



Denver's KOA 850 AM interviewed David Stegall on June 27, 2018 to discuss homeowners insurance in light of Colorado's recent wildfire. Listen to the full audio of the interview below.

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Mandy Connell: KOA Newsradio time coming up on 2:09 my next guest is a risk consulting expert and has been working in property casualty insurance around it for decades and I'd like to welcome Mr. David Stegall to the show. David welcome to the show, thank you for joining us.

David Stegall: Hello Mandy, thank you for having me.

Mandy Connell: I know that you are not in our great state but we are on fire here in Colorado and I don't mean that metaphorically I mean it in reality we are dealing with significant brush fires, we're going to have a really bad fire season, we have that here in Colorado and I thought it would be timely to bring someone on to talk about what a homeowner should do before the possibility of disaster strikes because we're in a situation if a brush fire pops up near your home when you are at work you may not be able to go home again depending on the severity of the fire and its movements and things of that nature, so what kind of guidance can you give us in terms of preparing for a natural disaster before it happens?

David Stegall: Well, Mandy, I'm very familiar with Colorado, I've done a lot of business there, I was there just three weeks ago. One of my largest clients lives just in Boulder, so I'm very familiar with it and with the fires. The best thing to do is it go through your mind and imagine that it's already happening. You want to have a plan before you have to deal with it, and the Colorado authorities, the national forest service and there is a number of things, has all sorts of things on their websites as to the best way to protect your property from a physical standpoint, but the best thing to do from an insurance standpoint is to make sure you're "insured to value" which means that you have enough insurance on your house to pay for it when it burns down and this is a serious problem, this is where more of acrimony between policyholders and insurance companies happen on any other issue, it's the value of

the dwelling and a lot of people are confused on this issue. They think “oh well the mortgage company told me I have a mortgage of a \$180,000 and so that’s what I want the insurance for.

Mandy Connell: Aaah.

David Stegall: Wrong! You bought the house for \$450,000, so you need to insure it for \$450,000.

Mandy Connell: No, but that doesn’t begin to even cover your belongings inside.

David Stegall: No, but under a standard homeowners policy the contents coverage is a percentage of the dwelling value.

Mandy Connell: Okay, okay.

David Stegall: Usually, these days, if it’s a relatively newer house, built in the last thirty years you’re probably going to have what they call the “replacement cost endorsement” on your homes contents, which is usually 75%, either 70 or 75% of the dwelling amount that’s insured. So, if you have a hundred thousand house you’ve got a seventy five thousand in personal property coverage.

Mandy Connell: Now let me use my own situation as an example since we purchased our house we’ve done some significant upgrades to the interior, we redid the kitchen, we just finished our master bathroom, what do we need to do in terms of making sure that our insurance company is (a) aware of this of also making sure that we are insuring up to value with those improvements?

David Stegall: The best way to find out what you should and shouldn’t insure your dwelling for is to call your local builders Association, or if you have a contractor-friend that builds houses, they can give you a pretty good estimate of what it costs to rebuild a house in your area per square foot.

Mandy Connell: Okay.

David Stegall: So, you take your house and say its two thousand square feet, let’s say its two hundred dollar of square foot to rebuild so its four hundred thousand dollars to rebuild.

Mandy Connell: Okay.

David Stegall: So it’s really that simple, but a lot of people will guess low and say “oh I can build this house for a \$100 a square foot.” Well, probably not because you won’t be counting the granite counters and you want the nice bathroom and you’re not going to do it for a \$100 a square foot. It’s going to be closer to \$200 a square foot in the Denver area, in fact maybe even higher than that.

Mandy Connell: Okay.

David Stegall: That’s the biggest problem.

Mandy Connell: Okay so did we just call our insurance company and ask about that because honestly I've read an insurance policy you know the seventy pages they send you of your full coverage. Is it just easier to call your insurer and ask somebody those questions directly or is it something you need to understand more clearly and maybe even have a paper trail on?

David Stegall: Well, like any other industry, some insurance agents and insurance company representatives are better than others, certainly, the one thing they must do is – to do what you tell them to do. So you tell them to insure the house for \$400,000, they will. I wouldn't depend upon them to determine the replacement cost of your house though, you really just need to know what the square footage of your house is, your property appraisal (the thing you get once a year from the county assessor's office) tells you what the square footage is, there is a number of the closing documents for your house that will say that, there is the real estate website, Zillow, where you could look it up, there is a lot of different ways to know what the square footage of your house is and just multiply that square footage by the replacement per square foot amount. While I'm on this, do not be penny wise and pound foolish. People always want to say "I just want to insure it for as little and as cheaply as I can", well, I never had a client that thought they paid too little for insurance and I never had a client who complained about the premium after a big loss. So this is not the place to be penny wise and pound foolish. Insure the house for what's its replacement value and you won't have a problem with the insurance company, but if you don't you will.

Mandy Connell: Okay, so what do you need to do to perhaps help in case like I just said you know if you leave for work one day a brush fire breaks out in your neighborhood and your house is gone when you get home, what should you have done prior to that to make this insurance claim process easier.

David Stegall: Well. I'm glad you asked that, the best thing to do and the easiest thing to do but also the easiest to put off doing and that is to walk around your house, in every room with your iPhone or whatever smart phone you have, and/or on your video device and just describe what you're looking at. 'I'm looking at my colored TV, the serial number is this, I bought it at Best Buying in September of 2015,' and just go through the whole house and do that and then save that file somewhere on the cloud or somewhere that it won't get burnt up and that's what the insurance company is going to ask after the fire occurs or the wind or whatever hazard destroys the house or does damage. They're going to say 'give us a list of what you had so that will know what to pay you,' well, that's a very difficult thing to do from memory alone.

Mandy Connell: Yeah it is.

David Stegall: And so that's the easiest way to do it, go through your house with that phone or with your camera or whatever and take pictures now. Let me say this – certain things need to be scheduled on your insurance policy or a separate endorsement and these are things like fine art, a coin collections, guns, silver, certain things on your homeowners policy are not like your couch and your chairs and your kitchen table.

Mandy Connell: Sure.

David Stegall: They have to be scheduled because they're only going to pay you what they call a sublimit in the policy for certain types of items that I just named. So if you have those things, you need to schedule that and call your insurance agent or insurance representative and say 'I have fifteen thousand dollars' worth of coins,' and they'll say 'well send us a picture of it,' and they'll add an endorsement to the policy and they'll charge you something for it but it's really a meager amount compared to what its value would be otherwise be. So those are called endorsements and sometimes they're called floaters in the industry, floater in policies or endorsements but there's always a bone contention after a claim because people say 'I didn't know that my collection of rare stamps was not covered by insurance.' Well, it is covered, but only up to five hundred dollars or something, I'm not sure if the different policies of different sub-limits but you just don't want to be surprised.

Mandy Connell: Well, I just got this email for Deb who is looking for a little clarification about how much to ensure your house for, she said you said that at four hundred and fifty thousand that ensuring for four hundred and fifty thousand is wrong. I think she miss heard you.

David Stegall: Yeah.

Mandy Connell: You just have to make sure that you're insuring to the amount that it would take to rebuild that house right?

David Stegall: Correct and keep in mind that four hundred and fifty thousand dollar house is including the land.

Mandy Connell: Oh yeah.

David Stegall: You're not insuring the land, you only want to insure the house, so the land might be the \$280,000 and the rest is the house (\$170,000). You don't want to insure it for four hundred and fifty thousand in that case.

Mandy Connell: And we just put that number out of the air, yeah we just pulled that number out of the air don't just say I want to insure it for four hundred and fifty thousand dollars, there is some math that goes into that and that's kind of what we're talking about today.

David Stegall: Yeah, the square footage times the replacement per square footage is the number because you're not including land in that, you're not including market value, you're not including the mortgage amount, you're only including what the insurance company cares about and that's how much they're going to pay you.

Mandy Connell: What are some of the biggest missteps that you've seen that people have made after any kind of catastrophic event?

David Stegall: Well the biggest one is just the opposite of fire, it is flood. Fire is your problem at the moment, but quite often people get very confused on the issue of water damage versus flood. That's one of the most common things and I'll say this simply as I can so you don't have to read the policy and I'm not an attorney, don't take this as a legal advice but I'll tell you from forty years' experience, if the water comes from above and doesn't hit

the ground that's covered. If the water comes from below like a lake or a river or an ocean and rises that's a flood and it's not covered by your homeowners, you have to have a separate policy for that. Now having said that if you have an air conditioning unit or a boiler or something in your house and it leaks, that's water damage that is covered normally – that's not a flood. People sometimes say 'oh my house flooded,' well no that's water damage, that's the most common error in homeowners insurance really and the not insuring the correct value of the home – those are the two biggest things I would say.

Mandy Connell: In Colorado-

David Stegall: Also oh-

Mandy Connell: Go ahead, no, no go ahead.

David Stegall: Well we've been talking about total losses, most losses are not total losses. Most loss are partial losses and people don't realize, they think 'oh I've got plenty, you know I've got, you know, four hundred thousand in insurance and I had a ten thousand dollar claim, so they're going to pay me \$10,000. Well, what if your house is really valued at \$800,000 and you insured it for \$400,000? Guess what? You're only going to get about \$5,000 dollars because they're only going to pay you the percentage that you insured over what you should have insured. *(Amounts are in round numbers and there is a coinsurance formula for partial losses in the policy).*

Mandy Connell: Wait that's confusing to me, wait a minute, so wait a minute so how do they fix that percentage?

David Stegall: Well some policies you can buy with an endorsement that basically takes what we call the co-insurance penalty away. but most policies do have what is called a coinsurance clause and that's when you agree to insurer your home within 80% of its value and if you do that the insurance company will give you their preferred rate when calculating the premium but if you don't do it, then they'll only pay you the percentage of what you insured in a partial loss scenario. So, in the case I just gave you, really you should have insured the house for \$800,000 but you only insured it for \$400,000. So the insurance company is only going to pay you half of what the partial claim was. This really shocks people and this occurs often but that's exactly the way it works and most people with newer houses and high polices and the luxury homes and polices have a feature in their policies that says 'we will pay you back the replacement cost of the house regardless of what the house costs.' Now, the reason they're willing to do that is they know that your house is a two to three million dollar house and they're not that worried about underinsuring, but when you're talking about the \$400,000 and \$500,000 and \$350,000, \$250,000, you'll find policies like that with these coinsurance penalties, regularly.

Mandy Connell: Oh good grief this is why insurance is confusing but I feel like I've given, we've got the main points just to review for people who are just joining us as we talk to David Stegall, he's a risk management expert and insurance expert, you've got to make sure your insured to the value of replacing your home, that is the key here, you've got to make sure that you have enough homeowners insurance to rebuild your home not just payoff your mortgage unless you want to pay off your mortgage and then have nowhere to live, I mean that would be the outcome there. You can find that from your local builders association or you can talk to a contractor who builds in your area and then you've got to walk around and

you've got to video tape everything in your house, open every drawer, open every door and then store that file away from your house so if your house does burn down or is damaged then you still have access to that.

David Stegall: Yes, those are the top three – yes.

Mandy Connell: David-

David Stegall: I will say one other thing-

Mandy Connell: Sure go ahead.

David Stegall: You posed the question about you coming home and your street is closed off because they've evacuated your area, let me remind you that under your homeowners policy there is a part that's called "loss of use coverage", and your homeowners policy will pay you to live in a hotel or a rent an apartment or whatever, if the house is damaged by covered hazard, like fire or wind and things like that – they being insured hazards. So, it isn't like you're just going to be on the street or have to call your aunt and go live with her or something – homeowners insurance will pay for you up to a certain limit, but the limit is pretty high.

Mandy Connell: Right.

David Stegall: They know that if the house burns that it's going to take a while to build it back, so you have a lot of this coverage.

Mandy Connell: Alright great information, thank you so much Mr. David Steagall, I so appreciate your time and I know that you have helped someone else because honestly I'm going to do all these things not because I want my house to burn down but because I just want that peace of mind of knowing that I have done everything in my power to set myself up for success if I do have to deal with this in the future. So I appreciate your time today.

David Stegall: Well, thank you and I know this subject is a little confusing and I hope and think that's why you called me and I hope I simplified it but it is complicated. Thank you for giving me the chance and if I can answer anything else, please let me know.

Mandy Connell: No problem, thank you so much for your time today.