DFR | Division of Financial Regulation
Department of Consumer and Business Services
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Homeowner rate and underwriting guide

General Information

Do I have to buy homeowners insurance?

Oregon law does not require consumers to have homeowners insurance, but if money is owed on a home, then a lender will require it.

How do insurers determine whether to offer or renew a policy to a property owner?

When you apply for homeowners insurance, your level of risk is evaluated through a process known as **underwriting**. Each insurer's underwriting rules for eligibility vary, which means a consumer may be able to find a policy with one insurer when another declines.

Insurers may not renew a policy for many different reasons. These may include a change in risk, failure to maintain a property, nonpayment of premiums, fraud, or misrepresentation of information.

What does my insurance company use to decide my monthly premium?

Insurers can use many different rating factors to determine **premium**. Some common factors include:

- A home's age and replacement cost
- Type of construction
- Location
- Availability of fire protection
- Claim history

Terms to know

Actual cash value – the value of property determined by the cost to replace it, subtracted by an amount reflecting depreciation.

Additional living expense – coverage for reimbursement of temporary expenses while the policyholder is unable to live in their home because of damage caused by a covered peril.

Admitted insurance carrier – an insurance provider who is licensed to write and sell certain types of insurance by the state in which they are based.

FAIR plan – serves as the insurer of last resort if a property owner cannot find insurance coverage in the standard market. The FAIR plan offers a basic policy that covers dwelling and contents coverage at actual cash value.

Liability coverage – provides the policyholder with protection against claims of injury to another person or their property when the loss was caused by the policyholder.

Peril – a specific cause of damage or injury.

Premium – the amount a consumer pays for an insurance policy.

Rating plan – a system that shows adjustments to the premium that reflect the most current loss experience of the insured.

Replacement cost – coverage for payment of the actual cost of rebuilding or repairing the dwelling using materials of a similar kind and quality to restore it to its pre-loss condition.

Standard market – the market where highly regulated insurance products are offered by admitted insurance companies to relatively low-risk policyholders.

Surplus lines – insurance that fills the need for coverage in the marketplace by insuring higher risks that are declined by the standard underwriting process of admitted insurers.

Underwriting – the process by which an insurance company assesses the risk of offering an insurance product to a consumer, and at what rate.

What is the division's role in approving rates?

Insurers charge **premiums** based on **rating plans** that are filed with the Division of Financial Regulation (DFR).[1] Any change to a rating plan must also be filed with the division. DFR reviews it for compliance with the Insurance Code and other regulatory guidance. Oregon law states that insurance rates cannot be excessive, inadequate, or unfairly discriminatory.[2] In other words, all rates must be actuarially justified.

Common Coverage

What does my policy actually cover?

The coverage available in a homeowners policy includes dwelling (structure), other structures, contents, **liability coverage**, and **additional living expense** coverage.

- Dwelling coverage includes the cost to rebuild or replace the primary structure and remove debris.
- Other structures coverage includes the cost to rebuild or replace other structures not attached to the main dwelling, such as a barn or storage shed.
- Contents coverage includes the cost to replace personal property.
- Liability coverage includes any liability arising from incidents that occur on the premises. An example is a lawsuit by someone injured on your property.
- Additional living expense coverage reimburses for temporary expenses while the home is uninhabitable due to damage by a covered peril.

Note: Some policies provide coverage on a **replacement cost** basis, but others provide **actual cash value** coverage.

What is the difference between replacement cost and actual cash value?

Replacement cost is the price to rebuild the primary dwelling structure (your home) or repair damages using materials of a similar kind and quality.

Actual cash value is the value of your home minus wear and tear, which is often not enough to fully repair or replace the structure.

Is there coverage if I cannot live in my home due to a fire or some other event?

Homeowners policies may also cover **additional living expenses** if the policyholder cannot live in the home due to a covered loss or an evacuation order. This coverage pays you back for your living expenses while the residence is repaired, rebuilt, or until the claim is settled, up to the policy limit.

Wildfire Coverage

Can an insurance company refuse to cover wildfires in its policy?

No. The Oregon Insurance Code requires every homeowners insurance policy to include wildfire coverage. Oregon is a standard fire state, which means fire is always a covered cause of loss **peril**. A fire loss is covered, no matter the source, whether from a kitchen stove, electrical system failure, or a wildfire.

How are wildfire models used?

Although many insurers use wildfire models for **underwriting** and rating, some use wildfire models only for underwriting purposes. These models may include mitigation efforts in the evaluation of the site and other characteristics, including defensible space and fuel load.

What are defensible space and building hardening and how do they factor into underwriting and rating?

Defensible space, in simple terms, is the buffer created between a structure and the grass, trees, shrubs, or any wildland area that surrounds it to help slow or stop the spread of wildfire.[3] For more information on defensible space, go to the Office of the State Fire Marshal's website. Building hardening is the use of fire-resistant building materials that significantly help in the survivability of a structure in a wildfire. For more information on building hardening, go to the Building Codes Division's website. Defensible space and building hardening are two of many factors that insurers can use for underwriting and rating. It is up to each insurance company to decide if and how they will use these factors.[4]

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[1] ORS 737.330

[2] ORS 737.025

[3] Oregon Senate Bill 762 (2021) defines "defensible space" as a natural or human-made area in which material capable of supporting the spread of fire has been treated, cleared or modified to slow the rate and intensity of advancing wildfire and allow space for fire suppression operations to occur.

[4] Oregon Senate Bill 82 (2023) requires insurers to consider home hardening and defensible space efforts in rating and underwriting while providing flexibility in how this consideration is reflected in an insurer's decisions.

Will insurance companies be using the statewide wildfire risk map for underwriting or rating purposes?

No. Insurance companies are legally prohibited from using any state wildfire map in **underwriting** and rating.[5] In 2022, insurance companies reported to the division in a formal inquiry that they were not using or planning to use the state wildfire risk map to make any underwriting or rating decisions. Companies currently use their own tools to assess risk throughout the state.

Cancellation and Alternatives

Can an insurance company cancel my coverage?

Yes, insurers can cancel a homeowners policy under certain circumstances if proper notice is given. Cancellations require a 30-day notice, unless it is for nonpayment of premium or fraud. In those cases, a 10-day notice is required. A cancellation notice must include the effective date of cancellation and the reasons for the cancellation.

Will I be able to find insurance if my coverage is canceled?

Fortunately, Oregon has a robust insurance market with more than 100 companies writing business in the state's **standard market**. If consumers cannot find coverage in the standard market, they can also obtain coverage through the Oregon **FAIR plan**. For higher risk properties, homeowners insurance can also be obtained through the **surplus lines** market, usually at an increased cost.

What is the Oregon FAIR plan?

The **FAIR plan** serves as the insurer of last resort if a property owner cannot find insurance coverage in the **standard market**. The FAIR plan offers a basic policy that covers dwelling and contents coverage only on an **actual cash value** basis. DFR is developing a legislative concept on enhancements for the FAIR plan to provide greater consumer protection. You can contact the FAIR Plan Association at 503-643-5448 or info@orfairplan.com.

What is the surplus lines market?

The **surplus lines** market is a specialized part of the insurance industry that consists of insurers who offer coverage for risks that are not typically covered in the **standard market**. It also operates differently than standard market, and tends to be pricier since the risks that the insurer takes on are more perilous. To learn more about surplus lines coverage, you can contact an insurance agent, or the Oregon Surplus Line Association at 503-718-6700 or info@oregonsla.org.

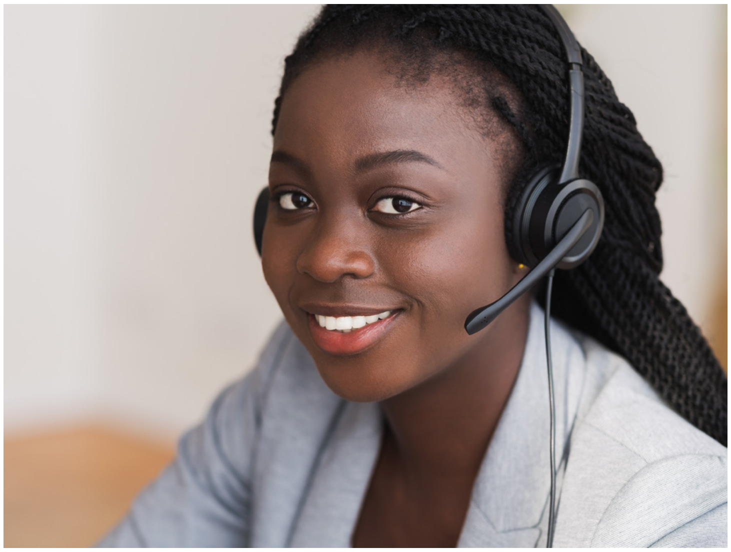
How can I find the right insurance company for me?

An option if your policy is canceled or nonrenewed is to work with an insurance agent. An agent can help you search for insurance by researching many companies at once. Remember, there are more than 100 companies offering coverage and it is always best to shop around.

Who can I contact if I have questions?

DFR offers free help to people with insurance questions, including about understanding policy changes, rate increases, cancellations, and nonrenewals, or to check a license. Call 888-877-4894 (toll-free) or visit our website at dfr.oregon.gov. You can also email DFR.InsuranceHelp@dcbs.oregon.gov. Also, you can file a complaint online or call to request a paper copy be mailed.

DFR is committed protecting Oregonians' access to fair insurance products through education, regulation, and assistance.



[5] Senate Bill 82 (2023) prohibits the use of the state wildfire risk map for rating and underwriting.