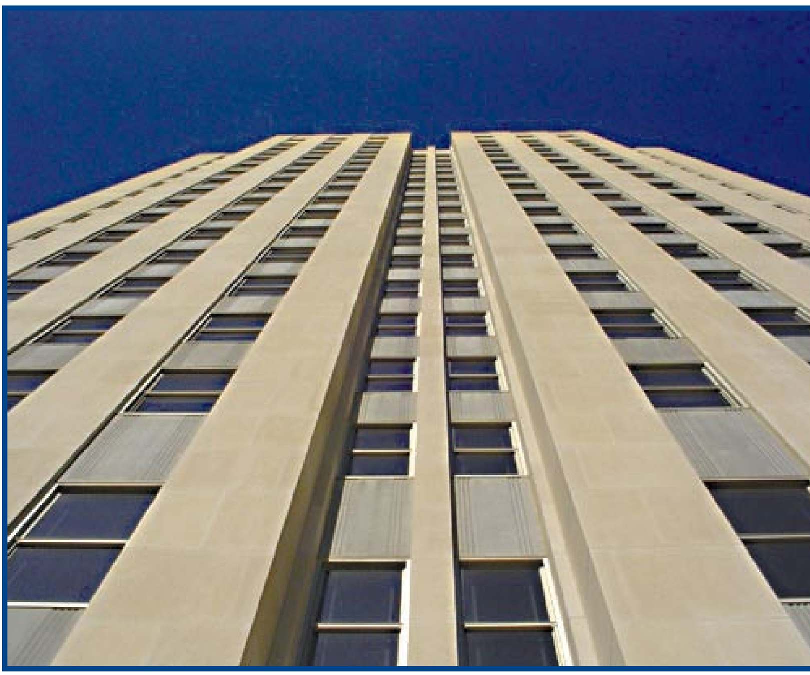
A Consumer's Guide to Homeowners Insurance



NORTH DAKOTA

Protecting the public good.

Insurance Department

Jim Poolman, Commissioner

DEPARTMENT OF INSURANCE
STATE OF NORTH DAKOTA

Dear Fellow North Dakotan:

I am pleased to provide you with the Consumer's Guide to Homeowners Insurance.

North Dakotans enjoy some of the lowest home insurance rates in the country, but shopping for the right policy and understanding how it works can still be confusing. We have created this consumer guide using the most frequently asked questions to our consumer hotline and we hope it will help you gain a better understanding of homeowners insurance.

As your state Insurance Department, we are here to help. We hope this guide will be a valuable resource to you; whether you are shopping for a new policy, reviewing your current policy, or just have a homeowners insurance related question.

If you have additional questions, please feel free to contact us on our toll-free consumer hotline at 1.800.247.0560 or visit us on the web at www.state.nd.us/ndins.

Sincerely,

Jim Poolman
Commissioner of Insurance
North Dakota Insurance Department

Mission

It is the mission of the North Dakota Insurance Department to protect the public good by fairly and effectively administering the laws of North Dakota. We are committed to vigorous consumer protection efforts while fostering a strong, competitive marketplace that provides consumers with choices and access to high-quality insurance products and services at competitive prices. In pursuit of our mission, we will treat all of our constituencies with the highest ethical standards and respect they deserve.

Contact Information

If you need to contact the North Dakota Insurance Department, you may call, fax, e-mail or write, at:

Direct Number: 701.328.2440
Fax: 701.328.4880
Consumer Hotline: 1.800.247.0650
E-mail: insurance@nd.gov
Address: 600 East Boulevard Avenue - Dept. 401
Bismarck, ND 58505-0320

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The Insurance Contract

What is homeowners insurance?

A contractual agreement between an insurance company and an insured, which, in exchange for a premium, provides financial protection for risks associated with owning or renting a residence, and its contents.

What is the policy?

The insurance contract is called a policy and includes three distinct parts. First, the Declaration Page lists what coverages are in effect, the limit of coverage and the dollar amount of coverage. Second, the Text of the contract tells you who and what is covered and not covered. Third, the Endorsements section of the contract changes, limits or modifies the text.

Who does the contract cover?

The homeowners policy provides coverage to the named insured, spouse and other family members residing at home for liability to third parties and for their real and personal property.

Can a company cancel my contract?

Once a homeowner policy has been in force for 60 days, the insurance company may only cancel the policy for the following reasons:

- Nonpayment of premium.
- Fraud or material misrepresentation by the insured in applying for the policy, or in presenting a claim under the policy.
- Willful or reckless acts or omissions on the part of the named insured, which increases the hazard insured against.
- Violation of any local fire, health, safety, building or construction ordinance which substantially increases the hazard insured against.
- A determination by the commissioner that the continuation of the policy would place the insurer in violation of the insurance laws of the state.
- Conviction of a crime having as one of its elements an act increasing any hazard insured against.

The notice of cancellation must be given at least 30 days prior to the effective date of the cancellation with the exception of the nonpayment of premium, which requires a 10-day notice. Notice must be sent to the insured's last known address. The notice of cancellation is not required to be sent by certified mail.

In addition to the reasons above, there are some special circumstances which, if met, permit the cancellation of policy with only five days notice. These are in law and range from a situation where damages have occurred and the insured does not intend to repair the property, to failing to pay property taxes for more than one year.

What if I don't pay my premium by its due date?

Property and casualty policies, including homeowners policies, do not have a required grace period that would allow for late payment of premium. The premium must be in the hands of the company on the date identified on the billing. If the premium is not received by that date, the policy automatically terminates. Some companies voluntarily allow grace periods without a lapse in coverage. There are some companies, however, that do not permit a grace period, in which case they might not reinstate the policy even if you later pay your premium.

What is the difference between a cancellation and a non-renewal?

A cancellation happens in the middle of the policy period. A non-renewal takes place at the anniversary or renewal date of the contract. Unlike cancellation, a company may non-renew a contract based upon underwriting criteria. Underwriting criteria are those specific requirements written into the company's program. Claims frequency is an example of underwriting criterion used by companies when deciding whether to renew or non-renew a policy. A company must give 45 days notice for a non-renewal. Both cancellation or non-renewal result in termination of a contract.

Why does the insurance company need my Social Security number?

Just like other financial service providers like banks and credit unions, an insurance company uses your personal information for a variety of purposes including verification and record-keeping. Just like financial service providers, the insurance company and insurance agents are bound by state and federal privacy laws and may not release your personal information to others without your permission, except as allowed by law.

Standard Coverages

Do I have to buy homeowners insurance?

North Dakota state law does not require you to carry homeowners insurance. However, the financial institution that holds the mortgage on your home will require you to cover the property (collateral) in the event of loss.

What does the homeowners policy cover?

The homeowners policy is a package policy designed for a single family home. Most packages include liability, dwelling property, personal property, medical payments and additional living expense coverage.

Policies do vary, however, in what events (perils) you are protected against. There are two general approaches: a named peril basis, which insures against a list of perils, and an open peril basis, which insures against all perils except those specifically excluded.

What are the named perils?

Basic Coverage Perils: Fire, lightning, windstorm, hail, explosion, riot or civil commotion, aircraft, vehicles, smoke, vandalism and malicious mischief, theft, and breakage of glass.

Broad Coverage Perils: All of the above basic coverage perils and volcanic eruption; falling objects; weight of ice, snow or sleet; collapse of building; accidental discharge of water or steam; sudden or accidental tearing apart; cracking; burning; bulging; freezing; or sudden or accidental damage from artificially generated electrical current.

What are the types of homeowners policies?

The most commonly sold types of policies are listed below. Not all insurers use the same terms to describe their policies but the coverage will be similar.

- A basic policy (HO-1) insures your dwelling, detached structures, and personal property against loss or damage by basic coverage perils.
- A broad policy (HO-2) insures your dwelling, detached structures, and personal property against loss or damage caused by the broad coverage perils.
- A special policy (HO-3) insures your dwelling and detached structures against loss or damage from any peril except for the ones specifically excluded. The policy insures your personal property against loss or damage caused by the broad coverage perils listed. HO-3 policies are the most commonly sold type of homeowners policy in North Dakota.
- A comprehensive policy (HO-3/HO-15 or HO-5) insures your dwelling, detached structures, and personal property against loss or damage from any peril except for the ones specifically excluded. This policy provides the broadest coverage available, but is not offered by all companies and is usually more expensive.
- A modified coverage policy (HO-8) provides insurance for dwellings that are older or do not meet all the underwriting standards applicable to other forms of homeowners policies. It insures your dwelling, detached structures, and personal property against only the basic perils listed. The coverage provided by an HO-8 policy is intended to restore a dwelling to a livable condition, not necessarily the same condition that it was prior to damage. An HO-8 policy may be suitable for homes that have suffered significant depreciation or have a replacement cost that is significantly higher than their market value.
- A tenants/renters (HO-4) policy insures your personal property on a broad coverage peril basis. Like all homeowners policies, tenants' policies also provide for medical expense, additional living expense, and liability coverage.
- A condominium owners policy (HO-6) insures your personal property; walls, floor, and ceiling coverings; and any accessories not originally in the unit when it was purchased. The HO-6 policy will also provide coverage for medical expense, additional living expense, and liability.

What does liability cover?

Liability covers you for your legal obligations in the event an accident by you, your family or on your property injures another person or causes damage to another person's property. Most insurance policies provide at least $100,000 in liability coverage with many of the special and comprehensive policies providing $300,000.

Why do I need medical payments coverage if I have liability coverage?

Medical payments coverage is a no-fault coverage. If someone injures themselves while on your property, you may have the medical payment coverage respond, regardless of whether you are at fault or not. This coverage does not extend to you or your family members or any employees. Medical payment coverage limits vary from company to company, ranging from $1,000 to $5,000.

When would I use additional living expense coverage?

If your home was damaged and during repairs was not livable, or the government evacuated your home following a covered loss, you can get reimbursed the living expenses you incur that exceed your normal living expenses. This would be for lodging, meals, and laundry facilities for a reasonable amount of time.

What is not covered by a homeowners policy?

The basic and broad coverage peril-based policies cover only the items listed. Therefore, if it is not listed, it is not covered. The special and comprehensive policies are based on all perils being covered unless specifically excluded. The kinds of exclusions are water damage from flood, sewer backup or seepage, earthquake, war, nuclear accident, neglect, intentional loss, mold, wear and tear, pollution, settling, and more. Always read your policy to see what is excluded.

What types of property are covered by a homeowners policy?

On your residence premises, the real property will be covered. This includes the dwelling and any unattached structures, including fences. Personal property is also covered. This includes the contents of your dwelling, clothing, furniture, appliances, and all other normal personal belongings. *Note: Some items of personal property like jewelry, guns, furs, golf equipment, etc., may have a limit on the amount of coverage. It may be necessary to put additional coverage on these items by scheduling them to the policy. Automobiles are not covered.*

How much coverage should I carry on my home?

The amount of coverage you should carry can vary depending upon the type of policy you take, whether the coverage is provided on a replacement cost basis or an actual cash value basis, and what your bank may require. It is important to know that under the homeowners policy (HO-3 or HO-5), in order to receive full payment for a partial loss or damage, you must insure your dwelling for at least 80% of its replacement value.

Insuring your property to value (replacement cost value) might cost more, but could help you avoid being underinsured should you experience a serious loss. Most insurance companies have estimating programs available to help you in calculating the replacement cost of your home in your area.

Is a mobile home owner policy the same as a homeowners policy?

A mobile home owners policy is generally a package policy with limited broad peril coverage, and generally is not as comprehensive as a homeowners policy. Coverage is most often based upon an actual cash value basis, not on replacement cost basis.

Can I buy a homeowners policy for my mobile home?

Generally, no. Unless a mobile home is permanently mounted on a foundation, it is not considered to be real property. However, if it is permanently mounted on a foundation, some companies will write a homeowners policy on the property.

Why is a condominium policy different than a homeowners policy?

In most instances, the condominium association owns the actual building. Generally your property begins with the interior walls within your unit. Therefore, the condominium contract reflects this difference. In addition, it will include coverage for condominium association special assessments in the event of a covered loss or damage, in amounts of $1,000 or $2,000.

Optional Coverages

What optional coverages are available for the homeowners policy?

Some of the more common optional additional coverages you can purchase are:

- Higher Liability Limits: Limits of $100,000, $300,000, $500,000 and $1,000,000 are available with most companies.
- Higher Medical Payments Limits: Limits of $1,000, $2,000 and $5,000 are available with most companies, with some offering $10,000.
- Higher Deductibles: Deductibles of $250, $500 and $1,000 are the most common basic deductibles.
- Guaranteed Replacement Cost Coverage: Covers the cost to replace your home, up to 125% of current value, in the event of total loss.
- Personal Property Replacement Cost Coverage: Covers loss or damage to personal property on replacement cost basis rather than the policy actual cash value basis.
- Scheduled Property Coverage: A personal property floater which will provide broader coverage and higher limits of coverage for such items as jewelry, guns, golf equipment, music equipment, cameras, fine arts, and collections.
- Home Inflation Guard Coverage: Automatically increases the limit of coverage on the dwelling to adjust for inflation.
- Business Use Coverage: Extends liability coverage to home business activities.
- Sewer Backup Coverage: Covers damage resulting from the backup of the sewer system.
- Identify Theft Coverage: Covers expenses related to restoring your credit.

If I have my home mortgaged, do I need to list the bank on the policy?

Generally, a borrower is required by the bank to provide adequate security in the form of insurance coverage on the property used as collateral for the loan. Your agreement with the bank determines whether or not it is necessary to list the bank on the policy. If you do not insure the home, the bank may buy special insurance and add the cost to your loan. This is called forced placed insurance. The cost of this insurance is typically higher than you would pay if you bought your own policy through a standard carrier. Also forced placed insurance does not provide coverage for you, but only for the bank's interest in the property and does not provide any liability protection for you.

What are deductibles?

A deductible is the amount of the claim for property loss or damage that you agree to pay, or the part that is deducted from your claim check. The basic policy deductible varies from company to company but the most common is $250 to $500 per loss. If you chose a higher deductible (your share), for example, $1,000 or $2,000, you would pay a lower premium for your policy.

What is a wind/hail deductible?

In addition to a basic policy deductible of $250 or $500, some companies may require separate and different deductibles for wind/hail claims. The wind/hail deductible is generally $500 or $1,000. Some companies may be offering policies with a percentage deductible for wind/hail in the amount of 1% or 2% of the dwelling coverage amount. For example, if the house is covered for $150,000 with a 1% deductible, the amount you would have deducted from your claim check would be $1,500.

We have a large amount of jewelry. How should I cover it?

The homeowners policy provides a set theft sub-limit for jewelry and covers it only on a named peril basis. To get the broadest coverage possible on a replacement cost basis for the jewelry, including mysterious loss and flood, it is best to have the jewelry listed on a schedule and added to the policy. The Scheduled Property Endorsement is used to provide coverage wherever you go. You will need to provide the company with appraisals of the jewelry and pay an additional premium based upon the value of the jewelry being insured.

My eleven year old daughter mows lawns for money. Does she have coverage for this activity?

You need to discuss this with your agent. Some policies include liability coverage for a child's incidental work activities, like a paper route or lawn mowing. Some policies exclude this coverage. *Note: Some policies exclude liability coverage for riding lawn mowers.*

My wife works from home and has an office in the house. Does she have coverage for these activities?

The special homeowners policy excludes coverage for business activity and business property. You would need to add a Business Use Endorsement to get liability and property coverage. Some companies may have limitations on what kinds of businesses they will cover, so check with your agent.

How does the homeowners policy pay for loss or damage to covered personal property?

The special homeowners policy pays for loss or damage to personal property on an actual cash value basis. This is determined by taking the replacement cost value and subtracting depreciation based on age and obsolescence. If you want coverage for personal property on a replacement cost basis, you can purchase a HO-5 type policy or add a Personal Property Replacement Cost Endorsement.

How does the homeowner policy pay for loss damage to a roof?

Generally, the roof, which is part of the dwelling, is covered on a replacement cost basis (less your deductible). However, homes with a very old roof or a severely damaged roof may have restrictions limiting coverage to actual cash value instead. In addition, some companies have policies that change the coverage from replacement cost to actual cash value after a roof gets to be a certain age (i.e. 10-15 years). Check with your agent to be sure what level of coverage you have on your roof.

Does the homeowners policy cover flood damage?

No, the homeowners policy specifically excludes water damage. This exclusion includes flood, surface water, waves, tidal water, overflow of a body of water, water that backs up from sewers, drains or sump pumps, water that seeps through the basement walls and floors. *Note: Water damage caused by a broken pipe in the house would be covered.*

The National Flood Insurance Plan is the only source to get flood insurance for residential property. Your agent should be able to assist you if you need to carry flood coverage.

Will sewer backup coverage apply if there is a flood?

The Sewer Backup Coverage Endorsement varies from company to company. Some companies will cover the damage caused by a sewer backup even if it floods. Some companies exclude coverage for sewer backup if it happens at the same time as a flood. Check with your agent to see how your policy will respond.

I have a child at college living in a dorm. Is the child's personal property, including TV and stereo, covered?

Most homeowners policies will extend some coverage to property children have in their possession while away at school. Some policies, however, exclude or limit coverage on certain expensive items, such as a computer or stereo. If your policy does not provide adequate coverage, you may need to consider a separate tenants/renters policy for that location or an endorsement to increase personal property coverage limits.

Rating

What factors go into determining my homeowners insurance premium?

Homeowner insurance premiums can vary from company to company depending upon a variety of reasons but predominantly the company's loss experience. Other factors affecting the premium are:

- The amount of coverage you buy.

- The type of coverage selected. Named peril versus all peril. Replacement cost versus actual cash value.
- The size of your deductible.
- Your claims history. For more information about how insurers can use your claims history, please visit the Loss History Reports – CLUE and A-PLUS section on page 16 of this guide.
- The location of your residence. How close it is to a responding fire department.
- The condition of your residence. Premises are kept up and repairs are current.
- The type of dwelling. Frame construction, masonry or brick construction.
- Your credit history. Consumers with a poor credit history (financial stability score) might be charged a higher premium than a consumer with a good credit history. Please refer to Insurance and Your Credit Score on page 12 of this booklet.

How do companies determine what rates to charge the consumer?

When you buy insurance, you receive financial protection in case of loss, damage, or injury. The insurance company must charge rates that will allow them to pay losses, their operating expenses and leave a reasonable amount for profit. In order to do this, the company uses statistical loss information to calculate the future expected loss cost per risk. The company then adds to this its operating expenses and expected profit to arrive at a final rate.

Do companies give any discounts?

Yes. Company discounts may include new home discount, multi-policy discount, claim free discount, safety device discount, and senior citizen discount.

If I have a claim, will my rates go up?

Some companies have a claims surcharge program built into their rating program. Please refer to Loss History Reports – CLUE and A-PLUS on page 16 of this booklet for more information.

Can a company require me to pay a fee in addition to the rate?

If you obtain your insurance by virtue of being a member of a certain organization or association, the dues or fees to that organization may be a prerequisite to obtaining the homeowners insurance. Some companies may charge a policy fee in addition to the rate.

How can a company charge more premium than the agent quoted me?

There are many different factors involved in rating a policy. The agent's quote is an estimate based on information you provide. The actual premium is determined by the company after reviewing all the information. When applying for a policy, it is important that all questions are answered truthfully and completely. The wrong information may result in an incorrect price quotation and/or rejection of your coverage. Remember, the actual premium may be more or less than the quoted estimate. The company has 60 days to underwrite your application and is entitled to collect the correct premium for the risk.

What is credit scoring?

Credit scoring refers to a system by which some companies use an individual's credit experiences – such as bill paying history, the number and types of accounts they have, late payments, collection actions, outstanding debts and the age of their accounts – in determining whether to sell insurance to the individual or what rate to charge the individual. This is referred to by the industry as a financial responsibility score, or insurance credit score. It is different than the score that banks or mortgage companies use.

Why is a credit score used in rating homeowners insurance?

Statistical and insurance companies have done analysis comparing individuals' insurance credit scores with insurance loss history, and claim to have found a significant correlation between the two. This information is considered to be predictive of future loss experience, thus making it a useful tool for companies to use in matching homeowners to a proper premium level.

Do all companies have the same standards for writing a homeowners policy?

Most companies have similar, but not identical, underwriting rules. There are a few companies that will accept risks with a claims history or poor credit score. If an insurance company declines your application, do not give up. Keep shopping!

Does the North Dakota Insurance Department set homeowners rates?

The North Dakota Insurance Department regulates, but does not set, homeowners insurance rates. Each company decides what rate it needs to charge. As the regulator, the Department reviews the companies' proposed rates for compliance with state law. If a company wants to change its rates, it must file supporting data with the Department. The Department's rate analysts review that data to ensure that the rates are justified.

Claims

Can the agent settle the claim?

A few insurance companies give the agent the authority to settle small claims. However, most companies limit the agent's involvement in the claims process to that of helping the insured complete the loss report and forwarding it to the company claims department for processing. In most cases, the agent does not have the authority to make claims settlement offers on behalf of the insurance company.

How can I help my claim get processed as quickly as possible?

When there is a loss to property due to burglary, fire, or natural disaster, there are several steps you can take to ensure your claim is properly filed and processed as quickly as possible:

- Report the incident to proper authorities. In communicating with your insurance agent or company, note all details of the report including any case numbers.

- Keep copies of all correspondence you receive or send regarding the loss or claim.
- Protect yourself and your property. If checks or credit cards are stolen, notify the financial institution that issued them.
- After a fire, storm, tornado, or other natural disaster, immediately take reasonable steps to protect your property from further loss. For example, cover broken windows temporarily with plywood or plastic sheets. Keep a record of your expenses.
- Call your insurance agent for advice and instruction.
- Take an inventory of damaged, destroyed or stolen property.
- Review your policy for possible coverage you may have overlooked.
- If your home has been badly damaged, notify the bank or mortgage company that holds your mortgage. Insurance claim checks will be made payable to you and your mortgagee. You will need to work with them to finalize the details for release of the funds.
- File any additional claims for ongoing expenses at the time they are incurred.

What can I do if my company is delaying my claim?

Insurance companies are required by law to have standards for prompt investigation of claims and to make prompt, fair, and equitable settlement of claims where liability has become reasonably clear. If, after contacting the company and providing all relevant information, you still feel the company is taking an unreasonable amount of time in investigating or paying a claim, contact the Insurance Department.

How does the insurance company handle prior damage when making a new claim?

The insurance company does not owe for damage that occurred prior to the effective date of your policy. Your insurance policy provides coverage based on an occurrence that takes place while the policy is in force. Therefore, each different occurrence is handled separately. For example, if you have hail damage from a prior occurrence, the company will deduct the cost of the prior damage from your current claim settlement.

The adjuster has been to the house and I have received his estimate but I don't feel it is accurate. What can I do?

Contact the adjuster and discuss your concerns. If that doesn't satisfy your concerns, you may ask a contractor of your choosing to provide an opinion/estimate which you can submit to your company for consideration, or you can call your agent and request that a second adjuster be sent to review the damage. If this second review doesn't resolve the matter, you can contact the Insurance Department. We will try to determine if you are being treated in a fair equitable manner, according to your policy, and whether there is some way we can help you.

Why does the company make the check for repairs out to me and my mortgage company?

The mortgage company you have listed on your policy has an insurable interest in the property. Because of this, the company is bound by contract to include them on major repair payments. It is up to you and your mortgage company to work out how the settlement proceeds will be released to you for repairs.

What does holdback mean?

Most homeowner policies contain provisions stipulating that it will pay you for the repairs based upon the actual cash value of the damage until you show evidence that you have done the repairs. Once the repairs are done, they will release the balance of the claim payment to you. In the mean time, they hold that portion back until you do the repairs. The company has an interest in seeing that repairs are completed as they continue to provide coverage on the property. Most policies give you 180 days to get repairs completed.

I have hail damage but the adjuster will only pay for two sides of my home to be resided. Can they do this?

Most insurance policies stipulate that your insurance company is only obligated to pay for the direct damage sustained in a loss. In determining direct damage, obsolescence of a product is not included. Payment for additional costs due to problems with matching colors and/or materials, whether it is roofing or siding, are not covered by most policies.

What should I do if I am having a disagreement with my company over a claim?

If you have made every attempt to work with the company claims department personnel or adjuster and continue to have a disagreement, you should then discuss the matter with your agent to determine if any further resolution can be made. If unsuccessful, call the North Dakota Insurance Department at 1.800.247.0560. We will determine whether we can be of assistance to you and will advise you of the available alternatives.

What is insurance fraud?

Some examples of fraud are:

- Collecting or trying to collect from an insurance company for a loss that never occurred.
- Inflating a theft claim by exaggerating the value of the item stolen.
- Filing a claim for damages that you deliberately caused.
- Providing false information about your ownership, claims history, record, address or other details on an insurance application.

Committing insurance fraud is a class C felony and can be sufficient grounds for a company to deny and/or cancel coverage. Insurance fraud hurts us all.

Contact the Insurance Department if you know of or suspect insurance fraud is being or has been committed.

Consumer Tips

What can I do to get the lowest possible rate?

- Shop around. Since insurance rates are based upon experience, it is beneficial to shop around to determine which company is offering the best rate. Start by finding an agent or company representative that you trust.
- Consider adjusting your coverages. For example, you might elect to use a higher deductible to bring your rates down.
- Check to see that you are getting all appropriate discounts.
- Read your policy. Discuss any questions you may have with your agent so you can fully understand the coverages and obligations under the policy. A homeowners insurance policy is a legal contract.
- Improve your credit score.

What should I do if I have a complaint or question about my homeowners contract?

If you still have a question after discussing your concerns with your agent and/or company, you may contact the North Dakota Insurance Department for advice.

Insurance And Your Credit Score

Many homeowners insurance companies look at consumer credit information to decide:

- Whether to issue or renew an insurance policy, and
- How much premium to charge for insurance.

Here are some frequently asked questions regarding the use of credit information:

Can an insurance company look at my credit information without my permission?

Yes. The Federal Fair Credit Reporting Act (FCRA) and state law permit insurance companies to look at your credit information without your permission. The law also requires that insurer to notify you within three days that they have obtained your credit information.

The federal law may be found at http://www.ftc.gov/os/statutes/031224fcra.pdf.

The state law may be found at http://www.legis.nd.gov/cencode/t261c251.pdf.

How do I know if an insurance company is using my credit information?

Under state law, the insurance agent or company must disclose to you at the time of application whether they use credit information for underwriting or rating. If you have

not made application recently, you may ask your company or agent if they use credit information. If credit information is used for underwriting, ask them how it affects your eligibility for coverage. If credit information is used for rating, ask them how it affects your insurance premium. Finally, you should also ask if they will check the credit outstanding debt (how much you owe compared to your available credit). Too much outstanding debt tends to have a negative effect on your insurance credit score.

What is a good insurance credit score?

There is no single answer to this question. Generally, a good insurance credit score will translate to lower premiums. However, insurance companies use different scoring calculations, so different insurers will likely give you a different score. That is why it pays to shop around on a regular basis to make sure your premiums are competitive.

Is my premium based entirely on my insurance credit score?

No. In addition to credit history, your homeowners premium is based on factors such as where you live and the cost to replace your home. Credit history is only one of a number of factors insurers use to rate your policy.

Must an agent or company tell me what my insurance credit score is?

No. In fact, the agent or company underwriter might not even know your score. Instead, all your agent or underwriter may know is that your score qualifies you for a particular rate or company within the group. Even if you know your insurance credit score, it may not be useful to you.

First, your insurance credit score is a snapshot in time, and a significant change in your credit activity or creditor report can change your score.

Second, insurance credit scores are not uniform among insurance companies. Insurance companies have different views on which factors are more important based on their experience and business practices. For example, one company might feel that public records are more important than past payment history. Another company might take the opposite view. How much weight a company gives each of the factors determines, to a large extent, your insurance credit score with that company.

If I don't know my score, and my score varies from company to company, how will I know if my credit history affects my insurance purchases?

Ask your insurance agent or insurance company. The Federal Fair Credit Reporting Act (FCRA) requires an insurance company to tell you if they take an adverse action because of your credit information. FCRA and state law define adverse action to include denying or canceling coverage, increasing premiums, or changing the terms, coverage, or amount of coverage in a way that harms the consumer. Examples of an adverse action include:

- Canceling, denying or non-renewing coverage.
- Giving the consumer a limited coverage form.
- Limiting benefits, such as eligibility for dividends.

- Issuing coverage other than that applied for.
- Not giving the consumer the best rate.
- Not giving the consumer the best discount.
- Adding a premium surcharge.

If your insurer takes an adverse action due to your credit information, it must also tell you the name of the national credit bureau that supplied the information. You are also entitled to a free copy of your credit report from the credit bureau that supplied the credit information.

In addition, state law further requires the company to provide up to four specific factors that influenced the adverse action. These reasons should help you know what to look for when you review your credit report.

What can I do if there is incorrect information in my credit report?

Tell the credit bureau. If you report an error, the credit bureau must investigate the error and get back to you within 30 days. The credit bureau will contact whoever reported the information.

Credit information is often reported by banks, credit card companies, collection agencies, or a court clerk. If the investigation shows the information is wrong or if there is no proof it is true, the credit bureau must correct your credit record.

You can ask the credit bureau to send a notice of the correction to any creditor or insurer that has checked your file in the past six months.

Once the errors are corrected, it is a good idea to get a new copy of your credit report several months later to make sure the wrong information has not been reported again.

You should also get a copy of your credit report from the other national credit bureaus, which are listed below. If you correct an error on one report, it will not fix incorrect information on the other reports. If the information in your credit report is correct, the credit bureau will not change it.

However, the FCRA lets you file a 100-word statement explaining your side of the story, and the credit bureau must include your statement with your credit information each time they send it out. Make sure your insurance company has a copy of your statement, and ask if it will take your statement into account.

The three national credit bureaus are:

Equifax: www.credit.equifax.com or 1.800.685.1111
Experian: www.experian.com or 1.888.397.3742
Trans Union: www.transunion.com or 1.800.888.4213

Tell your insurance company. Don't wait until the credit bureau investigates the errors to contact your insurer. Tell your insurance company right away and ask if the errors will make a difference in your insurance.

If the errors are big, tell your insurer that you are disputing the information and ask if they will wait to use your credit information until the errors are corrected. Small errors may not have much effect on your credit score. If the errors are big, it can make a significant difference in your premium.

Why do insurance companies use credit information?

Insurance companies have shown that information in a credit report can predict which consumers are likely to file insurance claims. They believe that consumers who are more likely to file claims should pay more for their insurance.

If I don't have a credit history, will it affect my insurance purchase?

Possibly. Not all insurance companies handle this situation the same way. Some companies will charge you more. Other companies will use other information, such as driving record or claims history, to decide whether to insure you or how much premium to charge.

Sometimes an insurer will not be able to find a meaningful credit history for you. If you think you have a credit history but the insurer cannot find it, make sure your agent or insurance company has your correct name, address, Social Security number, and birth date.

How do insurance companies use credit information?

Insurers can use your credit information to underwrite your insurance policy or to rate your insurance policy.

Underwriting: Underwriting is a process where an insurance company gathers information and decides whether or not you are eligible for their program.

Rating: Rating is a process that determines how much you pay for insurance. Many insurers charge higher premiums based on various attributes of an individual's credit history.

What kind of credit information do insurance companies use?

Most companies that use credit information use an insurance credit score, which is also referred to as a financial responsibility score. An insurance credit score is calculated using information from your credit information. Many insurance credit scores are weighted using recent credit information more heavily than old credit information. The factors used in many scoring models are:

- Public records (such as bankruptcy, collections, foreclosures, liens, and charge-offs). Public records generally have a negative effect on your insurance credit score.
- Past payment history (the number and frequency of late payments and the days between due date and late payment date). Late payments tend to have a negative effect on your insurance credit score.
- Length of credit history (the amount of time you've been in the credit system). A longer credit history tends to improve your insurance credit score.
- Inquiries for credit (the number of times you've recently applied for new credit, including mortgage loans, utility accounts, and credit card accounts). Shopping for new credit tends to have a negative effect on your insurance credit score. In North

Dakota, companies have some restrictions on using recent multiple home or auto loan applications, consumer or insurance inquiries, and collections with a medical code in a negative manner.

- Number of open lines of credit (including the number of major credit cards, department store credit cards). Having too much credit tends to have a negative effect on your insurance credit score. However, it generally is not a good idea to cancel a credit account that you have had for a long time. A long credit history may help your score.
- Type of credit in use (such as major credit cards, store credit cards, finance company loans, etc). Major credit cards may be treated more favorably than other types of consumer credit, such as store credit card or loans from a finance company.

Will my credit history haunt me forever?

Probably not. Credit history is just that – history. Once you find out which attributes of your credit history are affecting your insurance credit score, you can work to improve your record. If your premiums are high because of your credit history and you take steps to improve your record, you should:

- Ask your insurance company to re-evaluate your insurance credit score at renewal.
- Shop for new insurance at renewal to see if better prices are available.

Where can I get more information?

- Ask your insurance agent or company if they have educational material that explains how they use credit.
- Contact the ND Insurance Department by calling 1.800.247.0560 or searching our web site.
- Contact the Federal Trade Commission for information about the FCRA or their consumer brochures. Call 1.877.382.4357 toll free or visiting their web site at www.ftc.gov.
- Search the Internet, but be sure the information you find explains how insurers (not lenders) use credit information.
- Contact your local Cooperative Extension Service for information about improving your credit history.

In North Dakota, insurance companies are prohibited from denying, canceling, or non-renewing a policy solely on the basis of credit information, but may use credit information along with other underwriting factors to deny, cancel or non-renew a policy.

Loss History Reports – CLUE and A-PLUS

Why do insurance companies need to know my loss history or the loss history of my property?

Insurance companies conduct a risk assessment of each applicant and property requesting coverage. The risk assessment tells a company whether the risk presented by the applicant or property, is acceptable to them based upon the company's underwriting guidelines

and, if acceptable, what the premium should be for the risk presented. The guidelines and premiums charged are based generally upon historical statistical data. Statistically it has been documented over time that individuals that have losses tend to have more losses. Therefore, knowing the previous loss history of the applicant and property helps the company in determining the level of risk presented and the appropriate amount of premium to charge for that risk.

Does North Dakota law allow companies to use my loss history information?

Yes, it is generally recognized that insurance companies have a need to know about your previous loss history for underwriting and rating purposes. However, the law does restrict or prohibit the use by companies of some specific loss history information.

Does my loss history have any impact on my ability to get insurance? Or what I pay for insurance?

Yes, while all companies do not have the same underwriting guidelines or rating systems, generally most companies today do consider your loss history in determining whether to offer you insurance or not, and in determining how much premium to charge you. Knowing the type and frequency of losses you have had is a part of their risk assessment of you.

How can an insurance company determine my loss history or the loss history of my property?

Insurance companies use several methods to gather your loss history:

- All companies ask for your loss history information when making application.
- Some companies may ask you to have your previous carrier send them your previous loss history.
- Some companies may request that an investigative consumer report be done to obtain your background history.
- Most companies will request a search of industry loss history databases for information of previous claims or losses.

How do I know if an insurance company is going to use my loss history information?

North Dakota law requires that a company inform you at the time of application that they will consider your loss history in determining whether to decline, cancel, non-renew, or surcharge a policy.

Does the law regarding personal insurance loss history information apply to all types of insurance?

No, the law is specifically limited to personal insurance which is defined to mean private passenger automobile, homeowner, motorcycle, mobile home owner, and owner occupied dwelling fire policies.

What events are companies restricted or prohibited from using?

Companies may not consider the following for purposes of surcharging, declining, non-renewing, or canceling personal insurance or a binder for personal insurance:

- An inquiry about the level of coverage or whether a policy will cover a loss.
- An inquiry regarding coverage for a loss if you never file a claim.
- A claim if the company does not investigate the claim or does not initiate any other claim activity (unless the claim involves deceptive practices by you).
- A claim if the company does not make a payment to you or on your behalf (unless the claim involves deceptive practices by you).
- A first party property claim caused by wind or hail if you have not had any other wind or hail claims in the past five years (unless the company can show that you failed to maintain the property and the failure contributed to the loss). *Note: If you have had more then one wind or hail claim in the past five years the company can use the second and third claims, etc.*
- Any claim that is over 10 years old (unless the company can show that you failed to maintain the property and the failure contributed to the loss).

What is a CLUE report?

CLUE report stands for Comprehensive Loss Underwriting Exchange. This is the acronym associated with the loss history database managed by Choicepoint. Another common loss history database used by companies is known as A-PLUS and is managed by Insurance Services Office. The CLUE report is a loss history report. This report will show all losses (claims) made by you (by Social Security number),) made on a specific vehicle (by Vehicle Identification Number), or made on a specific property (by address).

What rights do I have if I feel the information in the CLUE report is not correct?

Under the Federal Fair Credit Reporting Act, you are responsible for contacting the database manager of a contested loss history. You must then contact the company that made the erroneous entry and request that they have it corrected in the database. Once the correction is done you may request the insurance company to reconsider your application.

Who is responsible for correcting any errors in my loss history report?

You must get the insurance company that provided the incorrect information to the loss history database to correct the entry.

Can I be penalized for the loss history of the previous owner of the home I am planning to buy?

Maybe. The law strictly prohibits a company from using the previous owner's loss history on a property as the sole reason for declining to write a policy but does allow the company to refuse to insure if it can show the previous owner did not repair the damage. In addition, if the company has other legitimate underwriting factors in addition to the loss history that support the declination, they may then do so.

If I am purchasing a new home and make application to my company for coverage, how long does the company have to decide whether they will provide coverage or not?

North Dakota law allows companies 60 days to underwrite a risk. If a company finds within the 60 days that the risk does not meet their underwriting eligibility criteria, it may terminate the policy and/or binder. If you are contemplating the purchase of a new home, it is extremely important that you involve your agent as soon in the process as you can to avoid any unexpected problems with the insurance company providing coverage due to issues that may be discovered upon receipt of a loss history report.

Do insurance companies use weather related loss history information in underwriting or rating?

Generally, companies use your previous loss history information in underwriting or rating your policy including losses related to weather such as wind and hail. However, there are some provisions in state law which limit the use of this type of loss information in certain circumstances.

For example, companies can not use the first wind/hail loss in the previous five years to underwrite or rate homeowners policies but may use subsequent losses within the five-year period.

In addition, the law prohibits companies from surcharging your homeowners policy based upon a comprehensive loss of any kind. This restriction is specific to surcharging but does not prevent them from non-renewing your account based on this information subject to the 5 year rule for wind/hail losses.

How do I go about getting a copy of my loss history report (CLUE report or A-PLUS Report)?

For the CLUE report contact the vendor, Choicepoint, at their web site www.choicepoint.net.

If you have been declined insurance because of information contained on an A-PLUS report or for copies of the report, please use the contact information below:

- 1.800.709.8842 – This number was established for A-PLUS customer use. The number should be reported on all declination letters to consumers when an A-PLUS member insurance company has performed searches on the A-PLUS databases and as a result made considerations not to write new or renewal insurance coverage for a consumer.
- 1.800.627.3487 – This number was established in compliance with the FACT Act (FACTA) that became effective December 1, 2004. A consumer may call this number to request a free copy of their A-PLUS auto or property loss history report. This number is also published on the Insurance Services Office web site at www.iso.com.

Consumers may also contact A-PLUS to request a loss history report by writing to:

A-PLUS Consumer Inquiry Center
545 Washington Boulevard 22-6
Jersey City, NJ 07310

If I have further questions regarding the use of my loss history by an insurance company who can I call?

You may also contact the North Dakota Insurance Department at 701.328.2440 for assistance.

Glossary Of Insurance Terms

Actual Cash Value: An amount equivalent to the replacement cost of lost or damaged property at the time of the loss, less depreciation.

Adjuster: A person who investigates and settles losses for an insurance carrier.

Agency: A firm that solicits insurance for one or more insurance carriers. It also may issue policies and adjust losses.

Agent: An insurance salesperson. An agent represents the insurance company, not the consumer.

A) An independent agent usually represents two or more insurers in a sales and service capacity and is paid on a commission basis.

B) An exclusive agent or captive agent represents only one company, usually on a commission basis.

Application: The request for insurance, giving information about the prospective policyholder.

Arbitration: A determination made by impartial experts of the value of property or the extent of damage. Arbitration is an alternative to litigation of matters in dispute.

Binder: A temporary insurance contract that provides proof of coverage until you receive a permanent policy. A binder is subject to payment of a premium.

Broker: An insurance salesperson who deals with agents and companies to find insurance for consumers. A broker represents the consumer, not the insurance company.

Cancellation: A termination of a policy before its normal expiration date.

Claim: A request for reimbursement for damages on an insured loss. Your claims to your company are first party claims. Claims made by one person against another person's company are known as third party claims.

Conditions: Part of an insurance policy that states your obligations and those of your insurance company.

Declarations Page: The page your company sends as part of the policy which shows the coverage and premiums.

Deductible: The amount you must pay from your own pocket for each claim.

Endorsement: A written or printed form attached to the policy that alters its provisions.

Exclusions: Specific situations or circumstances listed in your policy describing when coverage does not exist.

Insurer: A company which, in exchange for a fee called a premium, agrees to pay all legitimate claims that may arise under your policy.

Lapsed Policy: A policy that has terminated at renewal for non-payment of premium.

Liability: A legally enforceable financial obligation caused by negligence.

Liability Insurance: Insurance that pays when you are liable for injuries to other persons or damage to their property.

Negligence: Failure to exercise a generally acceptable level of care and caution resulting in injury or damage to a third party.

Non-renewal: When an insurer terminates the contract by electing not to renew the policy at the anniversary date.

North Dakota Insurance Guaranty Fund: A fund that pays an insurer's claims when the company is insolvent. All North Dakota licensed insurance companies belong to the North Dakota Guaranty Fund.

Occurrence: An event that results in an insured loss.

Policy Period: The amount of time an insurance contract or policy provides coverage.

Premium: The amount you pay for insurance.

Pro Rata Cancellation: Revocation of a policy by an insurance company that returns to the policyholder the unearned premium. There is no reduction for expenses already paid by the insurer for that time period.

Proof of Loss: Documents that you give the insurer to support your request for payment of losses. The company uses the documents to determine whether and how much it will pay. Examples include written repair estimates and police reports.

Short Rate Cancellation: Cancellation by the insured of an insurance policy for which the returned unearned premium is diminished by administration costs incurred when the insurance company places the policy on its books.

Unearned Premium: The portion of the premium for the remaining time period that the policy will not be in force.

Underwriter: An individual in an insurance company who determines what insurance risks will be accepted and on what terms.

Notes

Notes

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