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INSURANCE CRISIS

Homeowners take big risk 'going bare'

Many homeowners are trying to drop their windstorm policies, but Florida law makes them pay for coverage even when they don't want it and can no longer afford it.

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Even if you can, 'going bare' is risky

After their home insurance premiums rose nearly 130 percent this year, Diane and Ronald Boudrieau felt it was time to take a deep breath and make a few difficult decisions: Should we pay off the mortgage, drop our windstorm coverage and assume the risk ourselves?

As insurance rates in Florida continue to escalate, more homeowners are weighing the risks and benefits of "going bare," or self-insuring against wind damage caused by hurricanes. However, for all but the wealthy -- or perhaps, foolhardy -- it won't be possible.

As the Boudrieaus found after paying off their \$67,000 mortgage balance, Florida law prevents insurers from giving consumers a choice when it comes to carrying the onerous coverage.

The law, passed several years ago, was meant to require reluctant insurance companies to offer hurricane protection in storm-beset Florida. But it's now having this unintended consequence: Homeowners are being forced to pay for coverage even when they don't want it and can no longer afford it.

"We feel like we're being blackmailed into carrying wind coverage," said Diane Boudrieau, after her carrier, State Farm, told them, in effect, it was all or nothing. "It should be my decision. I know I'm taking the risk in case a hurricane hits."

The law does not apply to companies writing policies in the designated wind pool area -- in South Florida lying generally east of Interstate 95 and in some areas east of U.S. 1 -- where private insurers are not required to cover hurricane losses.

Homeowners in those coastal areas often have two insurers, the state-run Citizens Property Insurance for hurricanes and a private company for other coverage. There, homeowners without mortgages can go without windstorm policies.

The idea of going bare has gained currency among homeowners as a possible alternative to paying wind premiums, which have soared in Florida over the past two years.

But since mortgage lenders require a windstorm policy, only a small percentage of the insured public can realistically entertain the idea. Even for those who own their homes free and clear, finding an insurer willing to offer partial coverage could prove difficult -- even for those who may want to drop their Citizens Property Insurance policies and keep only the homeowners policy offered by their private company.

Experts say insurers are extremely reluctant to write partial policies based on risk factors other than windstorms.

FRAUD CONCERNS

William Stander, assistant vice president of the trade group Property Casualty Insurers Association of America, said there are concerns about fraud.

He cites this example: A tree damaged by a hurricane's winds two weeks later falls onto a house only partially covered. Insurers fear the homeowner may seek to claim the roof damage from their partial policy when in fact the damage was caused by wind and is not covered.

"You could say it was the tree falling and not the storm, but who would know," Stander said.

Ralph Diaz, who paid off the mortgage on his duplex in The Roads neighborhood of Miami several years ago, has been dropped by three insurance companies since Hurricane Andrew struck in 1992.

His insurance premiums have risen from \$2,300 to \$5,800 this year, his deductible from \$2,000 to \$3,000, he said.

When his policy comes up for renewal Thursday, he's already decided to let it die, even though he knows dropping windstorm coverage likely means he'll lose his "all hazards" policy too.

"They are increasing premiums but decreasing insured value. If my duplex is demolished I won't get another rebuilt for \$148,000," Diaz said. "I'm sick and tired of feeding them this money and getting less and less in return."

Diaz plans to save the \$9,000 he would otherwise pay for premiums and the deductible. If his house is destroyed, he said he would move to his new home in North Carolina.

``No one is willing to lose their house, but they're not giving me much of an option and I'll be darned if I am going to put money in someone else's pockets and not get service. I'm just fed up with making someone else rich."

FEW OPTIONS

If you want to go bare, you have a few options.

Surplus lines insurers, which the state doesn't regulate and negotiates rates on a policy-by-policy basis, may be more likely to offer hazard-only policies, because the law doesn't prohibit them from doing so. Ana Miron, who sells insurance for Florida Trust Insurance in Miami, said more clients are inquiring about these carriers. But she cautions these policies carry their own risk.

"Customers are taking a very big risk and that is by going with offshore markets like Lloyd's of London, which is not admitted or approved," Miron said, adding most insurance brokers, fearing lawsuits, will sign customers with surplus lines only as a last resort.

By law, a customer needs three rejections from regular carriers before they can apply to surplus lines carrier.

However, Matt Wester, a spokesman for the Florida Surplus Lines Service Office, said many of these surplus carriers, like their regulated counterparts, may not be eager to do it.

Some association members were seeing a modest increase in the number of policy sales that exclude windstorm coverage because they can offer savings, Wester said.

"Homeowners could see savings of around \$500 on their premiums, but savings could be as low as 25 percent of the rate or as high as 80 percent," Wester said.

Miron and Allstate agent Jerry Chavez said increasing numbers of people are also buying dwelling policies in an effort to circumvent crushing premiums.

A dwelling policy covers rental or investment properties and protects the structure of a building, but not its contents. It also doesn't cover liability in case someone is injured on the property.

The catch: the owner cannot live on the property.

Miron said an elderly customer recently decided to move out of her house and rent it. She's willing to live with family for the drastically reduced premiums until the insurance crisis is resolved.

Not everyone is so honest.

"People are buying a dwelling policy on a home they are living in to get a lower premium, but if they have a claim and the insurance company finds out about they have been living there, they are not going to pay the claim. They can legally deny the claim on the basis of material misrepresentation," Chavez said.

He said he's corrected many policies over the past six months of people who are often finagling their insurers.

The smartest option for homeowners who can pay off their mortgages is to opt for a higher deductible, insurers said.

That's ultimately what the Boudrieaus had to do. To lower their premiums from \$2,505 to \$1,500, they will now have to cover the first 10 percent of the insured value of their home before they file a claim with State Farm.

Stander said he believes they are better off. "I would never advise anyone, not my parents, not to purchase windstorm insurance," he said. ``That's insanity. That's not rolling the dice. It's putting a gun to your head."