

UNDERSTANDING YOUR INSURANCE POLICY

An insurance policy is a legal contract between the insurance company (the insurer) and the person(s), business, or entity being insured (the insured). Reading your policy helps you verify that the policy meets your needs and that you understand your and the insurance company's responsibilities if a loss occurs. Many insureds purchase a policy without understanding what is covered, the exclusions that take away coverage, and the conditions that must be met in order for coverage to apply when a loss occurs. With this being National Hurricane Preparedness Week, the National Association of Insurance Commissioners (NAIC) would like to remind consumers that reading and understanding your policy can help you avoid problems and disagreements with your insurance company in the event of a loss.

The Basics of an Insurance Contract

There are four basic parts to an insurance contract:

- **Declaration Page**
- **Insuring Agreement**
- **Exclusions**
- **Conditions**

It is important to understand that multi-peril policies may have specific exclusions and conditions for each type of coverage, such as collision coverage, medical payment coverage, liability coverage, etc. You will need to make sure that you read the language for the specific coverage that applies to your loss.

- The **Declaration Page** is usually the first part of an insurance policy. It identifies who is an insured, what risks or property are covered, the policy limits, and the policy period (i.e. time the policy is in force). For example, the Declarations Page of an automobile policy will include the description of the vehicle covered (e.g. make/model, VIN number), the name of the person covered, the premium amount, and the deductible (the amount you will have to pay for a claim before an insurer pays its portion of a covered claim). Similarly, the Declarations Page of a life insurance policy will include the name of the person insured and the face amount of the life insurance policy (e.g. \$25,000, \$50,000, etc.).
- The **Insuring Agreement** summarizes the major promises of the insurance company, as well as states what is covered. In the Insuring Agreement, the insurer agrees to do certain things such as paying losses for covered perils, providing

certain services, or agreeing to defend the insured in a liability lawsuit. There are two basic forms of an insuring agreement:

- *Named-perils coverage*, under which only those perils specifically listed in the policy are covered. If the peril is not listed, it is not covered.
 - *All-risk coverage*, under which all losses are covered except those losses specifically excluded. If the loss is not excluded, then it is covered. Life insurance policies are typically all-risk policies.
- The **Exclusions** take coverage away from the Insuring Agreement. The three major types of Exclusions are:
 - Excluded perils or causes of loss
 - Excluded losses
 - Excluded property

Typical examples of excluded perils under a homeowners policy are flood, earthquake, and nuclear radiation. A typical example of an excluded loss under an automobile policy is damage due to wear and tear. Examples of excluded property under a homeowners policy are personal property such as an automobile, a pet, or an airplane.

- The **Conditions** are provisions inserted in the policy that qualify or place limitations on the insurer's promise to pay or perform. If the policy conditions are not met, the insurer can deny the claim. Common conditions in a policy include the requirement to file a proof of loss with the company, to protect property after a loss, and to cooperate during the company's investigation or defense of a liability lawsuit.

Definitions

Most policies have a **Definitions** section, which defines specific terms used in the policy. It may be a stand-alone section or part of another section. In order to understand the terms used in the policy, it is important to read this section.

Endorsements and Riders

An insurer may change the language or coverage of a policy at the time of the policy renewal. **Endorsements and Riders** are written provisions that add to, delete, or modify the provisions in the original insurance contract. In most states, the insurer is required to send you a copy of the changes to your policy. It is important that you read all Endorsements or Riders so you understand how your policy has changed and if the policy is still adequate to meet your needs.

Obtaining a Copy of Your Policy

To obtain a copy of your insurance policy, you should contact your insurance company or your agent/sales representative.

Get More Information

Contact your state insurance department if you have questions regarding your policy or if you are having difficulty obtaining a copy of your policy from your insurance company. You may link to your state insurance department's Web site by visiting www.naic.org. Click on [NAIC States & Jurisdictions](#) to find your state insurance department's Web site.