United Policyholders
Empowering the Insured

Short Cuts: The Peace of Mind of Home Insurance, Unless You Use It

The New York Times

There is a saying among consumer advocates regarding homeowner's insurance: "Use it and lose it."
It is not a phrase that insurance companies are particularly fond of. But it sums up how all too many people feel about their homeowner's insurance: if you decide to make a claim, you are in danger of being dropped.
Take the case of Colin and Gabi Baigel of Mamaroneck, N.Y., who had a policy with a company for 12 years. A few years ago, they filed a claim for a few thousand dollars when a toilet overflowed and caused some damage.
Then, last year, during the winter ice storms, they put in another smallish claim — $3,000 — for some water leaks under the roof eaves. The next thing they knew, they were getting a call from their insurance broker telling them that their policy was not being renewed because of the two claims.
"I was frankly angry," Mr. Baigel said. "I asked the broker, 'Why didn't you tell us not to file the second claim?' And he said, 'It's not our job.'"
The Baigels finally found new insurance, with difficulty, since their claim history went on a nationwide computer system with access open to all companies.
Consumer advocates like J.D. Howard, executive director of the Insurance Consumer Advocate Network www.ican2000.com) and a former insurance agent and claims adjuster, say such stories have a familiar ring.
"This has been a chronic problem regarding homeowner's insurance, but over the past five years, it's gotten worse, and based on consumer inquiries, taking place with long-term policyholders," Mr. Howard said.
There have been so many complaints that lawmakers in some states, like California, have introduced legislation making it more difficult for insurance companies to drop customers upon renewal.
A number of factors have combined to create the current atmosphere.
Hurricane Andrew in 1992 was the beginning of a series of natural and man-made disasters that hit the

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insurance industry hard.
"Hurricane Andrew was the first time we've seen those kind of losses," said Loretta Worters, vice president of the Insurance Information Institute www.iii.org), a trade organization. "It was the single most expensive loss" for the insurance industry until Hurricane Katrina, she said.
Other disasters like the Northridge earthquake in Southern California in 1994 and the Sept. 11 terrorist attacks piled on.
Before Hurricane Andrew, the industry assumed losses from any hurricane would top out at about $8 billion, Ms. Worters said. In 2004, losses totaled $23 billion just from the four storms that hit Florida, and overall insurance losses totaled a record $27.3 billion for the year.
The number of people living in vulnerable coastal areas has also escalated over the years, pushing up insurance prices, Ms. Worters said. Over the last two decades, the population in coastal counties — in Florida, Texas and Virginia, in particular — grew by 33 million people, or 28 percent.
"The homeowner thinks they're paying more and getting less, but a lot of people are living in harm's way," she said.
Then there was the mold panic, which was a turning point in the insurance industry. It made headlines in 2001 when a jury awarded $32 million later reduced to $4 million on appeal) to a Texas family — aptly from Dripping Springs — that sued its insurance company. The family asserted that the insurance company delayed making payments to repair a plumbing leak, which led to mold infestation. That, in turn, caused respiratory and neurological damage, they said, and made their 22-room house uninhabitable.
Mold claims started pouring in — one New Yorker sued for $400 million — shaking up the insurance industry and, although the Baigels could not have known this, making insurers particularly leery of water damage claims.
Another major culprit is, of course, the economy. Back in the mid-1990's, "when interest rates were approximately 5 percent and the equity market was robust, insurance companies were able to increase their financial strength despite generating underwriting losses," said Anthony Diodato, vice president at the A.M. Best Company, one of the largest insurance rating and information agencies.
But after 2000, when the stock market began its downturn, insurance companies could not rely as much on their investment income and capital gains to offset the losses, and needed to refocus on underwriting profitability, Mr. Diodato said.
So insurers were, as he said, "willing to eliminate policies that generated unprofitable results."
Consumer advocates say that another factor that led to the "use it and lose it" mentality is the greater use of databases that, much like a credit report, list a customer's claims history and how many claims

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have been made for a property.
These databases are known as CLUE Comprehensive Loss Underwriting Exchange) and A-PLUS Automated Property Loss Underwriting System). Insurance companies use the databases all the time; consumer advocates say homeowners can — and should — obtain their reports to make sure their claims record is accurate.
Simply inquiring about filing a claim can be noted on your record. The Insurance Information Institute notes that "generally questions about coverage are not recorded in the database" but that if a policyholder reports damage, even if no payment is made — for whatever reason — it will show up in the file.
To get a copy of a CLUE report, which is the most prevalent type nationally, consumers can go to www.choicetrust.com. Under federal law, consumers can receive one copy of their reports at least once every 12 months; the frequency varies by state. Consumers whose insurance company uses A-PLUS can request a free copy from the carrier.
The reality is, the nature of insurance is now in flux. The time may have passed when consumers could unthinkingly put in a claim for a few thousand dollars.
"Is insurance changing — is it really just for catastrophes — in the way a lot of people's health insurance is changing?" asked Amy Bach, executive director of United Policyholders, a resource for insurance buyers www.unitedpolicyholders.org). "If that's the case, then people should be paying less for it."
Nationwide, the average annual homeowner's premium is now $677, up $17 from last year. And it is likely to rise again next year, because of Hurricane Katrina.
And though many consumers, like the Baigels, think that filing two minor claims within a few years is nothing, Ms. Worters said insurance companies expect an average of one claim every seven years. "So those who make more raise a red flag," she said. Sometimes that means the company will not renew a policy after a second claim; sometimes it will raise the rate.
Those who can afford it should also avoid making any claims under $5,000. It is simply not worth the chance of a rate increase or losing a policy.
For the longer term, consumers need to look beyond price when buying a policy and find out what they will really get for their money, according to Ms. Bach. Agents serve two masters, she said: the insurance company and the customer. So they should advise consumers if it is unwise to put in a certain claim.
When shopping for a policy, do not be afraid to quiz the broker intensely.
"Give your agent a hypothetical," Ms. Bach said. "O.K., Mr. Agent, if my pipe bursts next winter and my bathroom floods and the damage is $5,000, what will happen to my insurance? Will you jack up my rates or cancel? If they say they can't tell you, that's false. If you don't like their answer, go to another agent."

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