Consumer advocates raise the roof over Allstate’s new home insurance rule

Some homeowners soon may see their insurance-related costs go through the roof.
Eventually, Allstate customers with roofs more than 10 years old won’t have the full cost of new roofs covered under their home insurance policies. Allstate’s House & Home program will pay the “actual cash value” of a roof that needs to be replaced if it’s older than 10 years. Bottom line: Homeowners will foot the bill for expenses beyond the claim payout for an older damaged roof whose value has been depreciated.
The program was launched in Oklahoma in October. Allstate plans to gradually expand it nationwide over the next three years, spokesman Kevin Smith says.
‘Strong correlation’ between auto and home
Another new wrinkle in Allstate’s home insurance coverage: Your driving record will be used to set your home insurance rates. A good driving record may mean a price break on your home insurance, while a bad driving record may penalize you financially.
Smith says Allstate has found “a strong correlation between auto loss history and the likelihood of covered homeowner’s losses. Allstate’s new homeowner’s product recognizes this correlation and rewards customers who have good auto loss histories with lower homeowner rates.”
Making that type of correlation wrongly pins blame on policyholders, says Birny Birnbaum, executive director of the nonprofit Center for Economic Justice. “Insurance is about spreading risk. Insurance isn’t about finding a different rate for different customers,” Birnbaum says.
Turning a profit
In a conference call with Wall Street analysts Feb. 2, Allstate CEO Thomas Wilson said the company’s new way of dealing with roof losses will help it be profitable. A roof is one of the costliest items for a home insurer to replace.
“Some people just don’t get their … roofs fixed, and then a hailstorm comes and we replace a $20,000 roof when we’re getting $1,000 from the customer, and it’s obviously not a good trade,” Wilson said.
“And so if the roof is 1 year old, it might have no damage to it, and $900 is the right price,” said Wilson,

referring to a homeowner's annual premium. "If the roof is 20 years old, then maybe we should be charging $2,000 or $3,000."

'One more penalty'

Birnbaum contends that Allstate's approach to policyholders' roofs represents "one more penalty for consumers who are low-income consumers." For instance, he says, a low-income policyholder may be forced to make inferior repairs to a damaged roof that's more than 10 years old — and the roof may need even more expensive attention down the road.

Amy Bach, executive director of United Policyholders, a nonprofit group that helps insurance consumers, complains that when an insurer fails to pay for repair of a roof that clearly falls under the coverage umbrella, the company isn't upholding its end of the bargain. "People have gotten used to and people expect replacement cost coverage for their property," she says.

A standard home insurance policy covers roof damage from natural disasters like hailstorms, tornadoes and fires. It doesn't, however, pay for fixing an aging roof that merely needs to be shored up.

The value of a roof depreciates with age, but an insurer that pays actual cash value which takes age into account) instead of the full replacement cost is being quite subjective, Bach says. One roofer could say a roof has 10 years of useful life left, for example, while another says it needs to replaced.

An Allstate spokesman declines to offer details about House & Home. The spokesman does say that the program offers "new discounts, more coverage and deductible options, and a simplified quoting process."

A similar approach

Another home insurer, American Family Insurance, takes a similar approach to roof replacement. When it determines a roof is in poor condition before a policy is written, it applies an actual cash value to the policy, meaning a claim would be paid based on the depreciated value of the roof, spokesman Steve Witmer says. The actual-cash-value coverage is removed when a new roof is installed, and the more generous replacement-cost-value coverage returns, Witmer says.

Insured losses that stem "from neglected or poorly maintained roofs add considerably to the premiums consumers pay for insurance protection," Witmer says. "There's definitely a fairness component, as consumers who keep their roofs in proper condition should not be asked to subsidize those who don't."