

Understanding Rates

Texas law requires rates for insurance offered in Texas to be reasonable, adequate, not excessive to the risks for which they apply, and not unfairly discriminatory.

Residential property rates utilize a system called “file and use” Under this system, companies file their rates with TDI, but they do not need prior approval to implement new rates. If TDI determines that a company’s rates are excessive, the company can be ordered to pay refunds to the policyholders it overcharged. Companies can appeal adverse rate decisions.

A company can only change your individual premium at your policy renewal time.

Discounts

Discounts can help you save money on your insurance. Companies may offer premium discounts if you take steps to reduce the chances of a loss. Each company sets the amount of the discounts it offers to its policyholders. Some of the more common discounts are listed below:

- Impact-resistant or noncombustible roofs
- Burglar, fire, and smoke alarm systems
- Automatic sprinkler systems
- Fire extinguishers
- Home security devices
- Age of house, companies set own standards
- Premises in good condition, companies set own standards
- House insured to full replacement cost
- Good claims experience for three consecutive years
- Marking personal property with an identifying number, inspection required
- Other policies with same company or group
- Senior citizens discount

Factors that Affect Your Home Premium

Companies use a process called “underwriting” to decide whether to sell you a policy and what rate to charge you. Each company must file its underwriting guidelines with TDI and update them each time they make a change. The criteria companies typically use to establish premiums include:

- Age and condition of your home. Older homes and homes in poor condition are generally more expensive to insure. Companies may refuse to insure homes in poor condition, but they can't deny coverage solely because of a home's age or value.
- Your home's replacement cost. Since your policy will pay to rebuild your home if it is destroyed by a covered loss, premiums are more expensive for homes with a high replacement cost.
- Construction materials used in your home. Homes built primarily of brick are less expensive to insure than frame homes.
- Where you live. Premiums will likely be higher for homes in areas with a high frequency of storms, such as tornados or hailstorms, or with a high incidence of theft.
- Availability of local fire protection. Homes with access to good fire protection services get better rates. If you live in an area with limited fire protection, your rates will be higher.
- Your claims history. Companies will charge more if you've filed claims in the past. Before filing a claim, it's a good idea to ask your agent or the company's underwriting department how it will affect your premium at renewal time. For less expensive losses, it may be cheaper in the long run to pay for repairs yourself rather than file a claim. This is especially true for repairs that wouldn't cost much more than the amount of your deductible.
- Your credit score. Companies may consider your credit score when deciding whether to sell you a policy and what to charge you. However, a company cannot refuse to sell you a policy or cancel or non-renew your policy solely on the basis of your credit. Companies that use credit scoring must file their models with TDI. Learn more about how companies use credit scoring on HelpInsure.com.

Texas Homeowners Policies

Homeowners insurance protects you from financial losses if your home or personal property is damaged or destroyed by a storm, fire, theft, or other event stated in your policy. The policy will pay to repair or replace your property up to your policy's limits.

It is important to know your policy limits and what's in your policy. Make sure you read your policy carefully and understand your coverage's.

You can buy a dwelling policy that covers only the structure of your house, but most homeowners buy a policy that combines five different coverage's in a single policy:

- Dwelling pays for damage or destruction to your house and any unattached structures and buildings, such as fences, detached garages, and storage sheds.
- Personal property pays for theft, damage, or destruction of the contents of your house, including furniture, clothing, and appliances.
- Liability protects you against financial loss if you are sued and found legally responsible for someone else's injury or property damage. A homeowner's policy automatically

provides \$ 25,000 in coverage. You can buy up to \$ 1 million in coverage for an extra premium.

- Medical payments pay medical bills for people hurt on your property. It also pays for some injuries that happen away from your home, such as your dog biting someone. A basic homeowner's policy pays \$ 500 in medical bills. You can pay extra and get up to \$ 5,000 in medical payments coverage.
- Loss of use pays your additional living expenses, temporary housing, food, and other essential expenses, if you must temporarily move while repairs are made. Most policies pay 10 to 20 percent of the amount of your dwelling coverage.

Types of Policies

Insurance companies may sell several types of policies in Texas, each with a different level of coverage. Three of the policy forms sold in Texas (the HO-A, HO-B, and HO-C) are standardized. This means the policy language and coverage's provided by these policies are the same, regardless of the company writing the policy. Although an HO-B policy written by one company will be exactly the same as an HO-B policy written by another company, the two companies may charge different rates.

Companies may offer alternative policy forms, if approved in advance by the state's commissioner of insurance. These policies are not standardized and usually provide varying coverage's. Read your policy carefully to know exactly what coverage's are included.

Some companies may sell more than one policy form but may offer only one form to customers. If a company offers you a policy with less coverage than you'd like, ask if other policy forms are available. You may also be able to buy additional coverage by adding endorsements to your base policy.

Following is a brief description of the types of policies sold in Texas:

- HO-A policies provide extremely limited actual cash value coverage of your home and its contents. Only the types of damage specifically listed in the policy are covered.
- HO-A amended policies provide more extensive coverage than the base HO-A policy but less coverage than an HO-B. For instance, HO-A amended policies may include replacement cost coverage and coverage of damage from sudden and accidental water discharges. Neither of these coverage's are included in the base HO-A policy. Coverage provided by HO-A amended policies vary by company.
- HO-B policies provide replacement cost coverage for most types of damage, except those specifically excluded in the policy. Generally, HO-B policies provide the most coverage for the price, but some companies do not offer the HO-B policy.
- HO-C policies provide the most extensive coverage, but they are more expensive than other types of policies.
- Approved alternative policies offer varying levels of coverage. Companies can sell alternative policies only if the policy form is approved in advance by the Commissioner of Insurance. Coverage may differ considerably from one company to another.

What Homeowners Policies Do and Don't Cover

Most Policies Cover Losses Caused by:

Fire and Lightning, Smoke, Explosion, Theft, Vandalism and malicious mischief, Riot and civil commotion, aircraft and vehicles, Windstorm, hurricane, and hail unless you live on the gulf coast, Sudden and accidental water damage

Most Policies Do not cover losses caused by:

flooding, earthquakes, termites, insects, rats or mice, freezing pipes while your house is unoccupied unless you turned off the water or heated the building, wind or hail damage to trees or shrubs, losses if your house is vacant for over 60 days or more, wear and tear or maintenance, water damage resulting from continuous and repeated seepage

Wind and Hail Coverage

Companies may exclude coverage for certain losses. For example, if you live on the Gulf Coast, you might receive an endorsement that excludes coverage for wind and hail damage. In areas with a history of hail storms, some companies provide only actual cash value coverage instead of full replacement cost for roofs. Actual cash value pays for damage minus depreciation on the roof, depending on its age and condition.

Mold coverage. Most policies will not cover mold remediation beyond the amount necessary to repair or replace property damage caused by a water loss otherwise covered by the policy. The HO-A policy doesn't cover mold remediation or damage caused by water leaks, but some companies offer an endorsement that covers sudden and accidental water leaks. Some, but not all, of the other approved policies also cover sudden and accidental water leaks. Read your policy or ask your agent whether your policy covers water leaks and mold remediation.

Insurance companies are required to offer you mold remediation coverage. Depending on the company, this coverage will be offered in dollar or percentage increments up to 100 percent of your policy's limits. If you have questions or concerns about how a mold claim is being handled, or if you need information about how to minimize mold losses, ask your insurance company for a set of guidelines regarding mold claims. Also read TDI's Handling Water-Damage and Mold Claims publication.

Policy Dollar Limits

A policy's dollar limits are the maximum amounts your insurance company is obligated to pay after a covered loss. For example, if you insure your house for \$ 100,000, that's the most you will get if it's destroyed, even if it would cost more to replace it. There is an exception if a fire destroys your home. In that case, Texas law requires the insurance company to pay the full amount of the policy, even if this amount is more than the replacement cost.

Don't wait until you have a claim to learn your policy's dollar limits. The Declarations Page at the front of your policy shows your policy's dollar limits. Review your limits to ensure you have enough coverage to avoid a major financial loss if your home is severely damaged or destroyed

Talk with your agent or company representative if you have any questions about your insurance limits.

Replacement Cost vs. Actual Cash Value Coverage of Your House

The HO-B and HO-C policies provide replacement cost coverage for your house, up to your policy's dollar limits. Replacement cost is what you would pay to rebuild or repair your home, based on current construction costs. Replacement cost is different from market value and does not include the value of your land. If you are not sure of the amount it would cost to rebuild your home, your company or agent usually has construction cost tables to help you determine the cost.

To receive full payment (minus your deductible) for a partial loss, such as a hail-damaged roof, you must insure your house for at least 80 percent of its replacement cost. If you insure your house for less than 80 percent of the full replacement cost, the insurance company will only pay a portion of the loss.

Unless you buy an endorsement to increase your coverage, HO-A policies only provide actual cash value coverage. Actual cash value is the replacement cost of your property minus depreciation. If your home is destroyed and you only have actual cash value coverage, you may not be able to completely rebuild.

If you have an HO-A amended policy or an approved alternative policy, read your policy carefully to know whether it offers replacement cost coverage or actual cash value coverage.

Coverage for Your Personal Property

HO-B policies automatically covers household contents (furniture, clothes, appliances, etc.) up to 40 percent of the amount of your dwelling coverage. This means if your house is insured for \$ 100,000, its contents are insured for up to \$ 40,000. You can get more coverage by paying a higher premium.

Personal property coverage pays only the actual cash value of damaged, stolen, or destroyed household goods unless you buy replacement cost coverage. Actual cash value is an item's replacement cost, minus depreciation.

Replacement cost coverage offers you more protection than actual cash value coverage. For example, if a burglar steals your six-year-old television set, and you only have actual cash value coverage, you get only what you would expect to pay for a six-year-old television set. With replacement cost coverage, the insurance company pays to replace your TV with a new set similar to the stolen one.

Companies generally want you to prove that you replaced an item before they'll pay your claim in full. However, if you have an HO-B policy, the company must advance you the first \$ 1,500, plus the depreciated value of any other damaged property, without requiring proof of replacement. After that, the company must pay you within five business days after receiving proof you replaced, restored, or repaired the property. A company can offer to replace the items instead of paying cash, but the choice is yours.

Personal Umbrella Liability Insurance

If you have assets to protect and want more liability coverage than a homeowners policy provides, you can buy a separate umbrella policy. Because policies vary, make sure the agent or company fully explains the coverage.