



 **INSURANCE ESSENTIALS**  
YOUR QUESTIONS ANSWERED

TRAVELERS INSTITUTE® | **TRAVELERS** 



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This guide is designed to be an overview of how insurance works, and what coverages and tools are available to help you prepare and protect your loved ones and possessions. Individual company offerings will vary. Discuss your personal insurance needs with your insurance agent, and check back in when your circumstances change.



# Introduction

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## TRAVELERS INSTITUTE® INSURANCE GUIDE

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The Travelers Institute, the public policy division of The Travelers Companies, Inc., has launched a consumer insurance education program, *Insurance Essentials: Your Questions Answered*, designed to provide consumers with information on buying insurance that meets their needs and protects their assets. We believe that the more consumers understand about how insurance works, the better prepared they can be to choose coverage that fits their family's circumstances.

Recent extreme weather events have showed us that many consumers need, or want, more help understanding their insurance policies and options. Knowing what is covered in your insurance policy is a critical part of planning for your future, and being prepared in the event of a disaster.

Given the importance of this public policy initiative, the Travelers Institute is providing this educational guide and hosting a series of symposia across the country to bring information directly to consumers. This educational effort covers topics like how insurance works, types of homeowners and auto insurance coverages, limits and deductibles, and basic disaster preparedness.

For more information about this series, visit [travelersinstitute.org/insuranceessentials](https://travelersinstitute.org/insuranceessentials).

# How insurance works

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## PROTECTING WHAT IS IMPORTANT TO YOU

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If you ever wondered what you were buying when you paid your insurance premium, the answer is pretty simple. You are buying protection for yourself and your loved ones if something goes wrong. The policies you purchase can provide coverage for losses specific to those policies – whether it is a car accident, a house fire or a lawsuit. Without insurance, you would have to personally pay the full cost to repair your car, rebuild your home or defend yourself in court.

Thankfully, these events and calamities do not happen to everyone. They do happen to some people though – and the risk

is always there. The concept of insurance allows us to share and manage that risk over a large group by pooling premiums to help pay for the losses experienced by some.

But insurance is not a one-time event. It is protection that can be evaluated and updated throughout your life. From your first car insurance policy as a young driver to the asset protection as you advance, you want the peace of mind that comes with knowing you are protected at every life stage. An independent insurance agent or insurance company representative can help guide you.



# What to look for when buying insurance

## FIVE EASY STEPS TO CONSIDER WHEN CHOOSING INSURANCE

Navigating the world of insurance is not always easy. To find the insurance policies that are right for you, think about what you would like covered, what you can afford to pay for that coverage and how much you can personally pay if a loss occurs.

Here are a few easy steps to help you make the right insurance choices:

- 1.** Start with a self-assessment. Write down some key facts about yourself, your family, your home, your belongings and your driving habits. Review your financial picture. List your assets, determine what you want to protect and outline your budget.
- 2.** Learn about the auto insurance coverages required by state law and the homeowners insurance coverages required by your mortgage lender versus those that are optional. Even if you think you already know, take a few minutes to understand these coverage requirements and which optional coverages may be available.
- 3.** Select the deductible and limits that meet your needs.
  - Limits: Coverage limits, also known as limits of liability, are the most your insurance will pay if you have a covered claim. It is important to choose coverage limits that meet your needs.
  - Deductible: A deductible is the amount you would pay out of your own pocket before the insurance coverage takes over. The amount you choose for your insurance deductible depends on how much you are prepared to pay if you have a covered loss. For instance, if you choose a \$1,500 deductible, then you will pay the first \$1,500 of a claim.

**4.** Find out what discounts are available to you. Some insurers offer multi-policy discounts when you have more than one policy with the company. Safe driving habits, home security systems and being loss-free are several ways a company may offer additional discounts.

**5.** Finally, choose an insurer who will be there when you need them. Look for an insurer with responsive claim service and around-the-clock claim reporting. Pay attention to the insurer's financial strength rating – you want an insurer with the ability to pay your claim.

Get help from an independent insurance agent or your insurance company representative to select policies that fit your needs.

**To learn more:**

[Understanding auto limits and deductibles](#)

[Understanding homeowners limits and deductibles](#)



# Homeowners insurance

Your home is likely your biggest investment. Homeowners insurance can help you keep it safe and secure by providing protection for damages or loss to your home, or its contents, as a result of a covered event, such as a fire. It also can help cover the damages and court costs if you or a family member injure someone or damage their property. Most mortgage lenders require homeowners to have homeowners insurance.

There are different types of home insurance policies, ranging from a basic policy to those that will provide a much broader range of protection.

## What is covered and what is not

Most homeowners insurance policies will help cover damage caused by fire, windstorms, hail, lightning, theft or vandalism. It is important to talk to your independent insurance agent or insurance company representative to learn what your policy may and may not cover. There may be supplemental insurance you can purchase for what is not covered.

## What most standard homeowners policies provide

- **Coverage for your home, also known as “dwelling coverage.”** It helps pay to repair or rebuild your home – including electrical wiring, plumbing, and heating and air conditioning – if damaged by a type of loss covered in your policy. It is important to buy enough coverage to cover the cost to rebuild.

- **Coverage for other structures on your property, “other structures coverage.”** Helps pay for damage to detached structures like garages, sheds and fences on your property.
- **Personal property coverage.** Can help pay for personal items in your home that may be stolen, damaged or destroyed. This could include your furniture, clothes, sporting goods and electronics.
- **Loss of use coverage.** Helps pay your increased housing and living expenses if you must move out of your home while it is being repaired to fix covered damage to your home.
- **Liability insurance.** Helps protect your assets and cover your defense costs if you or another insured accidentally injure another person or damage their property.

For more information regarding homeowners insurance, including additional coverages you can add on to your homeowners policy, contact your independent insurance agent or insurance company representative.



# Condominium insurance

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As a condo owner, you have unique requirements for protecting your property. Why? Because your building and your individual unit have separate needs. While your condo association most likely has an insurance policy, it will not cover your personal property or personal liability. You can purchase condo insurance to help cover that.

A condo policy can help cover:

- Damage to your furniture, clothing, appliances and other personal items
- Your personal belongings, whether they are in your home or elsewhere
- Some of the improvements you have made to the unit

- Additional living expenses if your home is uninhabitable or if you have to move during repairs
- Common loss assessments made by the condo association for all unit owners
- Your personal liability in the event someone is accidentally injured or their property is damaged by you, your children or your pets

Talk to your independent insurance agent or insurance company representative to see if you have all the coverage you need. They can help you understand what your policy will help cover and suggest any extra coverage you may want. For instance, you can select extra coverage for your belongings that will help pay to replace them at their current market price (full replacement cost) and not at the depreciated amount.

# Renters insurance

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Your possessions are worth a lot to you. So when you rent an apartment or house, you need insurance that covers you and your belongings in case of an unfortunate event.

A renters policy can help cover:

- Damage to furniture, clothing and other personal items
- Damage to your personal belongings, whether they are in your rented home or elsewhere

- Your personal liability in the event someone is accidentally injured while in your home, or their property is damaged by you, your children or your pets
- Additional living expenses if your home is uninhabitable or if you have to move during repairs
- Some of the improvements you have made to the rental unit

You can also select extra coverage for your belongings that will help pay to replace them at their current market price (full replacement cost) and not at the depreciated amount.





# Landlord/rental property insurance

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If you are a landlord, you can buy insurance designed especially for your rental property.

This type of insurance can cover the costs associated with repairs from damages to:

- **The rental property itself.**
- **Other private structures on the property.** A garage or shed, for instance.
- **Some of your personal property.** Your tools, appliances or furniture used by you or your tenants on the property or stored at the property.

Optional protection can provide:

- **Premises liability.** Helps protect your assets and cover legal fees resulting from injury claims if a tenant is injured while on your property.
- **Medical payments.** If someone is hurt or injured on your rental property, it can help cover their medical costs.

Talk to your independent insurance agent or insurance company representative to ensure that you have all the coverage you need for your unique rental property situation. They can clarify what your policy will help cover and suggest any additional coverage you may want.

## Cost to rebuild

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Your home is one of your most valuable assets. Make sure you have enough coverage on your homeowners insurance policy to rebuild it to its original state if it is destroyed by fire or some other type of loss that is covered.

### Calculating the cost to rebuild

The cost to rebuild your home is based on a number of factors and can often be higher than what you could sell it for.

Key factors that impact the cost to rebuild your home include:

- Total living area (square footage of home)
- Style of home (e.g., ranch, contemporary, colonial)
- Exterior wall construction (e.g., frame, brick)
- Number of kitchens and bathrooms and quality of materials
- Garage type (e.g., attached, detached, built-in)
- Special features (e.g., fireplaces, porches, skylights, moldings)
- Additions or enhancements (e.g., finished basements or in-law apartments)

### Why rebuilding costs can differ

Costs to rebuild your home often differ from home market values, mortgage requirements, tax assessments and real estate appraisals. Below are some reasons why:

- Costs for building materials can change in different years, in some cases significantly
- You may need to hire specialized workers to prevent further damage
- Building codes may have changed since your home was built

### Make sure you have the right coverage

If you update, improve or add on to your home, discuss the changes with your independent insurance agent or insurance company representative to determine whether you need more insurance coverage. Installing hardwood floors, updating a kitchen or bath or adding a deck are the most common changes that could increase the amount of coverage.

# Auto insurance

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Auto insurance is meant to help protect you if you cause injuries to others or damage their property in an auto accident. Depending on the coverage you purchase, it can also provide protection if your car is damaged in an accident or is stolen. An auto insurance policy is a contract between you and an insurance company. You, the customer, pay a certain amount (“premium”) to the insurance company in exchange for a set of coverages you selected. Your policy sets forth what the insurance company will or will not cover.

When you are shopping for auto insurance, you want to have the insurance that meets your needs in case of an accident. After all, you are protecting your life and your investment, as well as the lives of those around you.

Here is a quick overview that outlines the basics of auto coverage:

- **Liability coverage** is the most important coverage and is required in most states. Basically, if you cause an accident and hurt someone or damage someone’s property, it can help pay for covered damages and to defend you if a lawsuit results.
- **Collision coverage** helps pay for damage to your vehicle if your car hits another car or object, is hit by another car or your vehicle rolls over. This coverage is generally required if your car is financed or leased.
- **Comprehensive coverage** helps pay for damage to your vehicle that is not caused by a collision. Examples include theft, vandalism, hitting a deer or other animal, storms and certain natural disasters.

- **Medical payments coverage** helps pay for covered medical expenses for anyone injured while in your vehicle, regardless of who is at fault.
- **Uninsured/underinsured motorist coverage** can help pay for damages and medical costs to you and your family resulting from an accident caused by someone who has no insurance or inadequate insurance coverage.
- **Personal injury protection (PIP)**, also called no-fault insurance, is available in certain states and helps pay medical expenses and, in some cases, lost wages and other damages regardless of who is at fault in an accident.

When putting your insurance plan together, you might want to discuss with your independent insurance agent or insurance company representative other optional coverages that might be important to you, such as roadside assistance or rental reimbursement. Though there are a variety of coverage options available, they may vary by state and company.

## To learn more

[Understand the basics of auto insurance](#)



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## How these auto coverages work in action



### **Scenario No. 1: A tree falls on your car during a thunderstorm, causing major damage.**

Here is where your comprehensive coverage proves its value.

You will pay your deductible – say \$1,000 – and then your comprehensive coverage helps pay the rest of the bill. If your car is considered a total loss, your insurance will help cover the actual cash value of the car or what it is worth today, minus that \$1,000 deductible.



### **Scenario No. 2: Your car collides with a stopped car at an intersection. Both cars are damaged but no one is hurt.**

Your collision coverage helps cover the repairs on your vehicle, minus the deductible. If your car is considered a total loss, you will get the actual cash value of the car, minus the deductible. If you are liable for damage to the other vehicle, your property damage liability coverage helps provide coverage up to the limit for the car you hit.



### **Scenario No. 3: You are driving alone when your vehicle collides with a car carrying three people. Everyone is injured.**

As in scenario No. 2, your collision coverage helps cover the damage to your car; and your property damage liability coverage helps cover damage to the other car up to your property damage liability coverage limit.

Where it is available, personal injury protection, also known as PIP, may help pay your covered medical expenses up to the PIP limit, regardless of who was at fault in the accident.

If the other driver is liable but has no insurance, your uninsured/underinsured motorist coverage could provide protection up to the limits of your uninsured/underinsured motorist liability limit.

If an injured person sues you, your bodily injury liability can provide your defense and, if you are found responsible, that same coverage helps pay damages up to your bodily injury liability limit.

*These scenarios are for illustrative purposes only, to give you a general idea of how auto insurance coverages could respond to various scenarios. It is not a representation that coverage does or does not exist for any particular claim or loss under any particular policy. Coverage depends on the facts and circumstances of the specific claim or loss, your actual policy provisions and any applicable law.*

# Boat and yacht insurance

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No matter the size or kind of vessel you own, when you take to the water, you will want to protect your family, your guests and your vessel and equipment.

Specialized marine insurance can provide:

- **Physical damage coverage** provides repair costs in the event the hull is damaged. Broad coverage for scenarios such as when your vessel hits another vessel or submerged object.
- **Liability coverage** can help protect your assets and pay your defense fees in case you are sued if someone is injured while on your vessel, or if you damage another's property.
- **Personal property coverage** can be used to replace lost or damaged personal property on the vessel such as clothing, audio systems, fishing gear, photo/video equipment and more.
- **Towing and assistance coverage** can provide reimbursement if your vessel breaks down or to bring your vessel to a repair facility. It also reimburses emergency services such as gas delivery and roadside assistance.
- **Additional coverages** can help cover costs associated with uninsured vessels, medical payments and fuel spills.

Insurance is available for most yachts, classic and antique boats, runabouts, dinghies, tenders and hybrid or electric boats (subject to eligibility requirements, which vary across carriers).



# Personal umbrella liability insurance

Homeowners and auto policies both provide liability coverage to pay for damages or court costs if you are sued for injuring another or damaging their property. However, you may want an extra level of protection. Whether it is a serious auto accident involving pricey medical bills or an incident on your property, you can quickly find yourself responsible for damages that exceed the limits on your auto, homeowners or boat policies.

Umbrella insurance can provide an extra \$1 million or more of liability coverage that can help protect your assets like your home, auto, boat, wages and investments.

A personal umbrella policy can provide:

- Personal liability coverage for accidents that occur on or off your property
- An additional layer of protection above your primary auto and home policies to protect you against auto- or home-related liabilities
- Protection against non-business-related personal injury liabilities such as slander, libel and defamation of character
- Help covering defense costs, attorney fees and other charges associated with lawsuits

Personal umbrella policy coverage is considered after the underlying coverage is exhausted. You may be required to carry certain limits of liability on your home and auto policies in order to purchase this coverage. Talk to your independent insurance agent or insurance company representative to ensure you have the appropriate coverage you need.



# Wedding or special event insurance

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Planning your special day or event will entail many considerations, such as finding a vendor, getting a caterer or hiring a photographer. But have you considered what you would do, for example, if your venue suddenly goes out of business, your caterer backs out, or the store loses your dress or tuxedo? Wedding or special event insurance can help safeguard your special day.

A wedding insurance policy can cover the costs associated with:

- **Cancellation or postponement.** The event could be canceled due to severe weather, a sudden illness to the couple or their immediate family, a commercial transportation shutdown or an unexpected call up to active duty.
- **Lost deposits.** A vendor goes out of business, declares bankruptcy or fails to show up.
- **Lost or damaged formal wear.** Clothing is lost or damaged.
- **Theft of rings or damage to jewelry.** Wedding bands or other jewelry are damaged or stolen.

- **Damaged photography/videography.** Film, video or data storage is defective, malfunctions or is otherwise lost or damaged.

- **Damaged or stolen gifts.**

You can also buy optional liability insurance and liquor liability insurance in the event that the venue requires it:

- **Liability insurance.** Can provide coverage if you are personally liable for property damage and personal injuries to third parties at the location of your event.
- **Liquor liability insurance.** This individual liability insurance can help protect your assets and cover defense expenses in case you are sued because someone is injured or property is damaged as a result of alcohol-related situations.

# Valuable items insurance

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While protection for personal property under the typical homeowners policy can be broad, many people do not realize their policy may not provide enough coverage to replace their valuables. Possessions of higher monetary value, such as a diamond engagement ring, fine art or a valuable collection, may need additional protection beyond your homeowners policy. Valuable items coverage can provide additional coverage in the event of a covered loss of certain personal property due to theft, accident or natural disaster.



Policies may cover belongings such as:

- Antiques
- Audio and recording equipment
- Coin and stamp collections
- Computers
- Fine art
- Garden tractors
- Jewelry and watches
- Musical instruments
- Other collections or collectibles
- Photo/video equipment
- Silverware, china and crystal
- Sports equipment and trophies

# Flood insurance

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While floods can cause major destruction, the damage caused by floods is not covered by standard homeowners insurance. The federal government offers flood insurance through the National Flood Insurance Program (NFIP) at a reasonable cost to homeowners.

A separate flood insurance policy helps provide the specialized coverage you need to help protect your home in the event of flooding. Costs vary depending on how much insurance is purchased, the date and type of construction and the property's flood risk. According to the NFIP, from 2010 to 2014, the average flood claim amounted to nearly \$42,000.

Congress created the NFIP in 1968. The NFIP is a federal program, managed by the Federal Emergency Management Agency (FEMA). The Standard Flood Insurance Policy is a federal policy and is identical regardless of whether it is obtained directly from the NFIP or a private insurer, called a Write Your Own insurer. Flood insurance coverage, limitations and exclusions will differ from what you will find in a homeowners policy. As with any insurance purchase, it is important to understand what your policy does and does not cover.

For more information regarding the NFIP, visit [floodsmart.gov](http://floodsmart.gov) or contact your insurance agent or insurance company representative.



# Coverage for identity fraud expenses

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Cybersecurity is a growing concern not only for businesses but for individuals as well. A breach at one of your favorite stores could make you vulnerable to identity theft or identity fraud, the fastest-growing white-collar crime in the United States.

Over 13 million U.S. consumers in 2015 were victims of identity fraud.\* Despite your vigilance, it is still possible to have personal information stolen and used to obtain fraudulent credit cards, loans, utilities, health care and more – all of which can devastate your financial stability and credit worthiness. Further, victims of identify fraud often have to spend substantial amounts of time and money to restore their good name.

Your homeowners policy may include identity theft protection. However, you may wish to purchase a separate identity fraud policy to ensure you have the protection you need. Your independent insurance agent or insurance company representative can help you determine the right identity fraud protection for you.

Identity fraud expense reimbursement coverage can cover expenses incurred as a direct result of identity fraud. Such expenses could include:

- Costs for notarizing
- Costs for certified mailings
- Lost wages
- Loan application fees
- Reasonable attorney fees
- Telephone charges
- Daycare expenses
- Reasonable travel expenses
- Fees for reissuing government issued identifications (e.g., passports)
- Fees for medical records associated with a medical-related identity fraud
- Resolution services (e.g., credit reports, credit monitoring)

\*2016 Identity Fraud Study: Fraud Hits an Inflection Point, Javelin Strategy & Research

# Tips for keeping you and your family safe

Whether you want to prepare for a natural disaster or avoid common causes of everyday disasters like water damage, fires and carbon monoxide poisoning, there are resources for home and business owners that can help protect lives and property.

## 3 steps for disaster preparedness

### 1. Create a survival kit

In creating a survival kit, think about what you would need if you were stranded away from home for three to seven days. Prepare your kit well in advance so that if you have to evacuate quickly you are able to take your essentials with you.

- Canned food and other nonperishable food, along with a non-electric can opener
- Enough water for a gallon per person, per day
- Toiletries and personal items
- Flashlights and plenty of batteries
- A portable radio and/or television
- Prescription medications
- Extra clothing and blankets
- A first-aid kit
- Emergency cash and credit cards
- A copy of your homeowners insurance policy
- A copy of an inventory of your home's contents
- Other personal documents

### 2. Have a plan

Well before a disaster strikes, you should be thinking about your evacuation plan. An evacuation plan that is spelled out and distributed to everyone in the family well in advance is a good strategy for success in case of disaster.

- Designate a place for all family members to meet. Make sure the meeting place is outside the impacted area.

- Map out an evacuation route. While there may be one well-traveled route to your meeting place, make sure you have alternate routes mapped out in case your main route is blocked.
- Keep your fuel tank filled in your car. Determine how much fuel you will need to reach your meeting place.
- Identify a contact person outside the affected area. Give their contact information to everyone in the family so they can serve as a point of contact should you get separated.

### 3. Build an inventory

In the event of severe damage to your home or business, having a current inventory of your possessions – including make and model numbers – can help you get your insurance claim settled faster, verify losses for your income tax return and help you purchase the correct amount of insurance.

- **Take pictures.** Take pictures of rooms and important individual items. Label pictures with a description, including where you bought it and the make, model and serial number.
- **Create an electronic file.** Use your computer to make your inventory list. Personal finance software packages often include a homeowner's room-by-room inventory program.
- **Store the list, photos and tapes.** Regardless of how you create it (written list, flash drive, photos, video or audio), keep your inventory, along with receipts, in your safe deposit box or at a friend's or colleague's home.
- **Consider expensive items.** Valuable items like jewelry, art and collectibles may have increased in value since you received them. Check with your agent to make sure that you have adequate insurance for these items. They may need to be insured separately.

Click below to learn more:

[Visit our Prepare & Prevent site](#) for more information on risks specific to your location.





Travelers established the Travelers Institute as a means of participating in the public policy dialogue on matters of interest to the property casualty insurance sector, as well as the financial services industry more broadly. The Travelers Institute draws upon the industry expertise of Travelers' senior management and the technical expertise of its risk professionals, and other experts to provide information, analysis and recommendations to public policymakers and regulators. Based in Washington, D.C., the Travelers Institute is led by Joan Woodward, President of the Travelers Institute and Executive Vice President of Public Policy at Travelers.

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## To Learn More

For more information about *Insurance Essentials: Your Questions Answered*, visit [travelersinstitute.org/insuranceessentials](https://travelersinstitute.org/insuranceessentials) or contact Katie Reilly, Manager, Public Policy Initiatives, Travelers Institute, 860.954.2551, [kareilly@travelers.com](mailto:kareilly@travelers.com)









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