

Chapter Four: Property Insurance

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Homeowners Insurance: An Overview

SEVEN TIPS TO HELP MAKE SURE YOU HAVE ENOUGH INSURANCE:

1. For a quick estimate of the amount to rebuild your home, multiply the local building costs per square foot by the total square footage of your house. To find out the building rates in your area, consult your local builders association.
2. Factors that will determine the cost to rebuild your home:
 - a. local construction costs
 - b. the square footage
 - c. the type of exterior walls
 - d. the style of the house
 - e. the number of bathrooms and other rooms
 - f. the type of roof
 - g. attached garages, fireplaces, etc.
3. Check the value of your insurance policy against rising local building costs each year.
4. Check the latest building in your community. Building codes require structures to be constructed to minimum standards. If your home is severely damaged, you might have to rebuild it to comply with the new standards requiring a change in design or building materials. These changes could cost more.
5. Do not insure your home for the market value. The cost of rebuilding your house may be higher (or lower) than the price you paid for it or the price you could sell it for today. Say for example you could sell your house on the current market for \$150,000. But to rebuild your house would take nearly \$170,000 because of the scarcity of building supplies needed for your home at this certain period of time. Or maybe a year from now the cost of building your homes goes down to \$140,000. While the market value of your home is constant, the money it takes to rebuild your home may not be.
6. Some banks require you to buy homeowners insurance to cover the amount of your mortgage. Make sure it's also enough to cover the cost of rebuilding.
7. Increase the limit of your policy if you make improvements or additions to your house.

Source: Insurance Information Institute

THREE WAYS TO INSURE YOUR HOME:

1) REPLACEMENT COST

Insurance that pays the policyholder the cost of replacing the damaged property without deduction for depreciation, but limited to a maximum dollar amount.

2) EXTENDED REPLACEMENT COST

An extended replacement cost policy, one that covers costs up to a certain percentage over the limit, may be purchased instead of a guaranteed replacement cost policy. This gives you protection against such things as a sudden increase in construction costs due to a shortage of building materials.

3) ACTUAL CASH VALUE

Insurance under which the policyholder receives an amount equal to the replacement value of damaged property minus an allowance for depreciation. Unless a homeowners policy specifies that property is covered for its replacement value, the coverage is for actual cash value.

If you have an older home...

You should insure your home for the total amount it would cost to rebuild your home if it were destroyed. If you don't have sufficient insurance, your insurance company may only pay a portion of the cost of replacing or repairing damaged items.



Saving on Homeowners Insurance

The price you pay for your homeowners insurance can vary by hundreds of dollars depending on the company you buy your policy from. Companies offer several types of discounts, but they don't offer the same discount or the same amount of discount in all states. That's why you should ask your agent or company representative about any discounts available to you.

11 WAYS TO SAVE

1) SHOP AROUND

Friends, family, the phone book and Internet are some of the sources you can use. Don't consider price alone. The insurer you select should offer both a fair price and excellent service. Quality service may cost a bit more, but you buy insurance in case you need to make a claim, so it's important to get a company with a good reputation. Talk to a number of insurers to get a feeling for the type of service they give. Ask them what they would do to lower your costs.

2) RAISE YOUR DEDUCTIBLE

Deductibles are the amount of money you have to pay toward a loss before your insurance company starts to pay. Deductibles on homeowners policies typically start at \$250.

Increase your deductible to:

- \$ 500 — save up to 12 percent
- \$1,000 — save up to 24 percent
- \$2,500 — save up to 30 percent
- \$5,000 — save up to 37 percent

Depending on your insurance company.

3) BUY YOUR HOME AND AUTO POLICIES FROM THE SAME INSURER

Some companies that sell homeowners, auto and liability coverage will take 5 to 15 percent off your premium if you buy two or more policies from them.

4) WHEN YOU BUY A HOME

Consider how much insuring it will cost. A new home's electrical, heating and plumbing systems and overall structure are likely to be in better shape than those of an older house. Insurers may offer you a significant discount if your house is new. Avoiding areas that are prone to floods can save you about \$400 a year for flood insurance. The closer your house is to firefighters and their equipment, the lower your premium will be.

5) INSURE YOUR HOUSE, NOT THE LAND

The land under your house isn't at risk from theft, windstorm, fire and the other perils covered in your homeowners policy. So don't include its value in deciding how much homeowners insurance to buy. If you do, you'll pay a higher premium than you should.

6) SEE IF YOU CAN GET GROUP COVERAGE

Alumni and business associations often work out an insurance package with an insurance company, which includes a discount for association members. Ask your association's director if an insurer is offering a discount on homeowners insurance to you and your fellow graduates or colleagues.

7) IMPROVE YOUR HOME SECURITY AND SAFETY

You can usually get discounts of at least 5 percent for a smoke detector, burglar alarm, or dead-bolt locks. Some companies offer to cut your premium by as much as 15 or 20 percent if you install a sophisticated sprinkler system and a fire and burglar alarm that rings at the police station or other monitoring facility. These systems aren't cheap and not every system qualifies for the discount.

8) STOP SMOKING

Smoking accounts for more than 23,000 residential fires a year. That's why some insurers offer to reduce premiums if all the residents in a house don't smoke.

9) SEEK OUT DISCOUNTS FOR SENIORS

If you're at least 55 years old and retired, you may qualify for a discount of up to 10 percent at some companies.

10) STAY WITH AN INSURER

If you've kept your coverage with a company for several years, you may receive special consideration. Several insurers will reduce their premiums by 5 percent if you stay with them for 3 to 5 years; by 10 percent if you remain a policyholder for 6 years or more.

11) COMPARE THE LIMITS IN YOUR POLICY TO THE VALUE OF YOUR POSSESSIONS AT LEAST ONCE A YEAR

You want your policy to cover any major purchases or addition to your home. But you don't want to spend money for coverage you don't need.

Average Premiums by State

AVERAGE PREMIUMS FOR RENTERS AND HOMEOWNERS INSURANCE, 2004

State	<u>Renters</u>		<u>Homeowners</u>		State	<u>Renters</u>		<u>Homeowners</u>	
	Average premium	Rank	Average premium	Rank		Average premium	Rank	Average premium	Rank
Alabama	\$226	8	\$793	11	Montana	\$163	36	\$661	25
Alaska	191	19	810	10	Nebraska	153	43	730	19
Arizona	227	7	642	29	Nevada	217	10	632	33
Arkansas	229	6	768	15	New Hampshire	162	37	599	40
California	265	2	835	7	New Jersey	181	27	641	30
Colorado	181	25	811	9	New Mexico	203	15	585	43
Connecticut	201	16	777	13	New York	220	9	785	12
Delaware	163	35	488	48	North Carolina	155	42	623	34
D.C.	189	21	894	6	North Dakota	130	49	704	22
Florida	199	17	929	4	Ohio	169	32	523	45
Georgia	215	11	635	32	Oklahoma	257	4	991	3
Hawaii	209	14	726	20	Oregon	174	31	492	47
Idaho	159	39	448	51	Pennsylvania	150	46	593	41
Illinois	186	22	659	26	Rhode Island	194	18	769	14
Indiana	181	26	636	31	South Carolina	190	20	768	16
Iowa	144	48	575	44	South Dakota	127	51	601	39
Kansas	180	28	833	8	Tennessee	212	13	681	24
Kentucky	165	33	615	37	Texas	277	1	1,362	1
Louisiana	253	5	1,074	2	Utah	151	45	473	50
Maine	145	47	513	46	Vermont	157	40	608	38
Maryland	160	38	652	27	Virginia	153	44	616	35
Massachusetts	215	12	759	18	Washington	177	29	590	42
Michigan	184	23	726	21	West Virginia	175	30	616	36
Minnesota	156	41	767	17	Wisconsin	128	50	483	49
Mississippi	262	3	907	5	Wyoming	164	34	650	28
Missouri	182	24	689	23	United States	195		729	

Source: Insurance Information Institute

Homeowners Insurance Facts

A 2006 Insurance Research Council poll found that 96 percent of homeowners had homeowners insurance, while 43 percent of renters had renters insurance.

The Insurance Information Institute estimates that the average homeowners insurance premium increased to \$787 in 2005 and then rose by 6 percent to \$835 in 2006. The I.I.I. projects that the average homeowners insurance expenditure is \$868 in 2007.

Contributing to the rising cost of homeowners insurance is the increase in average square footage and number of bathrooms in new homes. The average home size has grown about 10 percent from 2,221 square feet in 1998 to 2,434 square feet in 2005.

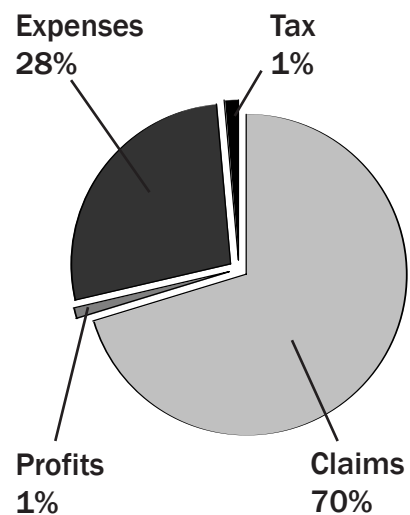
Premium Dollar Breakdown

Where the Premium Dollars Go: U.S. Homeowners Insurance, 2005

PREMIUMS EARNED:	\$100
Claims:	
<u>Property Damage:</u>	
Fire and lightning	\$16
Wind and hail	30
Water damage and freezing	11
All other property damage	4
<i>Subtotal</i>	<i>\$63</i>
<u>Liability:</u>	
Bodily injury and property damage	\$2
Medical payments and other	1
<i>Subtotal</i>	<i>\$3</i>
<u>Costs of settling claims</u>	<u>\$9</u>
Total Claims	\$75
Expenses:	
Commissions & other selling expenses	\$21
General expense (costs of company operations)	5
State premium taxes, license and fees	3
Dividends to policy holders	1
Total Expenses	\$30
<u>Total Cost</u>	<u>\$105</u>
Bottom Line:	
Investment gain	\$8
Pre-tax income (\$100 - \$105 + \$8)	3
Taxes	1
<u>After-tax profit</u>	<u>\$2</u>

Where the Revenue Dollar Goes, 2005

(Premiums and Investments)



Source: Insurance Information Institute estimate based on data from ISO and the National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC.

Catastrophes and Their Impact

KEY POINTS ABOUT CATASTROPHES

In 2006, Indiana had more catastrophe (cat) losses than any other state in the nation. While this can mostly be attributed to a lack of tropical storms damaging coastal states, Indiana did have a few significant weather events.

ISO's Property Claims Service (PCS) defines a catastrophe as any one event that causes \$25 million in damage or more. In 2006, Indiana had eight such events.

2006 Catastrophe Losses	
State	Loss (\$)
Indiana	\$1.5 billion
Missouri	\$878 million
Tennessee	\$873 million
Texas	\$688 million
Kansas	\$601 million

The most notable among these were the Good Friday hail storms, which hit the Midwest on April 14, 2006. This storm led to \$1.3 billion losses in the state and 282,500 insurance claims filed.

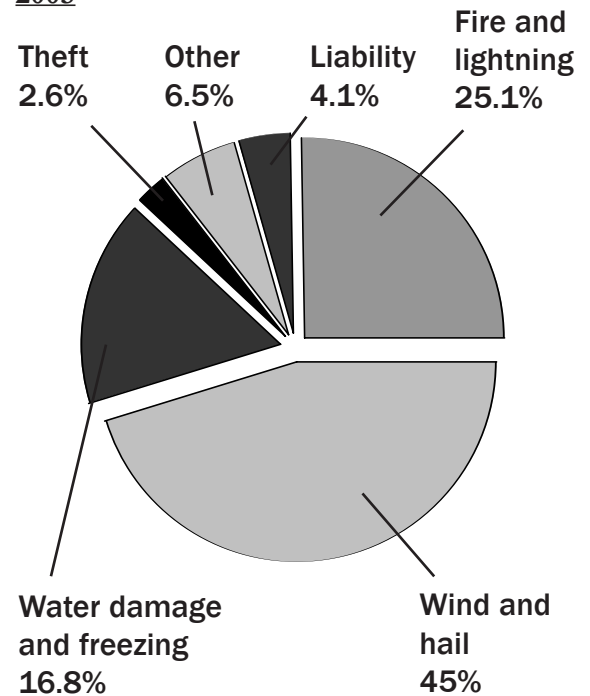
2005 Catastrophe Losses	
State	Loss (\$)
Louisiana	\$27.2 billion
Mississippi	\$12.2 billion
Florida	\$9.9 billion
Texas	\$2.9 billion
Alabama	\$1.5 billion

Year-by-Year Catastrophe Comparison		
Year	Insured Loss (\$)	# of Events
1997	\$2.6 billion	25
1998	\$10.1 billion	37
1999	\$8.3 billion	27
2000	\$4.6 billion	24
2001	\$26.5 billion	20
2002	\$5.9 billion	25
2003	\$12.9 billion	21
2004	\$27.5 billion	22
2005	\$61.9 billion	24
2006	\$8.8 billion	33
Total	\$169.3 billion	258

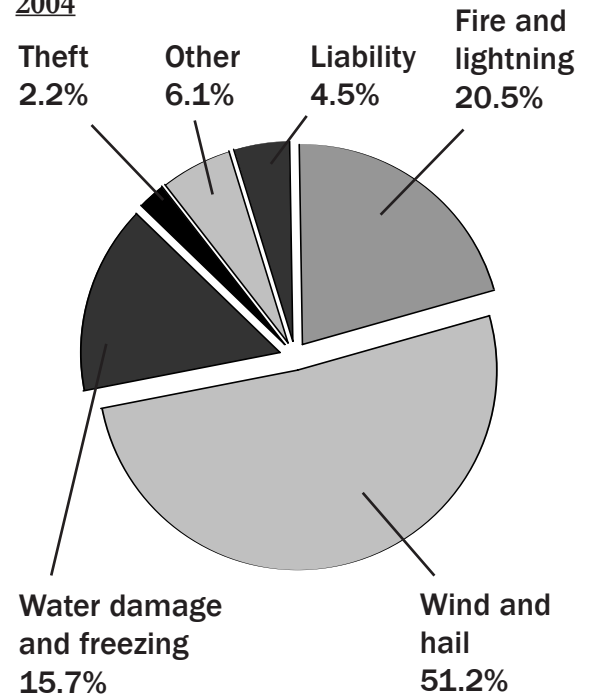
hail storm on April 2 and 3, the weekend Indianapolis hosted the Final Four, caused \$60 million in property damage, including blowing several windows out of the Regents Bank skyscraper in Downtown Indianapolis.

Homeowners Insurance Losses By Cause

2005



2004





Floods and Their Impact

THEIR IMPACT

Floods, especially flash floods, kill more people each year than hurricanes, tornadoes, wind storms, or lightning. Flood water can be deceptively strong. Fresh water moving at 4 mph (a brisk walking pace) exerts a force of about 66 pounds on each square foot of anything it encounters. Double the water speed to 8 mph and the force suddenly rises to about 264 pounds per square foot. That's enough force to punch a car or light truck off a flooded road if water reaches up to door level.

TYPES OF FLOODS

General river floods

General river flooding occurs after heavy rainfalls. Since it usually occurs slowly, residents often have enough notice to prepare and evacuate if necessary.

Urban and small stream

Urban and small stream flooding occurs when heavy rain falls in shorter periods of time. Storm sewers and small streams cannot handle the runoff, which results in flooded underpasses and basements.

Flash floods

Flash flooding is always life-threatening because it occurs very quickly. Two to four inches of rain in a couple of hours can trigger a flash flood.

FLOOD INSURANCE

If you have a flood insurance policy, you can be reimbursed for all your covered losses, even if a disaster is not federally declared. In contrast, federal disaster assistance is often a loan – repayable in full – with interest.

With a flood insurance policy, all you have to pay is one annual premium. Then, if you suffer losses due to flooding, you will be reimbursed for your covered losses, and you'll never have to pay a nickel back. Flood insurance is affordable. The average flood insurance premium costs a little over \$400 a year for an average of \$100,000 of coverage. And of course, if you are not insured, and a Federal disaster is not declared, your home and belongings may

be ruined with no hope for recovery.

Flood insurance is excluded under homeowners and renters policies, but it is covered under the comprehensive section of standard automobile insurance policies and some coverage is available for floods under special commercial insurance policies.

Flood insurance for homeowners, renters and businesses is administered through the federal government and can be purchased from an insurance agent or company under contract with the Federal Insurance Administration (FIA), part of the Federal Emergency Management Agency (FEMA). Flood insurance is only available where the local government has adopted adequate flood plain management regulations under the National Flood Insurance Program (NFIP). Most communities participate in the program.

Flood insurance covers direct physical losses by flood and losses resulting from flood-related erosion caused by waves or currents of water exceeding anticipated cyclical levels and accompanies a severe storm, flash flood, abnormal tide surge or a similar situation which results in flooding. Flood insurance also may cover mudslides.

PROTECTING YOUR PROPERTY AGAINST FLOODING

If you are moving into a new home, apartment or business location, make sure you have adequate insurance coverage. Your bank, local officials or insurance representative can inform you if your location is at risk for flooding.

Data from the Federal Insurance Administration shows more people are purchasing flood insurance. In 2005, there were 4,956,055 flood insurance policies in effect, compared with 3,476,829 just ten years before.

Flood Insurance Policies by State, 2007

State	Policies	Insurance In-force \$ ¹	Written Premium In-force
Alaska	2,640	517,691,600	1,751,734
Alabama	53,227	9,208,206,300	27,468,241
Arkansas	16,493	1,705,056,600	7,906,031
Arizona	34,093	6,810,333,800	16,923,317
California	271,730	60,730,307,100	165,760,433
Colorado	16,759	3,358,321,100	11,294,251
Connecticut	34,414	7,071,221,300	28,510,633
D.C.	1,338	198,560,700	421,567
Delaware	23,074	4,832,245,600	12,149,944
Florida	2,183,515	431,053,287,300	845,233,383
Georgia	85,797	18,061,173,000	45,292,411
Guam	259	41,257,600	264,049
Hawaii	55,590	8,705,874,200	21,235,128
Iowa	10,376	1,264,261,900	6,893,854
Idaho	7,216	1,487,107,000	3,610,211
Illinois	46,766	6,594,559,900	29,912,075
Indiana	28,250	3,516,081,000	17,823,682
Kansas	10,341	1,241,970,200	5,951,725
Kentucky	21,616	2,469,230,100	12,439,138
Louisiana	495,338	86,602,013,800	262,745,538
Massachusetts	48,588	9,649,807,400	40,720,074
Maryland	64,049	11,806,993,900	27,486,502
Maine	7,979	1,446,367,500	5,491,384
Michigan	26,513	3,739,418,100	16,614,613
Minnesota	8,284	1,407,905,300	5,356,775
Missouri	23,348	3,119,586,900	15,199,021
Mississippi	76,538	13,174,864,600	32,885,480
Montana	3,499	525,061,300	1,921,764
North Carolina	130,354	26,751,026,100	68,294,589
North Dakota	5,096	770,891,000	2,875,162
Nebraska	11,634	1,529,095,400	6,718,691
New Hampshire	7,602	1,262,849,400	4,858,766
New Jersey	215,271	42,597,892,400	144,495,100
New Mexico	14,873	2,087,591,200	7,683,804
Nevada	16,087	3,690,572,900	7,648,202
New York	133,970	28,128,751,500	96,753,412
Ohio	39,637	5,053,778,900	24,633,461
Oklahoma	14,108	1,755,277,300	7,391,150
Oregon	30,641	5,889,267,700	16,968,849
Pennsylvania	67,253	10,276,488,800	44,620,370
Rhode Island	14,877	3,169,267,200	13,252,802
South Carolina	189,712	40,134,250,900	93,859,646
South Dakota	3,194	433,870,900	1,965,383
Tennessee	20,359	3,373,387,500	11,260,556
Texas	618,054	129,041,861,300	250,441,437
Utah	4,085	817,984,900	2,012,627
Virginia	100,870	21,169,693,500	52,053,647
Vermont	3,174	500,089,200	2,459,854
Washington	33,589	6,363,085,100	19,794,458
Wisconsin	13,050	1,797,130,500	7,980,787
West Virginia	21,815	2,123,966,900	13,050,699
Wyoming	2,492	426,359,600	1,471,972
Total	5,425,384	1,044,588,347,200	2,596,802,044



Mine Subsidence Insurance

Mine subsidence occurs when abandoned mine shafts, possibly hundreds of feet below your home, begin to collapse. As shafts collapse, layers of earth sink into these underground mines, starting a chain reaction that can cause substantial damage to homes and other structures located above the collapsing shaft. The amount of subsidence will influence the extent of damage, if any, that may occur.

Mine subsidence is a special concern to southwestern Indiana homeowners and is powerful enough to cause costly damage to your home or other buildings. In the past ten years homeowners have spent over \$1 million in attempts to repair mine subsidence damage. In 1986, Indiana's legislature established the Indiana Mine Subsidence Fund to provide insurance for property owners in the 26 Indiana counties within the Illinois Coal Basin. You must purchase mine subsidence insurance as a rider to your policy because standard property insurance does not cover damage caused by mine subsidence. Subsidence insurance can be added to your property owners policy when it is purchased or renewed.

A new law was passed in 2001 that raised the amount of coverage that can be purchased for mine subsidence insurance coverage. Since that time mine subsidence insurance coverage can be purchased up to \$200,000.

Indiana Counties Eligible for Mine Subsidence Insurance

- Clay
- Crawford
- Daviess
- Dubois
- Fountain
- Gibson
- Greene
- Knox
- Lawrence
- Martin
- Monroe
- Montgomery
- Orange
- Owen
- Parke
- Perry
- Pike
- Posey
- Putnam
- Sullivan
- Spencer
- Vanderburgh
- Vermillion
- Vigo
- Warren
- Warrick

Tornadoes and Their Impact

A tornado is a violently rotating column of air that extends from a thunderstorm and comes into contact with the ground, according to the National Oceanic and Atmospheric Administration (NOAA).

In an average year NOAA says that about 1,000 tornadoes are reported nationwide. Tornado intensity is measured by the Fujita (F) scale. The scale rates tornadoes on a scale of 0 through 5, based on the amount and type of wind damage. The original F scale was replaced by an enhanced F scale on February 1, 2007. The new scale retains the 0 to 5 ratings, but incorporates 28 different “damage indicators” based on damage to a wide variety of structures ranging from trees to shopping malls.

Tornadoes and related weather events caused more than \$8 billion in insured losses in 2006, according to an A.M. Best study. A March 31, 1973 tornado in central and northern Georgia was the costli-

est tornado on record, according to the study, which put the total damages from that event at \$5.21 billion in 2007 dollars.

FACTS ABOUT INDIANA TORNADO SEASON:

- Tornado season in Indiana is from mid March through June. Although tornadoes are most frequent in June, the tornadoes that occur in March and April are generally larger and far more destructive.
- Tornadoes are most common in the afternoon and evening hours from 2 p.m. to 8 p.m.
- Three of the worst tornado outbreaks in U.S.history have affected Indiana.
- An average of 20 tornadoes per year strike Indiana, and Indiana averages nearly six tornado deaths per year.

• Indiana’s population is about four times as dense as the so called Tornado Alley states of Oklahoma and Kansas, making Hoosiers more vulnerable to a tornado disaster.

- On April 1965, the Palm Sunday Outbreak spawned 11 tornadoes over 20 counties and took the lives of 137 Hoosiers.
- On April 3, 1974, the Super Outbreak occurred. An unprecedented 148 tornadoes affected 13 states and Canada. Forty-six Indiana counties were affected by 21 tornadoes and 47 people were killed.
- The most devastating tornado in U.S. history occurred on March 18, 1925. The Tri-State Tornado tore across 219 miles of southeast Missouri, southern Illinois, and southwest Indiana, for three and half hours at speeds of over 70 mph. 695 were killed, 70 of them in Indiana.

2006 Tornadoes and Fatalities by State

State	Tornadoes	Deaths	State	Tornadoes	Deaths	State	Tornadoes	Deaths	State	Tornadoes	Deaths
Alabama	69	1	Illinois	119	1	Montana	1	0	Rhode Island	0	0
Alaska	0	0	Indiana	25	0	Nebraska	21	0	South Carolina	36	0
Arizona	6	0	Iowa	38	1	Nevada	1	0	South Dakota	27	0
Arkansas	24	0	Kansas	92	0	New Hampshire	2	0	Tennessee	25	34
California	9	0	Kentucky	19	0	New Jersey	1	0	Texas	113	0
Colorado	20	0	Louisiana	40	1	New Mexico	5	0	Utah	2	4
Connecticut	0	0	Maine	1	0	New York	8	0	Vermont	16	0
D.C.	0	0	Maryland	0	0	North Carolina	31	9	Virginia	0	0
Delaware	0	0	Massachusetts	1	0	North Dakota	21	0	Washington	2	0
Florida	42	0	Michigan	0	0	Ohio	36	0	West Virginia	0	0
Georgia	21	0	Minnesota	25	2	Oklahoma	27	0	Wisconsin	13	0
Hawaii	2	0	Mississippi	31	0	Oregon	4	0	Wyoming	0	0
Idaho	9	0	Missouri	98	13	Pennsylvania	8	1	Total	1,106	67

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

Insurance Provided by U.S. Fair Plans

What is a FAIR Plan?

A FAIR plan is a property insurance pool, operated by insurers doing business in a particular state, generally under the administrative oversight of that state's insurance regulator. FAIR plans make basic forms of property coverage readily available to property owners in areas where insurance is not easily available.

No applicant to a FAIR plan can be denied coverage based on conditions beyond their control. Basically, any proper-

ty that is occupied, not in poor physical condition, and used in a lawful manner, is eligible for basic property coverage through the FAIR plan

Any applicant who is denied coverage by the FAIR plan for an underwriting reason must be advised in writing of the reason for denial, and told how to correct the deficiency in order to make the property insurable. They also must be provided with information on their right to appeal.

Insurance Provided by FAIR Plans by State, 2002

State	Habitational policies	Commercial policies	Exposure (\$000)	State	Habitational policies	Commercial policies	Exposure (\$000)
Arkansas	NA	NA	NA	Minnesota	8,848	140	\$653,301
California	181,100	11,449	\$35,270,963	Miss. (Rural)	NA	NA	NA
Connecticut	2,913	275	341,229	Missouri	8,985	707	347,103
Delaware	2,055	63	140,189	New Jersey	50,702	2,437	5,265,522
D.C.	1,140	309	213,585	New Mexico	11,145	427	488,626
Florida	613,030	45,055	154,600,948	New York	58,276	8,023	9,054,690
Georgia	25,095	844	2,097,052	North Carolina	NA	NA	NA
Hawaii	1,330	0	246,283	Ohio	41,905	1100	8,158,825
Illinois	12,366	363	633,439	Oregon	6,272	268	439,256
Indiana	3,692	212	238,766	Pennsylvania	44,785	2,865	2,053,142
Iowa	1,528	55	128,872	Rhode Island	9,186	130	1,223,022
Kansas	3,781	246	134,986	Virginia	20,034	781	1,675,818
Kentucky	10,140	1,056	92,029	Washington	141	66	36,119
Louisiana	88,159	393	6,542,337	West Virginia	1,076	79	36,962
Maryland	5,650	163	543,720	Wisconsin	3,797	142	NA
Massachusetts	97,700	1,070	20,462,498	Total	1,422,990	81,887	\$269,566,059
Michigan	101,159	3,169	18,446,777				

