

Underinsured Homes

Most homeowners have one thing in common: their single, largest asset is usually their residence. Most homeowners are also aware that, regardless where they live, their home faces the chance that it could be severely damaged or destroyed by a number of causes. In recent years, many homes have been demolished by catastrophic floods, fires and winds. Because of what is at stake, most property owners buy insurance to protect against certain types of loss. There appears to be a serious problem involving insurance....whether enough coverage exists.

For decades insurers have used advertising, policyholder notices, brochures and now Websites to preach an important message....buy adequate coverage. Regardless, homeowner underinsurance remains a reality for many homeowners. Marshall Swift, a company that specializes in providing ways to determine the insurance values of residences nationwide, estimates that slightly more than two-thirds of the homes in the U.S. are significantly underinsured.

Although most homes are owned under mortgages and lenders require that their properties are insured, this fact does not affect the underinsurance problem. Financial institutions' primary concern is that enough coverage exists to protect the loan value. Homeowners should be certain that their insurance reflects their property's full replacement cost. While underinsurance is not a problem with minor losses, it is an important issue when major losses occur. If a home is destroyed and the insurance limit did not reflect the property's full value, then the gap in coverage has to be handled by the homeowner.

Typically, an insurance policy stipulates the level of coverage that should be carried on a given home. Also typical, coverage is often increased by a set percentage when a policy is annually renewed. However, the automatic increase may not keep pace with economic factors that raise home replacement costs. For example, because of the recent spate of catastrophes, construction labor costs are very high, creating unanticipated repair and rebuilding cost increases. Failure to make sure that insurance coverage is adequate could result in a homeowner having to bear thousands of dollars in uncovered damage.

It is important that homeowners take time to review the type and amount of coverage that they carry. It may be appropriate to make changes to be sure that their property is protected against the chance of major loss. Coverage should be reviewed periodically so that protection is not allowed to become inadequate as time passes. Discussing such coverage with an insurance professional is an ideal way to arrange for the proper amount and type of protection.

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