



## Reduce Your Homeowner Insurance Rates

One of the most frequent complaints I get from my clients is the continued escalation of home insurance rates. Rates are increasing because of the years long series of weather-related claims that began back in 2008. The price increases began years before this as companies began to get an adequate rate for the coverage they offer. It was understood years ago that insurance companies could not continue to pay more in homeowner claims than the premium they collect. And homeowner insurance losses have not produced a profit for the industry in a long time! If you are to **reduce your homeowner insurance rates** then it will come from buying home insurance with the goal of absorbing the minor losses.

Home insurance premiums are rising for a number of reasons other than claims experience. That said, loss results are driving company managers to take aggressive rate action in addition making changes to home policies. Since past claims history drives future homeowner insurance rates, rates have risen to meet the bottom line of the insurance carriers. They simply cannot pay out more than they collect. They are required to maintain statutory reserves to meet the uncertain future obligations and regulators keep a close eye on the bottom line too. It would simply be a mistake not to address rate inadequacy or declining reserves. To do so might invite the Ohio Insurance Commissioner to take over the carrier and attempt to rehabilitate the book of business. So, it goes without saying that if you are to **reduce your homeowner insurance rates** you'll have to change coverage, increase deductibles, absorb minor losses, or seek another carrier. It only makes sense that you can't solve all of the rates pressure by seeking another carrier. Increasing homeowner insurance rates are not confined to just a few companies. Carriers that carefully underwrite their new business and existing clients offer hope that you won't have to keep suffering rates increases brought on by the general claims experience of the industry.

While you are considering your options it is wise to remember that it is only through a device like home insurance that you can afford the insurance you need to protect your home. By aggregating many clients of a similar need into a risk pool can the rate be reduced enough to cover the expected claims of the group while providing all buyers an affordable rate. This concept is known as the "law of large numbers." The concept means that as the group of similar risk units goes up, the potential loss results become more predictable. As the company gains confidence in their predictions they are more willing to offer a rate we can afford to insure our homes. While you want to reduce your homeowner insurance rates, you also want to insure with careful carriers and manage your risk for loss in a way that doesn't abuse the concept of insurance. It is never a wise idea to use insurance as a way to finance the maintenance of your home. Many of the claims paid for wind losses on a roof occurred after the roof had passed its normal lifespan. As a consequence, insurers are scrutinizing roof condition as tight as I can remember in my 37 year insurance career.

## **What you can do?**

If you want to **reduce your homeowner insurance rates**, or stem to rise of costs, then you most of the things that can benefit this goal are already in your hands. It begins by understanding your coverage and understanding your coverage will help you control claims and premium costs. Having the right coverage can mean the difference between devastation and recovery, and making a claims that probably should not have been made in the first place. If you ever have a concern about what is or is not covered, you can always call us for clarity and ask how these tips might apply to you.

## **Ways to help control your rates?**

- I suggest using higher deductibles. The old standard deductible of \$500 should now be raised to \$1,000 as a minimum. Of course, you should opt for higher deductibles only if you can easily pay that amount if you need to file a claim. If you have a \$500 deductible, you are already paying a surcharge since all of our carriers have moved the minimum deductible to \$1,000 in recent years.
- Generally, we do not suggest the use of actual cash value (ACV) settlement options on homeowner insurance policies when you occupy the home. However, one way to reduce your homeowner insurance rates is to consider the cost of using lower ACV limits versus the cost of insuring on a replacement cost basis. It has been my experience that replacement insurance, while appearing more expensive, covers the full cost of replacement. Actual cash value coverage (standard on most policies) pays the depreciated cost of the insured items and this means you will need to fund the difference to rebuild or construct your home

from your pocket. This is usually penny-wise and pound-foolish in almost every instance where I have checked for other clients.

- As mentioned earlier in this article, carefully decide whether to submit a claim for minor losses to your home or property. If you will only get a couple hundred back after the deductible is met, you may want to pay out of pocket. I have found that filing a claim may affect your premium in future years because of the payment of incidental losses and the accumulation of a pattern of making frequent claims. The frequency that you make claims is now measured over five to seven years and after one loss in this time frame you will have exceeded what many carriers consider normal claims frequency.
- Periodically review your policy with us to ensure you get the discounts you are entitled to and that you have the right endorsements. It might be your goal to **reduce your homeowner insurance rates** but you may also discover areas where you have a hole in your coverage that you find it better patched with an appropriate coverage endorsement. Either way, you want your coverage to respond to losses that are significant and while absorbing minor claims makes sense, it doesn't make sense to leave important coverage off the policy.
- Understand that your claims and credit history are important parts of the calculations we make in making homeowner insurance rates. If you are going to be successful in a goal to reduce your homeowner insurance rates you will need to understand that your credit score, claims history, and age/condition of your home will impact your rates. It is your obligation to maintain your property and to understand that home insurance is not a maintenance agreement. In fact, if the claim is not sudden, accidental, and covered by the policy, it doesn't make sense to make the claim. In the end I want you to have all the coverage you buy but one of our goals is to help you avoid the unnecessary claims that neither pay or are covered. These events will appear on your record for years and have an impact on whether you can obtain insurance at a competitive rate in the future.

### **How to reduce the potential for a homeowners claim?**

- Perform regular maintenance to your home and make improvements
- Use and maintain working smoke detectors including battery operated detectors.
- Install, use and maintain working carbon monoxide detectors to have an early warning on potential heat system problems.
- Keep your gutters clean so they drain away water that would otherwise end up at the base of your home.
- Maintain an environment around your home where trees are trimmed, bushes are kept back, so they don't create additional hazards.

- Common sense and recent events strongly suggest that when going out of town and away from your home you should turn off your water line.
- Regularly inspect your sump pump, and clear debris near external drains, and install a back up system if possible.
- Establish a schedule to replace the hoses on your washing machines every five years or less. Consider doing the same on your dishwasher.

## **What's not covered by homeowners' insurance?**

Policies differ, but typical exclusions include damage from:

- Earthquakes and earth movement, including subsidence unless you have purchased this coverage.
- Flooding or water damage caused by sewer backup or basement leak
  - Flood coverage is available through this agency with the NFIP. Flood damage requires a separate policy.
  - Sewer and drain backup coverage is not automatically included but is available in most instances
  - Leaks through the wall, floor or windows in your basement are not covered.
- Power failure originating off your premises is not covered. Some coverage for refrigerated food can be covered with an endorsement
- Collapse is not covered.

If you want to **reduce your homeowner insurance rates** with homeowners rates rising as they are, it's important to have a policy that fits your needs and critical that you assume some of the responsibility for the coverage and minor losses. Call us to ask questions, make adjustments and gain peace of mind.

## **How does Ohio stack up? *9th lowest premiums in the U.S.*<sup>2</sup>**

*States with lower rates are: Arizona, Delaware, Nevada, Washington, Wisconsin, Utah, Oregon and Idaho<sup>3</sup>*

- *The latest data shows the average Ohio homeowners premium was **\$725**, compared to the national average of **\$1,023**<sup>2</sup>*
- *Ohio's average homeowners premiums went up by \$53 in 2013, by \$27 in 2014, and a \$29 avg. increase is expected in 2015<sup>4</sup>*

<sup>1</sup> *Certain items, like jewelry and guns, may have limited coverage.*

<sup>2</sup> Source: Ohio Department of Insurance (ODI) based on 2012 data, the most recent available from National Association of Insurance Commissioners (NAIC).

<sup>3</sup> Source: Ohio Insurance Institute (OII) based on 2014 NAIC data.

<sup>4</sup>Source: OII.

This information was inspired by a similar article provided to me by the Professional Independent Agents Association of Ohio but has been largely rewritten. The statistics at the end were researched by the PIAA. We are a proud member of the [PIAA of Ohio](#) and America.



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This article was written by Terry A. McCarthy, a 37 year veteran of the insurance industry, who has worked both in management as an agency owner working with clients in the real world. I am both a trained business and financial consultant but is also a Chartered Life Underwriter (CLU). I am a graduate of Central Michigan University with a Bachelors of Applied Arts in Broadcasting and Journalism. I am licensed in Ohio, Michigan, and Indiana.

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