



Considerations for Home Insurance by Dennis M. Foerster

A home, for most people, represents the most valuable asset that a person owns. For those who have a mortgage on their home, it also represents the largest debt. Most people do not take the necessary time to understand or know the extent of their insurance coverage. It is however important to understand the protection offered by your homeowner policy. At the very minimum your home insurance should provide coverage for two distinct areas. These are coverage to protect your property and to protect you from third party claims.

Purchasers usually need to obtain financing through a mortgage in order purchase a home. In this situation the financial institution is known as the mortgagee and the purchaser is known as the mortgagor. The financing put in place is the mortgage which is a debt secured by the property. A mortgagee will insist on two conditions; that the mortgagee is listed as the first payee for any insurance claim payable and that there is sufficient coverage to cover the mortgage should a claim be

made because of a complete loss of the home.

As a homeowner you should get coverage to pay out the mortgage, but also make sure that the insurance coverage in place will include coverage for the equity in the home. The equity in your home is the difference between its present value minus the outstanding amount of the mortgage. As the amount of your mortgage goes down, the equity in your home increases. It is therefore advisable to ensure that the insurance you obtain is as close to the present value of your home as possible. This will ensure that should you lose your home you will at least recoup its value and any its equity.

Ideally, most people after a fire would like to be returned to the same position they were in before their home was destroyed. Sometimes, even if a homeowner has coverage up to the present value of the home, this amount is less than the cost to rebuild the home because this cost is more than the market value of the home.

A homeowner should ensure

that their policy will provide for replacement coverage or in the alternative that insurance on the property is taken out in a specific sum equal to the cost of replacement. These are issues to be discussed with your insurance broker when insurance is first purchased and yearly when the policy is renewed. Generally, over time, the cost to rebuild the home will increase.

The other aspect of protecting your property is to protect your personal property. This type of property is commonly known as either “moveable property” or “chattels”. Most homeowner policies will provide blanket coverage for items within the home or owned by the insured, usually however to a maximum amount. If you own something extremely valuable such as some jewellery or works of art whose value exceeds the basic coverage for chattels, you may want to ensure that you advise your broker. Most policies allow a homeowner to “schedule” specific items listing their value. You will pay an additional premium for this protection, but this will ensure that you receive the proper

coverage for some of your most valued possessions.

Your policy may also allow you to obtain coverage for those chattels that you own but are not located at your home. If you keep your boat at the lake during the summer and at a storage facility during the winter, you can usually obtain coverage for such items under your homeowner policy. This is another issue to discuss with your broker to ensure that your chattels, whether located on your property or not, are always insured against loss, damage or theft.

“Third party liability claims” is a subject worthy of a separate article. In the broadest terms possible this is coverage for claims made by people who are injured as a result of your negligence on your property or as a result of using your property. The most common example is a slip and fall on your property. This person, “a third party”, may sue for compensation for the injury he or she suffered. If there are special considerations with respect to how you use your property, whether the real property itself or your chattels,

you should discuss these issues with your broker when you obtain renew your insurance or, when you change the use of your property.

Most people do not know the intricacies of their homeowner insurance coverage. An insurance policy is interesting topic of conversation. It is however an important legal contract setting out the limits of coverage you will be entitled should you ever make a claim. It is important, whether renewing or obtaining coverage for the first time, that you have a good understanding what is and is not covered. In a subsequent article I will address the intricacies of the formation of the insurance contract and the important role played by the broker.