

Saving Money on Your Insurance

BY JOSE MONTE MAYOR

Homeowners Coverages Are Changing

IN THE PAST, Texans needing homeowners insurance could count on getting the standard HO-B policy, which covers most “perils” that can damage a house.

However, anxiety over skyrocketing mold claims has led some insurers to offer a less comprehensive policy called the HO-A.

This article will summarize the major differences between the HO-A and HO-B policies and my action to improve insurance availability by revising the coverage provided for mold-related claims by residential property insurance policies.

Both the HO-A and the HO-B are standard policy “forms” adopted by the Texas Department of Insurance (TDI). Insurance companies must use these standard forms or individual company forms and endorsements approved by TDI.

The HO-B covers nearly every calamity that can damage a house. These include such things as fire, lightning, hail, falling objects, windstorms, explosions, vandalism, theft, freezing pipes and damage from out-of-control vehicles. In particular, the HO-B covers damage from the accidental discharge, leakage or overflow of water from appliances and plumbing, heating or air conditioning systems. If water discharged under a slab foundation damages the house, the HO-B pays for structural and cosmetic repairs and for the cost of accessing the damaged plumbing to fix the leak.

The HO-A is a “named perils” policy that covers only the types of damage specifically named in the policy. These are fire and lightning, wind, hail, explosions, aircraft and vehicles, vandalism, smoke, theft, riot and civil commotion. TDI has approved individual insurers’ endorsements that will, for a price, cover additional perils, including sudden and accidental water discharges, not covered by the basic policy.

The HO-B is a replacement cost policy for the structure. If a structural component, such as the roof, is damaged, the insurance company will pay the full cost of replacing it, minus your deductible. The basic HO-A, on the other hand, pays only “actual cash value.” This means if your roof is damaged by hail, the insurance company will pay only

replacement cost minus depreciation and your deductible. For an additional premium, however, a number of companies will allow you to upgrade the policy to replacement cost.

The basic HO-B and HO-A policies provide only actual cash value coverage (replacement cost minus depreciation) for household contents. Again, some companies offer replacement cost endorsements, which are well worth the added expense.

Both the basic HO-A and the basic HO-B cover the cost of cleaning up any mold that results from water losses covered by the policies. In an effort to address homeowners insurance availability problems arising from the explosion in mold claims, I issued an order on November 28, 2001, revising coverage for mold as an “ensuing loss.” Insurance companies could start using policies with revised mold coverage as early as January 1, 2002.

The revised HO-B policy will pay only for removal of mold on personal property and building materials, such as sheet rock and carpeting, that are actually damaged by a sudden and accidental water discharge. A discharge may have been hidden and undetected for a time, but you must report it to the insurance company within 30 days after you discover it or should have discovered it. The revised HO-B does not pay for mold “remediation,” which includes testing, treating, containing, decontaminating or disposing of mold beyond what is necessary to repair or replace property damaged by water.

An insurance company must offer its customers the option of buying back mold remediation coverage for an additional premium. The company must offer this coverage in various increments, including 100 percent of the amount for which the customer’s house is insured.

By returning to the basic principle that insurance should pay for water damage but not for expensive mold testing and remediation, TDI hopes to restore the stability of the homeowners insurance market. This market is changing rapidly, and it is important to shop carefully for the homeowners policy that is right for you. ★

Editors:

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