us/apps/perlroot/u_cp_homerate/rghome.html.
- Taking the time to make phone calls to different companies in your area may potentially save you hundreds of dollars on your policy.

3. See how your current policy stacks up

- OPIC has developed a comparison chart for homeowner policies that is extremely helpful. To examine the types of coverage provided in various policy forms, go to <http://www.opic.state.tx.us/homeowner.php> and select the "Compare Policy Coverages" link on the left side of the page. You can see a side-by-side comparison of forms by selecting more than one policy. For example, to compare the two common standard policies, check "HO-A" and "HO-B" on the screen.
- Consumers can compare their coverage with that provided in the HO-B form by using the table on the next page as a checklist. (Note: All data listed in the tables is from the OPIC website.)
- Again, if you are uncertain about terms or different coverages, your agent or company representative should be able to answer any questions.

PAYING MORE FOR LESS

Texas homeowners rates have skyrocketed while insurance companies slashed benefits from policies. Comprehensive homeowners policies (called HO-B policies) are no longer offered by most insurers and are priced out of reach for many homeowners. Instead, insurers have parceled out protections, selling some formerly standard coverages to homeowners at an additional cost.

- 96%** Percentage of Texans with a comprehensive HO-B policy in 2001
- 15%** Percentage of Texans with a comprehensive HO-B policy in 2003
- Up to 45%** Estimate by the Texas Department of Insurance of the amount of insurance coverage lost to Texas homeowners since 2001
- 45%** Average Texas homeowner insurance premium increase since 2000

REDUCED COVERAGE (from HO-B to HO-A)

- **Comprehensive Coverage** – Coverage for all potential damage to house, unless specifically excluded, was replaced by less inclusive coverage for only those damages that are specifically named in the policy.
- **Value of Property** – Coverage to replace/repair your house for the full amount it would cost today was replaced with reduced coverage that incorporates depreciation.
- **Living Expenses** – Coverage for living expenses if damages require that you move out, were cut in half.

LOST COVERAGE (from HO-B to HO-A)

- Water damages from leaking plumbing, heating and air conditioning
- Water damages caused by backups of sewers or drains
- Rain damages through faulty roof, windows or doors
- Damages resulting from construction defects
- Damages to slab or foundation caused by water
- Damages caused by falling objects including trees
- Collapse of house or other structures
- Glass breakage in windows or doors
- Damages caused by freezing of plumbing or heating systems
- Damages caused by the weight of snow, ice or sleet
- Damages related to mold, fungi and other microbes

HOMEOWNER INSURANCE POLICY CHECKLIST

HO-A and HO-B Policy Coverage vs. Your Policy

| CATEGORY | HO-A POLICY | HO-B POLICY | YOUR POLICY |
|---|--------------|--|-------------|
| Type of Coverage | | | |
| Dwelling | Named Perils | ALL Risks | |
| Personal Property | Named Perils | Named Perils | |
| Water Damage | | | |
| Sudden and Accidental leaking from plumbing, heating, air conditioning | NO | YES | |
| Continuous or Repeated leakage from plumbing, heating, air conditioning | NO | YES | |
| Rain through faulty roof, windows, doors | NO | YES <i>Dwelling and other structures only.</i> | |
| Backup of sewers/drains | NO | YES | |
| Freezing of plumbing or heating system | NO | YES <i>Certain precautions must be taken by insured if property is unoccupied.</i> | |

| CATEGORY | HO-A POLICY | HO-B POLICY | YOUR POLICY |
|--|---|--|-------------|
| Flood/Surface water | NO | NO | |
| Mold | | | |
| Mold, Fungi or Other Microbes | LIMITED to damage resulting from covered perils named in the policy. | YES <i>Only if the mold is on property physically damaged by sudden and accidental water or steam. This includes hidden and concealed damage that is reported within 30 days of detection.</i> | |
| Cost of Testing, Remediation, and Living Expenses due to Mold, Fungi or Other Microbes | NO <i>Endorsement <u>must be offered</u> to provide coverage up to the policy limits for these costs. PLEASE NOTE: This additional mold coverage applies ONLY to those perils named in the base policy:</i> <ol style="list-style-type: none"> 1. Fire and lightening 2. Sudden and accidental damage from smoke 3. Windstorm, hurricane, hail 4. Explosion 5. Aircraft and vehicles 6. Vandalism and malicious mischief 7. Riot and civil commotion 8. Theft | NO <i>Endorsement <u>must be offered</u> to provide coverage up to the policy limits for these costs. PLEASE NOTE: While the base policy does not cover the cost of testing, remediation, and living expenses due to mold, fungi or other microbes, it does provide some basic but limited mold coverage.</i> | |

| CATEGORY | HO-A POLICY | HO-B POLICY | YOUR POLICY |
|--|---|---|-------------|
| Other Perils Covered | | | |
| Damage to Foundation/Slab | NO | YES <i>If damage results from a covered water leak.</i> | |
| Falling Objects, including Trees | NO | YES | |
| Weight of Ice, Snow and Sleet | NO | YES | |
| Collapse | NO | YES <i>Unless caused by earth movement</i> | |
| Damage by Animals | NO | YES <i>Unless owned or kept by insured or occupant.</i> | |
| Glass Breakage - Dwelling <i>applies to glass that is part of the building</i> | NO | YES | |
| Damage by Vehicles | YES | YES | |
| Damage resulting from Deterioration | YES <i>Damage resulting from deterioration is covered. Damage consisting of deterioration is not covered.</i> | YES <i>Damage resulting from deterioration is covered. Damage consisting of deterioration is not covered.</i> | |

| CATEGORY | HO-A POLICY | HO-B POLICY | YOUR POLICY |
|---|---|---|-------------|
| Damage resulting from Construction Defects | YES <i>Damage resulting from construction defect is covered. Damage consisting of the construction defect is not covered.</i> | YES <i>Damage resulting from construction defect is covered. Damage consisting of the construction defect is not covered.</i> | |
| 3 rd Party Bodily Injury /Property Damage Liability resulting from Mold, Fungi or Other Microbes | YES | YES | |
| Additional Living Expenses (ALE) for perils other than mold | 20% of the dwelling limit of liability | 20% of the dwelling limit of liability | |
| Claims Settlement | | | |
| Dwelling | Replacement Cost | Replacement Cost | |
| Personal Property | Actual Cash Value. <i>Replacement cost can be added by endorsement.</i> | Actual Cash Value. <i>Replacement cost can be added by endorsement.</i> | |
| Price Quote | | | |

Sources:

- Texas Department of Insurance: "SB 310 Summary Report for the 78th Legislature: Final Report," March 28, 2003, (<http://www.tdi.state.tx.us/commish/reports/sb310rpt.html>); "128th Annual Report to the Governor & Legislature for Fiscal Year 2003," Part I: Report of Program Activities, page 4, (<http://www.tdi.state.tx.us/commish/reports/annual01.html>); "Consumer Area: Homeowners Insurance," February 2003, (<http://www.tdi.state.tx.us/consumer/consum31.html>).
- Texas Office of Public Insurance Counsel: "Homeowner's Insurance," (<http://www.opic.state.tx.us/homeowner.php>); "Compare Policy Coverages," (<http://www.opic.state.tx.us/hoic.php>).
- Overview of Insurance Issues for the 78th Session," David T. Weber, J.D., Policy Analyst for Insurance, Office of Speaker Tom Craddick, February 5, 2003.