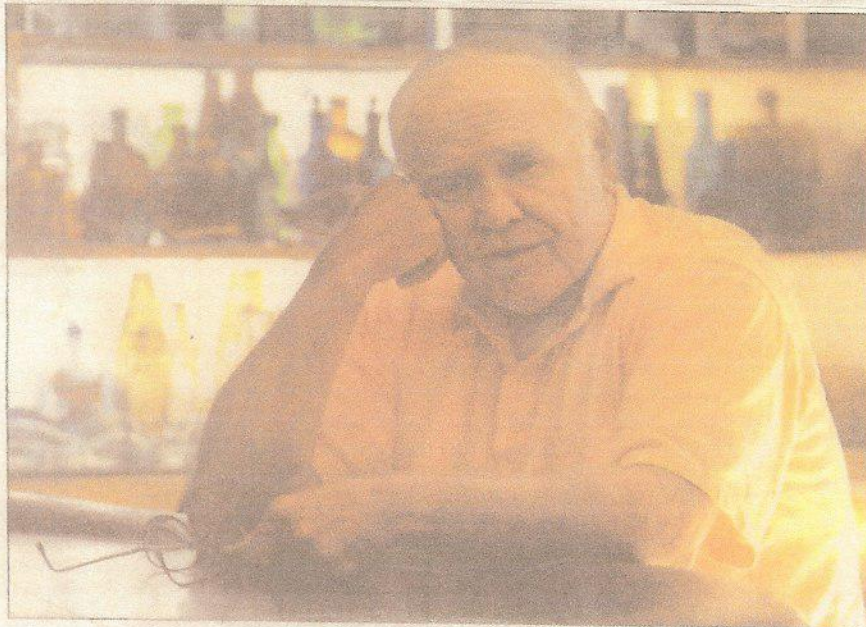


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DON BOOMER / STAFF PHOTOGRAPHER

Cecil Munsey sits in his home in Poway, after his homeowners insurance company notified him his premiums would increase over \$1,000 this year.

A call to harm?

Insurance officials: Inquiries can mean higher rates

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STAFF WRITER

For Mike Johnston, it was the point at which California's unfolding insurance crisis went from expensive to outrageous.

His insurer, State Farm Insurance, boosted his annual homeowners premium last month from \$1,300 to \$2,000.

So Johnston called Allstate Insurance Group, which initially offered him coverage for less than \$1,000 a year. A good deal, to be sure, but his prospective new carrier had another shocker in store:

Johnston's name popped up on Allstate's search of a national industry database, called CLUE, or Comprehensive Loss Underwriting

Exchange. There was a report, made in February, of damage to his home.

"The fact is I never filed any claim in February," he said.

It may not matter, say state officials, as insurance companies race to restore profits and reduce risk by weeding out customers with even a whiff of damage to their homes.

Allstate told Johnston that he could expect a new, higher rate quote. It turns out that he had called State Farm last year after high winds broke some windows in his home, which is just outside Escondido near the road to tony Rancho Santa Fe.

"My deductible was \$1,000, so I said, 'That's crazy, I'll fix it myself,'" he said.

"Regardless of the fact that no claim was filed and no money was paid, it's in the database and away you go. Even if you call and ask about your policy, you're getting marked. Then it's up to the consumer to fight to have it removed."

Insurance industry executives and state officials said Monday that Johnston's experience is being echoed by thousands of consumers across the state.

What's more, a California law intended to protect consumers by speeding processing of claims is instead exposing homeowners to premium hikes or dropped coverage — even if they never receive a nickel to fix damage under their insurance policies.

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CALL

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"It's the law of unintended consequences," said Bill Sirola, spokesman for State Farm, the nation's largest underwriter. "I know it doesn't sound like it to you, but that's for consumer protection. A call is a claim."

A portion of the state's insurance code, called the Fair Claims Settlement Practices Regulations, requires firms to record initial contacts with customers who report what could later become a claim.

In an example cited by Sirola, a fender-bender can sometimes turn into a whiplash lawsuit months after a minor accident is reported. The law protects the hypothetical auto policyholder by forcing the insurer to establish a record of the event, even if the customer later switches carriers.

However, regulators say that they are alarmed by a surge of complaints from homeowners that insurers are using competitors' histories of initial reports on the CLUE database to boost rates or decline coverage.

"If you are just calling to ask a question, are you suddenly a claimant?" said Nancy Kramer, a spokeswoman for the Department of Insurance, which regulates the industry. "We're looking into it right now."

Consumer advocates say the practice could be illegal.

"Nothing in the law says anything about CLUE," said Doug Heller, insurance policy analyst for the Santa Monica-based Foundation for Taxpayers and Consumers Rights.

"I think it's a way of developing a blacklist for companies to share with each other," Heller said. "I think what you have here is the insurance industry verging on antitrust behavior, where they are sharing information to push prices up and coverage down."

The operator of the system, Choicepoint Inc., says that insurers can easily distinguish paid claims from unpaid reports in the CLUE database.

"The whole concept of the system is to share accurate claims data accurately and quickly," said Richard Collier, Choicepoint's vice president for marketing the CLUE system.

Last week, the Department of Insurance said it has opened investigations to determine if firms are illegally using the CLUE database and to see if insurers have exceeded their state-approved rate increases this year.

And on Dec. 4, the state Senate is scheduled to hold hearings to probe the industry's rate-making and underwriting practices.

Insurance executives say the industry has been forced to tighten underwriting practices to shore up reserves needed to pay anticipated claims of existing customers. Actuaries rea-

son that homes with damage are more likely to produce future claims. The same goes with people — those with past claims are considered more likely to file additional claims.

Caught in the middle are folks like Cecil Munsey, an author and historian who lives in Poway and says he has been a State Farm customer for 33

years. Munsey and his wife each had minor car accidents. In response, the couple's auto premium rocketed from \$1,000 to \$2,200 a year.

No surprise there, but then Munsey's agent told him to expect a similar hike in the premium to cover his house. The agent reminded Munsey that he had called last April when a delivery truck from the U.S. Postal Service clipped a brick planter near his driveway.

The Postal Service paid to fix the planter, about \$300, but the rate hike was still on the way. Aghast, Munsey switched his coverage to AAA California.

An agent with AAA confirmed that the incident appeared on Munsey's CLUE re-

port, but said the firm would essentially ignore the incident.

"I began to understand that there's a secret database out there that is beginning to hurt people," Munsey said.

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