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Homeowners Come Up Short on Insurance

ABSTRACT:

EL CAJON, Calif. - Karla and Bruce Carroll remember the sheriff on his bullhorn ordering residents to evacuate and, minutes later, hearing the roar of monstrous flames arcing toward their modest home here in the hills above San Diego.

Mrs. Carroll grabbed a family photo album as they ran to safety; Mr. Carroll started to gather his fishing rods. But she hustled him along. "Don't worry about those things," she recalls saying at the time. "We've got insurance."

But, the Carrolls say, the insurance they bought from State Farm, the nation's largest property insurer, has left them at least \$100,000 short of the cost of rebuilding their home. Today, nearly a year later, they are still wrangling with their insurer and living in a 29-foot-long house trailer on the land where their three-bedroom home once stood, overlooking a spectacular sweep of ridges and canyons.

Their woeful shortfall in insurance coverage, experts say, is a plight shared unknowingly by millions of American homeowners. It has been fed largely by a shift in the way property insurance has been sold in recent years.

In a move to cut costs from claims, insurance companies began in the late 1990's to phase out coverage that guaranteed the replacement of a destroyed home, regardless of the expense to the insurer. In place of that unlimited coverage, which had become nearly universal, insurers substituted a similar-sounding policy with a crucial difference: it pays only the amount stated on the policy plus, typically, an additional 20 percent to 25 percent.

For their part, insurers insist that it is the consumer's responsibility to acquire adequate coverage.

The old policy was called a guaranteed replacement policy. The new one, which most Americans now have, is called an extended replacement policy.

Marshall & Swift/Boeckh, a Los Angeles company that most insurers rely on for help in calculating the value of houses, estimates that 64 percent of American homes are underinsured by an average of 27 percent, with some homes underinsured by 60 percent or more.

Another insurance industry company, AIR Worldwide in Boston, estimates that many upper-income homes in New England are underinsured by 30 percent to 40 percent.

The insurance gap has been worsened by the nationwide housing boom that has been rapidly driving up the cost of lumber, bricks, cement and other construction materials, industry executives say. And in Southern California, rebuilding costs soared even higher as the demand for contractors and building supplies suddenly jumped after the Carrolls' home and several thousand others were destroyed in wildfires over a few days last October.

But such explanations do not satisfy the industry's critics, who say insurers have shifted the burden of such

mistakes onto homeowners.

George Kehrer, a lawyer and building contractor who founded Community Assisting Recovery in Los Angeles more than a decade ago to help people with insurance claims after disasters, said he had spoken to 1,200 people who lost homes in the California fires.

"About a dozen of them," he said, "were adequately insured."

No single factor is entirely to blame for the underinsurance, consumer advocates and industry executives say. Homeowners, they say, need to recognize their own responsibility.

Still, in dozens of interviews over several days this month, owners of the homes in Southern California that were destroyed said repeatedly that they had been led to believe they had bought enough coverage to rebuild their homes and were stunned to find out they were wrong.