

## **Mold Claims in Homeowners Insurance**

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According to the Center for Disease Control, there are nearly 100,000 types of mold virtually everywhere around us. Mold grows wherever there is moisture. Exposure to mold can lead to respiratory disease making it difficult to breathe, although it rarely does so. Some people with chronic respiratory disease, immune disorders, or underlying lung disease are more susceptible to infections.

The cost of mold for insurers has increased enormously. According to Robert P. Hartwig, Ph.D., CPCU, the typical mold claim costs \$15,000 to \$30,000, compared to only \$3,000 to \$4,000 for an average homeowners claim. Mold is resulting in a multibillion dollar problem for insurers.

The typical homeowners policy excludes mold claims, unless it is the result of a covered peril. For example, if a water pipe burst and leaked water, a homeowners policy covers the resulting mold damage. The insured would be responsible for mold damage as a result of humidity or flooding.

The number of these mold claims has increased significantly. This has resulted in an interpretive mismatch, where judges have interpreted the actual homeowners coverage differently than the insurance industry had intended. This would result in premiums increasing to cover the rising future expected costs.

Many insurers have clarified their mold damage coverage definition. Some have decided to cover mold claims and have raised rates accordingly. Others now offer an endorsement in addition to the regular policy to cover mold claims.

Mold claims have become a part of the public eye after several high-profile cases. TV personality Ed McMahon settled a mold case over his Beverly Hills home for \$7.2

million. Environmental activist Erin Brockovich also filed a claim against the builder of her California home. As mold has come into the limelight, insurers are experiencing more and more mold claims.

With such a trend in frequency and severity of mold claims, insurers must be aware of possible adverse development in their homeowners policies. Policies must be priced to reflect mold exposure.