

Rebuilding—if you don't know, ask

Alpen Horn News

In 2011, a consumer advocacy group, United Policyholders, reported that at least 75 percent of the homeowners affected by the 2007 wildfires in San Bernardino and Riverside counties were underinsured by nearly a quarter of a million dollars.

This amazing reality came after the catastrophic fires of 2003 that destroyed approximately 3,600 underinsured homes. But they were not alone; at the time, it was estimated that at least forty percent of the homeowners in California did not have enough insurance coverage to recoup the actual costs of rebuilding after a disaster.

These facts, coupled with the realization that in recent disasters the insurers have continued to demonstrate their reluctance to settle with their clients for the full amount of the policies they held, act as “red flags.” Consumer advocates agree that these “red flags” serve to remind homeowners how absolutely essential it is that they understand the extent of coverage they are paying for relative to their homeowners’ insurance policies.

Beyond this, consumer advocates insist that with insurance industry priorities focused on the bottom line rather than the constituents they serve, odds are clearly stacked against the homeowners.

It is therefore important that consumers give themselves every advantage when dealing with their insurance providers. This becomes especially true in the event that the worst happens and the consumer needs to pursue a settlement.

Homeowners must begin by assuring that they have enough insurance to cover the costs of rebuilding. Advocates believe that this gives homeowners the best chance to receive an adequate settlement from insurers if a homeowner is forced to rebuild subsequent to a disaster.

In the wake of every catastrophe this decade, be it earthquake, fire or flood, many victims have

complained that insurers conspired to delay payment; made low-ball settlements; or, refused to settle their constituents' claims altogether. In far too many cases, the victims were forced to pursue fair remedies in the courts.

An insurer's ability to low-ball a settlement is made so much easier when the value of the policy falls far short of what it is going to actually cost to rebuild the property.

One example of this involved Allstate Insurance Company, which was cited by the regulators of the California Department of Insurance under the leadership of John Garamendi, who served two terms as California's Insurance Commissioner (1991-1995 and 2003-2007). The company was cited for at least six rules violations that included allegations that it ignored complaints that it under-insured homeowners. Some critics were disappointed that the company was not fined.

Homeowners must be certain that they insure their properties based on rebuilding costs, not the purchase or sales price of their home. The homeowner should also consider more than the cost of building materials, labor and supplies. There will be permits and other miscellaneous costs involved in the rebuilding process that should be incorporated into the cost. In addition, the homeowner must remember that there may be debris removal costs, as well.

There is usually a marked difference between the costs of rebuilding a home versus what a homeowner might be charged for a new home. It is recommended that consumers get a couple of rebuilding estimates from contractors who know the area well to best consider the amount of replacement coverage they should carry. In other words, take the square footage of the home in question and multiply it by local building costs per square foot. This approach is important because the estimate should be appropriate to your home i.e., its age, construction type and amenities (hardwood floors versus carpet, etc.)

Homeowners should also be aware that many insurers use special mechanized programs or models that quantify building costs. This is usually done by zip code or some other geographic marker. Homeowners should request this information from their insurer to better understand how a potential settlement amount for rebuilding would be determined—do not be afraid to ask. You have a right to know.

Consumer advocates recommend that homeowners discuss this portion of their policies with their insurers at least every two years in order to make appropriate adjustments. Advocates recommend that

homeowners create a video of their home and its contents.

Finally, if your insurer will not write a policy for the amount you deem appropriate for rebuilding—shop around. Remember, as the homeowner, you have the final say.