To Claim or Not To Claim…That is the question – by Larry Tencer

The phrase “use it and lose it” has been coined to describe a bad trend in the insurance world. It means if you use your insurance you will lose your insurance, or… file a claim and your rates will increase or your policy will be non-renewed. The causes of “use it and lose it” have been discussed in prior issues of What’s UP **http://www.unitedpolicyholders.org/newsletters/spring_03.html#hiUpdate**.

For most consumers, the phrase is more hype than reality, but the problem has been serious enough to require action by some state regulators and legislators, most notably. A new California law requires insurers who non-renew policyholders to disclose their reasons and invite a response (See “CA Enacts New Ins. Protections” page 6). CA Insurance Commissioner John Garamendi issued emergency regulations barring insurers from using improper criteria to nonrenew customers. Insurers sued the Commissioner to keep the regulations from taking effect and won, so the Commissioner revised and reissued them and they’re currently pending.

In this article UP will offer the perspective of Larry Tencer, a 29 year Farmers agent in Petaluma, CA and member and one of the Board of Directors of the United Farmers Agents Association, on factors to weigh when making the financial decision whether or not to file an insurance claim. The following is for educational purposes only and is not intended as legal advice:

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

> **TENCER:** First look at your deductible.If the total claim is less than twice your deductible, consider paying it yourself. That assumes your company charges for claims. Call your agent and ask a “what if” question. As an example you could call your agent and ask “If I have a fence or water damage claim, how would that affect my rates?” If you don’t have an agent you can try calling the company’s customer service line or claim center, but that can often

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lead to problems. I have heard horror stories of people that call their 24-hour claim centers just to ask about a possible claim and that inquiry can end up appearing on their record as a claim. That's why having an agent that you can talk to is so important today.

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

TENCER: Definitely. If an agent has the company rating software he or she can plug in information and tell the customer what will happen to their rates if they submit a claim.

UP: 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?

TENCER: Here are the considerations. If you file that third claim the vast majority of companies will non-renew you and you will have difficulty finding replacement coverage, even at a much higher premium. I'm sure there are a few companies like Farmers, that will continue your policy, and just keep increasing your premiums as the number of claims increase, at least up to four, our current limit. As an example, take a 15 year old home insured for $250,000 in Petaluma with no losses and a $1000 deductible. That premium could range from $670 to $780 a year depending on available discounts. Let's use the $780 premium and look at what it would increase to with one, two, three or four losses in a three-year period. With the first claim it increases to $1160, and after the second it goes to $1330, after the third, $2300 and if there are four it jumps to $2850. I'm sure your readers can do the math. Most of your main street companies will not write a homeowner who has been canceled, non-renewed or is coming to them with one loss. While replacement coverage can be found the cost will undoubtedly be several times higher, probably require a $2500 or $5000 deductible and in some cases may only be offered by a nonadmitted company—a

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company not licensed or regulated by the Dept. of Ins.

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

TENCER: Not on renewals but definitely on new business. Almost all the majors are. Some of the smaller players may instead require you to write a letter to your former insurance company asking them to release your claim history.

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

TENCER: As mentioned earlier, the most common problem now is that most insurers won't accept new business applications if there were claims on the property within the past three years, even claims by a previous property owner.

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

TENCER: Yes. Most companies don't want to deal with it and don't care about the circumstances. I'm not saying it's right. Farmers will insure the home you are buying even if the property owner had a claim, but we'll surcharge you for that loss.

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

TENCER: I think insurers are trying to figure out how to make a return on their investment. If you're not collecting enough premium to cover your losses you won't stay in business long. Ever since the stock market tanked a couple of years ago, the insurance companies' haven't

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had the financial gains they previously enjoyed and used to offset their underwriting losses.

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

TENCER: Insurance is indemnity – it's supposed to put you back to where you were. Today, especially with property policies, everything is done on a replacement cost basis. They provide benefits that weren't originally contemplated. It used to be everything was ACV (Actual Cash Value), now its replacement cost, so instead of getting the value of a 10 year old sofa, you now get a new one which may be several time more expensive than what your originally paid.

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

TENCER: I doubt you would find that to be the case.

UP: How do insurers set their customers' policy limits?

TENCER: Almost all insurers use some type of property Replacement Cost Estimator, generally computerized, that calculates what the minimum cost would be to replace your home. The Estimator considers such factors as the number stories, bedrooms, baths, fireplaces, size and type of garage, the type of roof, year built, etc. In addition, the Estimator factors in your zip code to adjust for the difference in labor and material costs between rural, suburban and metropolitan areas.

UP: Is there currently a "crisis" inhomeowners insurance?

TENCER: Because of CLUE, it is certainly more difficult today than it was a few years ago to

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get property insurance. This is especially true if CLUE turns anything up or you are buying a 30 year or older home and can't tell when certain systems, such as the heating, plumbing or electrical, have been updated. No, coverage is available, its just far more involved then it was in past years. Let me close with what I think your readers should keep in mind about insurance, forgetting all the catchy advertising slogans they hear. First you can't trade dollars with your insurance company and expect them to keep you. Secondly, insurance was developed to help offset the losses that individuals or businesses couldn't afford to pay themselves.

UP thanks Larry Tencer for providing the above answers. ***The Larry Tencer Insurance Agency*** *has been serving Sonoma and Marin County customers for over 29 years,* ***www.tencerinsurance.com.***

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