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# CNBC Business Nation: Are you insured?

MSNBC

Homeowners battle insurance companies over loss claims

After the devastation of the California wildfires last October and record damage from hurricane Katrina, you'd think the homeowners insurance industry would be struggling. But you'd be wrong.
Insurance companies are reeling in record profits — making more money than at any time in their history. Insurers say they're just having a few good years, but critics say the companies are charging more for premiums and cutting back on coverage and that's leaving some homeowners in the lurch.
Attorney Karen Reimus tried to outrace the wildfire that devastated her San Diego neighborhood in 2003.
"As we approached and started heading into the San Diego area, you could just see a gray fire cloud a gray ash debris cloud that was unlike anything I had seen ever," she said.
But Reimus got there too late.
"It looked like a nuclear bomb had gone off," she said. "It's what I would fathom Armageddon would look like. Because it was just every home completely down to the ground and just black and sooty and there's smoke in the air … And it looked like maybe you were walking into hell."
But Reimus says a different sort of hell soon followed: dealing with her insurance company. Even though she thought her brand new house was fully insured, the company's offer of what it would actually pay for — called the "scope of loss" — left her stunned.
"There were things that were missing," said Reimus. "Like one thing we noticed was there were no architect fees, and I'm like "call me crazy, but I think we might need a set of blue prints to build a house."
It was clearly obvious to you that this scope of loss — this list — was not reality.
"It was a low-ball scope and it was a low-ball offer," she said. "And that's when my husband and I looked at each other and we said, 'Clearly this is where the gloves are coming off.'"
Reimus went head-to-head with Liberty Mutual, her insurance company. The two came to an undisclosed settlement, and Liberty Mutual wouldn't comment on the case.
CNBC: "These insurance companies are businesses. They're in to make a profit. You would expect them to negotiate a little bit." Reimus: "I'm going to have to beg to disagree with you there. I don't think

there's negotiation over policy coverage that I paid for. I paid that coverage. They were very happy to take the check."

Insurance companies want you to see them as friendly neighbors, there to protect you and to help you in your time of need. But more and more homeowners are finding themselves doing battle with their "friendly" insurance company to get the money they say they're due.

"Things have changed in the past, I would say three to five years, a great deal in the insurance industry," said Joanne Katzman, who has worked in the insurance industry for more than 20 years.

"In some cases, they'll offer such a low-ball figure that you cannot repair the job adequately for what they're offering you," she said. "And that's just wrong."

Katzman now works as a public adjuster — someone who represents the homeowner after a loss. She says insurance companies routinely use the computer programs — which are supposed to calculate replacement costs — to low-ball clients instead.

"They price contents, structure, cleaning, whatever you may need for a house you can get out of this program," she said. "However, you can override any pricing program. I'll get estimates from various companies where for paint or drywall, the prices will be a nickel or a dime off. And that may not sound like much. But when you're looking at, you know the square footage of a room, that adds up very quickly."

"It's [a] competitive industry and obviously, if you collect a premium and don't pay claims, you make more money," said Sandy Praeger, president of the National Association of Insurance Commissioners, and the state insurance commissioner in Kansas. "And that's pretty simple math."

Praeger agreed to meet us in Greensburg, Kan. The town of 1,500 was wiped out by a tornado last year, and became a symbol, for critics, of the problems with homeowners insurance.

"Most of the companies in Greensburg paid policy limits," said Praeger. "But if there's an opportunity for any kind of an adjustment to benefit the company, I think they will try that first."

That's exactly what they did with John Stoltenberg, who rode out the tornado in his neighbor's basement and then emerged into disaster.

CNBC: "What did you see?"

Stoltenberg: "Just a lot of chaos. People walking around with a blank stare on their face. And then the farther into town I got, I would have to literally stop and look where I could get some sort of direction because all the landmarks were gone."

CNBC: "How badly was your house damaged?"

Stoltenberg: "It was going to take a whole new roof. All new siding. Some of the walls were not square anymore. You could tell the foundation had shifted. It sat on a concrete foundation. The blocks were

cracked.
His insurer offered him just $22,000.
"I'm not a contractor, but I kind of have an idea what building materials cost," said Stoltenberg. "And $22,000 would just cover the cosmetic damage."
Stoltenberg contacted commissioner Praeger, who got the company to pay $80,000 — the full value of his policy. She says she's been getting so many complaints about homeowners insurance lately, she's had to add staff.
"We had an issue here in Greensburg with one of our companies saying that if you have one wall standing, that they didn't have to pay policy limits," said Praeger. "That you would rebuild around that one wall. We did not allow them to use that kind of argument."
CNBC: "Is there something inherently wrong here?"
Praeger: "Well, I think what we see more and more of is companies trying to avoid risk and maximize profits. And they're in the business to make a profit, so there's nothing criminally wrong with that. But I wish we could get back to a philosophy of insurance being managing risk and not just trying to avoid risk."
To understand why the industry changed, you need to look back to 1992. That's when hurricane Andrew slammed into south Florida, and completely shook up the industry. Insurance companies lost $12 billion that year, and they couldn't afford to let that happen again.
So they hired consultants, bought reinsurance to cover their own losses and they began cracking down on their own customers.
"Some things they're doing are legitimate, they're buying more reinsurance," said Robert Hunter, insurance director for the Consumer Federation of America. "But some of them are not so legitimate."
Hunter has worked in the insurance industry for more than 40 years — as an adjuster, Texas state insurance commissioner and administrator of the Federal Insurance Agency.
"There are hidden deductibles that relate to wind that are now different than the deductible you negotiated," said Hunter. "They have caps on replacement costs. Then there are other limits where payments won't be made. For example they're exclusions now on mold … they used to cover if you had to do something to meet building code because of the damage. They've excluded that now."
And, he says, they came up with an exclusion known as "anti-concurrent causation."
CNBC: "Anti-concurrent causation? What is that?"
Hunter: "Sounds pretty awful doesn't it? And it is. It says if two events happen, and one is covered in your policy and the other is not, and they happen about the same time. It doesn't matter which one happens first we don't cover either."

Hunter says the clause is being abused by insurers.
"The big example is hurricane Katrina where you had wind and flood," he said. "And so the wind battered houses, roofs flew off and so forth. Then along came the storm surge and wiped out the rest of the house. People got nothing because [of the] the flood if it wasn't covered."
Hunter estimates as many as half of American homeowners don't have adequate insurance. And while the industry says that's usually the fault of homeowners not keeping their policies up to date. That doesn't explain the case of Karen Reimus. Not only did the company refuse to pay her policy limit, but it turned out the limit itself was too low.
"We had a brand new policy," she said. "And not only did we have extended replacement, we bought the earthquake rider. I mean, we did everything we possibly could to be properly insured."
CNBC: "So when the insurance industry says that his whole issue of under insurance is really the insured's fault, what does your experience tell you about that?"
Reimus: "I didn't pick the number on the policy, they did. They used their cost valuation software, their program, and they came up with a number. You know, when I go to the dentist I don't say 'Oh are you sure that's a cavity?' I went to an insurance professional … I thought, 'Okay, they know what they're doing.'"
The insurance industry's changing strategy is paying off. In 1992, the year of hurricane Andrew, for every dollar the companies took in in premiums, they paid out $1.27 to settle claims. By 2005, the year of Katrina, they got that number down to less than 72 cents.
In fact, according to AM Best, the authoritative source on insurance data, homeowners insurance has been a consistent moneymaker since 2003. In fact, its earned record profits in 2006 and 2007. And some insurance companies leave little doubt about how they did it.
The nation's largest insurer, Allstate, wrote to investors last year that its strategy includes "removing wind coverage from certain policies," "changes in rates, deductibles and coverage" … even "discontinuing coverage" for some types of homes.
Chubb insurance credited "contract wording changes related to mold coverage," and other "loss remediation measures" for its rising profits.
"Insurers can be very proud of their performance, both in the wake of major disasters across the country, whether it's hurricane Katrina or the California wildfires or on any given day of the week," said Robert Hartwig, president of the Insurance Information Institute, which speaks for the industry.
CNBC: "To what extent are the profits coming at the expense of policyholders and their coverage?"
Hartwig: "There's no inconsistency between the profits insurers are generating and the level of coverage and service that customers are getting."

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CNBC: “One of the things that we’ve heard a lot about and that regulators and others tell us is becoming more prevalent, is what they call low balling, where people will file a claim. The scope of loss comes back. And there are things that are missing. … Is low balling a problem?” Hartwig: “There is no such thing as low balling in the homeowners insurance industry.”
CNBC: “No such thing?”
Hartwig: “That’s right.”
And about all those exclusions: Hartwig claims that where insurance companies have cut coverage, it has been for the homeowner’s benefit.
“Generally speaking, the homeowners insurance policy has remained relatively unchanged,” said Hartwig. “But if you have a homeowners insurance policy that begins to provide coverage for types of losses which were never intended, you ultimately wind up with a premium that is unaffordable to many Americans.”
That kind of coverage is also unaffordable for insurance companies to offer and still maintain those record profits. But Hartwig says these good years are necessary to pay for the bad ones.
“It is in the consumer’s best interest to have an insurance industry that’s profitable, financially secure, sound and stable,” he said.
Still, Hartwig says the industry has built up $100 billion in excess capital — well beyond what it needs to cover losses.
“The insurance industry has built up capital,” he said. “And so what insurers are doing is returning that capital to shareholders.”
In other words, rather than using that money to beef up coverage, insurers are using the vast majority of it to buy back their own stock.
CNBC: “That doesn’t sound like an industry that’s saving up for a rainy day.”
Hartwig: “Well, in fact, the industry has done that. The industry has had reasonably good levels of profitability in 2006 and 2007.”
Hartwig says the vast majority of homeowners are satisfied. But nearly five years after the 2003 wildfires in California, nearly 100 complaints are still unresolved. And Karen Reimus is holding insurance seminars for victims of the most recent wildfires.
“The whole thing with these 2007 firestorm issues, it’s just a flashback,” said Reimus.
I mean it’s almost like reliving what happened in 2003. I’ve been in contact with a lot of 2007 firestorm survivors through my volunteer work. I mean, a lot. And the underinsurance is rampant. It’s the same stuff.”
And with the industry warning about pressure on profits as the economy slows, Reimus hopes that

doesn't mean more pressure on homeowners.
"Our house had just burned to the ground and anything and everything we ever had was gone," she said. "They use advertisements that said if something bad happens, they're going to put me back. And I paid good money for that coverage. I shouldn't have had to fight that hard. And I shouldn't have had to fight at all."