

To Claim or Not To Claim...That is the question

The following are the views of Independent Insurance Agent David Shaffer, Owner, David Shaffer Insurance Services, Walnut Creek, CA. Mr. Shaffer was part of the working group that led to the establishment of United Policyholders in 1991:

UP: What rule of thumb can you offer for deciding when and when not to file a claim under a homeowner's policy?

Shaffer: In an ideal world, my advice would be that every time an insured event under your home insurance policy occurs, you should be able to simply turn it in. Unfortunately, over the years I have heard an earful from my clients who have faced having their home insurance coverage canceled due to claim activity.

For many years I have talked with insurance company underwriters and I have been told that their studies show that the typical homeowner has one claim every ten years. The underwriters tell me they like best those policyholders who meet this criteria and from my experience, I would say this is true. What is also true, and this is the part consumers don't appreciate, is that underwriters frown upon those policyholders who make more than one claim every ten years.

The fundamental problem here is the consumer expectation that each year he or she pays for the insurance, covered claims should simply be paid. This expectation clashes with the underwriters' position that they prefer to keep insuring those who make the fewest claims.

Here is how I believe consumers should decide when or when not to file a claim.

First, consumers must immediately wake up to the fact that for now, and until legislation or voluntary action changes things, we should simply "not claim the small stuff".

Second, take the biggest deductible amount you can afford. I represent companies that offer home insurance deductibles from \$500 to \$25,000. I have been recommending to my clients that small stuff is at least \$5,000 or below and they should therefore consider this as the minimum deductible to carry. On a high-end policy, this typically saves \$1,500 a year compared to a \$500 deductible.

For many, these huge savings are not possible. I know of several large insurers who only offer up to a \$1,000 deductible option. Everyone should call their agent and find out what is the maximum deductible they can get. Check with an independent agent if your current carrier can't offer you the deductible you desire. My message is that consumers need to proactively prevent small losses from happening since they are going to cover them if they do occur, pocket the savings over all of the years they will own a home, and truly view one's home insurance policy as a consumer product to cover major losses.

Can you tell your customers how their premiums will be impacted if they file a claim?

Basically one of two things will happen. First, your home insurance premiums may more than double after filing claims. From research I've learned that it appears the Department of Insurance has approved rate filings that will allow an insurance company to surcharge your home insurance for filing claims. In some ways this is a good thing. It allows an insurance company to keep renewing your policy instead of getting dropped and ending up with an inferior product at a higher cost for a few years.

The other way your premiums will be impacted if you get canceled for filing claims is that you will need to find someone willing to offer you insurance with your particular claims history. When this happens you can expect to pay a lot more in premiums and other fees, be insured by a carrier in the Surplus Lines Market, and have an insurance product that protects your home but may not be fully adequate to pay all your costs of rebuilding following a catastrophic loss.

Here's a scenario: My babysitter lets the bath overflow and the water damages our bathroom floor and dining room ceiling below. A contractor estimates the damage at \$5,000. My deductible is \$1,000. I filed a storm damage claim a little less than three years ago for a hole in my roof made by a tree branch and a theft claim last year for \$6,000. Should I file a claim for the floor and ceiling or pay for the repairs myself?

Based upon my advice above, that consumers should "not claim" the small stuff the answer is do not make this claim. More than likely this third claim will either result in a huge rate increase for several years that will be higher than the \$4,000 net received or the policy will be canceled upon the next renewal date and will be followed by higher premiums in the Surplus Lines Market for inferior coverage. This consumer also needs to shop for a company that offers deductibles above \$1,000 if their current carrier does not.

Are companies using CLUE (Comprehensive Loss Underwriting Exchange) auto applications/renewals as well as homeowners?

Yes. Insurance companies want to know as much as possible about you in order to determine the likelihood you will file a claim. CLUE is basically a huge database of every claim ever filed by you and everyone else and is one of many tools used by insurance companies to evaluate your insurability.

Is the increased use of CLUE by insurers causing problems for your customers?

Not unless they told me no claims could be recalled and the CLUE report revealed otherwise. Most admitted insurers would not accept you as a new applicant if you have been non-renewed due to claim activity. However, an insurance marketplace does exist, the Surplus Lines Market, which will provide insurance to many consumers who have been canceled due to claim activity.

When a company gets a clean CLUE report back on a new applicant it can actually help getting coverage placed with a great company at great rates.

Do the claims of a previous owner of a home count against you even if they weren't water related?

They can count against you if they have not been remedied. It may be an indication your home is likely to have more than one claim every ten years. It would also be prudent to find out why this house is having these problems before you buy it.

Do you think insurers are deliberately creating a climate where people are afraid to use their product?

This climate was created a long time ago and continues to this very day. **I have never understood why insurance companies have created this "climate."** I am glad it has the attention of our current insurance commissioner and I hope our legislature. Consumers need to get really organized around these issues. They also need to change their fundamental expectations about how their home insurance policy is to be used.

I think there are real simple solutions. First, companies should simply come out and explain what actions will be taken against you for filing claims against a policy at the time you are thinking about buying a policy from that company and upon each renewal. Maybe those that claim more than once every ten years should be paying a lot more than the rest of us who rarely make claims. Second, I am sure insurance companies can find a way to offer more alternatives for "higher risk" policyholders and make money at it. Finally, I think the policies are too broad given the current climate. If we can't turn in claims for the small stuff for fear of being canceled or getting huge rate increases, why not take out all the coverage built in for the small stuff such as \$1,000 for coins, \$2,500 for jewelry, \$500 for Food Spoilage, etc? With this coverage eliminated, the premiums should be lower. In addition, the policy should have a minimum deductible of \$10,000. This "catastrophic" policy should in theory, end up

costing a fraction of what many of us now pay. If home insurance policies should only be used for catastrophes, they need to be redesigned with this in mind and be priced accordingly.

Consumers are paying for insurance, why can't they use it without losing it?

You can use it only once about every ten years. In fact, I can't recall any insurance company I have worked with over the past twenty years that has canceled a home insurance policy for just one claim.

Unfortunately for years, there seems to have been an unwritten policy of canceling accounts with claim activity greater than one within a certain period of time. I wish the insurance companies would address this issue in a positive way without the need for any legislation in order to change this policy in a positive way for both carriers and consumers.

But haven't premiums increased correspondingly to the increased coverage?

Yes and no. Premiums for the top of the line policies have increased but they also offer great insurance coverage for homeowners. Too often the focus is on "home insurance premiums have gone up dramatically" and no attention is being given to what a consumer is getting for those premiums being paid. Even with higher rates and higher deductibles, it is money well spent for what is given in return if you have the right policy in place.

In contrast, there are a number of companies that have had dramatic rate increases in the last few years with reduction in policy benefits. These carriers have eliminated their guaranteed replacement policies, added other restrictive language to their policies and have raised their rates while reducing total benefits paid.

How do insurers set their customers' policy limits?

Insurers use a variety of tools to set the amount of insurance on the dwelling. For very large and expensive homes, these tools include actual appraisers who are sent to your home by the insurance company to determine its replacement value.

For homes valued at insurance purposes at \$500,000 or below, typically agents are given software to use which is different for every insurance company selling home insurance. There is hardly any training on how to use the software properly but it must be used to calculate the maximum amount to insure the home. The agent asks the homeowner a series of questions, enters all the answers, and hits the calculate key. The software program ends up giving you a printout of how much the home should be insured for.

Once the value of the dwelling is determined, typically the rest of the coverage is based upon a percentage of the dwelling amount and is additional coverage. Companies use 10-20% for other structures, from 25% to 100% for personal property and up to 30% for additional living expenses. There are all kinds of variations and some policies can be fine tuned more than others.

Everyone I have ever sold home insurance to has always told me they wanted to be fully covered. I can't understand why the insurance industry hasn't figured out a way to solve the problem of underinsurance.

Most homeowners need to pull out their policies and carefully review their current dwelling and other coverage limits, understand how they were determined, and change them if they are not adequate.