

Homeowners Insurance: Filling the Coverage Gap

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Key Points

- Although the home replacement cost calculation process may seem simple, the work that goes into building these valuation products is complex. Market value and insured value do not always align.
- Roof coverage type is one of the most important factors for potential customers of homeowners insurance to consider.
- There are four steps consumers should consider assessing their insurance needs given the broad range of choices in coverage types, policy contracts, and risk coverage.

In the evolving landscape of homeowners insurance, it is crucial for regulators, policymakers, and actuaries to educate consumers about insurance valuations. This issue brief highlights the disparities between typical home replacement cost valuations and other property valuation methods, and outlines some of the typical coverage options included in a homeowners policy. The discussion stresses the importance of helping consumers understand valuation methods, so they can make informed decisions about choosing appropriate policy coverage limits. Actuaries use data produced by consumers and vendors to determine the amount of insurance available to policyholders, which affects calculations of insurance to value. When policyholders are improperly insured for their risk, rates may not be equitable.

This discussion will also cover potential strategies insurers and regulators can pursue to improve consumer education, ensuring that all stakeholders are equipped to navigate the complexities of insurance coverage. Real-world examples, including common misconceptions about various types of coverage for floods, earthquakes, etc., will illustrate the need for collaboration between insurers, (including agents), regulators, and the public to address consumer challenges and promote a more transparent, accessible homeowners insurance market.



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Calculating Homeowners Insurance Valuations

“Replacement cost” (aka “insured value”) is the cost to rebuild a home that has been destroyed. Insurance company agents and underwriters often use valuation software provided by vendors to help them calculate a home’s replacement cost. With valuation software, the user typically enters the property address and a few key pieces of information about the home, which the software then uses to produce results. Although the process may seem simple, the work that goes into building these valuation products is complex. Small changes in the entries can lead to significant differences in the estimated replacement cost, so careful attention must be paid to the details. Homeowners can help themselves by learning as much as possible about their property and communicating thoroughly and transparently with their insurance company or agent.

When developing a replacement cost estimate, the software an agent or underwriter uses the following types of basic information:

- Property address
- Year of construction
- Number of stories
- Square footage of finished living area
- Home style (ranch, contemporary, modern, etc.)

The valuation software will combine information about a property from several online databases, including the property’s current assessed value, with the details collected above to develop the replacement cost. The agent or underwriter can then customize these data points. For example, they might add structures, such as a pool or pickleball court, or additional information about interior finishes, staircases, balconies, and more.

Most valuation software factors in the current costs of labor and materials for the area in which the home is located. This is important because both labor and materials costs can vary significantly by geographic location. Inflation has dramatically increased reconstruction costs in recent years.

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Homeowners should be aware that the replacement cost estimate they receive from the insurance company may not include all the assumptions and/or information the company used to develop it. This is particularly true for very expensive or customized homes. It is also important to note that valuation software may not produce entirely accurate results, and estimates from different valuation software products could differ. The homeowner may need to verify the accuracy of the information used to produce the replacement cost estimate.

A 2018 *Connecticut Insurance Law Journal* article indicated that the three primary tools used by insurance companies to estimate replacement costs systematically underestimated those costs, even before accounting for the effects of catastrophes. While the study used necessarily incomplete data due to the protected nature of valuation models, few independent evaluations of insurance valuation models are available. Systematic under-valuation could occur if consumers and insurers rely entirely on these tools due to multiple potential sources of error, including lack of accurate data about the property being evaluated, lack of consumer ability to correct errors in valuation data, consumer preference for lower valuations that result in lower insurance premiums, and lack of external oversight to review the models.¹

Actuaries also have a vested interest in ensuring homes are insured to their full replacement cost. When a home is underinsured, but the actuary assumes all policies are fully covered, premiums will be insufficient to cover expected payments for the underinsured home. In addition, the potential for total losses on the underinsured home increases, resulting in an increase in the required premium rate per dollar of insured value. This leads to inequitable rates between fully insured and underinsured homes. Actuaries must ensure data on home replacement cost, including additional replacement cost coverage, is accurate to prevent underpricing insurance coverage.²

Market Value vs. Insured Value

It is worthwhile to discuss a common retirement scenario: after years of working and saving, an individual decides to buy a second home in a desired retirement location. The individual is pleasantly surprised at the affordability of home prices in the area and determines that it is possible to buy a house comparable to the one currently owned but at a much lower cost. A savvy consumer will purchase insurance to protect this new dream home.

¹ [“Minding the Protection Gap: Resolving Unintended, Pervasive, Profound Homeowner Underinsurance”](#); *Connecticut Insurance Law Journal*; Feb. 4, 2020.

² [“Chapter 11: Special Classification” in Basic Ratemaking](#) (Fifth Edition, May 2016), 206–209, “Insurance to Value (ITV)”; Casualty Actuarial Society.

But imagine the surprise when the insurer advises that the insured value of the new home is identical to—or even higher than—the home’s purchase price. This scenario often occurs because the insured value of a home differs from its market value, and trying to draw a direct comparison between the two is like comparing apples to oranges.

The chart below highlights some significant similarities and differences between insured value and market value:^{3,4}

Characteristic	Insured Value	Market Value
Age of home	<input type="checkbox"/>	<input type="checkbox"/>
Square footage of home	<input type="checkbox"/>	<input type="checkbox"/>
Architectural style	<input type="checkbox"/>	<input type="checkbox"/>
Local labor costs	<input type="checkbox"/>	
Local construction costs	<input type="checkbox"/>	
Labor and construction supply and demand	<input type="checkbox"/>	
Value of land		<input type="checkbox"/>
Proximity to good schools		<input type="checkbox"/>
Housing supply and demand		<input type="checkbox"/>

One way to think about market value is as the price that an individual is willing to pay for a house, which can be influenced by many factors, such as proximity to police, fire, and medical facilities, stores, restaurants and entertainment, as well as good schools (in other words, “location, location, location”). Market value is also influenced by the state of the real estate market; housing tends to be more expensive where demand exceeds supply. Put another way, the market value, or price, of any one home is at the intersection of the price set by the seller and the price the buyer is willing to pay.

In contrast, insured value reflects the amount the insurance company is contractually obligated to pay if a structure is destroyed. It does not include the value of the land on which the house rests (which is reflected in the market value). Insured value covers the cost of materials and labor needed to rebuild walls, ceilings, doors, floors, windows, roof, siding, etc. However, the definition of insured value can vary between insurance companies. This valuation is spelled out in the policy terms and can also vary for different parts of the house, as described below.

³ [“Replacement cost vs. market value in home insurance”](#); Policygenius; May 2024.

⁴ [“What you need to know about replacement cost vs market value”](#); State Farm; Sept. 26, 2022.

Dwelling Coverage

For the purpose of this discussion, “dwelling” is defined as the actual structure and “contents” is defined as the items within the house.

Among home insurers, a dwelling’s replacement cost is defined as the amount of money needed to rebuild a structure on its original site with the same type and quality of materials as the home being replaced. For example, if a house with a replacement cost coverage limit of \$500,000 is completely destroyed by a fire, the insurance company will pay up to \$500,000 to rebuild it.

Under non-catastrophic circumstances, if the house is insured to value (i.e., the insurance limit reflects the actual estimated replacement cost), the insurance limit should be sufficient to cover the rebuilding costs. Should the destruction be classified as catastrophic in nature, such as a wildfire that destroys an entire neighborhood, the calculated replacement cost may not be sufficient to cover the reconstruction. Consider the following post-catastrophe scenarios:

- The cost of building materials (lumber, roofing tiles, etc.) jumps dramatically. This is called “demand surge,” reflecting the fact that many people will want to buy the same raw materials at roughly the same time, causing a temporary shortage. As demand grows, prices rise.
- Builders in the affected area are suddenly busy, causing labor rates to increase sharply.

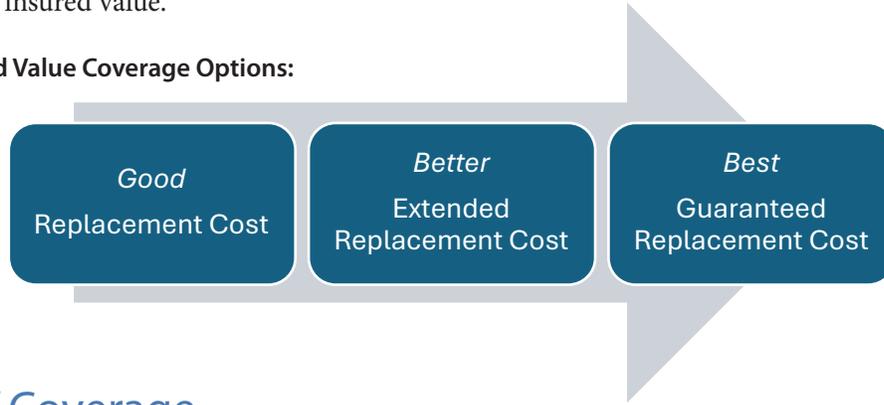
In such an example, the rising cost of rebuilding the home can create a gap in insurance protection. Consequently, the actual cost to rebuild is higher than the insured replacement cost. How can an insured homeowner prevent this coverage gap?

Many insurers offer extended or guaranteed replacement cost (ERC) coverage at various levels, which pays more than replacement cost insurance. Limits are typically between 125% and 200% of replacement cost. For example, 125% of ERC or guaranteed replacement cost (GRC) coverage on a \$500K replacement cost policy would be \$625K. Since the likelihood of a total loss is quite low—as most insurance claims are for partial losses—the cost of adding ERC to a policy is typically relatively minor.

Another alternative to replacement cost is GRC, which is even more generous than ERC in terms of coverage because it pays the full cost to rebuild the house, even if it exceeds the dwelling insurance coverage. Note that while ERC and GRC offer higher limits, the exposure is unchanged. In other words, they cover the costs to rebuild the original home, not upgrading or improving it.

Both ERC and GRC generally require the policyholder to insure the dwelling to its replacement cost value before being eligible to purchase the coverage endorsement. If the dwelling is underinsured, there is a larger gap between the insured value and ERC/GRC, which the insurer would have to cover while collecting a lower premium due to the lower insured value.

Dwelling Insured Value Coverage Options:



Contents' Coverage

In addition to considering dwelling insurance coverage, it is important to factor in coverage for the home's contents. Whether coverage for both is the same depends on the specific policy. Homeowners insurance policies typically cover contents at actual cash value, which pays for repair or replacement of personal items and includes a deduction for depreciation, age, normal wear and tear, and other factors that can affect an item's value.

The difference between replacement cost coverage and actual cash value can be significant. Let's say the home has a 10-year-old dishwasher that originally cost \$1,000, and lightning causes a power surge, destroying the appliance. With replacement cost coverage, the insurer replaces the destroyed machine with a brand-new one of similar size and style, even if the cost is more than the original purchase price. With actual cash value coverage, the insurer will reimburse the dishwasher's depreciated value, which will likely be less than \$1,000 and may not be enough to purchase a brand-new replacement dishwasher. Homeowners should also be mindful that replacement cost coverage is more expensive than actual cash value coverage when deciding what level of contents coverage to purchase.

Other Structures Coverage

Most home insurance policies include separate coverage for other structures—physical property that is not attached to the home, in addition to the dwelling. Examples include:

- Detached garages
- Detached patios or decks
- Driveways
- Fences
- Gazebos
- Guest houses
- In-ground pools
- Mailboxes or light posts
- Sheds⁵

The insured coverage limit for other structures is often tied to that of the dwelling coverage limit. Typically, the standard amount of coverage for other structures is 10% of the dwelling limit, although this amount can be increased depending on the consumer's needs. It is worth noting that if the dwelling is not properly valued (i.e. is underinsured), then other structures might not be properly valued either.

One question to consider: If the dwelling is insured with replacement cost coverage, does that mean other structures are insured the same way? Similar to contents' coverage, the answer depends on the specific insurance policy. Some insurers may only cover other structures only at actual cash value, even if the home has replacement cost coverage.⁶

Roof Coverage

Roof damage caused by hail is a common expense for homeowners. According to Experian, wind and hail damage account for 45.5% of all homeowners claims nationwide. It is also the number one cause of roof damage claims, and the risk is rising. In the 1990s, annual losses stemming from hailstorms averaged just over \$1 billion per year. Today, they range from \$8 billion to \$15 billion per year.⁷ In addition, as a roof ages, it becomes more susceptible to wear and tear, making it more likely to sustain damage from environmental factors such as wind, hail, or heavy rain.⁸

⁵ [“Other structures coverage in home insurance: what it is and how it works”](#); Bankrate; Feb. 6, 2026.

⁶ Ibid.

⁷ [“Hail Risk: The Growing Threat for Property Insurers”](#); CAPE Analytics.

⁸ [“The Challenge of Unlocking Accurate Roof Age Data”](#); CAPE Analytics.

One of the insurance industry's responses to this growing risk is to decrease roof coverage options. Rather than provide coverage on the same basis as that for dwellings (replacement cost, ERC, and GRC), some insurance companies now offer either actual cash value coverage or a payout schedule that decreases with roof age.

When shopping for homeowners insurance or reviewing current policies, potential purchasers may need to choose among the following various types of roof coverage:

Replacement Cost Coverage: As discussed above, this coverage is typically offered in homeowners policies and covers the full cost of repairing or replacing the dwelling, including the roof, to its pre-damage condition. The policyholder pays the deductible, and the insurance company covers all remaining costs.

Actual Cash Value Coverage: Under this option, insurance companies pay the replacement cost minus depreciation for the roof's age and condition. Because losses associated with roof damage are increasing, many insurers are transitioning to actual cash value coverage on roofs that are older than 10 years. However, such restrictions must be clearly disclosed in the policy. Although this coverage is universally available, the rules governing how depreciation of non-material items, such as labor and overhead, are calculated can vary by state.⁹

Roof Payment Schedules: Some insurance companies implement payment schedules that specify the percentage of replacement cost they will pay for roofs of different ages and material types. Although insurance companies offer discounted premiums in exchange for these schedules, it's important to note that claim payouts will be reduced accordingly. An increasing number of insurance companies now require this type of coverage for roofs older than 10 years. In these cases, the percentage of replacement cost must be clearly disclosed in the policy.

It is important to understand the extent to which replacement cost and a roof payment schedule can vary. For example, if a hailstorm causes significant damage to a 15-year-old roof with a replacement cost of \$20,000, and a homeowners policy deductible of \$1,000:

- Under replacement cost coverage, the insurer pays \$19,000 (the \$20,000 replacement cost minus your \$1,000 deductible) to repair the roof.
- Under a roof payment schedule, the reimbursement is reduced based on the age of the roof. Assuming a schedule that lays out coverage of 60% for a 15-year-old roof, the insurer will cover 60% of the replacement cost, or \$12,000. After the \$1,000 deductible is applied, the insurer pays \$11,000.

⁹ ["GENERAL CONTRACTOR OVERHEAD AND PROFIT PAYMENTS IN FIRST-PARTY ACV PROPERTY DAMAGE CLAIMS"](#); MWL Law; Jan. 13, 2022.

If part of a roof is damaged and needs to be replaced, homeowners may encounter a matching problem (e.g., new shingles may not match the existing ones in color or style). Whether an insurance company is then obligated to pay to replace more of the roof to achieve a uniform appearance depends on where the insured property is located:¹⁰

- **States with Statutory/Regulatory Requirements:** Some states have laws that require insurers to replace property with materials of similar quality, kind, texture, and color. These states include Alaska, California, Connecticut, Florida, Iowa, Kentucky, Maryland, Massachusetts, Montana, Nebraska, North Carolina, Ohio, Rhode Island, Tennessee, Utah, and Vermont. Although these states require matching for all damaged items, not just the roof, Wyoming has specific requirements for roofs.
- **States with Case Law Guidance:** Other states rely on court decisions to guide matching requirements: Alabama, Minnesota, Missouri, Pennsylvania, South Carolina, and Wisconsin fall into this category.
- **States with No Specific Law or Regulation:** The remaining states leave it to the insurance policy, so homeowners should read the fine print to understand what's covered.

Homeowners should also think about other coverages when purchasing a policy. While less commonly purchased or available in the insurance industry, they are important for consumers to review and understand. Examples include:

Cosmetic Damage: Some policies exclude coverage for cosmetic damage, which affects appearance but not function. For example, if hail slightly damages a roof but doesn't compromise its ability to protect the home, the damage may not be covered. No states prohibit these exclusions, but they must be clearly stated in the policy or endorsement.

Separate Roof Deductible: An increasing number of insurers offer or require separate, often higher deductibles specifically for roof damage. For example, homeowners might have a \$1,000 deductible for most claims but a \$5,000 deductible for roof damage claims. Although no states prohibit this practice, any separate deductible must be clearly disclosed in the policy. Florida is the only state with specific laws governing separate roof deductibles.¹¹ If a homeowner chooses a separate roof deductible, insurers must clearly explain that this option may increase the policyholder's out-of-pocket costs.

¹⁰ [This information is sourced from Matthiesen Wickert & Lehrer, S.C.](#), a law firm specializing in insurance subrogation and defense litigation.

¹¹ Ibid.

Actuaries must fully understand the multiple coverage and deductible options available for products that are within their purview. Coverage may be as simple as offering replacement cost for all roofs in an insurance portfolio, or significantly more complex. Ratemaking approaches may need to vary by state to account for unique matching requirements. Analysis of datasets with roof-related claims may need to specify the coverage unique to the particular policy being reviewed to ensure coverage limits and claim amounts are appropriately considered.

Special Hazards

As part of the risk assessment of their homes and community, consumers may learn that they are at risk for certain special hazards. These hazards, typically related to catastrophic events, are not typically covered by standard homeowners insurance, and may require additional coverage. Most catastrophic events that affect many homes in a geographic area are difficult to insure due to their wide effect on many policyholders. Some risks that fit this description, such as hurricanes, tornadoes, hail or wildfires, may require that actuaries involve the use of computer models to determine appropriate rates, allowing insurers to offer coverage under a standard insurance policy. Other perils, such as earthquake and flood, are generally insured outside of standard coverage.

Homeowners should regularly review their policies to ensure they are comfortable with the coverage they have. Because different locations can have different risk profiles, it is wise to assess each type of risk individually. For example, a home may be at high risk for hail, but low risk for earthquakes. Homeowners should review their property risks, their individual financial ability to cover a deductible if damage occurs, and the cost of additional insurance policy.

Regulators can provide resources and guidance to help policyholders make informed decisions. California, for example, requires insurers to offer earthquake coverage as an option during the policy purchasing process and at each renewal.¹² Missouri offers an earthquake insurance shopping guide to help consumers find insurers that fit their needs.¹³ Regulators can also continue to review and work with insurers offering new types of insurance products, such as parametric insurance, to ensure customers are well protected against floods, earthquakes, and other types of special risks.

¹² [Earthquake Insurance](#); California Department of Insurance; April 25, 2024.

¹³ [Missouri Earthquake Insurance Shopping Guide](#); Missouri Department of Commerce & Insurance; October 2024.

Insurers can—and many do—explain to policyholders what is covered and what is not covered. In New Jersey, for example, insurers are required to provide a one-page insert that describes what is and is not covered under the homeowners policy.¹⁴ Companies in other states could consider providing similar plain-language inserts to educate consumers about policy coverage.

Additional details regarding some of the most common special hazards are as follows:

Flood Coverage

Flood insurance is [not offered](#) in a typical homeowners insurance policy.¹⁵ People are generally aware of hazards that affect their homes, but they may be unable to afford additional insurance for non-typical risks without incurring financial hardship. Whether flood coverage is available depends on each company's offerings and the specific type of insurance policy that is purchased. However, homeowners can obtain coverage through private flood insurance policies and a government-backed flood insurance option through the National Flood Insurance Program.

Many policyholders mistakenly assume they have flood insurance. Only 49% of people know that homeowners insurance typically does not cover flood events and nearly two out of three homeowners report they are not at risk for flooding.¹⁶ When including those who are unsure about their risk, eight in 10 homeowners aren't sure whether flooding is or should be a concern. Of the 22% of homeowners who believe their home is at risk of flooding, about one in five have not purchased flood insurance.¹⁷

Earthquake Coverage

As noted above, typical homeowners insurance policies exclude earthquake coverage. Only 23% of homeowners have earthquake insurance, with higher rates of insurance in the West (28%) and lower rates in the Midwest (16%).¹⁸

¹⁴ [Homeowners Insurance Policy Summaries](#); New Jersey Department of Banking & Insurance.

¹⁵ [Flood Insurance](#); FEMA.

¹⁶ [2019 NAIC Flood Risk Survey; National Association of Insurance Commissioners](#); Sept. 23, 2019.

¹⁷ [“Homeowners Perception of Weather Risks \(2023 Q2 Consumer Survey\)”](#); [Insurance Information Institute \(Triple-I\)](#); 2023.

¹⁸ [“2020 Triple-I Consumer Poll”](#); [Insurance Information Institute \(Triple-I\)](#); September 2020.

California, one of the most seismically active regions in the United States¹⁹, experiences 90% of U.S. earthquakes. Many residents view them as a way of life²⁰, but the "Big One" could cause destruction that few are prepared to handle.²¹ Despite this risk, only 13% of residents²² have coverage, largely due to its high cost.²³

Earthquake insurance features could also cause major financial headaches for residents whose homes sustain damage. Deductibles for this coverage range from 5% to 25% of the cost of rebuilding.²⁴ Coupled with California's higher-than-average costs of construction, a customer with a 15% deductible on a home that costs \$500,000 to rebuild would need \$75,000 out-of-pocket to pay for repairs to the home. Given that the average American has a total household savings of around \$54,000²⁵, even a 15% deductible could be unaffordable for many homeowners.

Missouri is another state with significant exposure to potential earthquakes, specifically in the New Madrid Seismic Zone, yet only 14% of residences there have earthquake coverage, compared to 23% in the state.²⁶ Like California, one of the potential drivers of declining earthquake coverage purchases is the rising cost. Between 2014 and 2023, the average inflation-adjusted policy cost increased 53%, reaching \$257, with the higher cost-to-income burden in the counties most likely to be affected by an earthquake.²⁷

Choosing the Right Coverage

The broad range of choices in coverage types, policy contracts, and risk coverage can be overwhelming for consumers. How can they select the best option for their needs? While there's often no clear right or wrong answer, there are four concrete steps consumers can take to assess their insurance needs and identify any coverage gaps. Consumers are strongly urged to discuss their home's value—including contents and additional living expenses if the home is uninhabitable—with a trusted insurance agent or directly with the insurance company.

19 [2014 U.S. Seismic Hazard Map](#); U.S. Geological Survey; Dec. 23, 2019.

20 "[Most California residents are not insured against earthquakes despite threat of the Big One](#)"; *San Francisco Chronicle*, Oct. 16, 2024.

21 "[The 'Big One': Severe earthquake in California is only a matter of time](#)"; Munich Re; Oct. 12, 2018.

22 [Earthquake Insurance: Closing the Insurance Gap](#); FEMA; Dec. 8, 2022.

23 [California earthquake insurance unpopularity: the issue is the price, not the risk perception](#); Natural Hazards and Earth System Sciences; Aug. 29, 2019.

24 [California Homeowners Earthquake Insurance Policies](#); California Earthquake Authority.

25 "[American Households' Savings Fell 32.5% Over Past 5 Years](#)"; DepositAccounts (LendingTree), Nov. 11, 2024

26 "[Residential Earthquake Coverage in Missouri](#)"; Missouri Department of Commerce & Insurance, 2024

27 Ibid.

Step 1: Current Property Valuation

The first step is to understand the current property value. From a homeowner's perspective, this generally includes a home's replacement cost, other structures, and personal property.

The most common approach to estimating the replacement cost is to work with a knowledgeable licensed insurance agent or broker. Consumers should review with the agent or broker property details such as square footage, materials used, and unusual features. Documenting home characteristics and keeping them up to date with the insurer helps ensure a home is properly covered.

Another option is to consult a local contractor to estimate the "per square foot" cost of rebuilding the home. Multiplying this figure with the home's total square footage provides a rough estimate of the replacement cost, which can then be compared to estimates provided by the insurance company. If the figures are significantly different, the agent or contractor can be asked to reconcile them. Finally, homeowners can arrange for a professional home replacement cost estimator to visit the site and provide an estimate of the cost to rebuild the home. Many insurers offer this service free of charge.

Homeowners should also consider the cost of personal property in addition to the dwelling. Creating an inventory of possessions serves a dual purpose. It can help determine how much personal property insurance to buy and prepare consumers to file claims after a disaster. Potential steps include photographing or videotaping the home's interior and exterior while noting the purchase date, brand, and other details. It's also a good idea to maintain a written or digital copy of this inventory in a fireproof safe or a physical location outside the home.

Homeowners insurance isn't a set-it-and-forget-it proposition. The cost to replace the home and personal property can vary widely from year to year, particularly during periods of market turbulence or inflation. While insurance companies may adjust the insured value for inflation, it is good practice to review all home and property estimates regularly.

Step 2: Personal Risk Evaluation

The second step is to look at types of risks that exist or may arise. Consumers can conduct research on their homes and surrounding areas to assess their vulnerability to natural disasters, proximity to hazards, and crime rates.

Good sources for information include official government websites, such as FEMA flood maps, local government preparedness guides, local news archives, and third-party risk assessment tools. In recent years, more information has become available to the public through third-party vendors using HazardHub or Zillow's climate risk data.²⁸ Government sources include the FEMA National Risk Index²⁹, which includes estimates of annual loss and community vulnerability. Consumers can use these tools to view location-specific data for flood, wildfire, and other risks.

Step 3: Aligning Risk with Insurance

The third step is matching the insurance risks and needs to an insurance policy that covers them. Insurance policies are scrupulous legal contracts that specify covered perils, available additional coverages, and exclusions.

By using the rebuilding cost estimates in the first step, consumers can ensure that their home policy limits are set at or above their replacement cost level. When using these estimates, it's important to remember that construction costs may increase substantially if there is a widespread disaster. These limits can be made on a replacement cost or actual cash value basis, but the limits may or may not cover cosmetic damage or matching concerns, even for replacement costs. Other structures or items, such as garages, tiny homes, RVs, or additional dwelling units may be excluded or have separate limits.

Insurance policies can cover demolition, debris removal, and replacements that meet current building code standards. Policies without contract language addressing building code updates can create sizeable gaps in coverage where electrical, plumbing, or other home features may need to be brought up to code. This particularly applies to coverage for older homes.

²⁸ [Check The Risk For Your Property](#); HazardHub.

²⁹ [Resilience Analysis and Planning Tool](#); FEMA; Dec. 16, 2025.

It is important to note that even for a covered loss, it may be necessary to factor in additional costs. Thus, policies should be reviewed to ensure that they provide sufficient coverage for personal property and valuables. Like the home itself, and as described above, personal property can be covered on a replacement value or actual cash value basis. There are typically exclusions or policy limits that apply to personal property on homeowners insurance policies. Specific policy limits may apply to bicycles and other off-road vehicles and watercraft; jewelry; furs; electronics; drones; paintings or pictures; or collections, such as coins or stamps. It may be possible to add a scheduled or blanket personal property endorsement(s) to ensure these items are covered fully beyond the basic coverage limits. Prospective policyholders should compare the inventory created in the first step against these policy limits and exclusions.

Policies also need to cover the risks the policyholder will face. Using those identified in the second step, it's wise to review the policy language and exclusions to ensure the policyholder's risks are appropriately covered. For example, homeowners insurance policies typically do not cover flood risks, so a separate flood policy will be needed to protect the home and valuables. Mold is another common policy exclusion. For fire-prone areas, it's a good idea to check whether the policy covers smoke damage. Lastly, most policies stipulate that the claim must be "sudden and accidental." Damage caused by wear and tear or mechanical failure for items such as major appliances (dishwashers, laundry machines, stovetops, etc.) is usually not covered. Damage caused by those accidents, if not covered in the homeowners insurance policy, may be covered as a part of a homeowners warranty policy, which needs to be purchased separately.

Deductibles are another feature that may limit policy coverage. The deductible may vary based on the particular risk (e.g., wind and hail versus all other risks), may be applied on a percentage or fixed basis, or may be waived or not applied in certain circumstances (e.g., liability claims).

Additional options can provide coverage for risks, such as liability, or additional living expenses. The correct liability limit is difficult to ascertain, but homeowners should consider net worth and assets at risk, potential personal liability claims, and whether the policy covers legal expenses separately or as a part of the liability limit. If the home is uninhabitable, additional living expenses coverage will provide compensation for expenses, such as rent or hotel costs. It's wise to determine whether the coverage imposes a total dollar cap, monthly cap, time limit, or any other restrictions.

Depending on the options available, some homeowners may wish to obtain a separate umbrella policy that will provide broader coverage at higher limits than those typically included in a homeowners insurance policy. If the home is uninhabitable, additional living expenses coverage will provide compensation for rent or hotel expenses. It's wise to determine whether the coverage imposes a total dollar cap, monthly cap, time limit, or any other restrictions.

Finally, consumers with unique living situations or risks should ensure that policies fit their needs. Policies can impose restrictions or require additional coverage for specific situations, such as home-based businesses or use of the home for short- or long-term rentals. Policies in such cases may have language that addresses unique hazards, such as swimming pools, trampolines, or specific types of unusual pets.

Step 4: Selecting An Insurance Company

The fourth and final step in choosing the right coverage is to find a reliable insurance company. Insurance is a promise. Consumers pay money up front with the understanding that their insurance company will fulfill the contract and pay claims if a loss occurs. With this in mind, consumers should consider the prospective insurance company's ability and track record of fulfilling that promise.

A good way to assess an insurance company's ability to pay claims is by looking at its financial strength, which consumers can do by finding ratings by experts such as A.M. Best, Fitch, Moody's, etc. These experts review company financials, history, and future outlook. They provide a rating using numeric or alphabetic scales.

Consumers can also research their prospective insurance company's track record of paying the claims. The National Association of Insurance Commissioners maintains a database that contains complaints against insurance carriers, licensing information, and financial data. Third-party companies such as J.D. Power or Consumer Reports collect and publish customer service ratings. By cross-referencing information from these sources, consumers can gain a better understanding of which insurance companies consistently provide excellent customer service.

Consumers can also comparison shop by consulting their state department of insurance website. Many states provide resources such as fact sheets, worksheets, and information on required coverages. A phone call or a personal visit to the regulatory agency can help in choosing coverages, policy limits, or deductibles.

What's Next?

Given the importance of proper homeowners insurance valuation, what actions can insurers, regulators, agents, consumers, and actuaries take to ensure that this valuation process is more transparent and accessible to current and potential policyholders?

There are several ways insurers can help consumers make informed decisions. Insurers are likely best positioned to educate consumers during the quote or renewal process. Policy language is often quite complex to ensure precision in describing coverage and to comply with state laws and regulations, which can make contracts difficult for the consumer to understand. One option is to create a plain-language policy supplement, similar to the one provided in New Jersey.³⁰ This Plain Language Law provides guidance on creating documents that are easy for consumers to understand.

Insurance agents also play a key role in helping consumers understand the significance and importance of proper insurance and different valuation methods to ensure homes are not being underinsured. Agents can explain why frequent insurance reviews are necessary to ensure coverages and valuations are up to date. The method used to deliver this guidance should reflect the demographics of the audience. For example, younger customers consume media differently, so engaging through social media may help increase engagement among this age group.

There are also additional data sources insurers could consider to help determine insurance valuations. For example, aerial imagery could be leveraged to ensure that unique structures or risks are appropriately covered by the policy. There may also be alternative sources to assist with home valuation, which may not be actively leveraged today. While many carriers have specific methods to value a home, publicly available estimators could be shared with consumers to provide comparative replacement cost estimates. Regulators can educate consumers by providing insurer comparisons on their websites or creating other easy-to-consume resources to make comparisons more meaningful for the public.

Consumers can and should become more actively engaged in the insurance process. While some may prefer online platforms to explore and identify their insurance needs, talking to an agent or broker can be helpful. Consumers should closely read the insurance policy and consider leveraging artificial intelligence (AI) tools for answers to simple questions or interpretations. Although insurers have a responsibility to provide accurate coverage and replacement cost information, consumers ultimately need to ensure they obtain the appropriate

³⁰ [N.J. Admin. Code § 11:2-18.4-Minimum readability standards](#); Legal Information Institute (Cornell Law School); Aug. 6, 2018.

coverage and select an insurer that best meet their needs. There are a variety of public sources available that could help consumers in finding the appropriate coverage.

Finally, actuaries should be aware of how homeowners insurance valuations impact rate adequacy and rate equity. Pricing actuaries should understand how replacement costs are determined and ensure that the data used to calculate these values is accurate. Understanding the multiple coverage and deductible options that are available for products within their purview is key to accurate homeowners insurance pricing.

Taken together, the actions of all stakeholders—insurers, agents, regulators, consumers, and actuaries—can promote a more transparent and accessible homeowners insurance market.

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