United Policyholders
Empowering the Insured

Consumer Reports Rates Home Insurers

Consumer Reports

Homeowners buy insurance to protect against disaster. But when disaster strikes, your insurer might not live up to your expectations, especially if you have a large claim, according to our survey of 11,250 subscribers who filed claims in the past few years.

The greater the damages, the greater the likelihood that home insurers paid less than expected, our survey found. Overall, almost 10 percent of respondents reported disagreements with their insurer over the amount of a claim payment. But when damage was $25,000 or more, 19 percent disagreed with their insurer's assessment of what was due. That was more than three times the disagreement rate for claims worth less than $2,500. Among those in the higher-damage group who disputed estimates, insurers paid a median of $7,000 or 20 percent) less than the claimed loss, leaving the policyholders less satisfied.

In the past decade, "insurers have sharply hollowed out the catastrophe coverage offered to consumers," says Robert Hunter, director of insurance for the Consumer Federation of America.

They've done that by transferring the risk of damage from severe weather events to policyholders through higher deductibles on claims stemming from hurricanes, wind, and hail. Instead of the typical $250 to $1,000 deductible under standard coverage, you may have to pay 1 to 5 percent of your home's insured value up to 10 percent in Florida). So if your home is insured for $200,000 and your policy has a 3 percent deductible for hurricanes, you'll have to pay $6,000 out-of-pocket on a storm-related claim.

Many insurers have abandoned hurricane-prone areas. Brenda Smith of Miami says she was dropped by her insurer after Hurricane Andrew caused $23,000 in damages to her home in 1992. She was dropped by Liberty Mutual after Hurricane Katrina caused $16,000 in damages to a different home in 2005.

Insurers are also using contract language to avoid paying claims. For example, got hail coverage? Great. But if your roof is more than 10 or 15 years old, hail damage might be excluded. And even if you have a standard homeowners policy that covers an overflowing bathtub or burst or frozen water pipe plus flood insurance, you're still out of luck if your sump pump can't handle a monster downpour or if the sewer backs up—unless you pay $40 to $50 a year more for a specific endorsement covering that.

At the same time premiums have increased by 5 to 10 percent annually in recent years, depending on the region, and hikes of up to 12 percent are coming this year, industry sources say.

You might not even be aware of the erosion in coverage until you file a claim. The average homeowner files a claim only once every 6 years, and many policyholders don't read the disclosures, renewal contracts, and updates that insurers send them, according to Jeff Dixon, vice president of property insurance for USAA Property & Casualty.

Outdated assumptions about your coverage can cost you a bundle. Here are five guidelines for getting the right coverage to protect your home and budget:

Choose the best insurer

The test of an insurer's responsiveness to its customers is how well it handles claims. That's why we base our Ratings on our periodic surveys of thousands of homeowners who have filed claims, most recently from 2008 through early 2011. Overall, 79 percent were highly satisfied, up from 73 percent in 2008.

But some major insurers provided significantly better satisfaction than others, and that can translate into savings because the primary reason for satisfaction was the company's damage estimates. Amica, USAA, and Auto-Owners earned the highest scores on that measure see the Ratings). At the other extreme, some of the biggest names in the business scored significantly lower, including Allstate and Farmers. Lower-rated insurers tended to have a greater percentage of customers who disagreed with their damage estimates and felt their final settlement was too small.

Amica is especially notable for consistently landing at the top of our Ratings for as long as we've evaluated this service, across six surveys of more than 131,000 subscribers dating back to 1988. USAA tied Amica for the top spot in three of those studies, including the most recent one.

An important factor in Amica's appeal seems to be its mutual corporate structure: The company is owned by its policyholders and exists solely to serve their needs, unlike a publicly held insurance company, which must also serve shareholders. Claims employees at Amica are trained to make fast, accurate, and hassle-free payments, according to Michael Gillerlane, senior assistant vice president of claims.

But will you pay more for an Amica policy? Amica says its coverage is neither the lowest-priced nor the most expensive, something we confirmed when we looked at standardized premium comparisons from several states. New customers no longer need a referral from an existing Amica member to be eligible for coverage, a practice that was discontinued several years ago.

USAA focuses on the unique needs of its membership, primarily active-duty, retired, and honorably discharged U.S. military personnel and their families. Unlike many private insurers, USAA hasn't abandoned existing policyholders in coastal areas prone to hurricanes. "Military people tend to cluster around East Coast, Gulf, and Pacific naval bases, so we remain in all the areas where all the bad things can happen," says Dixon of USAA. That loyalty goes both ways; USAA's 97 percent customer-retention rate is significantly higher than the 87 percent industry average.

Fight for your claim

In most cases respondents had no argument with their claims. But in 9 percent of cases, customers and insurers failed to see eye to eye on damage amounts. Disputes are also more common after major hurricanes read "Ike vs. Katrina: How the Insurers Performed," below).

In such cases it can pay for you to try to negotiate with your insurer. Our survey found that among readers who were unhappy with a claim, those who challenged it got a payout that was about $6,000 more, on average, than those who didn't.

If the adjuster says your policy doesn't cover certain damage, ask to see the specific contract language. "Most times, that gets taken care of there," says Jeff Reinig, a Farmers executive. "If not, go up the chain of command in the company."

If the dispute is over the damage amount, request a sit-down with the contractor and adjuster to go over the estimate line by line, which is standard practice at Amica. "We adjust when we get new information," says Lisa St. Onge, assistant vice president of claims.

Still disagree? Get a second opinion from an independent contractor. Patience, persistence, and legwork getting multiple estimates are important, says Joe Kolenda, a homeowner in Spring, Texas. That's what caused State Farm to bring its original $4,000 payment up to the $27,000 necessary to repair Kolenda's hurricane-damaged house.

If you reach an impasse, consider a public adjuster, who will negotiate for you for a fee, usually 10 percent of the payout. A Florida study of 76,000 claims suggests that it's money well spent: Policyholders who used a public adjuster settled with their insurance company for 19 to 747 percent more on hurricane-related losses than those who didn't. But such cases take longer to close.

To find a public adjuster, go the website of the National Association of Public Insurance Adjusters, and click on "Find an adjuster." Look for good references, several years' experience, and a state license, if required.

If you've been misled by an insurance salesperson about policy wording, contact a lawyer who specializes in insurance law. The Consumer Federation of America notes that courts have consistently ruled in favor of policyholders on such ambiguities. Arbitration is another option.

Look for a better deal

Home insurance is not as hotly price-competitive as auto insurance, but you can still save from hundreds to more than $1,000 a year in premiums by shopping around. About 9 percent of our survey respondents had switched insurers in the previous three years, mostly because they got a better price from their new carrier. And those who switched for a better price were just as satisfied with their later claim payments as those who stayed put.

Residents of California, Florida, New Jersey, New York, Texas, and other states whose insurance departments publish rate comparisons for standardized coverage can zero in on the lowest-priced insurers, then contact them for custom quotes. If your state doesn't offer such guidance, contact an independent agent who sells insurance from multiple carriers. To find one, go to the website of the Independent Insurance Agents & Brokers of America. You can also use online shopping sites such as Insure.com, Insweb.com, and NetQuote.com.

While shopping for a cheaper insurer, consider buying your homeowners and auto coverage from the same company for as much as a 30 percent savings. And be aware that most insurers use credit-based insurance scores to set premiums and eligibility for coverage. So you'll probably pay a lower premium if you pay your debts on time and avoid maxing out your credit lines, among other behavior.

Do not underinsure

You can also save by avoiding out-of-pocket costs arising from coverage that's inadequate to begin with. Almost one in 10 of our subscribers who filed claims found themselves underinsured. That problem is much bigger when a hurricane, tornado, wildfire, or earthquake makes a home a total loss. "After every disaster we've worked, we've found that at least two-thirds of the victims were underinsured," says Amy Bach, executive director of United Policyholders, a San Francisco nonprofit that helps consumers throughout the country with their claims.

Don't make the mistake of assuming that because home prices have collapsed in recent years you can cut your coverage. Fact is, replacement value, or the cost of labor and materials required to rebuild, is what you need to consider. That's often significantly higher than the market price your home can fetch, and it rises annually, 5 percent last year alone. Consequently, 61 percent of homes in the U.S.—80 million—are underinsured, according to Marshall & Swift/Boeckh, a Los Angeles company that tracks rebuilding costs for insurers. The average shortfall: 18 percent.

Ask your insurer for a customized estimate of your home's replacement cost, which should take into account its unique features, construction details, and age as well as any costs of meeting new local building-code requirements. Or run a check on your own, for about $8, at AccuCoverage. You should review your coverage needs every few years.

Even if your coverage level is correct, a standard homeowners policy still leaves you insufficiently protected. If you want to protect against the surge in material and labor prices that often follows a natural disaster, you'll have to buy an "extended coverage" rider, which adds up to another 30 percent to your replacement-value limit. Most insurers no longer offer the "guaranteed unlimited replacement cost" coverage that we have recommended in the past.

You'll also pay extra for an ordinance or law endorsement rider to pay any extra cost of rebuilding your house incompliance with local building codes. Coverage for a sewer backup is also not included in a standard policy, but you can pay extra for it. You'll need hurricane/wind, hail, flood, and earthquake insurance if you're exposed to those risks.
Coverage for your furniture, electronics, clothing, and other belongings is standard, but if you have

expensive furs, jewelry, silverware, or artwork, they're subject to coverage limits. You'll need to purchase a special endorsement or floater to cover their full value.

Liability protection for visitors injured in your home or for damage that you, your children, or your pets cause to others is also standard. Coverage usually starts low, at $100,000; increase it to at least $300,000. The more assets you own, the more advisable it is for you to buy an umbrella or excess-liability policy with coverage of $1 million or more.

Of course, all those add-ons increase your total premium, but you can offset part of the cost by raising your deductible to $500 or $1,000, which reduces the premium. You should have sufficient savings to cover the deductible if your luck runs out—and that includes the higher deductibles for hail, wind, and hurricanes.

Reduce risks

Losses beget out-of-pocket expenses and often higher premiums. So nip them in the bud by reducing your risks:

Start by doing what insurers explicitly give discounts for. Smoke detectors, burglar alarms, and dead-bolt locks can be worth a 5 percent premium discount. A sophisticated sprinkler system with alarms that alert first responders could get you 15 to 20 percent off.

Impact- and fire-resistant roofing materials made of asphalt, rubber, cement, and metal can get you further discounts because they stand up better against hail, debris, and embers—the primary cause of damage from wildfires. Noncombustible siding provides increased protection.

In hurricane-prone areas, storm shutters for doors and windows,hurricane-resistant siding, and a code-standard roof that can withstand winds up to 130 mph will help your home withstand a storm. Fortified homes can sustain a Category 4 hurricane.
Fire, lightning, and debris removal lead to the highest claims of all insured perils—$27,700 per claim on average. Cooking equipment is the leading cause of home fires, so never leave a stove unattended and keep a fire extinguisher in the kitchen.

In earthquake-prone areas, make sure your home's building frame is properly bolted to its foundation.

For more information on reducing risks from earthquakes, freezing weather, lightning, wildfires, and more, go to the website of the Insurance Institute for Business & Home Safety.

Insurers recommend a simple fix to help prevent a minor disaster that causes an average of $5,300 in water damage if it happens when no one is home: Replace the standard rubber hoses that come with your washing machine with steel-braided reinforced hoses. The cost is about $20.

Ike vs. Katrina: How the insurers performed

Our survey data contain good news and bad news about how insurance companies manage claims in the aftermath of a destructive hurricane. You're more likely to have trouble with a claim after a disaster, but carriers did a much better job managing claims after Hurricane Ike slammed into Texas in 2008 than they did in the debris path of Hurricane Katrina in 2005 Katrina damage shown in photo).

Thirty-five percent of Ike's victims had problems with their claim compared with 27 percent of non-Ike claimants. Fourteen percent of Ike claimants said their payment the median was $7,000) was "too little" compared with 10 percent of the others). Twenty-nine percent complained about delays compared with 20 percent of the others).

Such problems stem from tens of thousands of homeowners calling for help from a limited pool of claims adjusters all at the same time. When insurers don't have enough people in-house they may call in independent adjusters, and there are only so many of them to go around.

But performance was significantly worse after Katrina raked through Florida, Louisiana, and Mississippi: 50 percent of claim filers said they had problems, twice the rate of other claimants surveyed at the same time. One in four Katrina claimants said their insurer's payment the median was $12,000) was "too little" compared with 11 percent of the others), and 55 percent said their claims were delayed compared with 19 percent of the nonhurricane norm). Overall, 73 percent of Ike claimants ended up highly satisfied with their insurance company, a significant improvement over the 51 percent of Katrina claimants who said the same thing.

But those results were probably influenced by Ike's relative weakness. Katrina was a Category 3 storm, which packs winds of 111 to 130 mph. It remains the worst hurricane of the last 110 years in terms of its $106 billion in inflation-adjusted total damages. Ike was a much less destructive Category 2, which carries lesser winds of 96 to 110 mph. It caused $28 billion in damages.