

Insurers Crack Down On 'Problem' Homes

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Dec. 5, 2002 -- Got claims?

Your insurance company is more than a little interested in the answer to that question -- and your ability to get homeowners insurance at a reasonable price hinges on it.

Insurers, of course, have always kept an eye out for policyholders who used their insurance too frequently, filing claims at the drop of a hat. But this year the insurers have tightened the screws as never before, after having losses of \$9 billion on homeowners insurance last year.

For some insurers, the policy is three claims and you're out -- or at least very unlikely to get a new policy when your current one expires. Some insurers allow even fewer claims. State Farm Mutual Insurance Co., the nation's largest homeowners insurer, instituted a practice under which customers in some states could lose the ability to renew their policies if they have two claims in three years, according to State Farm's agents.

Watch Out for Water

File even a single water-damage claim in California, Florida or Texas and it might be time to start looking for a new insurance company. That's because insurers are battling a relatively new type of claim: mold damage. After not even tracking such claims in 1999, insurers paid out \$1.3 billion for mold claims last year. The surge in mold claims came when a Texas jury awarded a homeowner \$32 million after mold made her home, according to some experts, uninhabitable. Now, the insurers say, plaintiffs' lawyers are drumming up mold-damage business across the country -- and driving up insurance-company losses.

"Insurers are very cautious about a history of water-damage claims," says Bob Hartwig, chief economist for the Insurance Information Institute, a trade group that represents insurance companies. "Experience has shown that one water claim foreshadows another water claim." Even if you can keep your policy, chances are you have already paid a rate increase, and you should expect to pay more. Insurance agents say this is the worst environment for buying homeowners insurance in decades. The average rate rise nationwide in the past 12 months has been more than 15%, says Charles Titterton, an insurance analyst at Standard & Poor's.

The insurance companies say that such boosts are necessary for them to stay in business. Last year, for every dollar the insurers collected in premiums, they paid \$1.25 in claims and related expenses.

In past years, insurers saw homeowners policies as a way to bring in more lucrative auto-insurance customers, so small losses were standard. But last year's multibillion-dollar loss -- coupled with the dearth of money to be made investing those premiums these days -- changed the game.

Get used to it. "These things usually last a year or two," says Robert Hunter, director of insurance for the Consumer Federation of America. Even for companies that aren't incurring losses, getting rate increases is a lot easier when the competition is struggling, he says: "Everybody takes advantage of the situation."

So rate boosts may be inevitable for most people. But that doesn't mean you can't save money by making a few smart moves.

Boost Your Deductible

For most folks, the quickest way to save on homeowners premiums is to raise the deductible.

"Someone who bought a house 20 years ago may have purchased a \$100 deductible and left it that way," says Mr. Hartwig. "But what can you repair for \$100 these days?" Not much. And if you file a couple of small-dollar claims, your insurer may send you packing anyway.

So raise your deductible to \$1,000 or more. Put the money you save on your insurance premiums into a claims account and dip into that cash if you need to make small repairs. The odds are very good that you'll come out ahead.

Whether or not you've had claims, you might save money on homeowners insurance by doing a little research on yourself. More and more, insurers such as Allstate are making decisions about which people to insure based upon what they call insurance scores, which are based on information gleaned from credit reports.

Know the Score

Lately, the companies that collect that data have been making the information available to the public, for a price. Equifax, Experian and TransUnion now let you buy single credit reports for as little as \$9, and for slightly more, will sell accompanying credit scores. ChoicePoint began selling insurance scores this fall. Consumer advocates say credit reports are more important than the scores, since many insurers calculate their own scores based on that data. Knowing what goes into those scores may offer some guidance about where you stand when seeking a homeowners policy.

Get a Clue

If you're buying a house, get a Clue. The Comprehensive Loss Underwriting Exchange is a shared industry repository containing 90% of the insurance claims made in the U.S. Insurers have used the database for years to assess the risk of individuals, and now they're using it to run background checks on homes.

Owners of a home can get Clue reports instantly on the Web for \$12.95 at choicetrust.com. But that's only after you own the home. Before you make an offer on a house, be sure to get the owner to supply one for you. Then run the claims history by an insurance agent to ensure that your new home isn't an insurance-premium time bomb.

If you need to make an offer fast, make it contingent on a clean Clue report first -- just as you might make it contingent on a clean home inspection.

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