



Three expectations usually accompany the purchase of a homeowner's policy:

- I'll never need the insurance.
- The money specified in the policy is yours
- The insurer will work with you to settle any claim.

The reality is:

- Fires happen frequently – some so large it's inconceivable. Like the northern California fires in 2020 year that destroyed 8,000 structures – more than 60% of which were homes.
- Fires are becoming more prevalent as we extend our residential footprint into former wilderness areas.
- The money in the contract is not yours. You must work hard for the right to get it.
- The insurance company is not your friend or ally. Your adjuster's interest is to protect the insurer – not the policyholder.



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FIRE!

Are You Prepared?

What could be more of a yawn than homeowner's insurance? Why do we even bother? Oh, yes, the mortgage company requires it. So, we find the least costly solution and hide the policy in a file drawer expecting never needing to use it. Perhaps there will be a small leak or a flooded basement. Nothing that can't be fixed easily.

But, what if the unthinkable happens? Fire strikes and the home and your possessions are ashes. I forgot – it will never happen. I believed that. There was nothing in my home that wasn't stored safely. There wasn't flammable brush around the house. I wasn't a hoarder.

In 2009, a neighbor called me at work about 5 p.m. and excitedly said "Come home! Your house is on fire." It had happened to me! When I arrived home, the fire was out. My 92-year-old father had managed miraculously to escape unharmed. One of our dogs was at the emergency vet unable to be saved. The home was a smoldering mess, almost destroyed completely. We had the clothes on our backs, nowhere to sleep, and the graciousness of our neighbors. That was the beginning of a three year process to settle our claim with the insurer and rebuild our home. My life began to revolve around those pieces of paper defining the contractual relationship between the insurer and me – the homeowner's policy.

For most families, the home is the largest single investment. We need to treat it with care. Both sides in a homeowner's policy purchase have obligations, but I believe both have differing objectives.

In my opinion, the agent is seeking a sale. I believe it is more important to cement the deal than ensure that the client understands what they have, and may even be ill-equipped to determine the coverage needed to replace the home and its contents. On the other hand, the client probably misunderstands the industry jargon, may just want to get coverage in place quickly at the lowest price, and doesn't know the questions to ask the agent. The sales process is ripe with potential pain if the policy is ever needed.

The claims process is governed first by the specifics of the policy. It's a contract. Definitions matter. Contract definitions are specific to the industry, through caselaw and practice. Be sure you know what terms mean and how they affect coverage. Cost of construction –not the market value of the property. Personal property is often based on a percentage of the dwelling coverage. Loss of use covers the extra expenses incurred while you are not in your home.

Policies also include liability – both personal liability and medical payments to others. We will focus only on the property losses.

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Dwelling replacement cost is often misunderstood and underestimated. You need to know the replacement standard being used to replace the home. Will it be “Like Kind and Quality” or “replication,” usually referred to as “Full Replacement”?

A new home built in a housing tract is likely of simple construction methods. It has lots of clean lines, standard-sized cabinets, and windows. But suppose you have a San Francisco Victorian, with custom windows, lots of detailing in the exterior and interior design, and different roof elevations. The new tract home might cost \$300 per square foot, while the Victorian may run \$600 per square foot. If you want the Victorian rebuilt as it was, it will be a much higher cost to replace it due to labor and materials. What about coverage for codes and ordinances? Your policy provides limits to bring your structure up to current standards.



For example, one San Francisco home had to replace all its windows. The original window choice priced out at \$8,000. But the City codes required triple-paned, non-vinyl replacements. The cost jumped to \$40,000. The cost was not covered fully by the policy.

Finally, market value and replacement cost are not related. Know your options - replacement cost or actual cash value (a lesser standard). You pay extra for full replacement cost. But, when an event occurs, and you are left significantly out-of-pocket, how would you feel? To improve the odds of getting replacement value, you must interview the agent, testing how the policy will work in specific instances. Be sure to understand how the replacement cost is being assessed - by a standardized program or by someone knowledgeable about construction costs. How will appliances be assessed at claim? Does the estimating include the difference between a Wolf range and a GE range? Obtain and retain details about artwork, inventory, warranties. If you have valuable collections, jewelry or artwork, have it appraised and carried on a separate schedule. Policies limit what will be paid for these items unless they are covered separately. Be sure to have the policy re-evaluated every policy renewal.

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