THE MOST COMMON INSURANCE MISTAKES

Herb Denenberg Column For February 08, 1999

Here are some of the most common insurance mistakes that cost the American people billions of dollars every year. Chances are you've made some of these mistakes so eliminating them can save you money and prevent uninsured and underinsured disasters which are all too common.

MISTAKE NUMBER ONE: Thinking that insurance is so complicated that you let an insurance agent or company make decisions without your understanding or input.

Insurance is complicated merchandise, but you can understand enough of what you need to know to make sound decisions in buying and using coverage. Don't make this mistake and let someone else make your insurance decisions.

Remember how hard it is to find a competent doctor, dentist or lawyer. So you can be sure it's much tougher to find a good insurance agent. But even if you're lucky enough to find an honest and competent agent, the more you understand the insurance transaction the better off you'll come out. No professional, from insurance agents to doctors and lawyers, can give you the best advice and recommendations without your input. And the more informed your input, the better advice and recommendations you'll be getting.

I know a highly competent agent and one of his customers. Yet, he forgot to give one of his auto policyholders a discount even though she was entitled to one because her car had airbags. Only after she called this to the attention of the agent, did she get the discount. That kind of oversight is common.

Knowledge is power and no more so than in the insurance market.

MISTAKE NUMBER TWO: Selecting agents and companies out of the Yellow Pages or in some other fashion with little or no thought given to the quality of the agent or company.

Whether you're selecting a doctor, lawyer, dentist, pharmacist, insurance agent or any other professional give it some thought. Select an insurance agent with the same thought you'd use in selecting an doctor, lawyer or other professional.

With agents, check out their experience in the business? Are they rookies who are still in the process of being trained or are they the kind of seasoned professionals you should seek out?

Check out his educational background and his specialized professional training. For example, is the life insurance agent a Chartered Life Underwriter (CLU), the life insurance equivalent of the CPA in accounting? Is the homeowners and auto insurance agent a Chartered Property and Casualty Underwriter (CPCU), the CPA of that segment of the insurance business? Those designations are not absolutely essential; there are good agents without them. But the point is you do want an well-trained agent as well as an experienced agent. Ask friends and associates what agent they use and what experiences they've had.

Check out the company. Ask the agent (or company, if you're dealing directly with one) to provide you with the financial rating of the insurer from each of the rating services -- A.M. Best, Duff & Phelps, Moody's Investor Services, Standard & Poor's, and Weiss Ratings. You want a company with high ratings. For example, the three top ratings from A.M. Best are A++, A+, and A. A good company will provide potential customers with their financial ratings without even being asked.

The best summary of ratings for life insurance companies can be found in a newsletter, The Insurance Forum, published by Joseph M. Belth. It gives the ratings of four of the major rating firms. The October 1998 issue of the newsletter, which contains the ratings for $20 by writing The Insurance Forum, POB 245, Elletsville, Indiana 47429-0245.

Financial ratings can be obtained in many libraries, by a direct call to the rating service (sometimes for a fee), or on the Internet.

You may also want to check how the company is rated for claims, services and complaints. Consumer magazines, such as Consumers Reports, publish such ratings. Some insurance departments also publish complaint ratings.

MISTAKE NUMBER THREE: Waiting to try to understand the policy until after there's a claim or some later date -- instead of understanding the policy before buying the policy. Too many people do their work and study when it's too late. For example, when you buy a life insurance policy you get a 10-day free look during which time you can return the policy and get a full premium refund. So make sure you understand the policy and the deal before you finally accept the policy. When buying other kinds of insurance, there may be no free look, so understand the policy before you buy it.

There's another reason to know what is in your policy. You may discover coverage for losses which you would otherwise assume to be uninsured. The best example of unexpected coverage is that provided by the homeowners policy, which is remarkably broad and sweeping. For example, the homeowners policy considers a family cemetery plot or burial vault as part of the insured premises. So your coverage under the homeowners policy applies to a graveside which you may own in a far off cemetery. Another example. Along with the dwelling, the policy covers "materials and supplies located on or adjacent to the residence premises for use in the construction, alteration or repair of the dwelling or other structures on the residence premises." There are other countless examples of coverage you might not expect.

Equally important, your policy will tell you what it doesn't cover. That suggests you may need other kinds of coverage. Most notably, the homeowners policy doesn't cover flood. If you have a flood exposure, you need a separate policy.

MISTAKE NUMBER FOUR: Buying coverage and then forgetting about it for years despite changes in circumstances. This has led to disaster for policyholders. For example, after a major fire, windstorm or other disaster, policyholders typically find out they did not carry enough coverage on their homeowners policy. You can't take out a homeowners policy and years later assume the amount of coverage will still be adequate. The Insurance Information Institute says, "If the limits of your policy haven't changed since you bought your home, then you're probably underinsured."

You should periodically reevaluate your coverage. The same goes for other policies. If your family situation changes, you may have to change your life and other coverage. For example, after a divorce you should take your ex-spouse out of the beneficiary designation of your life insurance policy (unless for some reason you still want the ex-spouse to collect after your death).

A first rate company or agent will systematically question you upon each policy renewal to make sure no updating is necessary. For example, here's what USAA, a highly regarded insurer, asks upon renewal of its Personal Articles Floater (which covers jewelry, silverware, fine arts, cameras, musical instruments, and golfer's equipment that may not be adequate insured by a homeowners policy): "Do you still own all of the property (insured)? Are the values of the items accurate? Have you acquired any additions jewelry, etc.? "

If your agent or company fail to systematically check on whether your policies need updating, you should consider looking for a better agent or company. Quality agents and companies maintain their interest in policyholders, even after they've collected the premium.

Every year American throw away billions of dollars because of common insurance mistakes. They may buy coverage they don't need. They may not buy coverage they do need. They may overpay and fail to collect on legitimate claims. They may grossly overpay for coverage. They may insure in companies that are financially shaky.

The catalog is endless, but here are some more of the most common mistakes of consumers in the insurance marketplace.

MISTAKE NUMBER FIVE: Failing to document your property so you can prove your loss when it occurs. Assume the worst: you have a fire that destroys your house. Could you remember all of the property in that house and what it was worth? And could you prove it to some claims adjuster? The Insurance Information Institute suggests a test: Sit down and from memory try to list all the property and its value in one of your rooms. You'll learn fast you'd be in a hopeless situation if you wait till after your property is destroyed and then try to construct an inventory.

You should make an inventory of your household property, listing your property in each room. If possible you should also include any appraisals you have, receipts, and purchase contracts.

You can supplement your inventory with video camera record or still picture record of each room in your home.

Put your inventory and other records in a safe deposit box or someplace else where they won't be destroyed in the event of a loss.

Chances are you'll get your claim settled faster and more satisfactorily if you keep a detailed inventory, says Jeanne Salvatore of the Insurance Information Institute.

You can get a free booklet explaining all this by calling the National Insurance Consumer Helpline at 800-942-4242. The booklet is entitled "The Home Inventory." That hotline is maintained by the Insurance Information Institute, and is a useful source of insurance information. The III is an association established by the property and liability insurance industry.

If you have property of high value, such as an expensive diamond ring, you should have an appraisal by a qualified jeweler. That appraisal should include a picture of the diamond, a diagram of it showing all inclusions and other distinctive features of the stone, and a full description of it. An expert appraiser and jeweler, David Craig of Bucks County (PA), says the key to proving an insurance claim on a diamond is a good appraisal. Without one, you're likely to get into a major dispute with the claims adjuster after a loss.

MISTAKE NUMBER SIX: Buying unnecessary insurance. There's a long list of policies that don't make sense for most people, but yet are aggressively marketed and sold. I've noticed that most of the solicitations I get are for unnecessary, not necessary coverage. Accident insurance probably leads the list. Most people don't need it. If you die by accident, your dependents don't need more insurance protection than if you die from a disease. So accident coverage typically doesn't make sense. It's just a piece of a life insurance policy, and leaves you unprotected unless you die by accident.

Other unnecessary coverage include, for example, cancer insurance and other forms of dread disease coverage, life insurance on children, life insurance on those without dependents, and airline flight insurance and double indemnity in a life policy (which are other kinds of accident insurance).

MISTAKE NUMBER SEVEN: Neglecting necessary coverage. Perhaps the most neglected kind of insurance is disability. The marketing of life insurance is so over-emphasized, with the traditional selling of the wrong kind of coverage, and coverage to those that don't even need it, that disability often gets neglected or overlooked altogether.

Disability can sometimes create more catastrophic losses for a family than even the death of the breadwinner. With disability, especially if long-term, you not only have loss of income but also huge medical and maintenance expenses.

Another coverage often neglected is liability. It may be carried in the homeowners and auto, but it is often carried in inadequate amounts. Someone may carry only the minimum limits required by the law, but that may be woefully inadequate. For example, in Pennsylvania you can carry as little as $30,000 of coverage for liability for personal injury or death. Just imagine your car hitting another vehicle loaded with high-paid executives or doctors. Or you may have the minimum of $5,000 coverage for liability for property damage. Imagine yourself hitting a $100,000 tractor-trailer loaded with $500,000 in cargo. Most people who have substantial assets to protect would do well to rethink their liability limits.

One way to solve the problem of inadequate liability limits is to take out an umbrella policy. It provides protection against lawsuits after your auto and homeowners policy limits are exhausted. It is often sold in amounts of one million and up. It does require certain minimum limits in the underlying auto and homeowners policies. A one million dollar umbrella costs about $200.

MISTAKE NUMBER EIGHT: Failure to use deductibles properly. One of the most painless ways to save money on insurance is to take the highest deductibles you can afford. This applies to auto, homeowners, and some forms of health insurance. For example, Jeanne Salvatore of the Insurance Information Institute says that under the rules of some insurers, by going from a $250 deductible to a $500 deductible, you can cut your collision premium 12 percent. by going to a $1,000 deductible you can save up to 24 percent; by going to $2,500 you can save 30 percent; and by going to $5,000 you can save 37 percent.

Here's another way to see the power of deductibles with a specific auto insurance illustration from State Farm, the largest auto insurer in the country. If you have a collision coverage with a $250 deductible billed at $191.33, you can cut the premium to $157.13 by going to a $500 deductible; and to $102.22 with a $1,000 deductible.

Waiting periods, also called elimination periods, and co-insurance provisions are forms of deductibles that can also dramatically cut premiums, but are used in different kinds of policies. For example, you can notch down your disability premiums almost as much as you want, by selecting a longer waiting period (say delaying payment of disability benefits to 30, 60, 90 days, or more after the disability commences).

MISTAKE NUMBER NINE: Failure to consider other money-saving options. Under no-fault in Pennsylvania, you can elect limited tort rather than full tort coverage. If you elected limited tort, you can't recover for pain and suffering losses unless you incur certain serious injuries as defined by the law. If you elect limited tort you can save about percent across the board on your auto coverage. With auto insurance being so expensive in many areas, that can be a sensible option. It's not ideal, but for many it is a sound trade-off. Everyone doesn't want to pay for the Cadillac of coverages. Limited tort is underutilized as some agents don't like to recommend limited tort as it cuts their commissions. They also fear that if there's a claim not paid because of limited tort (for example, pain and suffering in a minor whiplash), their customer will complain and not remember the limited-tort election.

MISTAKE NUMBER TEN: Buying whole life rather than term. The life insurance industry has been traditionally geared up to sell whole life, and downplay the benefits of term. For most buyers, term makes more sense, carries a much lower premium, and makes coverage more affordable. Another advantage of term is that it is more easily understood and price comparisons are easier to make. There are occasions when whole life makes sense but they are the exception rather than the rule.

MISTAKE NUMBER ELEVEN: Assuming that all claims denials are well-founded. It is not uncommon for claims adjusters to make mistakes or to unfairly deny or scale down a claim. Critics of the industry say that some adjusters actually engage in nullification of contractual rights by denying legitimate claims on the assumption that the policyholder will just give up and go away. So if your claim is turned down make sure you understand why and check to be sure the denial is justified. Ask the company to explain the denial in writing, citing the provisions of the policy that are relevant and explaining their decision.

MISTAKE NUMBER TWELVE: Many consumers still do not fully appreciate the huge variations in premiums in almost all lines of coverage. Price comparisons are sometimes readily available, sometimes free and sometimes for a fee. Insurance departments, including Pennsylvania, now publish shopper's guides with premiums for auto, homeowners and other forms of coverage. Consumer Reports will make an auto insurance premium search for you for a fee. It also often prints surveys of premiums in various lines as do other consumer magazines. Many companies provide a free-service of providing premium quotations from different kinds of companies for term life insurance.

If you're using agents or brokers, make sure they've shopped for you. Agents often have access to many companies, but may not give you the best deal unless you push them a little.

MISTAKE NUMBER THIRTEEN: Overlooking the special insurance problems for the home based business. Your homeowners policy may only cover business equipment for up to $1,000 and provide no coverage for business liability. So you check your exposure, and consider amending your homeowners policy or buying a separate policy to cover your home business exposure.

You should read everyone of the "special" limits of liability in the homeowners policy, as it will give you clues as to gaps in the coverage. Here's the way one provision reads on the limit of coverage for home office property: "$1,000 on property used or intended for use by a business, including merchandise held as samples for sale or for delivery after sale, while on the residence premises. This coverage is limited to $250 on such property away from the residence premises."

For some free publications on insuring a home business call the Insurance Institute's National Insurance Consumer Helpline at 800-942-4242. You can also check its web site at http//www.iii.org.

MISTAKE NUMBER FOURTEEN: Failing to appreciate the disadvantages of group insurance. Most people see the words "group insurance" and assume it is better than coverage purchased on an individual basis. But group insurance often has serious disadvantages. For example, you may carry group disability insurance for years, leave your employment, and then find you cannot convert your coverage to an individual policy.

You may be able to convert life insurance, but it may be to coverage that carries a much higher premium than you would get if you were in good health. If you are in good health, you can shop for a better deal. But if your health has deteriorated during employment, you may have to stick with the group coverage at the inflated premium. What's more, your group coverage may give your employer access to confidential medical information that may be used to your disadvantage.

MISTAKE NUMBER FIFTEEN: Not keeping old policies. Don't throw away your insurance policies after their expiration date. On some kinds of policies, covered claims may arise long after the expiration date. So you'll want to hang onto them beyond the date of expiration.

HERB DENENBERG BIO

Herb Denenberg has been an investigative and consumer reporter, columnist and advocate for over 25 years. Before that he served as Pennsylvania Insurance Commissioner (1971-1974), Pennsylvania Public Utility Commissioner (1974-1975), and Professor at the Wharton School of the University of Pennsylvania (1962-1970).

He was the consumer and investigative reporter for the CBS and then the NBC TV station in Philadelphia for 25 years, and more recently served in that capacity at the Harron Cable Update and the Adelphia Cable update, both nightly newscasts, and for the Tri-State Media All-News Cable Network. He is also a columnist for a group of papers in Pennsylvania and New Jersey and appears as an expert witness cases against insurance companies involving bad faith denial of claims and other matters.

He is now an adjunct professor of information science and technology at Cabrini College. He has also served as an assistant professor of insurance at the University of Iowa and a professor of law at Temple University.

He has won hundreds of awards for his media work, including 40 Emmys, the Consumer Service Award of the Consumer Federation of American, the Award of Achievement from the American Board of Trial Advocates, an award for the best in consumer journalism from the National Press Club and a Lambert Award for contributions to the health care delivery system. During Denenberg's tenure as Pennsylvania Insurance Commissioner, Ralph Nader wrote, "He's clearly the most consumer-oriented insurance commissioner in American history." As a result of the health care reforms he implemented as Commissioner, he was elected to the Institute of Medicine of the National Academy of Sciences. His motto as Insurance Commissioner, was "Populus Iamdudam Defutatus Est" which translated from the Latin is "The Consumer Has Been Screwed Long Enough."

Denenberg is a graduate of Johns Hopkins University (B.S.), Creighton University School of Law (J.D.), Harvard University School of Law (LL.M.), and the University of Pennsylvania (Ph.D.). He also received two honorary degrees, a Doctor of Humane Letters from Spring Garden College and a Doctor of Laws from Allentown College. He is a CPCU (Chartered Property and Casualty Underwriter) and a CLU (Chartered Life Underwriter).

For three years he served in the Judge Advocate General's Corps of the U.S. Army as a first lieutenant and and was a captain in the reserves.

He is the author of seven books and hundreds of articles on insurance, law, and consumer affairs. He has testified many times before Congressional committees, state legislative committees, and the City Council of Philadelphia.

He has served on the board of Consumers Union, the publisher of Consumer Reports, and is now on the board of the Sapio Institute (on interactive learning) and the Center for Proper Medication Use. He served as President of the American Risk and Insurance Association. He recently authored a Shopper's Guide to Herbal Medicine published by the Center.

Denenberg has served as consultant to the US Department of Labor, the US Small Business Administration, the National Commission on Product Safety, the FTC, the US Department of Justice, the US Department of Transportation, the John F. Kennedy Center for the Performing Arts, the Philadelphia School Board, the State of Alaska and Nevada, the United States Commission on Civil Rights, and other government agencies. He was special counsel and research director of the President's National Advisory Panel on Insurance in Riot-Affected Areas; associate director of the Wisconsin Legislature's Law Revision Committee, special counsel to the Mayor of Washington D.C., and general counsel of the Pennsylvania Public Utility Commission. He was a co-author of the first no-fault
law passed in a United States jurisdiction (the Social Protection Plan of Puerto Rico). He also instituted a long list of fundamental reforms as Pennsylvania Insurance Commissioner.

Denenberg has an entry in Who's Who in America, Who's Who In Insurance, Who's Who in Health Care, Who's Who in Science and Engineering, Current Biography, American Men of Science, Who's Who In World Jewry and other standard biographical reference. His biography, authored by Howard Shapiro, is entitled "How to Keep Them Honest" and was published by Rodale Press.