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Homeowners haunted by underinsurance

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SAN DIEGO - Don Robinson says his Residence Mutual insurance policy pegged the cost of replacing his San Diego home at \$233,000. After Southern California's fires destroyed the 40-year-old biologist's four-bedroom house last year, a contractor told him it would cost \$460,000.

Hundreds of other homeowners are finding their coverage was inadequate, raising the question of what went wrong. Some industry critics and attorneys suing on behalf of homeowners have a theory: Insurance agents may be misapplying software that estimates the cost of replacing a home and coming up with lowball numbers.

In Robinson's case, a popular software program's quick survey puts the cost of replacing his home at \$249,000, pretty close to the coverage he bought. A more detailed questionnaire estimated \$427,000, much closer to what his contractor said he will need.

Critics say insurance agents may be writing policies with the quick survey, which requires only a few keystrokes. It asks for a home's ZIP code, year of construction, square footage and a few other questions. A more detailed survey, which takes into account details such as whirlpool spas and fireplaces, takes more time to complete but offers more accurate estimates.

California Insurance Commissioner John Garamendi's office is studying the industry's use of replacement-cost calculators in its investigation into complaints by victims of last year's fires, which destroyed more than 3,600 homes. Underinsurance accounted for 219 of 445 complaints his office had fielded as of June 28.

After hearing dozens of complaints in April at homeowner meetings in San Diego and San Bernardino counties, Garamendi said agents may have deliberately lowballed the cost of replacing homes in an effort to sell more policies. He has not set a date to complete the investigation.

A spokesman for an insurance industry group denied that agents deliberately give low estimates when writing policies, saying that underinsuring homes would deprive companies of additional premiums. He said the replacement-cost calculators, while not perfect, have performed well.

"It's not an exact science," said Peter Moraga of the Insurance Information Network of California, an industry group. "It's ultimately up to the homeowner to try to ascertain if (the coverage) is enough."

The complaints have cast a spotlight on Marshall & Swift/Boeckh LLC, an obscure company based in New Berlin, Wis., that says its software can pinpoint the cost of 100,000 construction items, tailored to every ZIP code in the United States and postal code in Canada. The numbers are updated every three months.

Homeowner attorneys have not faulted Marshall & Swift, which is not named in a spate of recent lawsuits. Instead, they suggest that insurance agents are using Marshall & Swift's shortcut survey, called Quick Quote, instead of the more time-consuming questionnaire.

"If used properly, the software can spit out pretty accurate numbers," said Jerry Ramsey, a Los Angeles attorney who has sued on behalf of 30 homeowners and plans about 20 more lawsuits, including one seeking class-action status against Farmers Insurance Co.

Marshall & Swift has been raising public awareness of underinsurance, a problem that surfaces after nearly every major natural disaster. It authored a survey that found 64 percent of U.S. homes were underinsured by an average of 27 percent last year. That's an improvement over 2001, when 73 percent of households were underinsured by an average of 35 percent.

In the early 1990s, Marshall & Swift and Boeckh, then separate companies, introduced software that replaced much cruder valuation methods, such as multiplying a home's square footage by the going rate of construction. Wells said its software is used by about 95 percent of U.S. insurance companies, allowing agents to drill into such detail as, say, the difference between a carpenter's hourly wage in Oklahoma City and Oklahoma City's suburbs.

George Kehrer, who founded a nonprofit group to counsel disaster victims after he lost his home in the 1991 East Bay Hills fire, said he has tested the software on about 150 homeowners and found the Quick Quote estimates to be about 40 percent below the more detailed questionnaire. Two attorneys who are suing insurance companies say they found similar discrepancies.

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