Insurance covers less this time

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Policies scaled back after Katrina
If Hurricane Gustav hits Louisiana, homeowners will discover that they have less insurance coverage than they did during Hurricanes Katrina and Rita, and they'll be reaching into their own pockets to cover damage.
In the past three years, the use of hurricane, windstorm or named-storm deductibles, which means that insurance doesn't kick in until homeowners have paid a percentage of the insured value of the home as a deductible when a storm hits, have become commonplace, and can easily add up to the cost of a new roof.
At the same time, some 20,000 homeowners and 6,500 businesses find themselves with insurance policies that don't cover wind damage at all, forcing them to buy "wind-only" policies from Louisiana Citizens Property Insurance Corp., the state-sponsored insurer of last resort.
"That's a huge difference in coverage this time for the property owner, compared with 2005, but it's the world we live in these days," said Insurance Commissioner Jim Donelon. "No question about it, that will adversely affect policyholders."
Hurricane deductibles, as they are known, help keep annual insurance premiums down by forcing homeowners to cover the first share of damage in the type of catastrophe of greatest concern to insurers. As insurance prices skyrocketed after the storm, hurricane deductibles became more common to help keep insurance costs within reach.
Before the storm, they were merely a choice for homeowners, but now they're mandatory in many cases. And what used to be a deductible option of 1 percent to 2 percent is now more commonly 2 percent to 5

percent. Meanwhile, insurers revised the insured value of people's homes after Katrina, so those deductibles are being calculated from a bigger base.

Donelon said a majority of homeowners policies in the state now carry hurricane deductibles.

The cost to homeowners can be substantial. A person with a 5 percent named storm deductible on a $300,000 home would have to pay for the first $15,000 of damage. The average payout on a Katrina claim was $15,399, according to the insurance department, so this time many people could be entirely on their own.

Bob Hunter, director of insurance at the Consumer Federation of America, said people are paying more to get less coverage, making it harder for people to recover from a disaster. "All the risk is being shifted back to the people. I don't think that's a good situation," said Hunter, who is originally from New Orleans.

The wind-only policies from Citizens are another post-Katrina development that is a raw deal for consumers.

The policies offer only actual cash value, or depreciated value coverage, instead of the replacement cost value that their insurance policies would have had before the storm, meaning that insurers discount for wear and tear on the property rather than paying the homeowner what it would cost to replace the damaged portions of the structure.

The policies also don't offer additional living expenses, or money to cover the cost of being displaced from home.

Wind-only policies at Citizens were virtually nonexistent before the storm, but they became common as companies such as Allstate, State Farm, Farm Bureau and AAA dropped wind coverage or started selling new policies without wind coverage after Katrina.

Amy Bach, executive director of United Policyholders, a California advocacy group, said that means that many people will have three policies to deal with when Gustav hits: homeowners, wind and flood.

"There is going to be more paperwork, more bureaucracy and more hoops to jump through," she said. "What we would like to see is a move in the opposite direction, with one all-perils policy so that they're not in this situation. Having to deal with different insurance companies after a disaster is a nightmare. People shouldn't have to do it."

John Wortman, chief executive of Citizens, said that the company is in the process of trying to upgrade the coverage options on wind-only policies but they've run into some computer glitches, so policyholders are out of luck for this storm.

Donelon said that the deductible issue could get better, because the Legislature passed a law this summer allowing "zoned" deductibles. Until the legislative session, insurers couldn't add mandatory deductibles to existing policies unless they were the same throughout the state. In some cases companies such as Allstate, the state's second-largest residential insurer, tacked on 5 percent hurricane deductibles all across Louisiana.

The new law lets insurers set deductibles according to a property's proximity to the coast up to a maximum of 4 percent, but to try to encourage insurers to resume selling new policies, the law also says that insurers can't avail themselves of zoned deductibles unless they start writing new policies.

So far, no insurers have taken advantage of the new terms, Donelon said, but State Farm is working on a zoned deductible plan. "I got a little pushback from the companies," Donelon said.

In the current economic climate, where homeowners are squeezed by elevated gas, food and utility bills while they're getting fewer hours at work, Bach worries that the hurricane deductibles could be especially hard on people if Gustav hits.

"There's no question that a lot of people are hurting, and covering the deductible portion of the repairs is going to be a strain to impossible for people," she said.

Lenders and insurers say they expect that many people will turn to disaster loans from the U.S. Small Business Administration to cover the hurricane deductibles if Gustav hits.

Carol Chastang, a spokeswoman for the SBA, said that while the agency looks at a homeowner's credit and ability to repay a loan, just like a bank would, the agency views the program as disaster aid and is more flexible than a private lender might be in approving a loan. Because it is a direct government loan, the program isn't subject to the same lending constraints that banks are because of the national credit crisis. If people already have a disaster loan from Katrina or Rita, they are not precluded from getting another.

"We're going to do all we can to take everything into consideration given what's occurred in the last three years," Chastang said. "This is about recovering."

But Hunter said having to get an SBA loan to gain access to insurance payments is still a bad deal for consumers. "An SBA loan is a loan. It's not like insurance," he said.