Insuring Your Home

How to find the best coverage for whatever comes your way

Will your insurance company be there for you in the aftermath of a disaster, when you most need it? The answer might be no.

When Consumer Reports National Research Center surveyed readers about their homeowners insurance claims in the last few years, half of those who had filed claims related to Hurricane Katrina reported problems. That's twice the rate of problems reported by other respondents. Twenty-six percent of Katrina victims said they were paid too little, compared with 11 percent of others. A disaster tests everyone, and in the eyes of our readers insurers often failed that test.

Even if you're nowhere near a hurricane zone, you could face catastrophe in the form of fire, wind damage, or a lawsuit. It's in those dire situations that you truly need coverage that lives up to its promises. Yet our evaluation of home insurers found that doesn't always happen. You can find excellent insurers, but you can also face a maelstrom of complexity, cost, and difficulty getting your due. Here are highlights of our findings:

- Excellent coverage can be costly or hard to get. Amica Mutual Group, USAA Group, and the Chubb Group of Insurance Cos. were rated more highly for claims satisfaction than most other insurers. But USAA homeowners insurance is available only to those with a connection to the U.S. military, and Chubb markets itself as a high-end insurer, with premiums to match. (Amica says it has moved away from its tradition of selling only to those referred by policyholders.)
- There are claims problems with some large insurers. In our survey, 35 percent of Allstate Insurance Group clients reported such problems with that carrier, the nation's second-largest. That contrast with 14 percent who reported problems with top-ranked Amica. Allstate and Travelers Insurance Cos., another large group, were among the lower-rated groups overall.
- Delayed payments are common. Twenty-one percent of respondents said hey had faced delays having claims paid. Amica and USAA got better marks than most.
- Insurers are scaling back coverage. They are imposing high deductibles for windstorms in many places and cutting coverage for mold and dog bites. Some are using credit-based insurance scores to reject prospective clients and to raise premiums of current ones. In some areas, insurers have abandoned homeowners coverage entirely.

Still we found good news, especially for people with decent credit and claims history.

Lots of folks are finding lower prices. A fifth of respondents said they had been with their company for four years or less. Of those, more than half said they had found a better premium with their new carrier.

And consumers are reasonably content. Overall, 73 percent of respondents were highly satisfied with their current carrier. That compares with a satisfaction rate of 77 percent in 2003, the last time we published ratings of homeowners insurance. Only 5 percent said their claims were rejected, and 11 percent said they received too little payment for their claims. The remaining 84 percent were satisfied with the settlement of their claims.

TIGHTER UNDERWRITING

If you haven't shopped for homeowners coverage lately, be prepared: The landscape has changed. Insurers are getting pickier about whom they will take and whom they will keep. And they're using new tools to determine who will get the best price.

An increasingly important pricing factor is your credit-based insurance score, which includes some of the elements that make up your credit score. The industry maintains that there's a correlation between credit history and the likelihood you will make a claim. To get the best price from a new carrier, you will need stellar record. "What people don't realize is most, if not all, quotes are based on credit," says Laurie Salkin, personal lines client manager for William A. Smith & Son, an insurance agency in Newburgh, N.Y.

An insurer can use credit-based insurance scores to squeeze current customers, too. As of March 2008, Amica Lloyd's of Texas told Frank Sulzbach, 67, of Dallas, that his home-insurance premium would rise by a third, to $2,636, due in part to his credit-based insurance score. Sulzbach, who knew his credit was excellent, found coverage elsewhere for $1,368.

Robert Hunter, director of insurance for the Consumer Federation of America, says the use of credit records for underwriting and pricing "simply makes no sense." The industry, he says, hasn't adequately explained how job loss or mortgage trouble makes the homeowner a more risky policyholder. "A consumer's insurance price change following a credit shift due to the economy, illness, outsourcing, and other events beyond the homeowner's control can be precipitous and costly," Hunter says. "It is unfair, particularly to the poor and all those living on tight budgets, where a small illness can cause a deterioration of credit score."

Consumers can also be pinched when insurers leave regions and entire states they find unprofitable. Last year Florida state insurance regulators rejected a request for a 47 percent rate increase. In response, State Farm's Florida subsidiary announced it would no longer sell new policies, effectively signaling the insurer's exit from the market. The company said it way paying out $1.21 for every $1 it collected in premiums.

In New Jersey, the insurer took a different route. Barbara Eckhardt, 81, a State Farm customer for more than 30 years, got a letter last year from the company notifying her that it was canceling the policy on her home in coastal Cape May County. But it offered to keep Eckhardt's auto and other coverage. "They're happy to keep anything that doesn't look like it's going to be costly to them," she says.

"It's a continual process of managing our risk, of deciding what policies we can write and what policies we can't," says State Farm spokesman Dick Luedke.

Our advice: Compare prices at least every five years, even if you're not being elbowed out. "You may have shopped 5 or 10 years ago, but those results may be irrelevant, given the changes in the market," Hunter says. You might lose the "loyal customer" discount that can be 10 percent or so of the premium, but he notes, "It may be 10 percent of a rate that's double."

Our Ratings for claims service, is a good place to start shopping. Make you compare costs of identical policies. Check with an independent agent or insurance-shopping Web site for a wide selection of quotes.

Also take into account the insurer's financial viability, particularly in this economy. Recently Consumer Reports Money Adviser, our monthly personal-finance newsletter, determined that the most stringent life insurer financial-strength ratings can be found at TheStreet.com (formerly Weiss Ratings), which also rates property/casualty insurers. Go to www.thestreet.com and click on "Portfolio and Tools"; a drop-down menu will take you to insurance ratings. Type in the full name of your insurer, not just the name of the group that owns it, to find its financial strength rating. Look for insurers with a rating of A (excellent) or B (good).

NEW LIMITS AND EXCLUSIONS

For many Americans, shopping for home-owners insurance is like a parlor game. Roughly 2 million homeowners, particularly along the Gulf and Atlantic coasts, are stuck paying higher premiums for less-comprehensive coverage with state-run, last-resort insurance pools.

The slow, steady erosion of coverage is another potentially ruinous trend. Changes in deductibles and reduce coverage often are announced - and ignored - in policy-renewal letters. Unless you're vigilant, you might have missed these:

- Windstorm or hurricane deductible. In coastal states, many insurers now require a separate, higher deductible for damage caused by a hurricane or severe windstorm, tornado, or hailstorm. It can be as much as 5 percent of the insured value of the home (10 percent in Florida). For $200,000 of coverage, that's $10,000 that you'd have to pay before insurance kicks in.
- Anticoncurrent causation clause. Insurers have successfully used this legalese to eliminate coverage for an insured peril when another, uninsured peril occurs at around the same time. After Hurricane Katrina in 2005, Hunter notes, insurers denied claims for covered wind damage on homes that also had noncovered flood

damage, even if the flood occurred hours after the storm hit. Hunter notes the clause can be invoked at other times - for example, when an earthquake (not covered) and a fire (covered) happen at around the same time.

- Limits on mold. Most carriers have dropped coverage for mold, except when it is caused by another covered peril.
- Reduce dog-bite coverage. Some insurers are excluding breeds such as pit bulls and Rottweilers from coverage or boosting premiums for their owners. Dog bites make up one-third of homeowners liability claims, says the industry-sponsored Insurance Information Institute.
- No guaranteed replacement. This change has been around for a while, but it's still misunderstood. A few carriers, notably the highly rated Chubb Group, still offer the equivalent of guaranteed replacement cost, which promises to fully restore a damage home, no matter what the cost. But most other insurers limit their offerings to replacement cost coverage, which pays only up to the stated value of the home, or extended replacement cost, which provides additional coverage, usually 20 percent over the home's stated value. So if your coverage is insufficient, you're on the hook for the rest.

Hunter refers to those changes as a "hollowing out of the homeowners policy." Though coverage has been cut, consumers haven't seen a commensurate drop in premiums because overall rates have risen. In Louisiana, for instance, Farmers Insurance Exchange received approval this year to mandate a statewide hurricane deductible of 3 percent of a home's insured value and a 15.5 percent average premium increase to boot.

Our advice: Read your policy and any other correspondence. Ask your agent to explain anything you don't understand.

SKIMPIER PAYOUTS

As insurers cut their risk, consumers who file claims might be hardest hit. Insurers are paying out less than they did years ago. The industry's pure losses - what they paid in claims - represented about 55 percent of premiums in 2007, down sharply from about 66 percent in 1987, according to the Consumer Federation of America.

That reduced payout has the greatest impact on people with large claims. The average claim filed by Hurricane Katrina victims in our survey was $15,000, more than three times greater than the claims filed by other respondents. But 26 percent of Katrina respondents said they'd received too little, compared with just 11 percent of others. No surprise, only 51 percent were highly satisfied with their insurer, compared with 74 percent of others.

Our advice: Learn how to deal with the adjuster, who might be your chief connection with the insurer after you make a claim. On the report about "Making a claim: How to get your due", we offer advice on filing claims from industry professionals as well as from readers who picked up the pieces after Hurricane Katrina.

INSURANCE DOS AND DON'TS

To get the best value and protection from your homeowners policy, follow these rules:

DO

Compare prices. Every five years or so, shop for the same level of coverage, including deductibles, policy limits, and riders. Visit an independent agent or check online sites such as www.netquote.com or www.insweb.com.

Bundle your coverage. Buy several policies - home, auto, boat - from the same insurer to save up to 15 percent on all policies. The more business you do with your insurer, the less chance your coverage will be dropped due to a single claim or a risky home location.

Raise your deductible. Going from $500 to $1,000 can save you up to 25 percent on the overall premium.

Clean up your credit report. An insurer viewing a mistake on your report could deny coverage or place you in a more costly price tier.

Maintain and upgrade your home. Fire and smoke detectors, burglar alarms, and dead-bolt locks can cut as much as 20 percent off the premium. In storm-prone areas, add **hurricaneshutters** and shatterproof windows.

Stay with your current company. If your insurer's rates are competitive, you might save by staying. Companies often give discounts for loyalty. They also might be less likely to drop a longtime customer for one or two claims.

Do a home inventory - now. Experts say one of the most difficult parts of the claims process is recalling lost or stolen items and papers. Catalog your belongings, including receipts, with video or photos. You can store them free on the Insurance Information Institute's Web site, at www.iii.org/software. Keep copies of vital documents in a fireproof safe, in a bank safe-deposit box, or with someone you trust.

DON'T

File small claims. Insurers can raise your premium or even drop you for making, say, two claims in two years. Avoid filing a claim if it's just a small amount above your deductible.

Call to discuss whether to file. Even if you decide not to make a claim, your inquiry could end up in your claims record as an incident, making you vulnerable to a premium increase.

Smoke. You'll incur higher premiums. Also considered risky and possibly uninsurable: homes with trampolines and dog breeds that are prone to biting.