Home Insurance Glossary

The language used in most home insurance policies can be very difficult to understand. We've defined most of the difficult terms in simple every-day language to make it easy.

Actual Cash Value - If a home is insured ACV (or actual cash value) that means if something happens to the home, the insurance company will only reimburse the value of the dwelling minus depreciation. This is normally much less than the cost to repair or replace your home.

Additional Living Expenses - This term is used interchangeably with Loss of Use.

Adjuster - A person employed by an insurance company to evaluate losses and settle claims made by an insured.

Binder - A temporary insurance contract that provides proof of coverage until you receive a permanent policy.

Claim - This is a request to be reimbursed from your insurance company for a loss to the property. When you want to get your insurance company to pay for damages caused to your property, it is called "filing a claim." In order to get paid on a claim, the damage needs to be caused by a peril covered in your home policy.

Declarations Page - This is the page of an insurance policy that shows a) name b) address c) time period for the policy d) the amount of premium (cost) of the policy, and e) the amount of coverage

Deductible - The deductible on your home policy is the amount of money you need to pay to fix the damage done to your home before the home insurance company will pay any money. Deductibles range from $250 all the way up to 5% of the home's dwelling amount.

Depreciation - This is a term used to describe the decrease in value of an object over time due to wear and tear. For example, a car is purchased for $10,000 in 2000, but today is only worth $3,000 due to high mileage, the seats getting worn, the equipment getting old and rusty, etc. This aging and wear devalue the vehicle, making it *depreciate*.

Earned Premium - The amount of premium that an insurance company has "earned" by covering your property. For example, if 6 months ago you bought a year long home insurance policy for $1,000, then $500 of that premium would be "earned premium" because the company has covered you for the last 6 months.

Effective Date - The day when your policy becomes effective, or starts.

Endorsement - An endorsement on a policy is an addition or change to the policy. For example, most policies don't come with foundation water damage included, but it can be *endorsed* or added onto your policy at any time.

Escrow Account - An escrow account is an account set up typically by your mortgage company designed to ensure you stay current on your property tax payments and insurance payments. An escrow account will pay your property taxes and home insurance, and then bill you monthly with your mortgage payments.

Exclusion - An exclusion is something that is specifically listed to which coverage does **not** apply. For example, flood is *excluded* on all home insurance policies. Thus if flood damage occurs, you are not covered.

Fully Earned Premium - The amount of premium that is retained by the insurance company regardless how long you have the policy. For example, an insurance company has a $50 fully earned policy fee. You purchase the policy and cancel it the same day. The $50 you paid as part of the down payment to start the policy is not refundable to you. Most companies have fully earned premium in the form of policy fees and inspection fees. The amount ranges from $25 to $200 and more.

Insured - The policy holder, or the person protected in event of a loss.

Insurer - The insurance company, or the entity doing the insuring.

Lapse - A period of time of one day or greater when for whatever reason there has been no insurance coverage on a property.

Liability - Liability is your legal obligation to pay for something for which you are deemed legally responsible. Liability coverage basically protects your assets from lawsuits.

Loss History - This term refers to the number of claims a person has filed, what type of claims were filed, and whether or not an insurance company paid out on those claims. Home insurance loss histories typically go back 3 to 5 years.

Loss of Use - This is the section of your standard home insurance policy that will reimburse you for any additional living expenses you incur if you have to live elsewhere while your home is being repaired. This coverage typically pays for a hotel or apartment, additional food costs, and sometimes extra gasoline and lost wages.

Medical Payments - This coverage is intended to be used by welcome guests in your home to cover minor injuries that occur on your property regardless of fault. It does not apply to everyday residents of your household.

Named Perils Policy - This type of home insurance policy only covers perils that are specifically listed on the policy. Anything not listed on a named perils policy is not covered.

Open Perils Policy - This type of home insurance policy covers your dwelling for all perils (see definition above), unless specifically excluded. Instead of listing the perils you are covered for, and open perils policy lists the perils you are not covered for. If a peril doesn't fall in the small list of exclusions, it is covered on your policy.

Peril - A peril is an event or disaster that causes a loss or damage to your home or property. A few of the most common perils are fire, theft, wind, and hail.

Premium - The total cost of an insurance policy. If a year insurance policy costs $1,000, then the premium for the policy is $1,000.

Refund - An amount of money given back to the insured for unearned premium paid to the insurance company.

Replacement Cost - The term replacement cost describes the amount of insurance needed to repair or replace your property with similar and like kind so you are made whole. It does not deduct for depreciation, so if your home built in 1950 was completely destroyed in a fire, it will be fully rebuilt (same square footage and specifications) with current materials.

Schedule - The term *schedule* is used to indicate that coverage for an item is specifically listed, or added, to your policy. When an item is scheduled you get the items appraised value and are not responsible for paying a deductible. You would normally schedule expensive or rare items on your policy that would otherwise be susceptible to coverage limits (such as electronics, jewelry, etc.).

Risk - The property that will be insured is typically referred to as the "risk."

Surcharge - An extra charge added by an insurance company for something. Examples are poor credit, older home, etc.

Unearned Premium - The amount of premium that you have paid to the insurer that has not been applied to property coverage. For example, if you pay in full for a home insurance policy that costs $1,000, and cancel the policy 6 months later, then 6 months (or $500) is unearned premium and will be refunded to you.

Underwriter - The person who reviews the insurance application to decide whether or not the premium is acceptable and whether or not the risk is acceptable.