Is Your Home Covered for a Total Loss?

Part of the “Survivors Speak” Tip Series

Are you protected from the total loss of your home in a fire? When you bought your homeowner’s fire insurance policy, was your coverage based upon the local building costs at that time, or was it based upon something completely irrelevant, like the size of the mortgage, or the purchase price, or the assessed value of your home?

Did you tell your agent how much coverage to sell you based upon your knowledge of building costs, or did you ask him or her to make sure you were covered for replacing the house in the event of a total loss?

Did you do the math yourself, or did you leave that to the “expert,” your agent?

Here’s a simple way to test the protection you have entrusted to your insurer:

1. Get at least one estimate for current new construction per square foot building costs from a trusted local active contractor. Most likely they’ll give you a range. Ask them to narrow it down to your home’s size and type.
2. Determine the total square feet of your home. Not just living space – the entire structure. This is extremely important, as some insurers will create an underinsurance problem by insuring a dwelling smaller than the one in which you live.
3. Now, do your own math: Multiply your total square feet by the estimated construction cost.
4. Next, compare the product of this computation with the dwelling coverage limit that’s in your insurance policy. That will be your “Coverage A” in most policies. If you have a significant discrepancy between these two figures, you can expect a serious problem from your insurer in the event of a total or partial loss.

Complete trust in your agent will not help you if this happens. Agents and insurers are protected under current state law for failing to set limits accurately. A court may hold you, the policyholder, responsible for setting your own policy limits unless you can prove through clear and convincing evidence that your agent or insurer made specific statements that led you to believe they had calculated and set your replacement cost coverage accurately and fully.

5. Then, visit your insurance agent and share the information about your computation. Politely remind him/her that you want insurance that will be adequate to rebuild your entire home, should it become necessary. If they refuse to adjust your limits or give you written assurance that your limits are adequate, find another agent or insurer.
6. If you want to keep your agent and he/she will not budge on increasing your insurance coverage, you should document the time, date, and details of your request and his or her refusal in a letter to your state's department of insurance. If your agent and his home office get carbon copies of your letter, the matter may be settled without further complication. Otherwise, you may ask for your insurance department's help.
7. Review all of your policies annually with your agent and stay involved in making sure your policy limits are adequate.

California laws on who is responsible for setting insurance policy limits do not currently reflect the real world. In the real world, insurers and agents set limits by applying computer formulas. Advertising and promises made by insurers and agents lead property owners to rely on them to set those limits correctly. In the real world property owners have no involvement in setting limits other than answering simple questions about the characteristics of their home. But our laws currently say that the property owner is responsible for setting those limits, unless the property owner can produce evidence of specific representations that were made by the agent or insurer. The problem for most people is they can't remember what was specifically said and they can't prove it. So battles between underinsured property owners and insurance companies rage after every disaster. Winners and losers are often hidden in confidential settlements.

California law needs to change so that it reflects reality. Insurance companies have the expertise and knowledge of current building costs and are much better able to set limits than the average homeowner. But they and agents like the protection they get under current law. This protection allows them to be sloppy and wrong with impunity, collect hefty premiums and sell one thing and deliver another. Property owners need to lobby their elected representatives and support United Policyholders' efforts to change the law.

We hope you find these measures helpful for protection against catastrophic loss by fire and your insurer.

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The above was written by Dave and Lynn Wilder and donated to United Policyholders. It has been edited by UP staff and is intended for general educational use. The Wilders are Slide Fire (October 2007) survivors who found themselves unexpectedly underinsured by State Farm Insurance. The resulting battle made it so much harder for the Wilders to recover from the devastating loss of their home. Their goal in sharing the above information is to help others avoid this plight in the future.