

INSURANCE COSTS WILL RISE



The Birmingham News/Jeff Roberts

Only rubble was left on the site of Hill's Carpet and Floor Coverings in Concord after the April 27 tornado.

Policyholders found satisfaction, frustration

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The big tornado born in the western skies that mauled Tuscaloosa also destroyed Hill's Carpet and Floor Coverings in Concord, a 30-year veteran of the business scene in the Jefferson County town.

But the company barely missed a day of business, moving immediately into temporary quarters from which it quickly began serving

neighbors in their own rebuilding efforts.

Soon, a newer and even handsomer Hill's Carpet was under way, and by last month, the building was finished and occupied. Bill Hill, the owner at the time, said a swift and trouble-free response from his insurer, State Farm, made all the difference.

Others have a different tale to tell about their insurance companies,

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THE LEGACY of APRIL 27 Insurance

Second in a series

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COMING FRIDAY

► Eye on the storm: A chronological account of events on April 27

Owner Scott Suell flips through samples at the rebuilt Hill's Carpet and Floor Coverings, which is open for business. The former owner said swift response by State Farm insurance helped the recovery.



The Birmingham News/Michelle Campbell

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The Birmingham News/Michelle Campbell

Hill's Carpet and Floor Coverings in Concord, leveled by an April 27 tornado, has rebuilt and reopened.

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including about a dozen property owners in the Birmingham metro area who have sued in U.S. District Court in Birmingham. They filed complaints last month, alleging the insurers failed to live up to their end of the bargain after trouble hit.

The divergent aftermaths tell the post-tornado recovery story when it comes to insurance.

For most Alabamians, the insurance adjusting, payout and rebuilding process worked as it should have. Only 800 complaints were filed with the Alabama Insurance Department after the outbreak. More than 95 percent of claims stemming from the April 27 storms have been fully or partially settled, according to the department, on 200,000 claims for \$2.5 billion in damage. The tornadoes of last April formed the worst event ever for the insurance industry in Alabama, surpassing the \$2 billion in damage caused by Hurricane Ivan in 2004.

While the outcomes

and frequency?" Hill said. "Yes, that is how the market works."

Lawsuits

Still, gripes remain. Last month, the first federal lawsuits against insurers filed by property owners showed up in U.S. District Court in Birmingham. There are 11 of them, alleging the following insurers failed to live up to their contract after the tornadoes: State Farm, Travelers, Allstate, Hartford and Foremost.

Texas lawyer Jason Byrd, the lead attorney, said most disputes with insurers that end up in court come down to a disagreement on what things are worth — whether it's the house or its contents or the materials to be used in repair.

"Insurance adjusters aren't the tall guy with the deep voice saying you are in good hands," Byrd said.

It is no secret, he said, that insurance companies and their customers sometimes disagree on verifiable value.

"We see total losses, no house left at all, where insurers will dispute the extent of the damage," Byrd said. "We see consistent

far out of 130,000 claims filed with her organization's members is a good record.

She also said policyholders should always read the fine print in their insurance policies, but that most insurers include special letters in bold type when material changes such as higher deductibles are part of a renewal.

Not profitable

Carter agreed that areas regularly hit by natural disasters will have higher insurance rates.

"Homeowner's insurance in Alabama is not profitable and has not been for several years," Carter said, citing the recent string of storms and tornadoes.

But overall, insurance is profitable for many companies. Last year, State Farm had net income of \$800 million, while Allstate earned \$788 million. Alfa's largest affiliate, Alfa Mutual Insurance, lost \$85 million, according to Insurance Department records.

The business is based upon underwriting, said Joe Fuller, an independent insurance broker in Birmingham since the 1960s. Underwriting refers to the

haven't been the same for all, one thing is certain for everyone going forward — the part of insurance premiums that can be attributed to higher risk from damaging weather will rise as long as destructive weather rips through the state.

According to Insurance Department records, about 20 insurers have had rate increases approved by the department commissioner since September 2011. The requests for increases have ranged from about 5 percent to as much as 20 percent.

The largest homeowner's insurance company in Alabama, State Farm, requested a 5 percent increase, while No. 2 rival Alfa came in at 20 percent. The third-largest, Allstate, was approved for a 9.9 percent increase.

The rate increase requests are probably not over. The Insurance Department says most requests come late in the year, and that more are likely in response to the 2011 storms.

But the recent rate requests might not even reflect the 2011 storms. That's because Insurance Department regulations mandate that insurers recoup catastrophe losses over a 20-year period, not in one year. Rate increases must be based on 20-year windows of damage trends, and events like April 27 don't happen that often.

"April 27th was a once-in-250-years event," Alabama Insurance Commissioner Jim Ridling said.

State Rep. Mike Hill, R-Columbiana, said higher insurance costs are a certainty for disaster-prone areas. He is the chairman of the insurance committee of the House of Representatives, charged with legislative oversight of the industry that is the largest contributor to the state general fund through the tax on premiums, which generates about \$250 million a year.

When it comes to rates and premiums, carriers must be able to charge enough to cover a reasonable estimate of losses, Hill said.

"If that is not the case, it is not insurance at all," he said. "It would be a government-subsidized enterprise scrambling to raise money from the rest of us for losses incurred by policy holders.

"Are we going to pay more for insurance if these weather events continue to occur with greater intensity

low-balling of interior damage and damage to contents."

He declined to cite specifics from his Alabama clients, citing the pending nature of the litigation. He did say that insurers overwhelmed with a widespread tragedy wind up using lightly trained, inexperienced, part-timer adjusters.

"You get a triage mentality," Byrd said. "Slap on bandages."

Byrd also warned policyholders not to get complacent even if their claims are handled to their satisfaction. He advises to look for changes such as increases in deductibles. The increases are often about 5 percent, Byrd said, and are often contained in renewals and go unnoticed unless the policyholder is looking for them.

"Five percent isn't nothing," Byrd said. "Five percent can be your roof."

Renee Carter, spokeswoman of the Alabama Insurance Institute, which represents some insurance companies doing business in the state, said it happens after every disaster—people are flummoxed by the terms of their homeowner's insurance.

"People confuse the market value of their home with the replacement cost," she said. "They are not the same thing."

Most disputes stem from this, Carter said. That a home that might sell for about \$250,000, she said, has no bearing on what it will cost to replace it with similar materials and workmanship. Often, the replacement cost is far lower than the market value. In other cases, people simply don't have enough insurance coverage to replace the home, Carter said. An example, she said, would be someone carrying \$100,000 of insurance when replacement costs would be \$200,000.

Another dispute-prone area is the contents of a house. Without a full, up-to-date inventory, it is unlikely insurers will pay the full amount that policyholders expect.

"Most people," she said, "have trouble remembering what is in a suitcase they packed the night before. Imagine trying to remember everything in your house after a disaster."

As for the lawsuits, Carter said she couldn't comment, other than to say every business carries litigation risk, and that 11 lawsuits so

science of gauging risk and charging enough to cover expenses, losses, capital reserves and profit while not driving prospective customers to rivals in search of a better bargain.

"The hard part is with storms, because you don't know what the Good Lord is going to do," said Fuller, of Stead & Fuller.

When it comes to setting rates, he said, the law in Alabama has three requirements:

► **Adequacy.** That means the rates will earn enough in premiums for the insurance company to pay expected losses. It does no good to have a broke insurance company, he said.

► **Reasonableness.** That means rate increases are affordable.

► **Fairness.** That means rates are not "unfairly discriminatory." Insurance companies are free to charge more for additional risk. What they cannot do is take similar parties and charge one of them more than the other based on arbitrary factors such as race, income or disability, Fuller said.

The tornado aftermath left some people grumbling not only about cost, but also about availability. No. 2 state property insurer Alfa said soon after the storms it planned not to renew 72,000 properties. Company spokesman Jeff Helms said this week most of those were policies sold to landlords to cover rental properties that should not have been written as homeowner's insurance in the first place, and that the number has been revised to about 60,000. None of the properties that weren't renewed suffered tornado damage last year, Helms said, adding that the plan to drop the rental policies was long in the works.

So, homeowner's insurance is widely available throughout the tornado-prone areas of Jefferson County, and at competitive prices from many companies in stiff competition with each other, said Carter, the industry spokeswoman.

And according to Alabama Insurance Department rules, a claim for damages from a single natural disaster cannot be the sole reason an insurer drops a customer.

"We have had a significant number of non-renewals," Carter said. "But there is plenty of capacity to absorb it, with others coming in to write the business."