

Policyholders limited in how low they can go with contents coverage

http://www.nola.com/business/index.ssf/2009/03/policyholders_limited_in_how_l.ht...

Keith Brannon has been living a minimalist's life since Hurricane Katrina.

Like many New Orleanians, Brannon dragged the entire contents of his house to the curb when his Broadmoor-Fontainebleau area home flooded and moldered in the storm. He has replaced only the bare essentials.

"We don't have that much furniture because we're still finishing up the house," he said. "We have no junk."

So when he opened his insurance renewal and discovered that he's paying for \$146,805 worth of contents coverage at his house, he called his insurance agent to reduce it.

Brannon was shocked to learn that he can't.

That's because most insurance companies require that customers maintain 50 percent to 70 percent of the insured value of their homes in contents coverage. It doesn't matter whether people need it; it's actually written into the homeowners policies that companies file with state insurance regulators.

The Insurance Information Institute says policies are set up that way to ensure that customers are adequately covered. Most people have much more stuff than they think they do, and every CD or book or jar of spices in the kitchen adds up. Policies are written as packages to streamline the writing of insurance, which lowers costs for everyone, and may include provisions to cover items that not everyone has, such as firearms.

Though the package policy may generally work out well, after a disaster

such as Katrina, Brannon suspects there are many people in the New Orleans area who are paying for more than they need in contents. Brannon said he thinks he's got less than \$50,000 worth of items in his house, which means he's paying for three times the coverage that he needs. Or put another way, his insurer is making money by charging him for items that don't exist.

"I find it ridiculous that we're paying for coverage for something that we could never get a benefit from," Brannon said. "I can understand that most people don't know the true value of things and they've accumulated things for years and years. But when you've been through an event and lost everything, you know exactly how much you have."

Ironically, even though Brannon might have more contents coverage than he needs overall, he might not have enough to cover specific items. The Insurance Information Institute says contents coverage generally comes with sublimits on specialty items such as electronics, jewelry, collectibles, furs or fine art. Most homeowners policies, for example, cover only \$2,500 of electronic equipment. If Brannon has a flat-screen TV, stereo, laptop computer, printer, camera and iPod, he wouldn't have enough coverage despite his \$146,805 policy and he'd probably need to buy more.

Calling for 'more choice'

Amy Bach, executive director of the consumer group United Policyholders, questions whether policyholders should be required to carry contents coverage equal to 50 percent to 70 percent of the home's value. She wonders whether that percentage should instead be a recommended amount, or a default amount if the homeowner fails to specify otherwise.

"More choice, more options are always better for the consumer. When things are packaged, the consumer is always paying a premium for stuff that they are never going to use," Bach said. "The insurers have set things up this way to guarantee themselves a profit margin."

Many people buy homeowners insurance because banks require them to have it as a term of the mortgage. Because contents have nothing to do with the structure of a house, Bach questions why such coverage is part of

the policy.

Insurance is different from a bundled cable bill, she said, because it's supposed to indemnify customers against loss of real items. If insurers want to charge people for coverage without proof that the items being covered actually exist, Bach thinks insurers should automatically pay the full value of the contents coverage if a house burns to the ground or is destroyed in a tornado instead of requiring itemized contents lists and receipts.

Several years ago United Policyholders tried to get the California State Assembly to pass a bill requiring insurers to pay the full value of the contents policy in the event of a total loss without an itemized list. But industry opposition was vehement and the bill failed. Bach said she thinks their unwillingness to automatically pay people the full value of their contents policy is a sign the coverage is a one-way street for insurers to make money.

"If they determined that you had that level of coverage, and everything is gone, why should you have to jump through hoops?" Bach said. "They're forcing people to pay for what they don't need."

'Unfair,' senator says

During the fiscal legislative session this spring, lawmakers are limited in how many general interest bills they can file, but Sen. Reggie Dupre, D-Montegut, would like to file a bill allowing homeowners to choose how much contents coverage they buy. In Florida, lawmakers passed a bill in 2006 allowing homeowners to skip contents coverage altogether if they choose.

"I think it behooves us to at least allow the consumer to have the option to have a lesser amount of contents coverage. National Flood works on an optional basis like that," Dupre said. "It's an unfair playing field for the consumer when it comes to contents coverage." Like Brannon, when Insurance Commissioner Jim Donelon's insurance renewal arrived at his home in Metairie, he was also surprised at how much contents coverage he had, because the amount of contents coverage automatically increases with the insured value of the house each year.

But Donelon said he believes in the premise of making sure homeowners are adequately insured by having the contents included as part of the insurance package, and he doesn't see contents as an issue worth pursuing. Buying homeowners coverage as a package is cheaper than buying a bare-bones "dwelling/fire" policy and trying to add things such as liability and contents. Rates for contents coverage are more expensive in smaller amounts, he said.

Meanwhile, as Donelon tries to recruit insurers to do business in Louisiana, he doesn't want to make that task more difficult by forcing companies to write and price policies in different ways than they would in most other states.

"I wouldn't be arguing if the companies were making buckets of money from the state of Louisiana," he said.