



West News

Wildfire Victims Question Industry's Cost Calculator

By Elliot Spagat
July 12, 2004

Don Robinson says his Residence Mutual insurance policy pegged the cost of replacing his San Diego home at \$233,000. After Southern California's wildfires destroyed the 40-year-old biologist's four-bedroom house last year, a contractor told him it would cost \$460,000.

Hundreds of other homeowners are also finding their coverage was inadequate, raising the question of what went wrong. Some industry critics and attorneys suing on behalf of homeowners have a theory: Insurance agents may be misapplying software that estimates the cost of replacing a home and coming up with lowball numbers.

In Robinson's case, a popular software program's quick survey puts the cost of replacing his home at \$249,000, pretty close to the coverage he bought. A more detailed questionnaire estimated \$427,000, much closer to what his contractor said he will need.

Critics say insurance agents may be writing policies with the quick survey, which requires only a few keystrokes. It asks for a home's ZIP code, year of construction, square footage and a few other questions. A more detailed survey, which takes into account details such as whirlpool spas and fireplaces, takes more time to complete but offers more accurate estimates.

California Insurance Commissioner John Garamendi's office is studying the industry's use of replacement-cost calculators in its investigation into complaints by victims of last year's fires, which destroyed more than 3,600 homes. Underinsurance accounted for 219 of 445 complaints his office had fielded as of June 28.

After hearing dozens of complaints in April at homeowner meetings in San Diego and San Bernardino counties, Garamendi said agents may have deliberately lowballed the cost of replacing homes in an effort to sell more policies. He hasn't set a date to complete the investigation.

A spokesman for an insurance industry group denied that agents deliberately give low estimates when writing policies, saying that underinsuring homes would deprive companies of additional premiums. He said the replacement-cost calculators, while not perfect, have performed well.

"It's not an exact science," said Peter Moraga of the Insurance Information Network of California, an industry group. "It's ultimately up to the homeowner to try to ascertain if (the coverage) is enough."

The complaints have cast a spotlight on Marshall & Swift/Boeckh LLC, an obscure company based in New Berlin, Wis., that says its software can pinpoint the cost of 100,000 construction items, tailored to every ZIP code in the United States and postal code in Canada. The numbers are updated every three months.

Homeowner attorneys haven't faulted Marshall & Swift, which isn't named in a spate of recent lawsuits. Instead, they suggest that insurance agents are using Marshall & Swift's shortcut survey called Quick Quote instead of the more time-consuming questionnaire.

"If used properly, the software can spit out pretty accurate numbers," said Jerry Ramsey, a Los Angeles attorney who has sued on behalf of 30 homeowners and plans about 20 more lawsuits, including one seeking class-action status against Farmers Insurance Co. "We have no ax to grind with Marshall & Swift. It's merely a tool that, if used improperly, gives inaccurate results."

Peter Wells, senior vice president of Marshall & Swift, says the abbreviated survey is designed to let agents give shoppers a ballpark estimate of what kind of coverage they may need, often times over the phone. He insists that Quick Quote offers fairly

accurate numbers but that agents should use the more detailed questionnaire.

"The Quick Quote is really just a guide," he said.

Marshall & Swift has been raising public awareness of underinsurance, a problem that surfaces after nearly every major natural disaster. It authored a survey that found 64 percent of U.S. homes were underinsured by an average of 27 percent last year. That's an improvement over 2001, when 73 percent of households were underinsured by an average of 35 percent.

In the early 1990s, Marshall & Swift and Boeckh, then separate companies, introduced software that replaced much cruder valuation methods, such as multiplying a home's square footage by the going rate of construction. Wells said its software is used by about 95 percent of U.S. insurance companies, allowing agents to drill into such detail as, say, the difference between a carpenter's hourly wage in Oklahoma City and Oklahoma City's suburbs.

"Everybody uses Marshall & Swift," said Jeff Smith, chief executive officer of ITV Solutions Inc., a rival company based in Salt Lake City. "They have a monopoly."

George Kehrer, who founded a nonprofit group to counsel disaster victims after he lost his home in the 1991 Oakland fires, said he has tested the software on about 150 homeowners and found the Quick Quote estimates to be about 40 percent below the more detailed questionnaire. Two attorneys who are suing insurance companies say they found similar discrepancies.

One night last month in Crest, a mountain community east of San Diego, Kehrer opened his laptop computer and looked for volunteers in a roomful of about 25 people who lost their homes. Pam Mitchell, 53, raised her hand.

Kehrer tells her that the quick survey pegged the cost of replacing her home at \$331,000, pretty close to the \$358,195 limit on her State Farm Insurance Co. policy. She also had "extended" coverage to give her some extra cushion, raising her limit to \$429,834.

He then did the more detailed survey _ eliciting such details as solid oak floors, two fireplaces, two wood stoves _ and found in about 12 minutes that it would cost about double _ \$676,054, to be exact. As it turns out, an adjuster sent by State Farm after the home burned estimated \$782,000. Mitchell wept.

"It's been a while since I sat down and cried but I guess I just didn't realize what we had," Mitchell said. "It was a beautiful home that we worked all our lives for. There were no vacations, no fancy cars."

Wells, the Marshall & Swift executive, said such wide discrepancies between the Quick Quote and more detailed survey were unlikely if all questions were answered properly.

"That doesn't sound logical," he said. "You shouldn't have such a wide variation."

A State Farm spokesman, Scott Smith, declined to comment on individual cases but noted that many policies have allowances for debris removal, building-code changes and other extras that may not be reflected in the quick surveys.

About 600 State Farm policyholders lost their homes in last year's fires; between 40 and 50 have complained to regulators about being underinsured, Smith said.

Insurance officials note that years of low interest rates led many homeowners to remodel their homes, potentially leaving them with inadequate coverage.

"A lot of times people take things for granted," Smith said. "Maybe they don't tell their agent about their new hardwood floors or upgraded kitchen."

Insurance industry officials also say that replacement costs tend to skyrocket after major disasters. "You have such a demand surge in catastrophes like these that a contractor can charge \$300 (a square foot) when he charged \$150 the day before," said Paul Rubicam, senior vice president of operations at Residence Mutual Insurance Co.

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