

SPECIAL REPORT

INSURANCE FOR RENTAL DWELLINGS VARIES WIDELY DEPENDING ON THE INSURANCE COMPANY YOU USE

05/06/2014

This Special Report was written by Kenneth R. Hale, J.D., CPCU, AAI, LIC of Marsh & McLennan Agency LLC.
Mr. Ken Hale can be contacted at 734-525-2412 or khale@mma-mi.com. More Special Reports are available at www.mma-mi.com.

If you own a dwelling that is rented to another party, you no longer qualify for a homeowners policy, and if you have one in place, no coverage is provided.

You need a policy that is generally referred to as a Dwelling policy.

The coverages are not as broad as a homeowners policy and the dwelling policy form varies widely between insurance carriers.

Here is a coverage comparison between three of the major insurance carriers that will issue policies on rental dwellings:

		CARRIER A	CARRIER B	CARRIER C
1.	Extended Replacement Cost on Dwelling	Optional coverage up to 25% of Dwelling limit.	Optional coverage up to 25% of Dwelling limit depending on age of dwelling.	Not covered. Optional.
2.	Ordinance or Law Coverage	Optional. Additional Premium.	Optional. Depends on the Dwelling age.	Not covered. Optional.
3.	Replacement Cost on Dwelling	Yes.	Yes, if Dwelling is insured for at least 80% of reconstruction cost.	Yes, if Dwelling is insured for at least 80% of replacement cost.
4.	Other Structures	10% of Dwelling limit. Higher limits are available for additional premium.	10% of Dwelling limit. Higher limits are available for additional premium.	10% of Dwelling limit. Higher limits are available for additional premium.
5.	Personal Property Settlement	ACV	ACV	ACV

		CARRIER A	CARRIER B	CARRIER C
6.	30 Days Vacancy	No coverage for theft, vandalism, malicious mischief or glass breakage. No coverage for construction/building materials or personal property.	No coverage for theft, vandalism, malicious mischief or glass breakage. No coverage for construction/building materials or personal property.	No penalty until 60 days of vacancy and then no coverage.
7.	60 Days Vacancy	No coverage for fire.	Same as 30 days.	Same as 30 days.
8.	Theft of Personal Property	Optional. Additional Premium.	Optional. Additional Premium. Void for vacancy of 30+ days.	Not covered. Optional.
9.	Theft of Building Materials	Optional. Additional Premium.	Optional. Additional Premium.	Excluded.
10.	Water Backup of Sewers or Drains and Sump Pump Overflow	Not available.	Not available.	Not available.
11.	Freezing of Pipes	Void for vacancy/ unoccupancy of 30+ days or under construction unless water is shut off with systems drained or heat in building maintained.	Void for vacancy/ unoccupancy of 30+ days or under construction unless water is shut off with systems drained or heat in building maintained.	No coverage if vacant for greater than 4 consecutive days and you fail to maintain heat or shut off and drain systems.
12.	Accidental Discharge or Overflow of Water from Plumbing (Except Sump), AC or Fire Protection System	Coverage applies. Coverage voided with 30+ days of vacancy.	Coverage applies.	Coverage applies.
13.	Rental Loss	Coverage applies. Higher limits are available.	Coverage applies. Higher limits are available.	Coverage applies. \$36,000 limit.
14.	Mold –Property	\$5,000 limit resulting from covered loss.	Included. Limit detailed on declaration.	No coverage.
15.	Mold – Liability	Not available.	Not available.	No coverage.
16.	Other Structures Business Use	No coverage for business use or for business property.	No coverage for business use or for business property.	\$18,000 limit. No coverage for business use.
17.	Earthquake	Excluded. Available by endorsement with special deductible for additional premium.	Excluded. Available by endorsement with 5% deductible for additional premium.	Excluded.
18.	Additional Endorsements	Loss Assessment. On Premises theft.	Vacancy endorsement. Burglary endorsement. Malicious Mischief endorsement. Builders Risk.	\$2,500 deductible.

Critical Coverage Areas

As you can see from the above comparison chart, coverages are all different, but the critical areas relate to Item Nos. 3, 6, 7, 10 and 11:

3. Replacement Cost:

With two of these carriers you must insure at least 80% of the replacement cost (not market value) of the dwelling in order to have replacement cost coverage.

If you don't have replacement cost coverage, the insurance company will deduct depreciation in the event of a claim arising out of dwelling damage.

An example is roof damage. If we assume the life of a roof is 15 years and your roof is substantially damaged in a fire and you have not insured at least 80% of the replacement cost of your entire dwelling, you would receive no payment for the roof whatsoever.

The replacement cost value on your home and the value you insure is your decision, not your insurance carrier's or your insurance agent's, and generally can be determined only by a qualified general contractor.

Again, market value has nothing to do with selecting a replacement cost.

If in doubt, always insure a higher amount than you think the replacement cost is. The premium difference may not be that significant.

6 & 7. Vacancy

It is a given that all rental dwellings will become vacant.

Tenants come and go, and it takes time to paint and fix and re-rent. It would seem that this cannot be typically accomplished in 30 or 60 days.

As you can see in #6, after 30 days the penalties are significant, but after 60 days of vacancy you have no property coverage at all.

This means if the house burns down, you are not covered at all.

10. **Water Backup**

If your rental dwelling has a finished lower level you are not covered for damage to drywall, carpeting, or personal property as a result of backup of sewers, drains, or sump pump overflow.

Also, water backup of sewers does not only happen in the basement. Damage can be caused on any level of your rental dwelling.

11. **Freezing of Pipes**

If your rental dwelling has frozen water pipes you can suffer significant damage.

After 30 days of vacancy or un-occupancy (Carrier C is 4 days), you will have no coverage unless the water was shut off, the system was drained, and the dwelling has been heated.

The Bottom Line for Owners of Rental Dwellings

- Coverage varies by insurance carrier and you need to look at the exact terms of your own policy.
- Be very careful in the amount of dwelling coverage you select. This has major implications depending on whether depreciation is applied to the loss adjustment in a partial loss or not and the amount you will receive in the event of a total loss.
- The vacancy penalties are significant especially after 60 days when you have no coverage at all.
- Look at whether or not you have water backup coverage (probably not).
- Freezing of pipes can be a big problem.

A COMPETENT INSURANCE AGENT-BROKER CAN HELP YOU SORT OUT YOUR OPTIONS WHEN DECIDING ON WHAT DWELLING POLICY TO PURCHASE.

DO NOT MAKE YOUR DECISION ON PREMIUM LEVEL ALONE.

This document is not intended to be taken as advice regarding any individual situation and should not be relied upon as such. Marsh & McLennan Agency LLC shall have no obligation to update this publication and shall have no liability to you or any other party arising out of this publication or any matter contained herein. Any statements concerning actuarial, tax, accounting or legal matters are based solely on our experience as consultants and are not to be relied upon as actuarial, accounting, tax or legal advice, for which you should consult your own professional advisors. Any modeling analytics or projections are subject to inherent uncertainty and the analysis could be materially affective if any underlying assumptions, conditions, information or factors are inaccurate or incomplete or should change.