Insurance poll highlights downsides to filing a claim
Widespread misunderstanding of rental car insurance also found

More than two-thirds of respondents had their homeowner’s insurance premiums increased after they filed a claim, according to an online insurance poll conducted by Consumer Action from Sept. 17 through Oct. 9. One in five said that the insurance company did not renew the policy after a claim was filed.

The poll of 800-plus people was designed to learn about what types of coverage is carried by households and to gauge consumer knowledge on the particulars of various types of insurance. Overall, the survey found that consumers appear to recognize the benefits of being insured and the value of paying premiums to ensure this protection.

The poll also displayed that consumers have a good knowledge of the ins-and-outs of insurance. However, widespread confusion exists about what is covered by credit card rental car insurance.

The survey was taken by 828 people. Of those, 96.5% (799) have auto policies, 75.1% (622) have homeowner’s insurance, 64.9% (537) have life insurance and 9.2% (76) have renter’s coverage.

**Auto insurance**

The U.S. is a nation of drivers, so it was no surprise that 799 out of the 828 respondents had auto insurance. Of the 576 people who had filed an auto insurance claim, a whopping 92% said that their premium had been increased following the claim. More than 10% said that their policy was not renewed following a claim.

Most people (41%) insured two cars in their households, while 31% insured one. The majority paid between $1,001 and $1,500 per year for auto coverage, while 26% paid less than $1,000.

**Consumer knowledge**

Respondents were very well informed about most insurance issues in the survey, however credit card rental car insurance emerged as a widely misunderstood topic. Many credit cards provide “collision” insurance that protects consumers in case of damages from a rental car.

**What’s inside?**

1. Understanding insurance services (including homeowner’s insurance, auto insurance, health insurance and life insurance)
2. Pay-as-you-drive
3. Renter’s insurance
4. Choosing insurance
5. Insurance scoring

**Consumer Action debuts new insurance education web site**

By Linda Sherry

Consumer Action’s new Insurance Education web site is a free online clearinghouse for educational materials about the multitude of consumer insurance products and the need for adequate insurance coverage.

The site can be reached from Consumer Action’s web site, or directly at www.insurance-education.org.

Despite the efforts of many nonprofit organizations and government agencies, there is still a critical need for insurance education across many populations—students, young working adults, low-income people, immigrants, the uneducated and older Americans.

“Financially literate consumers are more confident about their money management skills and thereby make more successful personal financial choices,” said Executive Director Ken McEldowney.

“Our new insurance web site is yet another valuable resource we offer to help promote financial literacy.”

The site will feature Consumer Action’s award-winning multilingual educational projects targeting consumers with low financial literacy levels and limited English-speaking ability. The Insurance Education Project is also providing training materials and curricula to community-based organizations (CBOs) nationwide.

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**Consumer Action honors excellence in consumer advocacy**

By Michelle de Mooy

Consumer Action celebrated 37 years of advocacy and service on June 21 at The Atrium restaurant in San Francisco. The annual gala raised more than $40,000 and the guests included activists, consumer reporters, staff members, longtime and new supporters, and award recipients.

At the event every year, Consumer Action presents its Consumer Excellence Award in three categories: Community, Advocacy, and Media. The awards pay tribute to community-based activists or organizations, media outlets, and lawmakers who have demonstrated a strong commitment to fighting on behalf of important consumer issues.

**Awardees**

The 2008 Consumer Excellence Award for Outstanding Advocacy was awarded to the California Reinvestment Committee for its tireless advocacy on behalf of low-income and minority communities. The CRC seeks to increase access to banking and other financial services for these communities.

Consumer Action Deputy Director of National Priorities Ruth Suewoon presented an award for Outstanding Consumer Advocacy to Pam Dixon, founder and Executive Director of the World Privacy Forum. One of the nation’s foremost privacy advocates, Dixon has written numerous ground-breaking reports on privacy and has been responsible for the enactment of California legislation protecting consumer medical privacy.

This year’s Outstanding Consumer Journalism award went to Herb Weisbaum, otherwise known as “The ConsumerMan.” Weisbaum, ConsumerMan on MSNBC and a consumer reporter for KOMO in Seattle, WA, has covered consumer issues for almost 30 years.

See “Annual event,” page 7

**What’s inside?**

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2. FDIC bank insurance
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The right rental car coverage can smooth your ride

By Ruth Sauswein

You're coasting into the airport with plenty of time left before your flight. All that's left to do is return the rental car and gather your luggage. Then you sign the contract and, by another rental car customer and there's some real damage to the back bumper and taillight. You rent the car with your credit card and it has collision damage waiver (CDW) insurance. Not to worry, you're covered—right?

It depends. Typically, your personal auto insurance policy kicks in first and your credit card coverage is secondary, according to the Insurance Information Institute. What's more, if you cause an accident or damage someone's car, health or property, the credit card CDW coverage does not apply.

When booking your trip, check out your coverage. Ask if your personal policy covers you while you are driving a rental car? Learn how much collision and liability coverage you have under your personal policy and what the gap is if any.

Call your credit card issuer to learn if you have coverage for rental cars. Ask if additional drivers who are not cardholders are covered. Find out if the card will cover rental car companies' "loss of use" charges. American Express, for instance, offers CDW coverage on all cars but not if you upgrade to the coverage for a fee. You must pay for the rental car with the credit card to be eligible for coverage.

Limitations

Credit card rental car insurance is not personal liability insurance. It will pay for damage to the car, such as a hit-and-run scrape or a windshield broken by a pebble. It will pay for a stolen rental car. But it will not protect you from liability or personal property damage while driving the rented car. Your personal policy is what covers you.

Some credit card CDW insurance does not provide coverage when you rent a car in another country. Some policies limit coverage to one month which can be a problem for long term travel. Make sure credit card policies exclude coverage for specialty cars, sports cars, even SUVs. Even if your CDW coverage applies, it may only cover "Insured's" while the car is being repaired and cannot be rented. This cost may be covered if you buy insurance through the rental car company. Lastly, it's worth knowing if any of your policies cover towing charges in case of a break-down or accident.

Everything covered? If not, ask for a ‘rider’

By Linda Sherry

The insurance industry refers to additional coverage for something specifically not covered in a primary policy as a "rider." In most cases, when a rider is added to a basic insurance policy, the policyholder is required to pay extra for the additional benefit. If your insurance company allows it, riders can be added to most forms of insurance including auto, homeowner's and life insurance policies.

Typically, riders are separate coverage attached to the main policy. "Endorsements" are similar but they usually amend the actual policy language.

Insurance companies can also use riders (endorsements) to limit coverage or restrict coverage. For example:

- Health care plans may use a rider to exclude coverage of pre-existing conditions.
- Homeowner's policies may not pay for wind damage above a certain dollar amount specified in a rider.

Gaps in coverage

In homeowner's insurance coverage of expensive luxury items is usually limited or exempted. To address this gap in coverage, riders are added to insure specific artworks, electronics, jewelry, collectables and other rare or costly items not covered in the basic policy. Typically, the premium for this luxury or collectible items are based on each $100 or $1,000 of their value, for example 25¢-$1.50 per year per $100 of its value. Items covered by a rider should not count against your overall coverage for the contents of your home.

Depending on the insurer, you may be able to add riders to your homeowner's policy for guaranteed replacement cost, inflation protection, building code upgrades required by law and sewer and drain backups. For instance, if you own an old house, your insurance may not cover the cost to rebuild it to meet new building codes, which may be significant—more expensive than rebuilding your home as it was. A code coverage rider would cover the additional cost of building to meet current ordinances.

Recreational vehicles

Many homeowner's policies don't cover boats and recreational vehicles stored in your garage or driveway. It's possible to add a rider to your policy to cover these vehicles.

Second home coverage

Some insurance companies offer second (vacation) home coverage as a rider to your primary residence homeowner's insurance policy. You might save money by purchasing as a rider rather than purchasing as a separate, stand-alone insurance policy for a second home.

Auto insurance riders

Auto insurers have some common options for supplemental coverage. Rental reimbursement coverage pays you for renting a car if your own vehicle is damaged or stolen. Towing and labor coverage is offered to pay the costs associated with breakdown, such as a flat tire that leaves you stranded on the road side. A "gap insurance" rider will pay the difference between the cash value of your car and the remainder of your auto loan if your car is totaled in an accident.

Inventory your possessions

To make sure that you have the best coverage possible, create an inventory of your possessions that you can store in a safe place such as a bank safe deposit box. List items such as furniture, clothing, personal items, jewelry and other collectables. If you have receipts for any of the items, place them with the inventory. You can also photograph or videotape your items. The list, receipts and photos will be important if you need to file a claim.

Call your insurance provider and discuss various supplemental riders on your policy to make sure they are adequately protected. The cost of full coverage via a rider may be less than you believe.

Web site

www.consumer-action.org

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The right rental car coverage can smooth your ride

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Call your credit card issuer to learn if you have coverage for rental cars. Ask if additional drivers who are not cardholders are covered. Find out if the card will cover rental car companies' "loss of use" charges. American Express, for instance, offers CDW coverage on all cars but not if you upgrade to the coverage for a fee. You must pay for the rental car with the credit card to be eligible for coverage.

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Insurance poll
Continued from page 1
damage waiver,” or CDW, coverage when renting a car. (See related story on page 2.) Consumer Action’s survey highlights that many people incorrectly believe that the rental car insurance offered by credit cards protects them from liability for their actions while driving a rental car. The survey offered five multiple-choice answers to the question “Credit card rental insurance usually includes...” The question then listed five things that could be included as the following occurrences” Four of the six answers were incorrect (see below). Respondents were allowed to choose multiple answers; at least one correct answer was chosen by half of the respondents. Many respondents chose these incorrect answers:

• Property damage caused by you while driving the car (30%)

• Medical coverage for a bicyclist you hit while driving the rental car (12%)

• None of these (14%)

• All of these (49%)

Homeowner’s insurance
Of those with homeowner’s insurance, 39% pay annual premiums of “less than $1,000” and 17.2% paid between $1,001-$5,000. About a third (32.2%) said they had filed a claim—down 3.4% from last year. Homeowners’ insurance premiums increased for 70% of those who did not file a claim and 83.8% said the increase was expected. Homeowners insurance company, the only force which could be the cost of the company dangerous. This general practice will change and would be limited to $250,000 or the gross proceeds from the sale of or distribution of the personal property. The premium will be determined by the actuarial cost of the insurance. The insurance company must file an application with the department of insurance and the insurance commissioner before the company is licensed to do business in the state. The license is effective for one year from the date of issuance and will be renewed automatically unless notice of cancellation is filed with the department of insurance before the renewal date.
discount auto insurance plans have been cropping up in dozens of states across the country. They're often called pay-as-you-drive (PAYD) or mileage-based insurance. These pay-less programs link your insurance premium to your car's odometer. But consumer leaders caution that you ought to be eligible for discounts without giving up privacy.

In some states, you may be able to receive these discounts even without the PAYD program. The California Insurance Commissioner proposed a voluntary PAYD plan this August that would base car insurance rates partly on how many miles you drive per year. According to a Brookings Institution study, some California drivers could save about $270 per car per year.

California requires insurers to base auto insurance rates first on your driving record, second, on the number of miles driven and third, on the number of years you've been driving. Even under the new plan, the most weight will continue to be on your driving record. Thirty-four states have some form of pay-as-you-drive insurance. If you have a short commute to work and don't do much carpooling of kids to various activities, you may save as much as 25% on your car insurance premium, according to Progressive Insurance.

Contrary, you have a long commute to work or lots of carpooling those extra miles could mean higher rates. While most consumer groups strongly oppose many PAYD programs, environmental groups firmly support them. Groups like the Environmental Defense Fund expect mileage based programs to encourage people to reduce their driving by 10%-12%, and anticipate reductions in accidents, traffic, and air pollution. Insurance companies say PAYD programs help them accurately price for risk. But consumer groups stress that odometer readings could be obtained without intrusive recording.

How it works
Some PAYD programs base your premium on an estimate of the number of miles you expect to drive that year. You're charged extra if you exceed that limit or receive a check if you end up with unused miles. Other plans discount your premium up front if your mileage is below a certain level. Many companies already offer this discount without PAYD. Drivers insured with GMAC, for instance, are eligible for a discount for driving less than 15,000 miles a year.

The PAYD system works by verifying mileage. Some plans have drivers report their car's mileage but use random verification checks-every so often-to confirm the accuracy of the numbers. For its pay-as-you-drive program, GMAC uses General Motor's OnStar Global Positioning System that logs how many miles have been driven. The odometer reading is automatically sent to the insurance company. In some states, premiums are down 13%-15%.

Most consumer and privacy groups consider automated tracking devices to be completely unnecessary and invasive. In states where not only do insurers track miles, they track the speed you drive, whether you drive day or night, and how well you stop at red lights and stop signs," says Consumer Action's Executive Director Ken McEldowney. He argues that these systems violate basic principles of privacy. "Why would my insurance company need to track what time I am driving and how would that data be used? Would it change the way I drive or make me a more or less risky driver?"

Progressive's mileage based program does not use GPS tracking, but it does record the time of day and braking patterns. Progressive Insurance provides you with a small electronic device that you install under the hood of the car. The device reports data to the insurer daily. It tracks the miles you drive as well as any abrupt braking and accelerating. It also records the time of day that such readings are taken. Progressive considers midnight to 5 a.m. dangerous driving time, while rush hour is called moderately risky. The insurance company does not have access to your location.

Dangerous assumptions
As more information is tracked and transmitted about each of us, consumer groups have cautioned that mileage-based systems gather far more information than is necessary, and allow dangerous assumptions to be made without any proof of accuracy.
Travel insurance Is it worth the extra cost?
By Ruth Suzewin

Insurance is designed to protect you when catastrophe strikes. But truth be told, the last thing most of us want to think about when planning a trip. What if you have a heart attack while traveling overseas, or just before you leave? Are you covered? What if your luggage is lost on the way to giving a big presentation the following morning? If the tour operator cancels your trip, are you sure you will get back all your dollars you’ve paid? Before deciding if you need the added protection, it’s helpful to know what is covered.

A travel insurance policy may cover lost or delayed luggage, trip cancellations or delays, and medical emergencies.

**Baggage claims.** If an airline loses your luggage it may be liable to compensate you (up to $3,000 within the U.S. and up to only about $450 overseas) for lost, stolen or damaged luggage. But you must have to prove the value of the items you traveled with and face exemptions for expensive items like jewelry. Ultimately, refunds will be made on the depreciated value. (How much are those seven-year-old leather boots worth today?) If your travel insurance may reimburse up to $1,000 for lost items. Some will cover the cost of goods needed during a travel or baggage delay. You may have to buy a new suit for the speech you’ll be giving in a few hours even though your bag didn’t arrive. Remember to save receipts for those new goods if you’d like a refund.

**Trip cancellation claims.** Often you’ll be covered if you must cancel your trip because of a death in the family, jury duty, or if you (or a family member) are ill. Sometimes natural disasters, such as hurricanes or floods, or medical issues that prevent travel, are covered. Some policies will offer cancellation coverage for business or work related emergencies. Check on what kind of proof is required when filing a claim.

If you experience a travel delay of more than six hours, your policy may reimburse for missed connections on another flight or cruise. It is just as important what’s not covered. Often, pregnancy related conditions, accidents, and pre-existing conditions are not covered. Cancellations for terrorist related events are excluded.

**Medical emergencies.** This type of coverage can be very valuable if you are traveling internationally. If you get sick or injured in another country, it is unlikely your insurance will be accepted there. Good candidates for this coverage are students studying abroad, foreigners studying here and U.S. vacationers traveling overseas. But be sure you qualify for the coverage. Check on pre-existing conditions and age limitations if you’re older than 55.

Any medical emergency medical insurance may include doctors’ and hospital expenses as well as reimbursement for cancelled airline, hotels, and tour costs. Medical evacuation is another important element. Check to see how much you are covered and how long the coverage lasts. It may only last 15 to 30 days. Medical and dental costs may be covered up to $25,000 and medical transport up to $500,00 per trip.

If you must be transported for medical reasons, check to see if you or the insurer will choose where you will be treated and by whom. Travel insurance. This protection can mean the difference between insuring your trip and using unexpected events interfere. It is worth weighing the cost of your trip against the cost of the policy. If you’ve gotten a bargain on the price you may not feel the need to insure that expense, but if you’ve spent a small fortune on a trip of a lifetime you may want to protect your investment.

**Credit card coverage.** Check with your credit card issuer before buying a separate policy. Particularly if you’re a Gold or Platinum card customer, your card may automatically offer insurance at no additional cost. You may already be covered for rental car collision coverage, international medical assistance, emergency cash, etc. Credit cards also offer the added protection of being able to dispute charges for items that you never received, such as a flight on an airline that has gone out of business.

**TIP:** If you choose to buy travel insurance, purchase it from a company that is not connected with a tour or cruise you booked. In the event you operate your own business, there may be no money left for your insurance claim.

To compare the price of different travel insurance offers, visit the company or www.squaremouth.com.

Renters insurance provides affordable benefits
By Michelle De Muoy

Consumer Action’s recent insurance poll found that 84% of respondents said they paid $400 or less per year for renters coverage. More than a third paid an annual premium of less than $200. Linda Sherry of Consumer Action points to the lower cost of renters insurance, which is similar to “condo insurance” available to condo or cooperative owners, is an affordable protection. “Above all, you are protected from liability should a guest be injured in your unit,” said Sherry.

Many tenants forego renters insurance because they assume that the landlord’s insurance would pay the tab in the event of personal liability or a disaster—not true. A survey conducted by the Independent Insurance Agents of America (IIABA) of 1,000 people living in rental properties found that 64% did not have renters’ coverage.

Renters insurance is as crucial to your financial security as homeowners or life insurance. It can make the difference between losing all your belongings and losing all your dollars having to pay them to replace them.

**Who needs it?** Whether you rent from a house owner, a property manager, or even a university, if you are a student living in a dorm, you need to have a policy to protect your personal property from theft and hazards outside of your property—such as hurricanes or tornadoes. If you happen to live in a dorm, your landlord is responsible for the building— not to the new stove you installed in the kitchen that went up in flames.

Like opinions, most renters insurance policies vary. The basic categories of coverage are theft, fire, and liability. However, most insurance policies spell out what you are insured against, called “named peril,” and state specific occurrences that will prevent coverage. (Will you travel, are covered, are policies will offer cancellation coverage for business or work related emergencies. Check on what kind of proof is required when filing a claim.

How to get it
The best way to find renters insurance that suits you is to research your options. There are numerous insurance-only companies to choose from like Geico and State Farm, as well as some banks that provide renters insurance, such as Chase and Bank of America.

Check with your credit report and look at companies that provide additional information on the policy and what you will receive. Check on the price you’ll be offered for your individual coverage. (The lower your score, the higher the risk the company may feel you are, and may charge you more.)

What to ask
It’s important to find out specifically what and whom your policy covers. For example, will your insurance cover any of your roommate’s stuff? If your apartment is destroyed, will your policy cover the cost of interim housing? For how long? Ask about rates increases. Find out if your premiums can increase due to inflation, because you file a claim or because of a decrease in your credit score.

Big moments in life—like getting married or having a baby—generally mean lots more stuff, so remember to take the time to adjust your coverage.

The value of your stuff
What are your personal effects worth? Insure.com estimates the value of a typical single-person household to include the following items.

- **Furniture:** $8,000
- **TV, VCR, stereo, tapes and CDs:** $2,000
- **Home computer:** $1,500
- **Microwave:** $120
- **Other appliances:** $700
- **Clothing:** $3,000
- **Paintings, prints, photos:** $800
- **Glassware, china, and silverware:** $600
- **Sport equipment:** $600
- **Computers and related equipment:** $800
- **Boats:** $1,000
- **Jewelry:** $1,000
- **Other property:** $4,000

Go to www.insure.com or state_web_map.htm to locate your state insurance department. This site, operated by the NAIC, also offers free guides on many types of insurance.

Your credit score may affect the terms, conditions and price you’ll be offered for renters insurance in some states. Study a copy of your credit history for free at www.annualcreditreport.com (and buy a copy of your credit score for about $7 at the same site). The lower your score, the higher the risk the company may feel you are, and may charge you more.”

Consumer Action News • Fall 2008 • Page 5
Choosing a reliable insurance company
By Michelle De Muyt

In an unstable economy and a world where disasters happen, insurance is more than ever a critical financial safeguard. A large insurance company, one that will come through for you when you need it?

- Start by assessing the kinds of insurance you need. This could be anything from home or auto insurance to rent or an apartment. Are you planning to buy a new car in the next year or so? Are you expecting a child? Questions like these can help you determine the insurance products you need.

- Then go online to browse the web sites of well-known insurers, such as State Farm and Allstate, and take a look at smaller competitors' sites. Netquote (www.netquote.com) offers information about insurance companies and will provide price quotes.

Many insurance web sites provide an overview of insurance products, which you need to know, and how the policies work. A poorly designed and hard-to-read web site can be a bad sign. Always check companies with your state insurance department. The Better Business Bureau and your local Chamber of Commerce before you do business.

If you already have coverage with a certain company and you are happy with the service, ask if it offers other coverage that might suit your needs. Companies may offer discounts to customers who add new policies to their existing accounts. As always, one of the best ways to do research is to ask your friends and relatives about their experiences. Your neighbors, the car insurance companies are the customer service representatives? Have the premiums changed often and for what reasons? How quickly does the company honor claims? Is the company responsive to customer's questions?

Premiums
The premium (the money you pay for coverage) is a key factor in choosing an insurer. Consider the following:

- If you purchase your insurance through a broker, the broker will usually receive a commission. Ask what percentage of the premium is for the company and what is for the broker.
- Be aware that some companies offer insurance that is not worth your time or money. These policies are not worth your time or money.

Credit Insurance
Credit protection insurance is a good example. This is optional insurance of- fered with your credit card. It may also be offered by your bank or other financial institutions. Credit insurance might claim to cover your credit card balances if you die, are disabled or unemployed. However, except for death, this insurance is designed to pay only your minimum monthly credit card payment, or a percentage (a mere 2%-3% of your balance). Meanwhile interest is still accruing on your balance each month.

This coverage could be useful if you become seriously ill and cannot cover your credit card balances. It will help you avoid late fees and penalty interest rate hikes, at least temporarily. However, even at its best, its value is limited.

Costly limitations
The cost of credit insurance is based on your credit score. This insurance is sold by credit card issuers. The cost is high and compared to other forms of insurance. Depending on your balance, it can cost $25 to $50 or more per month. It also comes with costly limitations. Sometimes the plan will only make that minimum payment for a few short months. If you continue to be unemployed, you will be charged a fee for coverage in the following months. If you are late on your payments, you may be charged extra.

If you have a complaint about credit protection insurance, contact the insurance company and file a complaint with your state insurance commissioner. Check www.aiic.org (The National Association of Insurance Commissioners) to find your state’s commissioner.

There is no need to carry insurance for credit card debt for the sole owner of the account. If you are married and you are the only person named on the account (authorized users don’t count) no one else in your family will be liable for that debt. You will pay the interest, premiums, and if you die without money or assets, the debt dies with you.

ID theft insurance
Thieves use your personal information to create accounts in your name and steal your money. This is called identity theft. Some scammers send seemingly legitimate emails that appear to be from your bank or credit card company asking you to verify your personal information to access your accounts. This form of ID theft is called phishing. According to the Federal Trade Commission, tens of millions of people have become identity theft victims.

Many companies sell insurance to protect you if you become a victim of ID theft. While you are likely to lose more time than money with ID theft, you’ll probably be left with a big clean up job trying to convince companies and debt collectors that you’ve been defrauded. Whether its worth shelling out extra money for this coverage is unlikely.

Insurance you protect to from this type of crime would be a prorotional cost—in your homeowner’s (or auto) insurance policy. Your insurer may provide a free resolution service with access to resources to help you spot and report anti-fraud protections (like fraud alerts) on your information. Check with your insurance company to find out if you already have this coverage.

If you want ID theft coverage but it isn’t included in your existing policies, compare the cost of adding it to your homeowner’s policy as optional coverage or purchasing a standalone policy. Make sure it covers lost wages while you work to recover your lost income and expenses that you don’t owe them money. Some policies may cover only the costs of docu menting your loss, for instance copying charges and certified mail costs, but not lost wages.

If an ID theft policy offers compensation for lost wages, ask about deductibles, if there’s a limit to the number of covered days and the amount you can collect per day. Find out what documentation you will need to provide to verify a claim.

Insurance you may not need
By Ruth Suaszew

While the law mandates auto in- surance and mortgage lenders require homeowner’s coverage, some products just make good sense like health insurance, if you can afford it. On the other hand, running small business owners, you found policies are not worth your time or money.

Credit Insurance
Credit protection insurance is a good example. This is optional insurance offered with your credit card. It may also be offered by your bank or other financial institutions. Credit insurance might claim to cover your credit card balances if you die, are disabled or unemployed. However, except for death, this insurance is designed to pay only your minimum monthly credit card payment, or a percentage (a mere 2%-3% of your balance). Meanwhile interest is still accruing on your balance each month.

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Costly limitations
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Finally, you can evaluate the strength of an insurance company by reviewing its ratings. Private companies, such as A.M. Best (www.ambest.com) and Standard and Poor’s Insurance Ratings Services (www.standardandpoors.com) provide ratings based on financial strength, operating performance, overall credit, and other factors. A.M. Best’s grades’ companies on a scale of A+ to S, A+ is highest mark—this means the company has a superior overall financial picture. S ratings mean have been suspended because the company is in trouble (insolvent).

A last resort
The devastating weather that has rocked the continental U.S. in the last several years has produced yet another casualty: consumer confidence. As more and more people are realizing that insuring too many properties in “risky” geographic areas will subject them to many fees, they are beginning to limit the number of policies in these areas by dropping customers and not accepting new business. That’s where “insurers of last resort” come in.

According to the Wall Street Journal, last-resort insurers issued more than two million policies to homeowners and businesses in hurricane-prone states in 2006. Created by state governments to protect economic growth (and because banks require insurance when issuing mortgages), these entities cover people who cannot get insurance from a private carrier. Sometimes also “risk pools,” they cover those that may or may not not insure against, such as earthquakes, wildfires, and hurricanes. Some risk pools provide coverage in high crime areas where an insurer’s or auto insurance isn’t available.

Carriers of last resort don’t always have the backup cash reserves to pay large claims. When they face deficits, these insurers often turn to the federal government or even to other insurers in the state to make up the shortfall, which is then passed on to other policy holders with less risky policies.

However, as last-resort insurers have become more common and their mem ber ship has grown, their cash reserves have increased. It can be difficult to gauge whether an insurer of last resort is financially healthy. It is likely that your policy will be paid—states do not want angry constituents and stopped development.

The premiums charged by last resort insurers will be higher than typical insurance policies. Any local insurance agent or broker should be able to tell you where your last-resort carriers in your region.
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Many thanks to our Educational Network of more than 10,000 community-based organizations nationwide. We appreciate the work you do and respect your commitment to excellence.
Insurers score your credit for auto rates and more

By Raeth Saccuzzo

In most states, your credit rating plays a major role in how much you pay in car and homeowner's insurance premiums.

Do you ever pay your bills even one day late? Do you owe more money now than you did last year? Has the global credit crisis forced you to use more of your credit line or has your credit score dropped off? These types of information in your credit report can have an effect on the price and availability of insurance. In some states, your credit score is the most important factor in determining your rate. Insurers may even pull your credit score when you call to ask for a price quote. Is this legal? Is it fair? Legal, yes, because companies are allowed by law to review your credit record if you are shopping for credit, employment or insurance. Your credit score may be used as a reason to reject your insurance application or charge you a higher-than-average rate. But the question of fairness is still on the table. "If I lose my job, I'm laid off, and my credit score suffers, why does that make me a worse driver?" asks Bob Hunter, a former state insurance commissioner and Director of Insurance at Consumer Federation of America (CFA). "I don't think it makes any sense."

**Insurance score**

The insurance industry insists that there is a correlation between credit history and claims. Insurers often use a "credit insurance score" to "size you up." The Insurance Information Institute says that "insurance scores" to size you up. The CFA's Hunter calls this concept nothing more than a "trade secret which industry won't reveal." Hunter says the industry has refused to provide any data publicly that would explain its theory.

By a 2004 Texas Insurance Department study found that there is a strong relationship between credit score and claims experience. It argues that character traits that lead to careful money management seem to show up in other ways people act—such as driving.

"In today's economy, credit scores are worsening and accident frequency is going down sharply," counters Hunter. "If there's a correlation how come they're not the same? Gas prices have more to do with accident frequency [than credit scores] because people don't drive as much when prices go up."

Insurers continue to rely on your age, where you live and your driving record— as well as insurance scores—to determine your auto insurance rate. The industry argues that over 50% of policyholders benefit by receiving a lower premium when companies use an insurance score. Each insurer may use slightly different criteria or weight each factor differently. Here are some of the criteria used to determine an insurance score:

- Homeowners have had a credit record
- Late payments
- Number of credit lines
- Type of credit card (store card, etc.)
- Starter lines
- Foreclosure, bankruptcy
- Hostage for homeowner's insurance, the factors also include:
  - Home construction
  - Location
  - Proximity to a fire department
  - Insurance score
- Other states, like Maryland, ban the use of scores for homeowner's insurance but not for auto insurance. Others prohibit the use of disputed credit file information, certain types of credit or total available credit.

If you learn of errors in your credit report, dispute the mistakes with the credit bureau and the insurer. If you are turned down for insurance because of a credit score, the insurer must notify you and provide the name of the credit reporting bureau that provided the score. If your score is affected by the mistakes, the insurance company will change your rate. But Hunter warns that the burden's on you to prove it.

**Tip:** Insurance rates vary widely. Even without a credit score problem, you could be paying twice the rate for the same coverage so shop around every so often.

Your home's "credit" report

Your house has its own "credit report," called a C.L.U.E. report. The report lists all claims filed against a property, a history of the home's insurance losses for the last seven years. A similar report may exist on your car as well.

If you're in the market to buy a house you'll want to review your home's C.L.U.E. report to learn of any previous problems. A home's claims history can affect the cost of homeowner's insurance. Insurers can even refuse to issue a policy based on previous claims. This can have a domino effect. Without a homeowner's policy, lenders will not issue a mortgage, and most people can't buy a house unless they get a mortgage. C.L.U.E., or Comprehensive Loss Underwriting Exchange, is a database designed to allow insurers to access claims information so they can analyze properties and price insurance policies. ChoicePoint, the parent company of C.L.U.E. reports.

**What's in the file?**

The database includes the home's address and a description of the property. (For autos, there's specific vehicle information.) The file also stores information about the insured homeowner—name, date of birth, type and date of loss and amount paid on any claim.

By law, the only parties entitled to a copy of a C.L.U.E. report are the current homeowner, the insurer and the lender. If you are serious about buying a property, ask your real estate agent or the current owner to get a report before you commit to making the purchase.

Under the Fair and Accurate Credit Transactions Act (FACTA), you may request a free annual C.L.U.E. report on properties you own. To request a free copy, contact ChoicePoint Consumer Disclosure at www.choicepointins.com or call 877-278-9767.

The homeowner has the right to dispute invalid information in the report, just as you would with a credit report. Consumers are entitled to provide evidence to clear the report. For instance, if a dog bite claim is listed in the report but the dog has since died, that information could be added to the file.

**Disaster reports**

Environmental hazard reports reveal if a home is in a high-risk area.

If the house you set your sights on is in a flood area, located in a designated landslide or earthquake zone, or the area tends to get hit with hurricanes. This is information you'll want to know before buying a house. Hazard reports also disclose if the property you're interested in is located in a flood or fire zone. (If you live in California, the law requires that much of this information must be disclosed to potential buyers.)

Environmental hazard reports can tell you if the area has been contaminated by asbestos, an underground storage tank, or toxic mold. Reports can cost about $50 to $100. If the problem is better to have the hazard disclosed and addressed before closing, when you still have leverage with the seller.

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**Title insurance sales driven by referrals, not choice**

By Linda Sherry

Title insurance does not protect you from chain-of-ownership problems before the new buyer took title.

Regulated at the state level, title insurance policies cover claims that stem from defects in the title to property. Lender title insurance is required if you take out a mortgage, and the buyer usually pays, however sellers sometimes can be persuaded to pay for the lender's title insurance. Lender's title insurance protects the company that issues the mortgage in case the homeowner defaults on the loan. For years it has been alleged that title insurers overcharge homebuyers and split excessive fees with people who steer customers their way. Homebuyers do not shop around among title companies (or escrow companies as they are called in some states). Instead, they simply go with real estate broker recommendations—and because of this, they often overpay. For instance, during a refinancing, consumers may save quite a bit by using the same title company they used when they bought the property. Typically, title companies have much lower rates for "reissue" policies since most of the work has already been done.

**Title problems**

Most title problems are discovered and corrected during the title search. If the title is challenged after the property has changed hands, the insurer must clear up the problem. However, title insurance claims are rare. Some of the risks covered under owner's title insurance include:

- Deed fraud and criminal impersonations of the true owner
- Similar names, address, or initials
- Signatures of minors or mentally incompetent sellers
- Undisclosed or missing heirs
- Unpaid liens for costs of sales or taxes and assessments that you are responsible for
- Unrecorded easements (rights of way)

**Title insurance tips**

Before you buy a home:

- Check out the services of several title insurance firms—don't just accept a referral from your agent or lender. Look for other companies in the Yellow Pages.
- Verify the face value of the title policy.
- Make sure the effective date on the policy reaches your forecast closing date.
- Check that the policy describes all of the property being purchased.
- Read your policy and ask questions about any aspects you don't understand.
- Keep your policy in a safe place.

After closing

While rare, title and escrow problems sometimes arise after closing (settlement). For example, companies may neglect to record a prior mortgage or lien, to record the deed or mortgage release, or to provide copies of legal documents. Most problems can be amended when brought to the firm's attention.

Title insurance does not protect you from problems you know about but did not disclose, such as building code violations.

Always arrange to have a knowledgeable person, such as an attorney or buyer's agent, review your title company's documents.