

Garamendi questions insurers about coverage estimates

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SAN DIEGO – A software company on Thursday sought to undermine suspicions that one of its products is to blame for widespread underinsurance after last year's Southern California wildfires.

Bob Dowdell, chief executive of Marshall & Swift/Boeckh LLC, said that a tool for the insurance industry to estimate a home's replacement cost is not widely used and may even be discontinued.

Dowdell spoke at a hearing convened by California Insurance Commissioner John Garamendi to determine why so many people had inadequate coverage after last year's fire, despite similar problems after the 1991 Oakland fires and other disasters.

Garamendi said he expected to draft new regulations based on conclusions drawn at the hearing.

Underinsurance is "a serious crisis for those people who lost their homes in the fires of Southern California," Garamendi said. "Hundreds of people don't have enough money from their insurance policies to rebuild."

More than 3,600 homes were destroyed in the October 2003 fires across Southern California. Underinsurance accounted for nearly half of the hundreds of complaints Garamendi's office fielded in the months afterward. Some suspect that brokers deliberately lowballed the cost of replacing homes in an effort to sell more policies.

Some insurance industry critics have focused on Marshall & Swift's Quick Quote, a software program that allows agents to estimate a home's replacement cost with just a few keystrokes, such as by entering the home's zip code and square-footage. The New Berlin, Wis.-based company also offers a more detailed questionnaire to account for custom features, such as whirlpools and fireplaces, that add to a home's value.

"Quick Quote is a product that, quite frankly, not many carriers use," Dowdell said. "Our experience is most of the customers ran away from it as fast as they saw it."

After facing so much criticism, Dowdell said he was "not sure how long Quick Quote will survive."

George Kehrer, executive director of Community Assisting Recovery Inc., a nonprofit group that assists displaced homeowners, painted a much different picture.

Kehrer used Marshall & Swift software purchased after last year's fires to survey displaced homeowners. He found that many who were underinsured had coverage that was almost identical to the Quick Quote estimate. One homeowner bought insurance coverage for \$93,000, pretty close to Kehrer's Quick Quote estimate of \$98,000. After the fire, the owner learned he would need \$148,000 to rebuild, which he might have known if his broker had used the more detailed survey.

"The detailed questionnaire is within spitting distance of the actual loss," Kehrer said. "The Quick Quote is seriously deficient."

Garamendi said Kehrer's argument was "very useful."

According to Marshall & Swift's own estimates, 61 percent of U.S. households are underinsured by an average of 25 percent. That's a big improvement from several years ago when it found that 73 percent of homeowners were underinsured by an average of 35 percent.

Garamendi commended a representative of the Auto Club of Southern California for guaranteeing replacement costs regardless of the coverage bought by policyholders. Allstate Insurance Co. told Garamendi that it didn't guarantee full replacement costs.

Garamendi said he hadn't reached any firm conclusions about why underinsurance is so widespread.

"There is a system problem in the way in which insurance companies calculate the (coverage) limit," he said. "Many companies are using antiquated and insufficient systems of calculating."

Farmers Insurance Co. and State Farm Insurance Co. were scheduled to testify later Thursday.

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