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Homeowners insurance: Use it and lose it

Many insurers refuse to renew policies of homeowners who file claims.

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By Les Christie, CNN/Money staff writer

NEW YORK (CNN/Money) - Last year's hurricane season caused [heavy underwriting losses](#) at Allstate Insurance.

Now, the company is shedding its nearly 100,000 Florida homeowners, by refusing to renew their policies.

Non-renewals by insurance companies is a trend that's affecting homeowners far beyond the hurricane belt. A 2003 study by the Independent Insurance Agents & Brokers of America (IIABA) revealed that nearly 2.5 million Americans had lost their coverage during the previous two years.

Non-renewals follow two scenarios: The first involves homes in danger zones, such as flood plains or storm paths.

A recent example took place in late May in Laguna Hills, Calif., where a hillside collapsed, destroying 18 expensive homes and damaging others. Homeowners in such danger zones may lose their coverage whether they have made claims or not.

The second involves policyholders who file too many claims, the so-called "use it and lose it" phenomenon.

"It has been a very strange development," says Doug Heller, a spokesman for the Foundation for Taxpayer & Consumer Rights. "Consumers are being threatened with non-renewal for filing legitimate claims."

"The companies say, 'We'll take care of you,'" says Marcia Salkin, senior policy representative for the National Association of Realtors. "But if you let them do that, it can come back to bite you."

One couple recently told Heller they had been loyal clients of 17 years when their insurer dropped them after they filed a claim for a burglary. That came a few years after a pocketbook theft.

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Oddly, the couple never received a dime for the burglary because their loss turned out to be less than their deductible. But claims don't have to be paid -- or even filed -- to count against you.

Just asking your agent whether a loss is covered could go on your record.

"The use it and lose it problem is pervasive, affecting more than 40,000 Californians a year," says California Commissioner of Insurance John Garamendi.

If a homeowner's policy lapses, it can put the owner into mortgage default, says Salkin. Banks may then insist on "forced-placed coverage," which is provided by insurers of last resort willing to take on more risk.

That coverage can be pricey, three times or more above what's typical.

The reasons behind non-renewals

Property insurance has always been a loss leader for insurance companies. Over the last 20 years, according to Madelyn Flannagan, IIABA vice president of education and research, insurers paid out more in claims (119 percent) than they took in as premiums.

During the 1990s, insurers offset such losses with investments and profits from commercial accounts. When the market tanked and commercial losses grew, they could no longer do that.

Then came a series of large losses due to natural disasters, plus a new threat: mold. In 2001, a jury in Texas awarded \$32 million to claimants who said they were harmed by toxic mold. Mold litigation spread.

"Insurance companies became gun shy," says Carolyn Gorman, vice president of the III, an industry trade group. Even a single claim of water damage could jeopardize coverage.

The issue has alleviated somewhat, according to Gorman, because insurers have spelled out more clearly that policies do not cover mold.

Another factor was the emergence of the comprehensive loss underwriting exchange (CLUE) and similar databases that keep records of claims -- even mere inquiries -- whether they're paid or not. Originally CLUE was used mostly for fraud detection, but more insurers now consult it about legitimate claims.

Companies, according to Heller, "no longer look at the individual; they look at a database." The number of claims to trigger non-renewal varies from insurer to insurer (state regulations also apply), but can be as little as two claims over three years.

Black marks not only accompany you when you move, they also stay with the house, which can complicate things for buyers and sellers.

"Buyers can no longer afford to wait until the day of closing before arranging for home insurance," says Salkin. If they do, they may pay through the nose for coverage, which they need to obtain a mortgage.

Sellers also must be prepared to provide prospective buyers with CLUE reports. These records are only available to the homeowner, not to buyers.

Impact of Use it and lose it

If the aim of the insurers was to discourage people from filing small claims, they've succeeded. Gorman says that filings of small claims have dropped precipitously.

That suggests a way to save on your insurance bill. If you plan to get coverage only for major losses, why not raise your deductible? Most kick in at about \$250, but some homeowners have it as low as \$100. A \$1,000 deductible can save as much as 25 percent, according to the III.

Here are some tips on avoiding non-renewals from the IIABA:

- Be cautious filing smaller claims. If your loss exceeds your deductible by less than \$200, consider paying out-of-pocket.
- Stick with one company: Companies may give long-term customers the benefit of the doubt and overlook minor blemishes on their records.
- Bundle coverage. If you have auto and life coverage with your home insurer, they may not want to jeopardize that business by cancelling your homeowners policy.
- Maintain your house. Upgrades of security systems, plumbing, and electricity, making sure the roof and gutters still function well, and trimming tall trees of dead branches can keep your house safer. Some upgrades even qualify for a premium discount.

Never filed a claim? Read [here](#) about the procedure.

Click [here](#) for the basic essentials you need to know about home insurance. ■

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