

**\*\*\*SAMPLE\*\*\***

## Notice of Conditions of Underinsurance

This Notice is being provided to you because you have a homeowners policy with \_\_\_\_\_ Insurance Company (hereinafter referred to as "Company") and it is the Company's responsibility, to inform you of the following conditions that may cause your property to be underinsured, which means that you do not have enough insurance to cover losses or damages to the insured property in the event of a catastrophe/natural disaster. Your property may be underinsured because:

1. You do not meet the 80% coinsurance requirement, which requires the insured to maintain 80% of insurance in relation to the replacement cost of the insured property;
2. You made improvements to the insured property and did not disclose this to the agent, in order to obtain adequate coverage;
3. Your lender, bank or loan servicer secured insurance coverage, known as "force-placed insurance" for ONLY its financial interest in the insured property because:
  - (i) the insurance that initially covered the property was cancelled,
  - (ii) the insurance that initially covered the property lapsed, or
  - (iii) the insurance covering the property was not sufficient and you did not secure your own replacement policy;
4. You selected insurance coverage for dwelling only, and excluded coverage for contents, loss of use and other structures;
5. The rate per square foot, which is usually market driven and is used to determine the replacement cost, has increased. The replacement cost at the time of the loss may be greater than the replacement cost at the time the policy was initially purchased. Examples of market driven factors are the costs of construction materials as well as the demand for contractors. The demand for both construction materials and contractors will increase the cost for repairs. The Bulletin also provides a disclaimer regarding the market driven factors; OR
6. Other \_\_\_\_\_

**If your property is "underinsured," your insurance policy for the insured property does not offer complete financial protection in the event of a catastrophe/natural disaster and a penalty will be applied which limits the amount you will receive on your claim.**

I \_\_\_\_\_, the undersigned agent, have provided to the undersigned policyholder this "Notice of Conditions of Underinsurance" and have fully explained each condition described above.

DATED this \_\_\_ day of \_\_\_\_\_, 20\_\_

\_\_\_\_\_  
(PRINT Name of Agent) (Signature of Agent)

THE UNDERSIGNED POLICYHOLDER ACKNOWLEDGES RECEIPT OF THIS "NOTICE OF CONDITIONS OF UNDERINSURANCE" AND CONFIRMS THAT THE AGENT HAS FULLY EXPLAINED THE ABOVE DESCRIBED CONDITIONS AND THAT THE UNDERSIGNED POLICYHOLDER UNDERSTANDS THE CONDITIONS OF UNDERINSURANCE AND HOW THEY WILL AFFECT THE UNDERSIGNED POLICYHOLDER'S INSURANCE COVERAGE IN THE EVENT OF A CATASTROPHE.

DATED this \_\_\_ day of \_\_\_\_\_, 20\_\_

\_\_\_\_\_  
(PRINT Name of Policyholder) (Signature of Policyholder)

### OFFICE OF THE LIEUTENANT GOVERNOR DIVISION OF BANKING, INSURANCE & FINANCIAL REGULATION



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### U.S. Virgin Islands OFFICE OF THE LIEUTENANT GOVERNOR



How to Avoid Being

## UNDERINSURED



## A Consumer's Guide to the Impact of Underinsurance on Your Claim Settlement



**DIVISION OF BANKING, INSURANCE & FINANCIAL REGULATION**

## What does it mean to be Underinsured?

Homeowner's insurance policyholders in the United States Virgin Islands must be educated on the meaning of being "underinsured". **Underinsured** means the amount of homeowner's insurance held on the property is insufficient to cover the total dollar amount of losses to the property. Generally, underinsured is associated with the policyholder's failure to coinsure no less than 80% of the property's value.

**To determine how much coverage is needed, multiply the total square footage of the property times the dollar value per square foot.**

**Dwelling/Livable area: 1,246 Sq. Ft. @ \$150.00\* = \$186,900**

**Porch: 179 Sq. Ft. @ \$45.00\* = \$8,055**

**Garage/Carport: 721 Sq. Ft. @ \$50.00\* = \$36,050**

**Replacement cost \$231,005 x 80% = \$184,804**

**\* The dollar value is subject to market costs of comparable material and quality used in your neighborhood.**

**Be fully informed.** When you buy your homeowner's insurance, make sure you understand from your Agent what will and will not be covered in your policy. Buy no less than 80% of the property appraised value. Do not exclude windstorm coverage. Include dwelling and contents, and avoid being force-placed.

## "UNDERINSURED": What Are Your Insurance Company's Responsibilities?

**Each property and casualty insurance company licensed and authorized to conduct insurance business in the Territory must:**

1. Provide to its homeowner's insurance policyholders a full explanation of the term "underinsured", to include examples of conditions under which a property may be determined to be underinsured and how this will affect the policyholder's ability to collect on an insurance claim for damages to their property;
2. Utilize the sample "Notice of Conditions of Underinsurance" as a guide to ensure that each insured receives the proper explanation of what it means to be underinsured and, if they are underinsured, the proper notification as to how their insurance coverage will be affected in the event of a catastrophe;
3. Require that each applicant for homeowner's insurance that is seeking new or renewal insurance coverage, sign the Notice evidencing that their agent has provided an explanation of the term "underinsured"; the conditions for determining underinsurance; and that the policyholder understands the conditions and how the conditions will affect their insurance coverage in the event of a catastrophe or other qualifying event;
4. Inform policyholders that the term "underinsured" can be caused by the following factors:
  - a. The policyholder does not meet the 80% coinsurance requirement, which requires the insured to maintain 80% of insurance in relation to the replacement cost of the insured property;
  - b. The policyholder makes improvements to the insured property and does not disclose this to the agent, in order to obtain adequate coverage;
  - c. The policyholder's lender, bank or loan servicer secured insurance coverage, known as "force-placed insurance" for ONLY its financial interest in the insured property because:
    - (i) the insurance that initially covered the property was cancelled,
    - (ii) the insurance that initially covered the property lapsed, or
    - (iii) the insurance covering the property was not sufficient and the policyholder did not secure their own replacement policy;
  - d. The policyholder selected insurance coverage for dwelling only, and excluded coverage for contents, loss of use and other structures: **OR**
  - e. The rate per square foot, which is usually market driven and is used to determine the replacement cost, has increased. The replacement cost at the time of the loss may be greater than the replacement cost at the time the policy was initially purchased. Examples of market driven factors are the costs of construction materials as well as the demand for contractors. The demand for both construction materials and contractors will increase the cost for repairs.

In addition, policyholders whose policies were renewed in 2017 after Hurricanes Irma and Maria and are not scheduled to renew before the next hurricane season, may be allowed to elect to receive a midterm endorsement to increase their policy limit, if necessary, to an adequate level using a pro rata share **going forward**. The allowance of this option is subject to underwriting approval and with the realization that underwriting criteria differs from company to company. A policy cannot be back-dated.