

FIRE INSURANCE: What You Need to Know Now

BY GARY OSBORNE AND DOMINIC NESBITT

The October 2003 county fires led homeowners to raise many questions about insurance coverage for fire losses. The authors present a helpful overview.

Anatomy of an Insurance Policy

An insurance policy has three parts: (1) the **declarations page**, which describes the coverage, sets limits and lists the endorsements; (2) the **insuring agreement**, a multi-page pamphlet that defines the coverage, exclusions and conditions; and (3) the **endorsements**, which amend the insuring agreement by adding or deleting terms.

Coverage Implicated by a Fire Loss Claim

A total fire loss will usually implicate the following coverage, each of which has a separate limit:

- “Coverage A: Dwelling” insures the home (the bricks and mortar—not the land) as well as attached structures.
- “Coverage B: Separate Structures” insures detached structures, including “hardscape,” such as driveways, patios and swimming pools.
- “Coverage C: Personal Property” insures contents. Certain personal property, such as computers and business property, have “special” (i.e., reduced) limits.
- “Coverage D: Additional Living Expense” insures the increase in living expenses during the time needed to repair or replace the damaged property.

Homeowner’s policies also contain “additional coverage” for such things as debris removal and replacement of trees, shrubs and plants.

Replacement Coverage and Dwelling Limits

Most property owners believe their policies cover the cost of rebuilding their homes in the event of a total loss. This is true, but only if (1) the policy has sufficient dwelling limits or (2) the policy provides “guaranteed replacement” coverage.

There are three basic types of homeowner’s insurance poli-

cies: (1) replacement, (2) extended replacement and (3) guaranteed replacement.

“Replacement” policies will pay the cost of replacing a home *only* up to the policy’s dwelling limit. “Extended replacement” policies will pay *only* up to a specified amount in addition to the dwelling limit. “Guaranteed replacement” policies are the only ones that will pay whatever it costs to replace a home, regardless of the dwelling limit.

Actual Cash Value/Replacement Cost Value

“Replacement cost value” is the amount necessary to replace damaged property. “Actual cash value” means replacement cost value *less depreciation*.

Most homeowner’s policies will immediately pay the “actual cash value” of destroyed property. The higher “replacement cost value” will be paid only if the property is actually replaced within a specified period of time.

Conditions

Every homeowner’s policy includes a section labeled “Conditions.” These conditions must be followed to the letter to avoid any risk of forfeiting coverage.

The conditions will include a “suit” provision, which limits the time within which an insured can sue the insurer, usually to one year from the date of loss. Although this contractual-limitations period may be tolled under certain circumstances, the provision is upheld and enforced in California.

The October 2003 wildfires caused many people to think for the first time about what is covered by their homeowner’s insurance policy. While certain generalizations can be made, coverage *does* vary. There is no substitute for reading your own policy. ■

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