

Your Protection

PUBLISHED BY MORRIS & REYNOLDS INSURANCE / ISSUE 8 / 2002 EDITION



From the entire Morris & Reynolds family, we wish you and your family a very Happy, Safe, New Year!

This issue of Your Protection updates you on the status of the homeowners insurance market. You'll also find an article that explains how to estimate the replacement cost of your home; another on insuring Precious Possessions such as jewelry; and an outline of what's not commonly covered by wind and flood policies.

As we celebrate this New Year, and our 51st year of operation, what we celebrate the most is our commitment to you, our client.

Please call us at any time we can be of service. As always, thank you kindly for allowing us to provide your protection.

HOMEOWNERS INSURANCE

Coastal Wind Coverage & Cost Remains A Concern

Good News! The progress in the homeowners insurance market continued in 2001. Led by the return or arrival of several quality insurers, there is more competition for homeowners than at any time in the past eight years. As evidence of the progress, Morris & Reynolds Insurance, which likely has more homeowners choices than any other agency in our region, recently announced appointments with several "A+" rated insurers including **AXA**, **CHUBB** and **Firemans Fund**.

This progress follows last year's news that insurers, such as **The Travelers**, were again seeking new clients in South Florida and that industry giant **Lexington** has been offering coverage, including coastal windstorm, for the past few years.

Coastal windstorm coverage continues to be a major issue in Florida. As of year's end, the state run Florida Wind Underwriting Association (FWUA) had decreased the number of policies it writes to 465,000, but most that remain cover coastal homes in South Florida where the risk is considered the greatest.

The State's effort to reduce the FWUA (paying a bonus to insurers willing to take its policies) has recently led to a number of new, non-rated, insurers being formed to "take" these policies from the FWUA. Magna Florida, for example, is a new start up that will "takeout" 40,000 policies while Southern Family, another young company, shall "take" 30,000 policies. Proposals from other new insurers have also been presented to the FWUA.

We expect to see more FWUA "takeouts" in 2001, especially as rates rise, and are concerned that these new and untested insurers appear to be the only ones interested in the riskiest policies.

Faced with \$ 100 Billion in hurricane exposure, the FWUA issued a report last year that concluded an increase in rates, by as much as 250%, was needed. In May 2000, the FWUA requested a 96% average increase that the Florida Department of Insurance protested, calling it "unsupported by historical data, unsubstantiated by credible experience and unconscionable in its impact on policyholders."

In February 2000 an arbitration panel voted 2-1 in favor of the increase. The new rates will be phased in over four years with increases of 20% in year one, 30% in year two, and 40% in years three and four. The average increase in some areas, such as Miami Beach where early estimates show a home without hurricane protection, could soar as much as 250%.

With FWUA rates rising, we predict that quality private insurers will more frequently begin writing homeowners including windstorm, as well as separate wind policies. As has been the case since 1950, you can count on Morris & Reynolds Insurance to have the competitive, stable, solutions you need for all of your personal protection.

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Your Protection

How Much Coverage Does Your Home Need?

Is your home adequately insured? A recent study of 10,000 homeowner claims found that 70% of the homes were underinsured by an average of an alarming 25%.

How much coverage does a home need to be properly protected? This question is frequently a topic of tremendous confusion for homeowners and can lead to costly surprises at the time of a loss.

HOW THE PROBLEM BEGINS

Underinsuring a home often begins at the time of purchase. In the rush to close on the sale and move into your dream house, most owners don't pay close attention to how much coverage they need. Commonly, they base coverage on the purchase price or the money financed in a mortgage.

Consider a 3,502 square foot home that recently sold for \$ 418,000. The Residential Appraisal required by lenders found that a general contractor would charge \$ 250,530 to build the dwelling today and that the half acre it sat on was worth \$ 175,000. In this example, the Appraised value of the property, including the site and dwelling reproduction cost, was \$ 425,530. The lender offered a \$ 340,424 mortgage and suggested that the dwelling be insured for a similar (\$ 340,424) amount.

It's at this point that many buyers are confused over the correct limit of coverage to carry to protect what may be their single largest asset.

THE PROBLEM ANSWERED

Should you focus on the purchase price, the mortgage amount, a builder's estimate or some other factor, that is what causes the confusion and problem over how much coverage to carry on your home.

Rita A. Schappell, ACSR, the Personal Insurance Department Manager at Morris & Reynolds Insurance and an Underwriter with nearly 30 years experience, explains this dilemma and how simple it is to avoid. "This case is typical of what we see daily in that the lender advised their client to carry coverage equal to the amount of their loan, \$ 340,424. To make matters worse, our client was sure that, since they had paid \$ 418,000, they should carry at least that amount of insurance."

"The answer is that neither the mortgage amount, the land value, nor the purchase price should be used to determine the coverage limit. Rather, the Replacement Cost to rebuild the dwelling today, in compliance with recent building laws, is the solution."

Rita is, of course, correct in that the answer is to carry coverage based on current costs to rebuild the home today. Based on the contractor's estimate to build this dwelling, it should have at least \$ 250,530 of coverage, including a Replacement Cost Endorsement, to be properly protected.

FLORIDA MORTGAGE LAW

This dilemma is so common, and the answers frequently provided to buyers so often incorrect, Florida law addresses this issue. Statute 4-167.009, titled the "Mortgage Fire Insurance Requirements Limited," says: "No lender shall, in connection with any application for a loan in this state which is secured by a mortgage on residential real estate located in this state, require a prospective mortgagor to obtain a fire insurance policy in excess of the replacement value of the covered premises as a condition for granting such a mortgage."



REPLACEMENT COST COVERAGE

Owners must also be concerned with changes in how insurers offer Replacement Cost coverage since Hurricane Andrew in 1992. In the years since "Andrew," most insurers ceased offering "Guaranteed Replacement Cost" coverage. The combination of underinsured homes and stringent building laws often led insurers to pay claims well above the limit of insurance shown in the policies they wrote at the time of that storm.

Most better insurers today continue to offer Replacement Cost coverage, but restrict payments above the limit shown for the Dwelling to between 10% and 20% of the Dwelling coverage. A few insurance companies, such as CHUBB, still offer Guaranteed Replacement Cost.

HOW TO DETERMINE THE CORRECT COVERAGE

The best way to determine your Replacement Cost is to have a Builder provide a written estimate. Since each home is unique, and the cost per square foot can easily range from \$ 75 to \$ 125 or more, it pays to have an expert estimate your Replacement Cost.

Another way to estimate the correct limit is to rely on a Property Appraiser. The "Valuation Section" of a "Uniform Residential Appraisal" includes a "Cost Approach" that details the "Total Estimated Cost - New" of improvements on the property. The figures used in the earlier "example" come from such a report for a recent client closing.

A final way to estimate the correct limit for a Dwelling is to have your Insurance Agent prepare a "Replacement Cost Estimate." We prepare such reports daily by placing relevant data about the homes we insure into our computer, which then uses current construction costs to estimate a likely Replacement Cost needed to adequately protect the home.

Confusion over the amount of insurance needed to correctly protect your home can easily be avoided with proper information and advice.

Please call us at any time with your questions and we will be happy to help you, immediately. **305.238.1000**.

Your Protection

Insuring Your Precious Possessions

Your engagement ring disappears. The treasured family silver is stolen. A vase that's been passed down for generations breaks. Are you properly covered?



WILL MY HOMEOWNERS PAY?

If you are relying on your home, condo or renters insurance policy you are not, unfortunately, properly insured. Most standard home policies have, perhaps, \$ 1,000 of coverage for jewelry, art or collectibles. Even "better" policies typically have no more than \$ 2,500 to \$ 5,000 of coverage. Common restrictions in your home, condo or rental coverage for Precious Possessions includes:

- The money available for such items is severely limited.
- Misplaced or lost items may not be covered due to policy exclusions.
- Home policies typically apply a deductible to losses.
- Older items may be limited to their depreciated value, not replacement cost or market value.

PROTECTING YOUR PRECIOUS POSSESSIONS

The solution to protecting your Precious Possessions is to purchase a Personal Articles Floater policy. The leading writers of such coverage, CHUBB Insurance Company and Lloyds of London, are both available from Morris & Reynolds Insurance.

Personal Articles Floaters offer the broadest insurance (including windstorm and breakage coverage) in the industry and are surprisingly inexpensive.



INSURING YOUR JEWELRY

Every year, over \$ 1 Billion of jewelry disappears in the United States. In fact, the U.S. Department of Justice estimates that jewelry accounts for as much as 70% of all stolen property in America.

Jewelry insurance is simple and affordable to obtain. Although a small amount of coverage can often be added to your homeowners policy, the best solution is to obtain a separate Personal Articles Floater. A jewelry policy is typically written by listing (called "scheduling") and describing each item needing coverage, as well as its value.

Jewelry can often be written with or without an appraisal. CHUBB, for example, will "schedule" individual items with values up to \$ 50,000 without an appraisal. Appraisals are, of course, useful to determine what jewelry is worth and having one often expedites your settlement in the event of a claim.

Reductions on rates are possible based on where you keep jewelry. If you store jewelry in a bank vault and only wear it on rare occasions, you pay a reduced rate while it's "in vault." The "standard" rate, of course, applies when you take jewelry out of the vault to wear it.

Always be sure to advise your Agent or Underwriter if you keep jewelry in a vault, as well as whenever you take it out, for any reason, to ensure you both pay the proper rate, as well as have coverage. There is usually no coverage for "in vault" items when removed from their safes unless your Agent or Underwriter is informed that your jewelry is being taken out to wear and enjoy.

FINE ART & COLLECTIBLES

Your Impressionist drawings might be hundreds of years old, but what happens, when a child adds color with crayons. Perhaps your "priceless" porcelain vase finds its way on to the floor, in too many pieces, during a dinner party. Or a thief steals the sculpture your family brought to America two centuries ago. Fine art, collectibles and memorabilia are simply not properly protected by a home, condo or renters policy.



A Personal Articles Floater policy can be purchased for specific items based on their appraised "current market value." For collectors who buy and sell art, a "blanket" limit tied to a total value of all items, not a specific piece, is available, as is "new-purchase coverage" when you luckily find that once in a lifetime artwork that needs automatic protection.

Since most fine art losses are not caused by theft, it's critical that your coverage protects against damage and breakage.

WINE INSURANCE



Whether you have one rare bottle or an entire collection, fine wine is a treasure that needs proper insurance to be correctly covered. Worldwide wine coverage is available against things such as fire, theft and breakage, with either a "blanket" limit (for bottles valued under \$ 1,000) or "scheduled" by the bottle. Appraisals are typically not needed for bottles under \$ 10,000.00.

Morris & Reynolds Insurance has been protecting Precious Possessions since 1950. Call us today and we will be happy to explain how easy and inexpensive it is to correctly insure your most valuable treasures. **305.238.1000**

Your Protection



Morris & Reynolds has written homeowners insurance since 1950 and proudly represents some of the largest insurers in the industry including:

AXA

Founded in Paris, France in 1937, AXA Re is one of the largest insurance and reinsurance companies in the world. AXA is A+ *Superior* (highest possible) rated by Best & Company and had \$ 6.9 Billion in Assets in 1999, as well as \$ 1.4 in Surplus. AXA is well known in the United States as the owner of the Equitable Life Insurance Company and AXA Financial Advisors.

AXA currently writes homeowners insurance, including windstorm coverage, with dwelling values ranging from \$ 70,000 to \$ 500,000. Later this year, AXA is expected to increase its dwelling maximum limit to \$ 1,000,000.

AXA is also expected to offer automobile and umbrella liability insurance to its Florida clients later in the year.

The Company We Keep: Homeowners Insurance

CHUBB

Founded in 1923, CHUBB is one of the largest and best known insurers in the world. CHUBB is A++ *Superior* (highest possible) rated by Best & Company and had \$ 14.5 Billion in Assets in 1999, as well as \$ 3 Billion in Surplus.

CHUBB is well known as the leading insurer of larger, more unique, homes in America. In Florida, CHUBB generally desires homes with Dwelling values beginning at \$ 500,000 and has no maximum limit. CHUBB is currently seeking new clients whose homes are located East of U. S. Highway One and Interstate 95. CHUBB was recently named as the *Top Pick* for homeowners insurance by the readers of *Worth* magazine based on their claims paying ability, client service and competitive costs.

CHUBB also offers competitive solutions on Auto insurance, Vacation Homes, Liability Umbrellas and Personal Articles Floaters. CHUBB remains the largest insurer of jewelry and artwork in the world.

The Travelers

Founded in 1860, The Travelers is one of the largest insurance and financial services firms in the world. The Travelers is A+ *Superior* (highest possible) rated by Best & Company and had \$ 60 Billion in Assets in 1999, as well as \$ 12 Billion in Surplus.

The Travelers is currently renewing their existing clients' home insurance, as well as writing new business East of U.S. Highway One and Interstate 95 with Dwelling limits to \$ 500,000.

The Travelers offers a significant discount to clients that insure both their home and automobiles with them. The Travelers has the distinction of being the first auto insurer in America. The Travelers is one of the most competitive auto insurers in Florida.

The Travelers also offers Liability Umbrellas, Personal Article Floaters, Boat and Yacht coverage, as well as Flood insurance.



THE COMPANY WE KEEP

Here are just some of the fine companies Morris & Reynolds Insurance represent for your home, wind and flood insurance:

A. I. G.	Clarendon National	FRPCJUA	Regency Insurance
American Superior	Clarendon Select	Frontier Pacific	St. Paul
AXA	Firemans Fund	Harbor Specialty	The Travelers
Bankers Insurance	Florida Family Mutual	Lexington Insurance	USF&G Specialty
CHUBB Insurance	Florida Windstorm	Lloyds of London	

Your Protection

Windstorm Insurance: What is Not Covered?



Florida Windstorm: Past & Present

The Florida Windstorm Underwriting Association (FWUA) was created in 1970 to respond to a crisis in Monroe County caused by the threat of hurricanes and a lack of property insurance for such losses. Created to induce insurers to write non-wind insurance in the Keys, the FWUA policy only covers the perils of windstorm and hail.

Following Hurricane Andrew, the FWUA expanded into other parts of Florida due to a lack of wind coverage in coastal counties. Today, the FWUA writes over 465,000 policies, 60% of which are in Miami-Dade, Broward and Palm Beach counties.

Basic Wind Coverage

The basic windstorm policy provides a combined maximum limit of \$1,000,000 for a home's Dwelling and Contents. The basic limit can be increased to an unlimited value in the event no other coverage is available.

Loss of Use (Additional Living Expense & Fair Rental Value) is provided automatically. Loss Assessment coverage, on policies such as those for condominiums, is now \$ 1,000.

The standard deductible is 1% of the value of property insured, with options of a flat \$ 500 deductible and a 2% deductible available.

Dwelling coverage is provided on a Replacement Cost, while Contents are covered on an Actual Cash (Depreciated) Value.

What Is NOT Covered?

The basic wind policy is largely limited to dwelling and contents coverage. **Many items are NOT automatically covered and must specifically be requested including;**

- *Amusement equipment*
- *Awnings*
- *Carports*
- *Cabanas*
- *Chickees*
- *Courts*
- *Detached decks*
- *Drives and Driveways*
- *Fences*
- *Gazebos*
- *Light poles*
- *Pools*
- *Pool Patio furniture*
- *Sheds*
- *Satellite dishes*
- *Screening and its supports*
- *Solar panels*
- *Statuary*
- *Tanks*
- *Tents*
- *Towers*
- *Trestles*

If you have any questions about your wind insurance or what is covered, please call us and we will be happy to help, immediately. **305.238.1000**

Flood Insurance: What is Not Covered?



Federal Flood Insurance

The Federal Government has underwritten flood insurance through the National Flood Insurance Program since 1968. The NFIP sets rates, rules and bears all risk, but allows private insurers to service all policies.

The Flood Insurance Policy

Flood policies protect against rising water. Most single family residential policies can insure Buildings to a maximum of \$ 250,000, Personal

Property to a maximum of \$100,000, and Debris Removal. \$ 15,000 of Increased Cost of Compliance coverage is also included on residential homes.

For homes needing higher limits, the private industry can provide Excess Flood coverage with limits of \$ 1,000,000 or more.

Building coverage is provided on a Replacement Cost basis, while contents are covered for their Actual Cash (Depreciated) Value. The standard deductible is either \$ 500 (homes built since 1974) or \$ 750 (built before 1974) with higher options available.

What Is NOT Covered?

Flood policies are typically limited to dwelling and contents coverage. **Examples of property NOT covered (excluded) in flood policies include;**

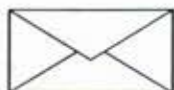
- *Valuables* (money, coins, papers)
- *Commercial Property*
- *Property over water or in the open*
- *Structures other than buildings* (fences, seawalls, docks, pools, pool decks, underground tanks and wells are examples)
- *Other Real Property* (land, trees, shrubs, walks, decks and drives)
- *Other Personal Property* (animals, aircraft, vehicles or watercraft for example)
- *Containers* (gas or liquid tanks)

Please consult your policy for all coverages and exclusions. If you have any questions about your flood insurance or what is covered, please call us and we will be happy to help, immediately.

Your Protection

MORRIS & REYNOLDS INSURANCE

"Savings and Service Has Been Our Policy Since 1950"



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This Issue: Home, Wind & Flood Insurance



What Is Covered?

Homeowners insurance combines several coverages to protect many personal exposures which we face in our daily lives. Coverage is found in one of three policy forms; the "HO3" for the owner of a single family dwelling, the "HO4" for renters, and the "HO6" for condo unit owners. Each form is comprised of several "Coverage Sections" including:

Coverage A / Dwelling: This coverage applies to the building. For the owner of a single family home, this coverage protects the house itself. For a condo owner this coverage is used to insure improvements (such as floor coverings or built-in shelving) to the unit itself. Renters commonly have no interest in the building and, therefore, do not carry coverage in this section.

Coverage B / Other Structures: This coverage applies to structures detached

from the dwelling. It is commonly used for a detached carport, a cabana or your garden gazebo. Coverage is automatically included equal to 10% of the dwelling limit and can be increased.

Coverage C / Personal Property: This coverage is for your personal belongings. Automatically included at 50% of the limit, your dwelling is insured for (or the amount you request on condo or renter's forms), this coverage can be increased. Certain items, such as jewelry, art and collectibles, are limited or excluded from coverage and must be insured elsewhere for proper protection.

Coverage D / Loss of Use: This coverage pays for a temporary home and related costs in the event your home is damaged by a covered peril. Automatically provided at 20% of the dwelling limit, this coverage can be increased.

Coverage E / Personal Liability: Common to all three forms, this is your insurance for defense costs and damages in the event you are sued in a covered lawsuit. The basic, automatic, limit provided is often \$ 100,000 and can be increased at little cost to \$ 300,000.

Coverage F / Medical Payments: Automatically included, this coverage can be used to pay a non-resident person that was hurt on your property.

Although broad in many ways, there are a number of limitations to the homeowners policy that must be carefully considered. Items, such as jewelry, art, collections, automobiles and boats, are either very limited in coverage or excluded.

Since this is only a brief summary of coverage, please consult your policy or call us with any specific questions you might have at 305.238.1000.