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LESS OF A CUSHION

ABSTRACT

INSURERS ARE REDUCING COVERAGE FOR HOMEOWNERS AND CANCELING THEIR POLICIES AFTER CLAIMS.

Underinsured homes. Ever-rising premiums. Stealth changes. Intrusive satellite inspections. Blacklists of homeowners who have filed multiple claims. Policy cancellations.

These are a few of the gripes that homeowners, consumer advocates and lawmakers are voicing over the state of homeowners insurance in California and across the nation. And, with a number of California fire victims battling their insurers over disputed coverage, there's rising frustration that companies are offering less and charging more.

Firms also are "being more selective in who they insure," said David Shaffer, an insurance agent and mortgage broker in Walnut Creek. "And once you're on the books," he said, referring to people who have made claims, "they're looking at you very carefully."

Take the case of Upland homeowner Mark Heidenreich, whose policy wasn't renewed in July by Vesta Insurance Group — a decision he believes was the result of a $40,000 water-damage claim he filed in 2001 with his previous insurer, CGU Insurance, which left the California market.

"They don't want to insure me because I have a claim," said Heidenreich, who obtained the Vesta policy via Countrywide Financial Corp., his mortgage holder. To make matters worse, he said, Vesta never sent him the 45-day nonrenewal notice required by California Insurance Code, and weeks passed before he learned from Countrywide that his policy had been canceled.

"What if the house had burned to the ground?" he said. "I had no insurance and I didn't know it."

Countrywide, citing privacy concerns, declined to comment on the case. Vesta officials did not return phone calls.

This is just one of several trends in homeowners' insurance that are "very problematic for consumers," said Amy Bach, executive director of United Policyholders, a consumer advocacy group in San Francisco. They include:

- The use-it-and-lose-it dilemma — so named by California Insurance Commissioner John Garamendi — in which insurers are quick to jettison policyholders who file one or more claims.

- A chronic underinsurance problem where the majority of the nation's homes are insured for markedly less than it would cost to rebuild them after a disaster, according to Marshall & Swift, a research firm that provides insurers with building cost data.

- The phasing out since the mid-'90s of guaranteed replacement cost coverage, in which an insurer guarantees to rebuild a house no matter the expense. Popular with consumers, the insurance was costly to providers.

- Homeowner lawsuits and complaints — many stemming from the Southern California wildfires of October 2003 — that claim insurers didn't properly notify them of reductions in coverage.

- The tightening of underwriting rules whereby companies won't insure homes with wood-shake roofs or homes near brush areas. Exclusions for mold and water damage are increasingly common too.

- Satellite photo inspections of homes near brush areas. While legal, Garamendi said, these inspections should not be used as the sole criterion for denying or canceling coverage.

- Rising premiums for homeowners insurance, which have climbed from a nationwide average of $508 in 2000 to an estimated $608 in 2004 for comparable coverage, according to the Insurance Information Institute, an industry trade group.

Indeed, recent catastrophes have proven costly for residential and commercial insurers. The total insured losses from this year's quartet of hurricanes in the southeast United States alone will total an estimated $20.5 billion, according to the institute.

Losses from the 2003 Southern California wildfires are expected to exceed $2 billion, and the 9/11 terrorist attacks in 2001 — the largest loss in insurance history — resulted in about $19 billion in insured losses.

"We had this dramatic depletion … of money available for insurers to pay," said Pete Moraga, spokesman for the Insurance Information Network of California, an industry trade organization.

Despite the huge payouts and rate increases, however, some things appear to be improving for homeowners. Premium hikes, for instance, are starting to level out: the 2.8% increase from 2003 to 2004 is the smallest in five years, according to the insurance institute.

And while the underinsurance figure is still high, it has dropped in recent years. In 1996, the year Marshall & Swift began reporting underinsurance figures, 73% of U.S. homes were underinsured by an average of 35% — notably higher than today's estimate of 61% underinsured by about 25%.

The blame for underinsurance, Bach said, rests with insurers for selling a false sense of security, insurance agents for not taking the time to determine the proper replacement value of homes and consumers for paying more attention to premiums than to coverage.

Many problems stemming from underinsurance and policy-change notifications could be minimized if homeowners took a more proactive approach in managing their coverage.

"Most people don't read their policies," Moraga said. "Your first line of defense is to understand what your policy is, and what type of coverage you have."

But some homeowners and consumer advocates claim the industry puts coverage changes in fine print, and uses confusing legalese in policies that lay people can't understand.

Insurers often bury policy changes in "long, so-called notices," said J. Robert Hunter, director of insurance for the Consumer Federation of America, a Washington-based alliance of about 300 pro-consumer groups. "The probability of a human being finding [these changes] is almost nil."

Lisa and Rick Jelke, whose four-bedroom San Bernardino home was destroyed in last year's wildfires, were certain their policy provided guaranteed replacement. But after the fire they learned that their insurer, Farmers Insurance Group, had changed their policy eight years earlier to "extended replacement" coverage.

While extended replacement covers expenses that exceed policy limits — from 10% to 100%, depending on the policy — it doesn't guarantee to pay the full rebuilding cost.

"We had no idea they had changed the policy until we started talks with them," Lisa said. The California Insurance Code requires insurers to send written notification to homeowners that specifically points out any reduction in their benefits.

Farmers Insurance offered the Jelkes $179,000 — less than half of the $450,000 they need to rebuild their 2,500-square-foot home. They rejected the offer and are suing Farmers.

Company spokeswoman Mary Flynn said, "We will continue to work with our customer to resolve the matter, even though they filed a lawsuit."

To avoid being underinsured while keeping premium increases to a minimum, insurance agent Shaffer recommended that homeowners consider raising their deductible to at least $2,500, while simultaneously increasing their policy limits. For example, he said, "if you raise your coverage by $100,000 to $300,000, and raise your deductible to $2,500 or $5,000, your net additional cost can be [as little as] 50 cents a day."

Recent California legislation has corrected at least one troubling insurance practice that worked against consumers who simply had questions. A state law that took effect in January prevents insurers from reporting homeowner queries about their policies to the Comprehensive Loss Underwriting Exchange, a national database of claim reports shared by insurance companies.

Before this law, "an insurance company would routinely report to CLUE any inquiry about coverage, and CLUE would take that inquiry as though it were a claim," Garamendi said. "People were being penalized for simple inquires such as, 'Am I covered for a burned hole in the rug from a cigarette?' "

Fixing the use-it-and-lose-it trend, however, is proving more problematic.

"The companies are still nonrenewing customers who have filed claims," said Doug Heller, executive director of the Foundation for Taxpayer and Consumer Rights, an industry watchdog group.

Commissioner Garamendi said he tried to get a bill through the Legislature that would "only allow insurance companies to nonrenew after three claims" during a specified period. However, he said, "the industry objected to that, and the legislation died."

Simply put, homeowners who file claims cost insurers money. "The average person has one claim against their homeowners policy every 10 years," said Shaffer, a 21-year veteran of the industry. "I know from experience that if you have several claims within two or three years, more than likely your insurance company won't renew your policy."

Another concern of consumers: Satellite inspections of homes, which are being conducted on properties in brush areas.

Auburn homeowner Sheree DiCicco recently received a nonrenewal notice from her insurer, First American Property & Casualty Insurance Co., which based its decision on satellite maps provided by CDS Business

Mapping of Boston.

Satellite inspections benefit smaller insurance companies such as First American that "can't afford the expense of sending out inspectors to homes they insure," Moraga said. "It allows them to compete with the bigger companies at a lower cost."

While legal, satellite inspections carry an Orwellian undertone that raises the hackles of homeowners and industry watchdogs.

"There are homes in brush areas that are safe. They have a large clear zone," Garamendi said. "Satellite imagery doesn't take that into account."

The use of satellite maps "isn't inappropriate when used as one of several criteria," he added. "But when it's the only criteria, it can be very wrong."