



Fact Sheet

Southwestern Insurance Information Service - A public information organization of insurance companies

"Nothing happens without Insurance"

Do You Have Enough Homeowners Insurance?

In today's unpredictable economy and real estate market, an issue some homeowners may be overlooking is adequate property insurance protection. Too often, homes are not insured to full replacement value, which can create huge problems in the event of a major loss.

For insurance purposes, coverage should be determined based on the replacement cost of the dwelling, as opposed to market value. Replacement cost represents what it would cost to rebuild your home at its present site. On the other hand, market value is affected by such factors as lot size, geographic location, perceived desirability of the neighborhood, cosmetic factors, architectural trends, the perceived quality of the local school system, and proximity to shopping or major thoroughfares.

Most insurance companies use sophisticated computer programs to establish the approximate amount of insurance for a home. Consumers are often surprised to discover that it is necessary to insure their home for an amount greater than the cost of new home construction. However, when you consider the added costs of tearing down the remains of a home devastated by fire or tornado, along with debris removal, new architect fees, increased costs of building materials, and other costs associated with rebuilding a unique home, the higher insurance value makes sense. The economies of scale enjoyed by builders of tract homes cannot be duplicated in an individual rebuild scenario. It should also be noted that replacement cost differences can exist between adjacent homes, reflecting differences in flooring grades, paneling, improved plumbing, roofing materials, windows and draperies to name a few. In essence the reconstruction of each home would be treated like a custom dwelling.

For Additional Information:

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If a homeowner has questions regarding the proper amount of insurance for his or her home, it is recommended they contact their local insurance agent, who is prepared to discuss this issue. And if your homeowners insurer suggests an increase in coverage on your home, accepting the higher level of protection may be in your best interest.

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