Superstorm spotlights home insurance

SF Gate

People whose homes were damaged by superstorm Sandy will soon find out whether or not they have enough and the right kind of insurance to rebuild.

In other recent disasters, one-half to two-thirds of homeowners discovered after the fact that they were underinsured, often by hundreds of thousands of dollars, according to surveys by consumer group United Policyholders.

After every major disaster, it seems, insurance companies find ways to limit coverage, and if you don't read the fine print in your policy, you may be unaware of so-called exclusions.

Although most policies have long excluded damage arising from war, after the 9/11 attacks some companies began excluding coverage for damage caused by terrorism.

After Hurricane Andrew in 1992, companies began inserting hurricane deductibles into standard homeowner policies. Instead of a flat amount such as $500 or $1,000, the deductible is a percentage of the coverage limit, generally ranging from 2 to 5 percent, depending on distance from the coast.

If the home is insured for $300,000 with a 5 percent hurricane deductible, the homeowner must pay the first $15,000 in damages resulting from high winds or a named hurricane, depending on the trigger named in the policy. Percentage deductibles are also typical in earthquake policies.)

Sandy was no longer a named hurricane when it reached shore, which will spare many East Coast homeowners the steeper deductible, although they will still owe the regular deductible for damage caused by wind.

Homeowners insurance does not cover flooding and storm surges, and those who failed to buy flood insurance will have to foot their own repair bills.

As always, the best time to find out what's in your policy is before a disaster, not after.

What's in, out

A standard homeowner insurance policy provides liability coverage up to a certain amount if someone is injured on your property or you or a member of your household hurts someone on or off your property) and you are held legally liable. The limit typically ranges from $150,000 to $500,000, but you can purchase additional coverage if you have significant assets to protect.

A standard policy also pays for losses to your property – up to a certain amount known as your dwelling limit, or Coverage A – resulting from certain events. These typically include fire, smoke, wind, hail, water excluding floods), riots, explosions, objects falling from the sky, ice or snow on the roof, volcanic eruptions, frozen or broken pipes, vandalism and theft.

It typically does not include losses caused by war, nuclear or biological attacks by terrorists, earthquakes, floods, landslides, mudslides, mold, fungi, wet or dry rot, bacteria or intentional acts by the insured.

You can purchase policies to cover damage caused by earthquakes and flooding, although they might not cover mudslides and landslides that result from a quake or flood.

"If a mudflow is mostly water, it is covered by flood insurance," says Tully Lehman, spokesman for the Insurance Information Network of California, an industry group. But if it's mostly mud, flood insurance will not cover it, Lehman says.

Your policy will also cover your contents possessions) and outbuildings up to a certain percentage of your dwelling limit.

It also will provide money for additional living expenses if you have to move out while your home is being fixed. The limit could be a dollar amount, a number of months or a percentage of your dwelling limit.

Your dwelling limit should be "90 to 100 percent of what it would cost to repair your house," says Robert Hunter, director of insurance for the Consumer Federation of America.

It's important to get this number right.

Years ago, some companies sold guaranteed replacement cost coverage that paid whatever it took to replace the home, even if it exceeded the dwelling limit. After the Oakland fires, such policies became rare, says David Shaffer, an independent insurance agent in Walnut Creek.

Today, you are generally stuck with your dwelling limit unless you buy extended replacement cost coverage that typically adds 25, 50 or 100 percent to your dwelling limit. Amy Bach, executive director of United Policyholders, says it's "fairly inexpensive" to get this bump.

However, the bump generally won't increase the limits on your contents, outbuildings or additional living expenses.

Getting it Right

How do you know if your dwelling limit is right?

Remember that it has nothing to do with the appraised or market value of your home which includes your land) or your property tax assessment which in California is limited by Proposition 13).

And don't assume your insurance company has it right.

Most companies use computer models to guesstimate rebuilding costs, and since premiums are based on policy limits, "in order to be competitive, they tend to underestimate the replacement value of homes. That's why so many people find themselves underinsured," Bach says.

If you have an expensive home, your insurance company might send someone out for a site visit, or you could pay a home inspection service several hundred dollars for a rebuilding-cost estimate.

You could use an online calculator such as one at AccuCoverage.com $7.95). Or you could also talk to a contractor familiar with homes in your area.

"It's very location specific," says Michael McCutcheon of McCutcheon Construction in Berkeley. "We do a lot of traditional North Berkeley homes from the 1920s and '30s. To rebuild this type of home would cost $500 to $600 per square foot."

But he also worked on a "beautiful home in San Francisco's Presidio Heights that would cost $1,000" or more per square foot to rebuild. “If you go the Central Valley, $100 per square foot is plenty,” he says.

Walt Caughlin of Universal Developing in San Carlos says “$250 a square foot is a good starting point to rebuild a typical subdivision home. You can go up and down from there. A big part of the ultimate price) is the code upgrades from where the home used to be.”

Back in the day, many policies automatically paid to rebuild a home to current building standards, even if it exceeded the policy limit. Not any more, unless you pay for building code upgrades.

“You should absolutely buy it unless your house was built this year,” Bach says.

Concurrent causation

Another way some insurers have tried to limit their risk is by adding “concurrent causation” clauses to policies, Hunter says. Such clauses essentially say, “If you have two events happening in close proximity, it doesn’t matter the order, and one is a covered loss like wind and the other is a flood, we don’t pay either.”

Hunter says he got a call from a woman who lived in a condominium in Minnesota. The insurance on her complex covered vandalism but not floods. Some vandals knocked a hole in a pool that caused flooding and the insurance company refused to pay because of a concurrent causation clause. He believes the case is now in court.

In California, many homeowners worry that if an earthquake causes a fire, their homeowners insurance won’t cover the fire. However, under insurance code section 10088.5, a standard homeowner policy must cover any fire caused by or following an earthquake, even if the homeowner lacks earthquake coverage.

A company can’t get around this responsibility by inserting a concurrent causation clause, Lehman says.

Although not required by law, homeowners insurance also covers explosion, theft or vandalism that follows an earthquake. But it does not cover most other types of damage that follow a quake, such as flooding from a broken water heater or water main, landslides or mudslides.

A quake policy issued by the California Earthquake Authority will cover most damage from broken water pipes, landslides and mudslides, but only if it results directly from an earthquake. It does not cover damage from a tsunami.

This is why it’s important to read the fine print.

The key to getting the right policy is figuring out how much and what type of coverage you need and then shopping around. “You can easily pay double from one company to the next” for the same coverage, Hunter says.

Read more:
http://www.sfgate.com/business/networth/article/Superstorm-spotlights-home-insurance-4006448.php#ixzz2BNKf6gVf