

Coverage gap in rebuilding linked to cost calculators

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In investigating why many October fire victims who lost their homes lacked enough insurance to rebuild, the state's insurance commissioner has found evidence suggesting that the problem is the way the policies were calculated.

Commissioner John Garamendi plans to hold a hearing next month in San Diego that will focus on how insurance companies set homeowners' policy limits. The wildfires destroyed more than 2,400 homes in San Diego County.

In particular, the state wants to determine whether cost-calculation software was misused and whether sales agents took shortcuts, Garamendi said in an interview Friday.

"There are several issues that need to be explored. The cost calculators are certainly one," he said. "Second, are the calculators being used properly by agents? We want to look at a third issue: Are agents and brokers purposely undervaluing the rebuilding cost of the home in order to get the sale?"

Representatives for the major insurance companies that do business in the state said they stand by their methods.

Bill Sirola, a spokesman for State Farm, said the company welcomes the September hearing as an opportunity to set the record straight.

The shortcut theory also has been raised by a San Diego-based consumer advocate and some lawyers representing fire victims. This suspicion seems to have sprouted this year when the consumer advocate, George Kehrer, purchased the same program that major insurance companies use to set policies for homeowners.

He purchased software for about \$800 from Wisconsin-based Marshall & Swift/Boeckh, the U.S. industry leader in property valuation programs. State Farm, Farmers Insurance and the Automobile Club of Southern California are customers.

Trying it out, Kehrer came across an application called Quick Quote. The Quick Quote section prompted Kehrer to plug in a house's ZIP code, square footage, year and number of stories. After a moment's calculation, the program generated an estimate of the cost to replace the home.

After testing the program on more than 200 homeowners at community meetings for fire victims around

Insurance hearing

The date and place for the Insurance Department hearing to be held in September have not been set. For additional information, call department spokesman Gary Gartner at (415) 538-4356 or e-mail him at

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the county, Kehrer said, he found a pattern: The number produced by Quick Quote is close or identical to the replacement cost figure on many homeowners' policies.

But the true cost to rebuild is often 40 percent to 60 percent higher, Kehrer said, based on contractor bids collected by people who lost homes in the wildfires.

The Marshall & Swift/Boeckh program will produce the number that better reflects rebuilding costs, Kehrer found, but only if the user takes more time and supplies detailed information about a house, such as ceiling height, type of floors and number of fireplaces.

The longer form takes about 15 minutes. The quick version takes but a moment.

Kehrer concluded that the insurance companies may have cut corners.

"This, I think, demonstrates how it happened in the first place," said Kehrer, a retired lawyer who lost his home in the 1991 Oakland fire and now runs a nonprofit organization helping other disaster victims with insurance claims.

Los Angeles attorney Jerry Ramsey plans to make the software a star exhibit in his cases against insurance companies. Ramsey said he has filed nearly 50 lawsuits on behalf of fire victims who believe they were underinsured, including many in San Diego County.

"George acquired the program and started running it at meetings. He took people at random and put their homes into it and came up with the same numbers that were on the policy," Ramsey said. "So we know how they did it."

Another attorney representing fire victims, San Diego's Richard Huver, said, "It looks and smells and sounds like it's an explanation for how it happened."

He added that it will take further investigation through the legal discovery process to prove it.

Yashwin Chauhan of Scripps Ranch has seen enough evidence. Chauhan organized a weekly meeting for fellow fire victims insured by State Farm. Some members sat down with Kehrer one evening and ran their houses through the Marshall & Swift/Boeckh software system. Then they called insurance agents to get new quotes on their houses, and those estimates matched the Quick Quote method, he said.

"We've actually proven it," Chauhan said.

No one seems to be pointing the finger at Marshall & Swift/Boeckh. Those with concerns said the insurance companies allowed agents to rely on the quicker quote. The software company's spokesman wasn't available for an interview last week.

Garamendi said he is concerned about the possible use of shortcuts.

"There is no doubt that the use of the quick one page of questions will lead to errors," he said, adding that there is evidence carriers were using that method before the October fire. "That brings me to the point of is the calculator accurate itself or is it simply being misused?"

Some of the major insurers said this has not happened under their roofs.

State Farm, the state's largest home insurer, has used Marshall & Swift/Boeckh's valuation data for years but doesn't employ the Quick Quote function, company spokesman Sirola said from Sacramento.

"It's impossible to say that there aren't isolated incidents," he said, "but we can tell you that is not the way that they are told to use it, not how they are instructed to use it, not how they are trained in using it."

Likewise, Farmers spokeswoman Mary Flynn said, "We've always used the long version. We've been using it since 1992."

At the Automobile Club, spokesman Jeffrey Spring said the company occasionally uses the quicker option to provide an estimate over the telephone. But before a customer buys a policy, he said, "There's a much more detailed process we have to go through before any money changes hands."

Allstate, which has 14 percent of the California market, doesn't use Marshall & Swift/Boeckh. Since 1995, Allstate has relied on software designed for it by Value Quote Systems, a New Jersey company.

The idea of a rapidly produced estimate isn't unique to Marshall & Swift/Boeckh's program. A Connecticut firm called e2Value sells a valuation program that enables an insurance agent to ask seven questions, in addition to a home's square footage and ZIP code, to produce a quote. E2Value chief executive Todd Rissel said the questions are pointed enough that the estimates produced are accurate for all but the most opulent homes.

Insurance consumer advocate Amy Bach of San Francisco-based United Policyholders said she has long believed that agents don't take the time to properly collect information on a house. Bach said she is examining the software usage issue to see if it might be the key to why fire victims' coverage came up short.

"If that's how it pans out, that the quick quote is flawed and the full formula is good, then that's a pretty big revelation," Bach said.

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