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Don't take your home insurance for granted

Make sure you have coverage you need

Nicole and Tom were excited about moving into their home, and they weren't the only ones delighted with the deal.

It was the mid-1990s and the market was soft. The vendors, Lois and Clark, had the property on the market for several months, and were very relieved when the deal was finally inked in the dead of winter.

To celebrate the signing, Lois and Clark decided to take a last-minute cruise for two weeks of sunshine in the Caribbean. Shortly after they got back, Nicole and Tom got a phone call they will never forget.

It seems Lois and Clark forgot to have someone check on the house while they were away. Sometime during their trip, the furnace fuse blew and the heat went off. The pipes froze and cracked, and the resulting damage turned many of the walls to a mushy paste.

The floors were not much better, and the entire basement was a pool containing several inches of water. Damages were between \$50,000 and \$100,000, depending on who was doing the counting.

Not even Superman could repair the damage to Lois and Clark's house.

Unfortunately, they were not aware that their insurance policy required them to either drain the plumbing system or arrange for regular inspections if they were going to be away for more than four days.

With the vendors trapped in a dispute with their insurer, Tom and Nicole reluctantly cancelled the deal and got their deposit back.

Judging from my experience with thousands of transactions over the years, it seems the majority of homeowners have only a very vague idea of what kind of home insurance they have, what it includes and what it doesn't. Home insurance comes in three types of packages:

- Basic coverage includes only named, or listed, perils. It protects the owner only against those risks that are named in the policy, while the owner takes a substantial risk for losses not listed. This is the standard insurance policy, and is the cheapest coverage - as long as there are no claims.

- A mid-price policy is called broad form coverage. It covers named perils (basic level coverage) on the content of the house, and all risks or comprehensive on the building.

According to insurance industry double-speak, however, all risks doesn't really mean every possible cause of damage. It includes every risk except those specifically excluded in the policy. This means the homeowner actually has to read the policy to understand the coverage.

- Finally, the comprehensive policy - the Cadillac of insurance (but not the Rolls-Royce) - covers both buildings and contents for all risks that are not specifically excluded.

Basic home insurance covers risks such as airplane or vehicle impact, electric current, falling objects, fire, lightning, riot, smoke (but not from fireplaces), theft, transportation of personal property away from home, vandalism while occupied, wind and hail, window glass breakage and some types of water damage. Water damage from floods, water seepage, plumbing vibration and sewer backup are usually not covered.

Acts of God, civil insurrection or damage by the Queen's enemies are also a common exclusion. So is damage by insects, rodents and raccoons.

As well, most policies have limits on claims for computers and especially laptops, furs, jewelry, coins, stamps and cash. These must be itemized and covered individually.

No policy covers everything that could go wrong. Special riders can be purchased to secure coverage for earthquake, furnace oil spills, sewer backup, melting or moving snow and ice, and heaving frost.

Payment of claims is another important area. Actual cash value coverage is cheaper, but will only pay out depreciated value. Homeowners claiming for replacement of a 15-year old roof, for example, may only receive 25 per cent of the cost of a new one.

Replacement-cost coverage will shell out the actual cost to replace up to the face value of the policy. Guaranteed replacement cost will usually cover the total cost, even if it exceeds the policy limits.

I also recommend additional coverage for replacement living expenses, rental loss for a basement apartment (whether it is legal or not), and "denied access" coverage for mass evacuations resulting from events such as toxic spills, train wrecks or gas leaks.

Another option I strongly recommend to clients, particularly in Toronto houses built before the first zoning bylaw came into effect in 1952, is a bylaw endorsement. Houses constructed before this date are exempt from zoning bylaws as non-conforming uses. But when a severely damaged house has to be substantially rebuilt, the entire building may have to comply with current standards - including, for example, adding a sprinkler system or relocating and rebuilding undamaged parts of the structure. A bylaw endorsement covers the additional expense of complying with current zoning bylaws.

Many people today carry on a business from home, but those businesses may not be automatically covered by the homeowner's policy. Equipment and valuable papers - such as contracts, business and banking records - should be specifically noted in a homeowner's policy.

Condominium owners should have package policies specifically designed for them. Insurance policies held by the condominium corporation on the building itself will not cover individual owners for liability inside the unit, losses to their contents, or improvements such as broadloom, kitchen or bathroom cabinets, built-in shelves and sound systems. Condo owner packages provide coverage if the corporation's insurance is insufficient to pay the losses to the insured unit.

Finally, most homeowner and condominium policies cover liability for injuries to third parties up to a standard \$1 million (or \$500,000 in some no-frills policies).

It is not uncommon these days for courts to make awards of many millions for serious personal injuries. If the homeowner policy has a limit of \$1 million, an injured party can look to the owner personally for all damages over the \$1 million policy limit.

My recommendation is to have an umbrella policy covering all underlying policies (such as home, car, rental property, snowmobile, and watercraft) for an additional \$1 million or more. The cost is minimal and it could save the insured from bankruptcy in the event of a serious underinsured claim.

Today's message is not to take insurance for granted, and to make sure your insurance broker carefully explains what's in your policy and, more importantly, what's not.

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