

PERSONAL LINES

Dwelling Coverage

How to Explain Any Coverage: Tips & Tricks

- 2 Sentences & A Question: Make it a conversation
- Nana Principle: Use the vocabulary you would use with your Nana (nothing complicated)
- Be Concise: try not to talk in circles
- Tell A Story to Illustrate the Coverage
- Always talk about pricing in monthly amounts
- If someone is not interested, ask a few more questions and always document your system

Coverage Explanation

Homeowners insurance dwelling coverage, often called "dwelling insurance" or "coverage A," is a crucial component of a standard homeowners insurance policy. It protects the physical structure of your home, including the walls, roof, floors, foundation, built-in appliances, and other structural components against a variety of covered perils. These perils typically include:

1. Fire and smoke damage
2. Wind and hail damage
3. Lightning strikes
4. Theft and vandalism
5. Damage from falling objects
6. Explosion
7. Riots and civil commotion
8. Damage caused by vehicles
9. Aircraft damage

Dwelling coverage helps you repair or rebuild your home if it's damaged or destroyed due to any of the covered perils. The policy typically pays for the cost of repairs or reconstruction up to the policy's coverage limit. It's essential to have sufficient dwelling coverage to cover the full replacement cost of your home, which is the amount it would cost to rebuild the structure at current market prices. This value can be different from the home's market value, which takes into account factors like the land's value.

To determine the appropriate dwelling coverage limit, homeowners consult with their insurance provider to ensure they have adequate protection. Keep in mind that dwelling coverage is just one part of a homeowners insurance policy, which may also include coverage for personal property, liability, and additional living expenses (if you're temporarily displaced from your home due to a covered event).

Homeowners should review and update their dwelling coverage periodically to account for changes in the cost of construction, renovations, or improvements to their home. Inadequate dwelling coverage can leave you underinsured and facing significant out-of-pocket expenses if you need to rebuild your home.

How the Policy Helps Clients

Accurate dwelling coverage in a homeowners insurance policy is essential for several reasons, and it can significantly benefit the insured homeowner in various ways:

- 1. Full Rebuilding Protection:** Accurate dwelling coverage ensures that you have sufficient insurance to completely rebuild your home if it's damaged or destroyed due to a covered peril. In the event of a significant loss, such as a fire, tornado, or other disaster, having the right amount of coverage means you won't have to bear a substantial financial burden to rebuild your home.
- 2. Financial Security:** If you have an accurate dwelling coverage amount, you can have peace of mind knowing that you're financially protected in case of a catastrophe. You won't have to worry about paying for the substantial costs of reconstruction out of pocket.
- 3. Lower Out-of-Pocket Costs:** Underinsuring your home can lead to significant out-of-pocket expenses when you need to repair or rebuild your house. Accurate dwelling coverage helps minimize the financial burden on the homeowner, which can be especially important during stressful and challenging times.
- 4. Proper Compensation:** In the event of a covered loss, your insurance company will pay out an amount up to your dwelling coverage limit. If you're underinsured, you may not receive enough to cover the full cost of rebuilding, potentially leaving you with a coverage gap.
- 5. Compliance with Lender Requirements:** If you have a mortgage on your home, your lender may require you to maintain a certain level of dwelling coverage. Adequate coverage ensures you meet these requirements, allowing you to keep your mortgage in good standing.
- 6. Avoiding Disputes:** Accurate dwelling coverage can prevent disputes with your insurance company over the coverage amount. Inadequate coverage may lead to disagreements when you file a claim, potentially delaying the settlement process.

To determine the appropriate dwelling coverage amount, it's essential to conduct a thorough assessment of the replacement cost of your home. Keep in mind that the replacement cost may change over time due to factors like inflation or home improvements, so it's a good practice to review and update your coverage regularly to ensure you remain adequately protected. Accurate dwelling coverage is an essential aspect of responsible homeownership and ensures that your investment in your home is safeguarded.

Example of Claims

Dwelling coverage in a homeowners insurance policy can be used to file claims for a wide range of damages or losses related to the physical structure of your home. Here are some examples of dwelling coverage claims:

- 1. Fire Damage:** If your home is damaged or destroyed by a fire, dwelling coverage can be used to cover the costs of repairs or rebuilding, including the structure, walls, roof, and any damage to built-in appliances.

2. **Wind and Hail Damage:** Claims can be made for damage caused by strong winds or hail storms, which may result in roof damage, siding damage, broken windows, or structural issues.
3. **Lightning Strikes:** If lightning strikes your home and causes damage, such as electrical system damage, fire, or structural issues, dwelling coverage can help cover the repair costs.
4. **Theft and Vandalism:** If your home is broken into, and there is damage to doors, windows, or walls during the burglary, your dwelling coverage can help pay for the repairs.
5. **Falling Objects:** If a tree, branch, or another object falls on your home and causes damage to the structure, you can file a dwelling coverage claim to cover the cost of repairs.
6. **Explosion:** Damage resulting from an explosion, such as a gas line explosion, can be covered under dwelling coverage.
7. **Aircraft Damage:** If an aircraft crashes into your home, causing damage to the structure, dwelling coverage can be used to cover the repair costs.
8. **Riots and Civil Commotion:** If your home is damaged during a riot or civil commotion, such as vandalism or arson, dwelling coverage can help with repairs.
9. **Smoke Damage:** If your home is damaged by smoke, such as from a nearby wildfire, your dwelling coverage can assist in covering the costs of cleaning and repairing the damage.
10. **Water Damage:** Some types of water damage, like burst pipes or sudden, accidental water leaks, may be covered by dwelling coverage, but it's important to understand the specific terms and conditions of your policy.

It's essential to carefully review your homeowner's insurance policy to understand what is covered under your dwelling coverage and to know the limits and deductibles. Additionally, it's a good practice to keep a detailed inventory of your home's structural features and document the condition of your property to streamline the claims process in case you need to file a claim.

How to Explain It to Clients

Explaining the difference between a replacement cost estimator and the market value of a home to a client is important, as they serve different purposes in the context of homeownership and insurance. Here's a way to communicate this difference effectively:

1. Replacement Cost Estimator:

- The replacement cost estimator is a tool used to determine how much it would cost to rebuild your home from the ground up if it were to be destroyed, typically due to a covered peril like a fire or natural disaster.
- It focuses on the cost of materials, labor, and construction required to recreate your home's structure exactly as it is, considering current market prices.
- This figure does not take into account the land's value or any non-structural features of the property.

2. Market Value:

- Market value refers to how much your home could sell for in the current real estate market. It takes into account factors like location, the condition of the property, local real estate trends, supply and demand, and

the overall desirability of the area.

- Market value considers not only the physical structure but also the land, landscaping, and any other improvements or features that contribute to the property's overall value.

- It reflects what a willing buyer would pay and a willing seller would accept in an open market.

To highlight the difference:

- The replacement cost estimator is all about what it would cost to recreate your home exactly as it is, in case of a total loss, so it's essential for setting your dwelling coverage limit in your homeowners insurance policy.

- Market value, on the other hand, is a broader assessment that includes the land and factors related to the property's appeal and desirability in the real estate market. It's more relevant when buying, selling, or refinancing a home, as it gives you an idea of its current value on the open market.

In summary, replacement cost is about rebuilding your home after a loss, while market value is about the current price your home could fetch if you were to sell it. They serve different purposes and can vary significantly, so it's crucial to understand each concept's significance in your specific context, whether it's for insurance purposes or real estate transactions.

Common Objections

Objection	Response
Cost	I know that cost is a significant consideration. When we increase dwelling coverage, it might result in a higher premium. However, think of it as an investment in your financial security. A slightly higher premium can prevent significant financial hardship in the event of a major disaster. We can explore options like policy discounts or different deductible choices to help offset the cost.
Market Value vs. Replacement Cost Estimator	I've heard that some homeowners believe dwelling coverage should be based on market value. That's a common misconception. Dwelling coverage should reflect the cost of rebuilding your home, excluding factors like land value. It's about protecting the structure itself, not its market worth.
Underestimating Rebuilding Costs	Underestimating the cost of rebuilding is a risk. To accurately assess this, I recommend a professional home appraisal. It's the best way to determine the true cost and ensures you don't end up underinsured, which could lead to significant financial strain.

Minimal Risk

Some homeowners think that their area is at minimal risk for disasters, but remember, disasters can happen unexpectedly. It's essential to be prepared for the unexpected, regardless of your location.