New rules aim to curb homeowner underinsurance

http://www.signonsandiego.com/news/2011/jun/27/Replacement-value/

The devastating wildfires of 2007 burned twice for Janice and John Strizver.
There was the the initial, horrific loss of their Ramona home consumed by fire. And then came the slow, angry burn on realizing that their insurance payout would fall far short of the cost to rebuild.
Now a new set of state regulations, which went into effect Monday, seek to combat the problem of underinsurance by imposing a uniform standard for the way insurance companies and brokers estimate so-called “replacement value” when a homeowner decides to buy or renew a home insurance policy.
Strizver, whose insurance company paid only $360,000 of the $700,000 cost to rebuild their 3,500-square-foot home, said the reform is “absolutely needed.”
“We’d had the same insurance and the same agent for 20 years, and they assured us that we had more than enough coverage,” said Strizver. “I’m a nurse and my husband is a computer programmer, what do we know about insurance? That’s why we had an agent.
“But not until our house burned down did we discover we didn’t have enough,” said Strizver.
California Insurance Commissioner Dave Jones, who introduced the new regulations at a press conference in San Diego, said they will “go a long way toward ensuring that consumers who are victims of a disaster, such as a wildfire, are able to get the financial relief to rebuild their homes and their lives.”
Yet while the regulations are barely a day old, state regulators and insurers are already duking it out, and the insurance industry earlier this month filed a lawsuit that seeks to overturn the reforms.
Mark Sektnan, president of the Association of California Insurance Companies, said state regulators have no authority to specify how insurance companies conduct their underwriting procedures.
The rules also specify only one way to determine what replacement value on a home is, though many insurers have methodologies they consider more accurate than what the state mandates, said Sektnan.
“You can only consider certain things, and break them out certain ways, and any deviation is considered an unfair business practice,” said Sektnan. “That will have a chilling impact on the conversation between an agent and a policy holder.”

Insurance Commissioner Jones termed the insurance industry lawsuit “misguided.”

“This is another example of the industry trying to block an important consumer protection reform and hiding behind their trade associations to do it,” said Jones, referring to the lawsuit filed by the Personal Insurance Federation of California and the Association of California Insurance Companies.

Among other things, the regulations require that “replacement value” have the same meaning as “replacement cost,” and is defined as “the amount it would cost to repair, construct, rebuild or replace a damaged or destroyed structure.”

The rules establish standards for the calculation of replacement costs, including expenses to rebuild such as labor, materials, overhead and profit, demolition and debris removal, and cost of permits and architect’s plans. The rules mandate insurance valuation training for brokers, and additional bookkeeping requirements for insurance companies.

Amy Bach, executive director of United Policyholders, a nonprofit consumer watchdog group, said the reforms are “an important step in the right direction.”

“We’ve been saying for years that the law doesn’t reflect reality – everyone counts on insurance agents to set home replacement limits – that’s the way it works in real life,” said Bach. “These regulations recognize what really goes on at the point-of-sale, and makes insurance agents a little more accountable.”