# Plugging a Gap in Sinkhole Coverage

**By** [**LESLIE SCISM**](http://online.wsj.com/search/term.html?KEYWORDS=LESLIE+SCISM&bylinesearch=true)

As more Florida homeowners seek insurance payments for sinkhole problems, state lawmakers are considering measures to curb dubious claims and try to ensure that policy proceeds are used to repair properties.

'There's a bigger problem than sinkholes—people taking advantage of the situation,' said Timothy Abbey of Safety Harbor, Fla.

State and county authorities are increasingly concerned that a large portion of homeowners pursuing sinkhole claims are using insurance proceeds to pay off mortgages, rather than make repairs. Then, authorities say, some homeowners are successfully getting their property appraised at a lower value due to the unrepaired damage, hurting neighborhood prices and tax bases.

They also fear sinkhole claims, up sharply since 2006, may lead to rate increases for homeowners broadly and could weaken some small insurers.

The average closed sinkhole claim in Florida tops $140,000, according to a November report by regulators. Data compiled by regulators and county tax authorities indicate less than half the $1.4 billion paid out by insurers over the past five years has been used to plug sinkholes or shore up foundations.

Sinkholes are depressions in the land surface that can undermine a house's stability. Florida, with large amounts of underground limestone that can dissolve, is vulnerable to the problem. Most of the claims hitting insurers are tied to cracks in walls and ceilings, pointed to as evidence of problems underground, according to regulators.

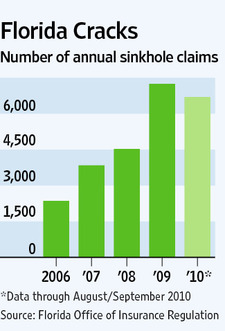
While some homeowners have serious problems, insurers say current laws favor consumers in the claims-settlement process and insurers can be stuck paying questionable claims if their engineers can't rule out a sinkhole as the cause of the cracks.

Under legislation being debated in the state legislature, most homeowners would be required to use policy proceeds to repair their property. The legislation also would define what constitutes sinkhole damage, such as requiring some measurable amount of foundation movement.

Regulators contend a driving force for the significant increase in sinkhole claims is that current law allows policyholders to use the proceeds to pay off their mortgage and keep what is left.

They also blame what they call unscrupulous public adjusters, who earn commissions helping consumers obtain insurance payments, saying they have aggressively filed sinkhole claims in the absence of a major hurricane since 2005 to provide business.

Adjusters respond that the rise in claims is largely the result of overdevelopment that has left the ground susceptible to sinkholes. They say some homeowners are trying to protect themselves in case of coverage cutbacks.



A top official in one of the counties hardest hit by sinkhole claims has told state law makers that about 40% of properties with confirmed sinkholes are repaired. County tax authorities hear from these homeowners because many who get insurance payments are able to obtain reductions of up to 50% in the assessed value of their property on the basis of the unrepaired problems, authorities say.

"The general public is now very quick to have the problem diagnosed," Hernando County official Alvin Mazourek said in a letter to lawmakers last fall. But, he says, the problem "more often than not, goes completely unrepaired." The majority of sinkholes reported to his office have caused minor structural distress, he said.

As property valuations are reduced, local tax bases are eroded, he said, leading to a possible "financial catastrophe, should the rate of sinkhole claims continue to flood in."

In a survey of insurers last year, Florida's Office of Insurance Regulation found that as few as 20% of claimants had repaired their properties.

Sinkhole claims have jumped from 2,360 in 2006 to more than 7,200 in 2009 and about 6,700 through late summer 2010, for a total of nearly 25,000 since 2006, the survey found.

There also has been legislative debate about eliminating a requirement that insurers sell broad sinkhole coverage that allows crack-type claims to be filed. Instead, insurers would be obligated to offer coverage for just "catastrophic" sinkhole problems—the actual collapse of a home into a hole. Those instances are rare.

While the ultimate shape of any legislation remains unclear, some political observers give an industry-backed bill a good chance of passage in a Republican-controlled legislature considered more business-friendly since last November's election, and with a new business-friendly governor, Rick Scott, also a Republican.

As insurers have sought rate increases over the past year tied to escalating sinkhole costs and regulators have warned of possible insolvencies of some small insurers, some consumers have urged lawmakers to make changes.

"There's a bigger problem than sinkholes—people taking advantage of the situation," says Timothy Abbey, a long-time resident and owner of a staffing firm in Safety Harbor, near Tampa, who was among consumers testifying at a February hearing in favor of industry-backed legislation.

Timothy Abbey, at home in Safety Harbor, Fla., testified at a February hearing in favor of industry-backed legislation to toughen sinkhole rules.

Others are concerned the proposal to let insurers stop providing broad sinkhole coverage is too favorable to the industry. They fear insurers would exit the line of business, even as mortgage lenders would still require the coverage, forcing homeowners to buy it through their lenders at possibly steeper prices.

Julia Stack, a firefighter in Spring Hill who received more than $100,000 in insurance proceeds last year tied to cracking of her pool deck and garage floor, says she would welcome the laws "getting a little tougher." An engineering firm hired by the insurer concluded the cracks were "the result of a combination of factors, including possible sinkhole activity," according to a public copy of the report.

She says she "can rest my head on my pillow" at night feeling that her family's claim was legitimate. She and her husband decided to use the insurance money to pay off the mortgage. Remediation efforts would have eaten up all the proceeds, with no certainty the problem would be fixed, she says.

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