

INTRODUCTION

Due to a range of factors including inflation, natural disasters, and material and labor cost increases, the price of automobile and homeowner's insurance policies have increased significantly in recent years. In our opinion, this trend warrants action by clients to assess their existing auto/home/umbrella policies, revisit their coverage needs, and shop for the best insurance coverage pricing that meets these needs.

This article is focused on the process of getting new quotes for existing insurance coverage – we suggest performing this exercise every two years or if you experience a significance increase in your premiums. We'll start with common terms, define what information needs to be gathered to perform a fair price comparison between insurance alternatives, and summarize some factors to consider which may help reduce your insurance premium costs.

These types of property and casualty insurance policies have a lot of variations and are often bundled. You'll want to understand any such interdependence between policies before making a change; for example, umbrella policies are supplemental liability policies that require underlying general liability coverage as typically offered in an insured's home/auto policies.

Eustace Advisors does NOT sell any type of insurance product – our role is to help our clients better understand how insurance works, the factors that affect a decision to purchase insurance, and how to calculate the type and amount of coverage needed. We encourage our clients to talk to licensed insurance professionals for specific policy recommendations and details.

KEY TERMS

1. Agent: a state-licensed insurance company representative who solicits and negotiates insurance contracts and provides service to the policyholder on behalf of the insurer. An agent can be independent (represents at least two insurance companies) or a direct agent who represents and sells policies for only one company.

During a price exercise such as this, an independent agent will be able to quote multiple insurance carriers on behalf of the client, which is an advantage when completing this exercise.

2. Insurer: the company that contracts to pay another party in the event of qualified claim.
3. Insured: the person who is covered by the insurance policy.
4. Premium: the payments made to keep an insurance policy active. In some cases, insurance companies will offer a discount if an annual policy is paid in full vs. making monthly or quarterly payments.
5. Discounts: many insurance companies will offer various discounts based on the insured's age, driving/criminal record, bundling of multiple types of insurance, claims history and other factors.
6. Deductible: the amount of money a policyholder pays out-of-pocket before their insurance coverage begins to pay for covered expenses. Example: if you have a \$500 deductible on your auto policy, and you sustain \$1,500 in damages to your vehicle, you will receive \$1,000 from the insurance company and be liable for the other \$500.

Deductible amounts may have a significant impact on premiums – it is important to ensure that all policies being quoted have the same deductibles to allow for fair comparison.

7. Claim: a request for payment from your insurance company after a covered event.
8. Automobile Insurance – policy features:
 - A. Collision coverage: pays for damage to your car if it's in an accident with another vehicle or object.
 - B. Comprehensive coverage: pays for damage to your car from non-collision events, like vandalism, theft, or weather damage.
 - C. Uninsured/Underinsured Motorist Coverage: protects you if you're injured by someone who doesn't have insurance or doesn't have enough insurance.
 - D. Bodily Injury Liability: covers the medical bills and other expenses of people you injure in an accident.
 - E. Property Damage Liability: covers damage you cause to someone else's property in an accident.
 - F. Personal Injury Protection (PIP): covers medical expenses and lost wages if you are injured in an accident, regardless of who is at fault.
 - G. Medical Payments: covers medical expenses for you and your passengers in an accident.
9. Homeowners / Renters Insurance – policy features:
 - A. Coverage Categories
 - i. Dwelling: this coverage amount is based on projected replacement cost of the house and covers repairs/replacement of the dwelling structure.
 - ii. Personal Property: coverage for items in the house such as furniture, appliances, clothing, etc.. This typically does NOT include automobiles, which will be covered via a separate auto policy. This coverage often defaults to ~40% of the dwelling coverage amount.
 - iii. Other dwellings: includes sheds, cabanas, etc. This coverage often defaults to 10% of the dwelling coverage amount.
 - iv. Loss of Use: this covers costs incurred if the dwelling is uninhabitable due to damage. Expenses covered may include temporary housing (like a hotel or rental apartment), increased food expenses, and other living costs that are higher than your normal expenses.
 - v. Personal Liability: coverage in case the insured is found legally responsible for bodily injury or property damage to others, regardless of where the incident occurs.

Different insurance companies use different metrics for assigning coverage amounts to these categories and may also include a “free” excess coverage amount (such as 125% of the stated coverage amount). It is very important to compare different policies being quoted to ensure the coverage amounts are comparable and meet your needs.

- B. Exclusions: Flood coverage is typically NOT included in a standard homeowner's policy and requires separate coverage. Other potential exclusions in a basic homeowner's policy include hurricanes and earth movement (earthquakes, mudslides).

10. Supplemental Liability (Umbrella) Insurance: typically bought as a supplement to existing auto and home insurance coverage to protect the insured party's assets. Such a policy adds liability coverage above the limits on your existing car and homeowners insurance policies. If you are liable for injuries or damage, and your auto and homeowners policy limits are less than the amount you are liable for, the umbrella policy covers the excess liability amount instead of you having to pay the excess liability with personal assets.
11. Endorsement: also referred to as a rider, this is an extra provision that can be added to the insurance policy. Endorsements allow people to customize their insurance policies so they can pick and choose benefits they want while not paying for benefits they don't want. Examples of common homeowner policy riders include: jewelry coverage, home-based business coverage and sewer backup coverage. Common automobile policy endorsements include rental car coverage and roadside assistance.

INFORMATION TO GATHER

You can request new policy quotes at any time; a good time to target such a review will be ~45 days before your existing policies renew, as you should receive the renewal documents from your established insurance company, which you can use as a baseline to compare other quotes against.

If you are requesting a quote review from your established insurance agent, they will have the information noted below, but you will still want to review it to ensure it is up-to-date.

If you are getting quotes from a new insurance agency, they will need this information to complete the quoting process. Many insurance agents will ask you to provide this information via a form or online portal before initiating their policy quotation process – you can use the Summary of Coverage pages on your existing policy as a source of most of this information.

Homeowner's Insurance

1. Property address
2. Occupancy status (primary home, rental, unoccupied, etc.)
3. Year built
4. Square footage
5. Heating system type
6. Roof age
7. Year of updates for electrical, HVAC, and plumbing
8. Foundation type (basement or slab, and whether the basement is finished)
9. Details on exterior structures such as Auxiliary Dwelling Units, Play Sets, Trampolines, Sheds, Pools, etc.
10. Alarm and other safety/monitoring system details
11. Fencing
12. Pets
13. Additional coverage required (jewelry, collectibles, watercraft, etc.)
14. Disclosure of any major claims.
15. Mortgage information (bank, mortgage balance, PMI status)

Auto Insurance

1. Names, driver's license numbers, and dates of birth for all drivers.
2. VINs for each vehicle.

3. Primary driver of each vehicle and the typical annual mileage driven in each vehicle.
4. Disclosure of any major claims. It is best to be up-front with this information, as it will be identified during the quotation process. In some cases, the agent may be able to steer the quoting process towards insurance companies that offer accident forgiveness or other policies that are advantageous to clients with recent claims.

Supplemental Liability (Umbrella) Insurance

1. Summary of assets
2. Existing liability coverage amounts in auto and homeowners policies
3. Details on Factors that may increase your exposure to personal liability lawsuits, such as:
 - a. Ownership of things that often lead to injury lawsuits such as pools, trampolines, guns or dogs.
 - b. Leasing out space in your home (either short-term or long-term rentals).
 - c. Have an inexperienced or accident-prone driver in your household.
 - d. Coach youth sports.
 - e. Often host parties in your home.
 - f. Regularly post reviews of products and businesses.
 - g. Take part in sports where you could easily injure others (such as hunting, skiing or surfing/diving).

FACTORS TO CONSIDER TO REDUCE PREMIUMS

Deductible Tradeoffs

Higher deductibles will lead to lower premiums. Increasing a \$500 deductible to \$1,000 can reduce your premium by 25 percent, according to the Insurance Information Institute.⁴ Increasing your deductible even higher will increase your premium savings.

Bundling Coverage

Purchasing your homeowners and auto coverage from the same company can provide savings of up to ~30% overall, while also simplifying your bill paying and renewal processes.⁴

Replacement Cost Value vs. Actual Cost Value

Different insurance companies use varying metrics to establish replacement value of automobiles, dwellings and personal property. Some will offer a full replacement cost value (RCV), while others will pay what the asset was worth at the time of the claim (ACV). There may also be inflation coverage tied to the replacement valuation. It's important to understand these details to ensure a fair comparison between policies.

Endorsements and Exclusions

Examine any included endorsements closely to ensure you are only paying for coverage you need, while also checking to make sure that any exclusions that may impact you are accounted for with supplemental coverage (ex: flood insurance).

Check your Credit Score

Insurers in 46 states can use credit-based insurance scoring as a factor in the pricing of their auto and homeowners insurance premiums. The insurer will also likely check your score prior to submitting their renewal pricing.

An analysis by Policygenius found that a customer with poor credit may pay insurance premiums up to 2x higher than customers with good credit.⁴ See other articles posted by Eustace Advisors regarding Credit Scores and Reports for guidance on how to optimize your credit score.

PRACTICAL EXAMPLE

In 2022, after using the same auto and homeowners company for 28 years, a series of significant premium increases spurred an assessment of my auto/home/umbrella policies. I requested new quotes from my existing agent (they quoted some alternative carriers) and also reached out to a different agent. In the end, I narrowed my options down to the incumbent and another insurer with whom I had a Business Insurance policy at the time.

In order to capture premium savings, I increased certain deductibles for all quoted parties as part of this process. The incumbent's homeowners policy had some slight advantages regarding replacement value coverage and endorsements, but nothing that justified a 2.3x premium difference.

Coverage type	Incumbent rate	New insurer's rate	Savings vs. Incumbent
Homeowners	\$2,914	\$1,266	\$1,648
Auto	\$1,838	\$1,325	\$513
TOTAL	\$4,752	\$2,591	\$2,161

The insurer that I moved to in 2022 has significantly increased my auto and homeowners premiums in each of the past two years, so I will be going through this process again within the next 60 days as my policies are set to renew in July.

ONGOING INSURANCE MAINTENANCE

During the term of your insurance coverage, certain factors warrant communication with your insurance agent to make interim adjustments to your policies, such as:

1. Purchase of a new vehicle, or sale of a vehicle already on the policy.
2. Addition of, or removal of, one of the listed drivers on an auto policy.
3. Significant changes to driving habits, such as changing from a daily commute to work to a work-from-home model which significantly reduces annual driving mileage.
4. Additions or remodeling to your home which affect the home's value. Examples include the replacement of a home's roof, an addition that increases the home's square footage, and finishing existing square footage such as a basement or attic.
5. If the home will be unoccupied, which is often the case if it is being listed for sale.
6. Installation of a pool or other exterior structure.
7. Implementation of monitoring or safety equipment such as security systems, water leak detection systems and backup generators.

8. A significant increase in your net worth, which may lead to increased general and supplemental liability coverage needs.

BOTTOM LINE

Due to significant and frequent increases in auto and homeowner insurance premiums in recent years, we recommend that our clients go through the process of reviewing their existing coverage and getting new quotes every two years or as triggered by a significant increase in premiums. A licensed insurance professionals can help with this process and can make recommendations based on your situation which may help you optimize your premiums vs. coverage specifics.

RESOURCES

I received assistance preparing this material from the staff at TMS Insurance Group, a Division of Oxford Millin Insurance Agency, in West Wareham, MA.

The articles below were referenced in preparing this information and are excellent resources to better understand this topic.

1. www.investopedia.com – this is a great resource for financial, tax and estate related topics.
2. <https://www.geico.com/information/insurance-terms/>.
3. <https://www.nerdwallet.com/article/insurance/auto-insurance-glossary>.
4. <https://www.consumerreports.org/money/homeowners-insurance/why-home-insurance-costs-so-much-and-how-to-pay-less-a6189826846/>.
5. <https://www.trustedchoice.com/insurance-articles/home-family/why-did-my-homeowners-insurance-go-up/>.