

What Does Homeowners Insurance Really Cover?

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One important part of owning a home is protecting the home and its contents from loss with a homeowners policy. Texas homeowners have two common options for homeowners coverage.

Most Texas homeowners policies are issued using the ISO Homeowners 3–Special Form (HO3), the basic form for insuring homes. Although this form is the “industry standard,” each insurance company files its own variation in coverages, so coverages will differ between insurance companies. A smaller number of policies are issued on the Texas Homeowners Policy–Form B (HOB). The HOB has several differences in coverages, limitations, and exclusions compared with the standard ISO form. Homeowners should read the policy language carefully or seek assistance from a trusted insurance professional to avoid unpleasant surprises and unexpected expenses. This article analyzes the ISO form, with notations of the HOB differences.

The three primary property coverage grants address the dwelling (Coverage A), other structures (Coverage B), and personal property (Coverage C). Coverages A and B are covered for “all risk of direct physical loss” unless

Takeaway

A homeowners policy does not cover all property for all perils under all circumstances. Understanding a policy’s exclusions, restrictions, and limitations is as important as understanding what the policy does cover.

excluded, restricted, or limited. Coverage C is a named peril form, insuring against direct physical loss caused by fire or lightning; windstorm or hail; explosion; riot or civil commotion; aircraft; vehicles; smoke; vandalism or malicious mischief; theft; falling objects; weight of ice, sleet, or snow; accidental discharge or overflow of water or steam; sudden and accidental tearing apart, cracking, burning, or bulging; freezing; sudden and accidental damage from artificially generated electrical current; and volcanic eruption.

Most property limitations in the HO3 are found in Coverage C, and most homeowners have property that falls under these limitations. In the policy, these limitations

are called “special limits.” When a policy form is silent regarding a special limit or a specific peril, the property would be considered as personal property and included in the amount of coverage for Coverage C for the stated perils.

Types of Property with Special Limits

The following types of property have these special limits.

Money and Securities. Only \$200 coverage is available for currency, coins, stored value cards, and smart cards. There is a separate special limit of \$1,500 for securities or similar valuable documents and papers, including personal records, passports, tickets, and stamps.

The Texas HOB form has less coverage—a \$100 special limit for money and a \$500 sublimit for securities and valuable documents.

Watercraft. There is a special limit of \$1,500 on watercraft of all types, including related equipment. Recreational motorboats for fishing, waterskiing, or cruising and the boat trailer and equipment will quickly exceed this limit. However, smaller vessels, such as small sailboats, canoes, and kayaks can easily exceed the limitation as well. With a simple kayak costing from \$200 to over \$1,000, plus paddle, rack or trailer, and related equipment, the \$1,500 sublimit is likely to be insufficient for adequate coverage for a family of four.

The Texas HOB form excludes all watercraft except while on land at the residence property.

Trailers. Nonwatercraft trailers have a special limit of \$1,500. While a recreational travel trailer is likely to be separately insured, the cost of a modest-sized utility trailer would exceed this sublimit.

The Texas HOB excludes all such trailers unless designed for principal use off public roads. Boat trailers are covered but only while on the residence premises.

Jewelry and Firearms. These two types of personal property have special limits that apply only in the event of theft. In the event of other perils, such as fire or wind, there are no special limits, but proving the value and even existence of the property requires documentation, including appraisals.

There is a special limit of \$1,500 on jewelry, watches, furs, and precious and semiprecious stones. The conventional rule-of-thumb for buying an engagement ring is to spend two times monthly income. At the 2022 Federal poverty level of income for two people of \$18,310, the

special limit is only half of the recommended spending for an engagement ring, and that only addresses one ring. Thus, this special limit is inadequate for most homeowners.

The special limit for firearms and related equipment is more generous, with \$2,500 for loss by theft.

The Texas HOB form limits jewelry to \$500, and the form is silent regarding a special limit or specific perils for firearms.

Precious Metals. Silverware, silverplate ware, goldware, goldplate ware, platinum ware, platinum-plated ware, and pewterware—including flatware, hollowware, tea sets, trays and trophies made of or including gold, silver, or pewter—are subject to a special limit of \$2,500.

The Texas HOB is silent for this type of property.

Business Property. Business property on the residence premises is covered with a special limit of \$2,500, with a separate special limit of \$500 if the loss occurs away from the residence. A further stipulation of the lower limit states the limit does not apply to loss of electronic apparatus and other described property.

The Texas HOB excludes loss of business property away from the residence premises.

Electronic Apparatus. This type of property consists of portable electronic apparatus and accessories while in or on a motor vehicle, whether used for personal or business purposes. The apparatus must be capable of being operated by the motor vehicle or other power sources, and the accessories include antennas, wires, and various media.

The Texas HOB is silent on this type of property.

Credit Cards. One significant excluded type of property is credit cards, electronic fund transfer (EFT) cards, or access devices, with a coverage “give-back” of \$500 for fraud or theft of such items, and counterfeit U.S. and Canadian currency.

The Texas HOB is silent on this type of property.

Art. The HO3 policy is silent on coverage for art objects such as paintings, sculptures, vases, or similar items. An ordinary reading of the policy terms would suggest these items are covered as any other item of personal property for their “actual cash value” (ACV). ACV, a term defined not in the policy but, in the ordinary practice of insurance, means the market cost of a similar item less an amount for wear and tear or physical depreciation, but

no more than the amount required to repair or replace the item. Since most art is unique and irreplaceable, determining the value of a “similar” item is difficult.

The Texas HOB is silent as to this type of property.

Collectibles. Collectibles such as coin and stamp collections, comic books, rare books, sports trading cards, and collectible memorabilia present an unusual problem. Such items are covered but only for their nominal value (coins and stamps) or ACV.

For example, the rarest penny, a 1909 S VDB, with a base numismatic value of \$500 in good condition, is valued at one cent, and a Mickey Mantel Topps #311 baseball card would be valued as a piece of used cardboard, not the \$5.2 million it brought at auction.

The Texas HOB is silent on this type of property.

Trees. Additional coverages offered by the HO3 include limitations both in the exclusion of certain perils or special limits. Trees, shrubs, and plants are covered for seven named perils; importantly, loss by wind is not one of the seven. Further, there is a limit of \$500 for any one tree, shrub, or plant. However, there is an extension of coverage for only the cost of removal of a tree felled by windstorm, hail, or weight of ice, snow, or sleet in the amount of \$1,000 for any one loss, \$500 for any one tree.

For example, say a homeowner has three trees—a pine, an oak, and a hickory, costing \$400, \$500, and \$600, respectively. If the homeowner has a loss due to a covered peril, such as a teenaged driver running into the hickory, that would be one loss. The loss is under \$1,000, but there is a limit of \$500 for any one tree. The homeowner would receive \$500 for that tree.

Now assume the home catches fire and is destroyed, taking with it all three trees. Again, that is one loss, so the most the homeowner would receive is \$1,000. If the fire destroyed only the pine and the hickory, it is still one loss (\$1,000 limit), but now she would receive only \$900 (\$400 for the pine and \$500 for the hickory), even though the total cost of both the pine and hickory is \$1,000.

The Texas HOB limits coverage for trees to 5 percent of Coverage A limits, subject to a maximum of \$250 per tree, which includes the cost of removal.

These are not the only limitations, restrictions, and exclusions applying to personal property, but most other limitations address either property specifically insured

elsewhere or business-related property the typical homeowner does not possess.

Addressing Coverage Limitations

Once limitations are identified, the homeowner has three options to address these limitations: insure the property or increase the limits provided; reduce the likelihood or severity of the loss with loss control measures; or retain the financial consequences of a loss that is not insured.

Money and Securities. The recommended option is to limit the amount of money and securities kept in the home. With the convenience of ATMs, there is little need for a homeowner to have significant sums of cash in the home. While home safes offer limited protection for cash and important documents, a better treatment is to store them in a safe deposit box at a bank.

Watercraft. Watercraft is best insured separately or endorsed to the homeowners policy, subject to restrictions as to length of the watercraft and horsepower of the motor. This approach is convenient when there are multiple small watercraft, such as kayaks or canoes. Under the Texas HOB, owners of watercraft, even nonpowered watercraft, need to purchase separate insurance.

Trailers. Trailers must be insured separately on an automobile policy when the value exceeds the special limit. A homeowner can eliminate this exposure by simply renting trailers when needed.

Jewelry and Firearms. Jewelry and firearms are best insured using a different policy form, the inland marine form, often called a personal property floater. Items are valued according to bills of sale or appraisals and are covered for a wider variety of perils than offered on the homeowners policy, including full insured value for theft. Owners of such items should keep these items in a secured location or device as a loss control measure.

Precious Metals. Objects made of precious metals are best insured on a personal property floater and kept in a secured location or device as a loss control measure.

Business Personal Property. Business personal property is typically covered by the insurance carried by the business and is included in the homeowners policy as a convenience for the special value. The homeowner keeping such property in the residence should confirm the business has adequate limits for the property away from the insured business location.

Electronic Apparatus. The preferred approach to address this special limit is to limit the number and

value of devices and related materials while in a motor vehicle, and to secure it out of sight when the vehicle is parked. The standard automobile policy excludes such equipment unless it is permanently installed in the vehicle, and media is excluded entirely.

Credit Cards. Credit card issuers and banks often provide protection, including transaction limitations. Electronic devices used to access credit cards, banking information, and transfer funds should be protected by security software.

Art and Collectibles. These items should be separately insured on a personal property floater. Alarm systems and/or secured storage should be used as a loss control measure.

Trees, Shrubs, and Plants. The homeowner will have to assume the risk of loss for these items, as coverage is not available beyond the special limit.

A homeowner should not assume all property is covered for all perils under all circumstances simply because a homeowners policy was purchased. It is as important to understand what the policy does not cover because of exclusions, restrictions, or limitations to avoid disappointment or unexpected expense at the time of a loss. 🍀

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