Insurance basics

What you need to know

By Kara Kuryllowicz

HOW MUCH ATTENTION DO YOU really pay to the insurance policy that will protect your property and contents?

"Most home owners put more time and effort into researching the big-screen TV than the policy that protects what is likely their most valuable asset and every single thing in it, from their furniture and electronics to their dishes and clothing," says Pete Karageorgos, director, Consumer & Industry Relations, Ontario, Insurance Bureau of Canada, the national industry association whose private home, auto and business insurers represent 90 per cent of Canada's property and casualty insurance market.

Before you start looking at insurance providers, you need to decide whether you'll use a broker (works with multiple insurers), an agent (represents a single insurer), or a direct writer (supports one insurer online or by phone).

"It's about how you like to shop," says Karageorgos. "Do you want to comparison shop multiple insurers or have your broker do the work for you? Will you value the relationship you'll develop with a broker? Will having a history with the broker or agent save you time?"

Ask family, friends and neighbours if they're happy with their insurers, and research consumer reports, but always take responsibility and do your own due diligence.

Most consumers are price-oriented, but as with most products and services, you get what you pay for, so once you've got the quotes, be absolutely sure you're comparing apples to apples. To fully understand why one policy costs $85 or $523.18 less than another one, you will need to pay attention to all of the details and fine print pertaining to coverage, limits, exclusions and more.

"Ultimately, the homeowner has to assess the cost against the possible risk," says Karageorgos. "It's highly personal and everybody is different. Mercedes, GM, etc... they all make vehicles that will get you from point A to point B – consumers decide what meets their unique needs, preferences and budgets – insurance is much the same."

A few key points to consider:

1. Guaranteed replacement cost (what it would cost to rebuild your home, taking into account current material and labour costs, or to replace contents at today's prices) or actual cash value (what you originally paid less the year-to-year depreciation because everything from a sofa to flooring and shingles will decrease in value over time). Of course, guaranteed replacement cost is infinitely preferable, but it costs more.

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2. Named perils (which lists the perils covered, typically fire, weather, theft) or an all-risk policy (which lists only the perils not covered such as war or nuclear hazards). All-risk is best but again, the cost is higher.

3. How much is enough? Most insurers use a formula or industry calculator, generally tied to square footage, to determine the cost to replace a structure, detached structures (e.g. garage, shed) and contents. If your home has a particularly unique envelope (roof, exterior cladding), an unusual number of 4K flat screen TVs or high-end leather, goose-down stuffed sofas, original artwork or jewellery, discuss it with your representative and be prepared to pay a higher premium for more coverage. Be sure the coverage on the detached structure is appropriate. Even if your furniture and contents are low-end to mid-range, you might be surprised at just how much it would cost to replace every single item you own if you crunch the numbers: sofas, chairs, end tables, dining tables, mattresses, beds, duvets, sheets, towels, small and large appliances, dishes, pots, pans, cutlery and much more. "Some policies will cover contents, including jewellery or art to a certain amount, but beyond that you may need to involve a professional appraiser, who will value and may even photograph the items," says Karageorgos. "If you make a claim, you need to prove ownership and value." Insuring for less than the guaranteed replacement cost may save you money over the years, but is it worth the risk of financial ruin if your home and everything in it is destroyed?

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4. Deductible — $500? $1,000? More? "A thousand dollars might not seem like a lot on a $30,000 repair, but for some families, that might be a lot all at once, so it might be worth the extra you'd pay annually to drop the deductible to $500," says Karageorgos.

5. Policy exit strategies. If your circumstances change, for example, you decide to rent your primary residence for four months while travelling or on a work contract, you can generally change insurance providers at any time. "If you pay the full amount rather than installments, you won't get 100 per cent of it back due to administrative charges, but the bulk of it, which is known as the short rate, will be reimbursed," says Karageorgos.

6. Reassess your policy and provider annually. If the price to renew has increased, find out why. Replacement costs likely rise year over year as labour and material are more expensive. If you've made changes to your home or contents, inform your provider to ensure your coverage remains adequate.

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