Kiplinger

Protect Yourself from Home Insurers

Even a small claim can cost you big-time. Here's how to defend against rising premiums and canceled policies.

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June 4, 2003

As premiums soar and coverage gets skimpier, homeowners who make claims – and those insurers suspect might make claims – are shunned like lepers. What's going on?

Homeowners insurance has never been a big moneymaker for insurance companies. (It's always been a loss leader for more profitable insurance, such as auto coverage.) In the 1980s, it was typical for an insurer to pay out 95 cents in claims for every dollar collected in premiums.

A string of catastrophes has steadily increased the so-called loss ratio. Insurers currently pay out about $1.18 in claims for every dollar they collect in premiums, according to the Insurance Information Institute, an industry-sponsored group.

But even so, through most of the '90s, insurers still earned enough money investing those premiums to come out okay. Industrywide, surpluses for property-and-casualty insurers peaked in 1999 at $336 billion. Since then, the cushion has dropped by $63 billion.

The industry's response? To hike premiums – often by budget-busting amounts. More disturbing, insurers are now running scared from risk – real and perceived. In some places, including parts of California, Florida, Louisiana and Texas, many firms have walked away from the homeowners market. In others, they try to cherry-pick the "safest" customers, shoving everyone else toward insurers of last resort. Making a mockery of the time-honored principle of risk sharing, "some companies are trying to privatize good risk and socialize bad risk," complains Missouri insurance commissioner Scott Lakin.

Insurers are even denying coverage on homes because a previous owner made claims, a new tack that can threaten real estate deals.

Even if you can get coverage, you may have to battle your insurer when you make a claim. Complaints about the way claims are being handled have risen dramatically at many state insurance departments.

In the past, a few minor claims didn't sound the death knell for a policy. But "now the reality with almost every insurer is you can't turn in every claim you have," explains Charlie Brown, an insurance agent in Kennett, Mo. "As a consumer, I don't like that very much," he says. "But it's just the reality."

Hydrophobia alert

Every policyholder's situation is looked at on its individual merits – the type of claim, how close together they are, could they have been avoided," says Phil Supple, a State Farm spokesperson. "Water claims are the ones that stand out among the rest." Nowadays, a single water-damage claim can be enough to get you dropped. "Water claims tend to have a tail to them," says Supple, "because of the potential for other damage, like rot and mold down the road."

Insurers are recoiling from mold – because it costs a lot to clean up properly and because some companies have been hit with multimillion-dollar judgments for not paying up promptly on mold claims. "It used to be that a water-damage claim would be $3,000," says Bruce Baker, an independent agent in Coral Gables, Fla. "Now you get mold-mitigation people in there to make sure mold doesn't form, and it costs $15,000 to $20,000."

Instead of eradicating mold, many companies are eradicating policyholders. Insurers share claims information through a database called CLUE (comprehensive loss underwriting exchange), so losses are no secret.

Some people are so scared of getting blacklisted that they're afraid to submit water-damage claims. "I had a client with about $5,000 worth of water damage, and she considered eating the cost herself," says insurance agent David Hargreaves. "That's a good example of how frightening things have become."

Phantom claims

Unfortunately, not filing a claim isn't necessarily a solution either. In some states, insurers often count claims inquiries as full-fledged claims. Their rationale? "That loss may never turn into a claim, but nonetheless the loss occurred," says Joseph Annotti, vice-president of public affairs for the National Association of Independent Insurers. "That flags you as a potential risk."

Not only are insurers afraid that an old claim for a water leak can blossom into a future claim for mold, but they say homeowners with a claims history (or new owners of houses with a history of claims) are more likely than others to file claims in the future.

Huge premium hikes

Even if you're not dropped, you could end up with vastly higher premiums. A recent survey of 33 state insurance departments by the Consumer Federation of America (CFA) found rates increased an average of 13% in 2002, on top of a 7% price hike in 2001. Some states were much higher – with average rates rising by 57% in Texas and 33% in Iowa. Companies explain that they're just trying to make up for some bad decisions in the past. "Homeowners [insurance] has been underpriced for a very long period of time," says John Conners, executive vice-president of personal markets for Liberty Mutual. "We just didn't charge enough."

Expect rate hikes to continue. A study by reinsurer Aon Re (a firm that insurance companies pay to share risk with them) determined that rates still aren't high enough. "A further 25% increase would probably begin to give insurers the chance of staying in the business," says Bryon Ehrhart, president of Aon Re Services. One glimmer of hope: The CFA expects an average increase of just 5% this year. But few homeowners will jump for joy: That's still well above the rate of inflation and comes on top of the double-digit increases of past years.

Some unlucky souls get a double dose of rate increases, thanks to their credit records. Although rules vary by state, many insurers now crank credit scores into their pricing formula. People with low scores tend to file more claims, says the Insurance Information Institute. In fact, it says that two-thirds of policyholders pay less than they would otherwise, thanks to their *good* credit score.

More for less

As premiums balloon, what policies actually cover is getting skimpier. First to go was guaranteed replacement-cost coverage, which most insurers eliminated within the past three years. With it, insurers pay the full cost to replace your home, no matter how much coverage you had. If you insured your home for $200,000 but it ended up costing $300,000 to rebuild it, the insurance company was on the hook for an extra $100,000. But now most insurers cap payouts at 120% to 125% of your coverage amount. So it's up to you to make sure the dollar amount set in your policy keeps up with construction costs. (A few companies continue to provide full-replacement coverage.)

Insurers are also stripping away other coverage. In states where they can, they may limit mold claims to $10,000 or make coverage for mold testing and mediation optional (and charge extra for those services).

Some insurers are eliminating sewage-backup coverage. Insurers are also raising deductibles for windstorm coverage in risky states. "I don't know of anybody who doesn't have a windstorm deductible of at least 1% or 2%, and some are 3% to 5%," says Bruce Baker. "In the last year, I saw some go from 5% to 10%." If you have a $500,000 home, a 5% deductible would mean you'd pay the first $25,000 out of your pocket to fix windstorm damages before the insurance kicked in. In the past, the deductible had been the same for all types of coverage – typically $500 to $1,000.

Real estate deal killer

Difficulty nailing down an affordable policy is starting to disrupt real estate deals. Without insurance, you cannot get a mortgage. Without a mortgage, very few can buy a house. Trouble is, in many places it's easier to borrow a half-million dollars for 30 years than it is to find a $250,000 insurance policy for one year.

Most states allow insurance companies to back out of a deal for any reason whatsoever (except illegal discrimination) during the first 60 days of a new policy. In Texas, they can keep you in limbo for 90 days. In most cases homeowners ultimately are able to find an alternative insurer, but often at a higher price that can threaten to make the whole deal unaffordable, especially for a first-time buyer. An owner may also find that a history of claims – or even inquiries on his or her CLUE report – could affect selling a home. Barbara Davis, an independent insurance agent in Houston, says buyers sometimes ask for CLUE reports on houses they consider – and choose the one that's easier to insure.

Tightening the screws

Putting the thumbscrews to policyholders with claims is not a new tactic, but the squeeze is as tight as ever, say regulators, public adjusters and attorneys who represent policyholders. The trend is also evident on Web sites such as Screwedbyinsurance.com and Allstateinsurancesucks.com, where frustrated homeowners vent their anger about insurance company foot-dragging, low-balling and denied claims.

"Whenever there are hard times, they tighten the purse strings," says Clinton Miller, author of *How Insurance Companies Settle Cases*. "You don't pay the claims in the gray zone. And even the ones that are black and white, you shave maybe 10%," he says.

"If a company tightens up 10% every step of the way in the claims process, you're going to see more complaints," says Randy McConnell, spokesperson for the Missouri department of insurance. "Word goes out to adjusters to tighten in terms of the way they value property and in terms of who can make the repairs."

"Settling claims is as frustrating and as bad as I've ever seen it," says **Wes Baldwin**, who has been a public adjuster in Charlotte, N.C., since 1976 and is the incoming president of the National Association of Public Insurance Adjusters.

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Tips to Protect Yourself

These 20 moves can help when you're shopping for insurance, once you have a policy and when you have a dispute.

June 4, 2003

Millions of homeowners are being punished by insurers who have suddenly and often arbitrarily raised rates, lowered coverage, denied claims and canceled policies. The insurers are losing money in this line of business, so you get the blunt end of their stick.

Are you defenseless? By no means. We'll explain 20 ways to protect yourself from this carnage and fight back if you do become the target of your insurer.

When you're shopping for insurance

Increase your deductible. "We're raising a lot of deductibles to $1,000 or $2,500," says Washington agent David Hargreaves. "If you aren't going to turn in smaller claims, why don't you at least save the money in premiums?" Raising the deductible from $250 to $2,500 could cut your premium by up to 30%.

Drop add-on coverage that encourages you to make small claims, such as riders for jewelry worth $1,000 or less.

Overlap policies. If you're voluntarily switching insurers, don't let go of the old policy until the end of the 60- to 90-day period when the insurer can drop you.

Fight errors on your CLUE and credit reports that can push up premiums.

Try to reverse a decision to cancel your policy. Ask if there's anything you can do to keep coverage, such as raising your deductible or, after a water-damage claim, proving there's no mold.

Don't switch carriers just to save a few bucks. A claim within six months might lead your new insurer to drop you and you could wind up with a more expensive policy.

Once you have a policy

Don't submit claims for less than $1,000. And consider how much any claim could cost you in the long run. Even if you don't get dropped, you could lose a claims-free discount.

Stay off the record. Under current conditions, you run the risk of building a rap sheet just by wondering aloud whether something is covered. Stress to the agent that you're only making an inquiry. Later, buy your CLUE report for $12.95 to see if your question has morphed into an unpaid claim.

Shop repair costs. If a repair will cost only a few hundred dollars more than your deductible, make the repair -- and don't get the insurance company involved.

Be your own advocate if you do file a claim: Take pictures, save receipts, document your contacts with your insurer and get your own estimates from contractors.

When you're buying a home

Ask about previous claims, damages and repairs. Ask to see any receipts for water-related damage.

Get a look at the CLUE report before you buy. Only owners -- and insurance agents -- can pull a report, so ask the seller or your agent.

Allow extra time. If you're in an especially tough market, such as California, Florida or Texas, you may need to get extra inspections -- for mold, perhaps -- or have to make repairs before you can get a policy.

When you're selling

Buy your own CLUE report. If innocent inquiries show up as claims, get the error fixed -- or buyers may pass by your "tainted" house. A CLUE report will cost you $12.95.

Make good repairs -- and keep receipts. Smart buyers and their home inspectors will be on the lookout for water problems.

Disclose problems. Many states require sellers to go through a long checklist of problems. Failing to disclose a water problem, for example, could land you a lawsuit from a disgruntled buyer who's forced to pay oversize insurance premiums.

When there's a dispute over a claim

Complain to your state regulator. Some states are more effective than others in resolving consumer complaints, but this is probably the best way to get an insurer's attention on a claim of less than $10,000 or so.

Hire an advocate. Hiring a public adjuster puts a pro on your side in interpreting the policy, estimating damages and negotiating a fair settlement. You'll probably pay 10% to 12% of the amount recovered. Make sure the adjuster is licensed with your state's insurance department. Referrals are available from the National Association of Public Insurance Adjusters.

Go to appraisal. Insurance policies usually include a clause that allows either you or the insurer to request "appraisal," which is an arbitration-like forum to resolve disputes over the amount of a loss. Each party chooses an appraiser, and the appraisers in turn agree on an umpire to hear the case and make a binding decision on the settlement.

Hire a lawyer. Egregious cases may warrant a lawsuit against the insurer. Lawyers usually take such cases on contingency and keep about one-third of any settlement. Be sure to seek out a trial lawyer who specializes in insurance cases.