

The Hidden Risk: How Mold Coverage Gaps Leave Homeowners Vulnerable

USA Herald

As a journalist with over 20 years of experience in the legal and insurance sectors, I've seen firsthand how the complexities of insurance coverage can catch homeowners off guard. One of the most surprising gaps in coverage involves mold—a problem that is becoming increasingly prevalent yet remains poorly understood by many policyholders.

In 2022 alone, water damage, including mold, accounted for 27.6% of homeowners' insurance losses, according to data from the Insurance Services Office. As extreme weather events like windstorms and flooding grow more frequent and severe, the likelihood of mold damage increases. Despite this, most standard homeowners' policies still exclude or severely limit coverage for mold damage, often leaving homeowners with costly repairs and no financial assistance.

The roots of this issue can be traced back to a pivotal moment in the insurance industry: the 2001 Ballard v. Farmers Insurance Group case in Texas. This high-profile lawsuit initially resulted in a \$32 million jury verdict for a mold-damaged home, a figure that was later reduced to \$4 million. However, the shockwaves from this case reverberated throughout the industry, prompting insurers to rapidly retreat from offering mold coverage. Amy Bach, executive director of United Policyholders, described this period as a "mold stampede," where insurers quickly moved to cap or limit coverage, driven by fears of high repair costs, uncertain health risks, and memories of substantial asbestos-related payouts.

Today, the exclusion of mold from homeowners' insurance policies is standard practice. Policies typically only cover mold if it results from a covered peril, such as a sudden burst pipe. Otherwise, homeowners are often left to fend for themselves unless they have added specific riders to their policies for mold removal. This can come as a shock to many policyholders, who reasonably expect their insurance to cover damages to their homes, including those caused by mold.

The complexity of insurance policy language adds to the confusion. Even experts like Peter Kochenburger, a professor at the University of Connecticut’s Insurance Law Center, acknowledge that understanding what is covered can be challenging. With insurance being regulated at the state level, variations in coverage can further complicate matters. For instance, in hurricane-prone South Carolina, no homeowner policy covers all instances of mold, making it a peril-dependent coverage.

Moreover, filing a mold claim can lead to unwelcome consequences, such as the nonrenewal of insurance policies. A study of complaints against major insurers like Allstate and Nationwide revealed that 8% were related to mold. In some cases, policyholders faced nonrenewal due to prior mold claims, illustrating how mold issues can have long-lasting impacts beyond the initial damage.

The insurance industry is beginning to assess how climate change might affect future risks, but for now, mold remains a problem that many homeowners are unprepared for. As homeowners grapple with this growing risk, it’s crucial that they review their policies carefully and consult with professionals to fully understand what is—and isn’t—covered.

“As we witness the increasing severity of weather events, it’s essential that homeowners understand the limitations of their insurance policies, especially concerning mold. This issue has the potential to financially devastate families if they’re not adequately informed and protected.” Samuel Lopez.