

Harvey is a wake-up call to check your homeowners insurance

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Sure, you have homeowners insurance, but there's a good chance you don't have enough. CoreLogic says 1 in 4 homes are underinsured by at least 20 percent.

With the average home price up more than 30 percent over the past five years, cruising Zillow, Trulia or Realtor.com is likely to set off soothing homeowner net-worth endorphins.

Yet many homeowners are playing fast and loose with protecting what, for many, is their most valuable asset.

According to real estate data company CoreLogic, more than half of homeowner insurance policies have a maximum payout that is less than the cost to rebuild the home in the event of a catastrophic loss.

Moreover, CoreLogic reports that 1 in 4 homes is protected with a homeowner policy that would cover less than 80 percent of the cost to replace the home. That's alarm-bell territory.

Once you're at least 20 percent underinsured you run the risk of being sorely disappointed if you were to ever make any claim, even if it is not for a complete rebuild. It's common for policies to include an "insurance to value" clause that stipulates if at the time of a claim your coverage is for less than 80 percent of the cost to rebuild the home, the insurer will not pay you the full value of the claim.

For instance, if your policy covers just 70 percent of your home's current replacement value, you might only receive 70 percent of the full value of your claim.

And those underinsurance stats are just for standard policy coverages, such as loss from fire.

In the wake of Hurricane Harvey, it bears repeating that many homeowner policies offer just limited

coverage for damage from hurricanes and tropical storms. Hurricane coverage, if it is offered, often comes with its own high deductible.

In some coastal states you need to purchase separate windstorm coverage. Moreover, damage caused by flooding is not covered without separate flood insurance from the Federal Emergency Management Administration.

“The home insurance sales system is calibrated to lowball replacement cost values, so it’s up to you to make sure you have the right protection,” said Amy Bach, executive director of United Policyholders, a nonprofit consumer insurance advocacy group.

While a low replacement cost value does indeed keep the annual premium in check, this is where being penny-wise can pound you foolish if you ultimately lose tens of thousands of dollars in the event of a large claim that isn’t fully paid out.

Tips for reviewing your homeowner insurance policy:

Your home’s market value is irrelevant

“The cost to rebuild is what matters, and most homeowners have no idea of building cost,” said Assaf Wand, founder and chief executive officer of fintech start-up Hippo Insurance, which has sold about 1,000 policies in California since its launch in the spring.

Ask homebuilders, or contractors who take on big renovations what the going rate per-square-foot is to build. Be sure to stipulate what level of finishes, etc. you would be replacing. Multiply that by your square footage and that’s a pretty good estimate of what your replacement value should be.

Beware the caveats

“The insurance company is selling one thing and delivering another,” Bach said. “You have the sense that you are being sold blanket protection and you don’t need to ask many questions. But what they deliver is a legal contract with lots of ifs, ands or buts.”

For example, if the root system of a tree on your property strangles the sewer line, your insurance policy

may not cover the often-pricey repair if the pipe connects the municipal line to your home.

“The insurer will tell you, sorry, but our insurance only starts inside the house,” Wand said.

Another common source of underinsurance is lacking coverage that will pay for the rebuilding cost to meet current code requirements. And without equipment breakdown coverage, damage caused when the HVAC system or other mechanical system explodes might not be covered.

Adding all three to a standard policy might only tack on another \$100 or so to the annual premium, but an agent feeling pressure to keep the premium low might not volunteer that information.

One of your best moves may be to flip the conversation with your agent from “Are you sure I need this much?” to “Are you sure I have enough coverage?” That can open up a better dialogue about endorsements you may want to add to your policy.

That disconnect is one of the ways Hippo Insurance is aiming to disrupt the home insurance selling model. Service line coverage, building code coverage, water backup and equipment breakdown coverage are standard on Hippo policies.

Give yourself some wiggle room

Double check that your policy indeed covers you for the replacement cost of rebuilding. If for some reason, you only have actual cash value, ping your agent pronto. That type of policy will pay you just the depreciated value of any damaged or lost property.

At a minimum you want replacement cost value, which insures you for the full rebuilding cost. Even better is adding an extra endorsement for extended replacement cost coverage. This entitles you to a payout that can be 125 percent or more of the policy limit. That can come in handy when a natural disaster sets off surge pricing for contractors and materials.

And it builds some protection if you don’t get around to updating your coverage for a few years.