

Survivors Speak: Reforming Homeowners Insurance

A Survivor Speaks on Insurance Reform:

When you buy insurance, you're entering into a business contract. Unfortunately, the contract is made first, then negotiations comes later but only after something bad has happened and a claim is open. This sequence is backwards.

1. There needs to be transparency in insurance contracts. Elements should include:

- a) An explanation of important but unfamiliar terms such as: "Actual Cash Value", "Depreciation", "Building Code/Upgrade Compliance" and "endorsement".
- b) Misleading and counter-intuitive descriptors should not be allowed. Our new 'Builder's Risk' policy states that it is a 'guaranteed replacement' policy. But the policy contract does not provide the coverage the statement implies.
- c) A series of statements in non-legal language that list what the policy does and does not do, with each statement explained by the insurance agent and initialed by the consumer that he /she has understood.

2. There needs to be consequences for insurance agents and companies that misrepresent how much and when a policy will pay.

- a) Current law is not fair because it allows agents and insurers to tell people they're adequately protected but avoid responsibility if it turns out after a disaster that they're not. Pressures to increase market share are such that insurance companies want to keep premiums low. And while a consumer should be able to choose the coverage he or she wants and pay the corresponding premium, the consumer has a right to know whether they're fully insured or not. An adequate policy does not cost that much more than one that is inadequate. Agents and the companies they represent need to suffer

substantial financial consequences if they sell policies that are inadequate.

3. There should be special rules to expedite and simplify the payment of benefits after total losses

b) In the event of a total loss, the policy (dwelling and personal property) should be paid in full, within some defined time frame (e.g., two weeks). [It is clear to me, after months of wrangling with our insurance company, that the policies and estimation tools are fundamentally geared to partial losses.]

c) Eliminate the policy of insurance companies paying a depreciated value for the dwelling and personal property. The policy should be paid in full. Premiums can be structured to allow this.

As I learned from a visit to the Colorado Interim Insurance Commissioner (DORA), insurance companies consider the depreciation schedules to be 'proprietary'. My own experience is that the schedules are arbitrary. We created our own depreciation schedule based on utility and quality, not age. However, when items were depreciated by some other schedule by the insurance company, the most common formula seemed to be age x 10%, which is absurd. If insurance companies insist on using a depreciation schedule of some sort, it needs to be available and justified based on expert opinion.

4. Discipline needs to be imposed on insurance companies with respect to communications.

Until we hired a lawyer to help us in our transactions with our insurance company, the only way that we could communicate with our adjuster was via postal mail to a PO Box. The insurer seemed unable to allow e-mail, phone calls, the use of flash drives or CDs. The only purpose for such behavior is to make it difficult for the insured to establish a paper trail with the receipt of documents noted.

5. State Insurance Regulatory Agencies need more teeth.

I felt that the Office of the Insurance Commissioner was acting as an apologist for the insurance companies rather than actively championing the cause of the insured. Insurance companies are multi-billion-dollar businesses that infuse huge amounts of money into state governments to create an insurance-friendly environment. Colorado is considered to be heavily insurance company friendly. We, the consumer, need protection.

6. In the case of large-scale losses, insurance companies need to demonstrate that their home repair and replacement estimating tools are valid and accurate for local conditions.

Consumers need the option readily available to them to have an independent contractor (agreed upon by both parties) provide a cost estimate for rebuilding the house. After months of wrangling over Xactimate we finally were able to get the insurer to provide an estimate from an independent contractor, whose estimate was roughly twice that of the Xactimate estimate and actually represented the cost for rebuilding in our local area, as we have found out. Why should that have taken four months of agony on our part to get to that point? The onus should be on the insurance companies to demonstrate that their tools are adequate, not the consumer who is in a state of emotional trauma.

7. Getting a fair claim settlement after a total loss should not be a second disaster...

The emotional trauma we suffered through our interactions with our insurance company was at least as bad as losing everything that we owned. Buying insurance is a business transaction: it needs to be transparent, and fair, and the consumer needs greater protection from the insurance companies.

This Survivors Speak was written by Bruce Honeyman of Boulder, Colorado. Mr. Honeyman lost his home in the Fourmile Canyon Wildfire in September 2010.