

Most homes still underinsured for hurricanes

Examiner

MSB, the leading provider of building cost data to the property insurance industry just released its findings for current estimates of homeowner insurance coverage across the United States MSB's research reveals an estimated 64 percent of U.S. homes are undervalued for the purpose of insurance by an average of 19 percent—about the same as last year. If that's the national average, many observers fear the numbers could be even higher for South Florida.

With a national recession, local high unemployment and record foreclosure rates, any insurance may seem like a luxury to many homeowners, and not just in Florida. In Galveston, Texas, where more than 17,000 homes were damaged by last year's Hurricane Ike, there are still a lot of vacant homes. The properties were underinsured or uninsured, damaged during the storm and property owners don't have the money to rebuild according to city officials in Galveston.

Another scary statistic, you could be among the majority of policy holders who have little more than a vague idea about what your policy covers and what it doesn't. The danger is that you may think you're adequately protected when you are not. Trying to figure out the right amounts of insurance coverage isn't easy. Your insurance company or agent may be surprisingly little help and may even steer you wrong. That's what happened to a lot of homeowners in New Orleans prior to Hurricane Katrina. Their agents had told them they didn't need flood insurance. Obviously, they did. Courts subsequently ruled that insurers didn't have to pay for damage caused by flooding and that helped turn New Orleans into a ghost town.

Too many homeowners mistakenly believe insurers are pushing them

to over-insure their homes. But that is generally not the case. In fact, homeowners are sometimes to blame by failing to report home improvements and renovations to their insurers. Other homeowners just assume their coverage is keeping up with inflation and replacement costs, which probably isn't true.

Florida homeowners have a state law that now requires companies to print a coverage checklist on the front of every homeowner's policy. Among other things, the list will have to show the coverage limits and the dollar amount of the hurricane deductible. It must also detail how much the policyholder would receive for living expenses and for how long if the home is destroyed.

United Policyholders, an insurance consumer advocacy group, reports that homeowners are often lulled into complacency because they have "guaranteed-replacement" or "extended-replacement" policies, which sound like they'll cover the rebuilding of a home regardless of the cost. Unfortunately, true guaranteed-replacement policies are almost extinct, and virtually all insurers cap their payouts at 100% to 150% of the amount for which the home is insured.

Use Web tools to estimate replacement costs

If you think your home could be underinsured, ask your insurance agent to evaluate your situation. If you disagree with his assessment of replacement value, you can get a second opinion online from a valuation site such as www.accucoverage.com or www.insuretovalue.net. Another site, www.homesmartreports.com provides focus not only on market value, but also the underlying trends that affect property value in both the short and long-term. These are the trends and market conditions you need to know when making your buy/sell decisions, but check it out anyway.

If you have a home with many custom features, it may be worthwhile to have a professional appraisal. Such an assessment is not for the faint of heart. Remember to separate the value of the land from replacement cost of the home, and ask the appraiser the price of his fee before requesting his services.

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It’s not just rebuilding coverage that is misleading. Many policies severely restrict how much money you’d get to replace contents and limit or even exclude some items from your policy.

If you have a policy that pays out actual cash value on your home’s contents, for example, you’d get a check for what your possessions were worth when they were destroyed, not what they would cost to replace. Ask about replacement cost coverage which typically costs some 10% to 20% more than actual-cash-value coverage.

Be on the lookout for policies that pay replacement-cost coverage for most items but make exceptions for others. Your policy might give you replacement cost for a rug, but will depreciate your carpet and give you only a fraction of the replacement cost. Bottom line: read your home insurance policy carefully so there are no surprises after the next hurricane comes calling.