Managing your Claims: To file or not to file

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You've just crunched your fender in a parking lot. Or your washing machine overflowed, flooding your laundry room. Should you call your insurer?

To be bluntly honest… Probably not.

Smart homeowners know when to file claims and when not to file claims. Because of the competitive nature of the insurance industry, raised premiums and even dropped coverage have become more and more prevalent.

Unfortunately, there's no cut-and-dried formula for determining when to involve your insurance company and when to keep your problems to yourself. The following are some situations where you should at least think twice before picking up the phone:

1. The damage is under $1,000
2. There was no bodily harm
3. The Damage involves water or mold
4. The damage resulted from your neglect

The damage is under $1,000

Here's a basic fact about insurance: It's meant to cover the big disasters that could cripple you financially, not the small stuff that just stings a bit.

With that in mind, smart consumers have long kept their home and auto premium costs down by raising their deductibles to $500 or $1,000 and not making claims unless the damage exceeds that limit.

These days, such an approach can not only save money, it can save your coverage. In some cases, it may be better to raid your emergency fund or use a credit card than to risk higher premiums or not having your policy renewed.

This is true even if your state or insurer provides some protection for consumers. In California, for example, an auto insurer can't raise your premiums or drop you unless you were more than 51% responsible for an accident and the damage exceeded $750. And some insurers, including State Farm and USAA, "forgive" longtime customers by not counting the first at-fault accident.

The real problem with filing a small claim, though, is that it can count against you if you ever need to file a bigger claim.

State Farm, the nation's largest homeowners insurer, is dropping customers in some states when they file as few as two claims in as many years. The insurer started cracking down after losing more than $5 billion in 2001 and nearly $3 billion last year.

No (bodily) harm, no foul

Most accidents don't involve injuries. If you're in a one-car mishap or you hit an unoccupied vehicle, you might consider paying for the damage yourself if you can afford the tab. Especially if your driving history is less than pristine -- you've already had an accident or ticket in the last three years -- paying for an accident out-of-pocket may be cheaper than facing the higher premiums that are likely to result.

Not telling your insurance company about an accident you've caused is a risky maneuver, however, if another driver was involved, there were injuries, or you had a passenger. While you're legally not required to make an insurance claim, you probably should notify your insurer of what happened if there's a chance someone else could make a claim on your policy. Insurers don't like to be surprised, and you'll want to have your version of events on the record. In a worst-case scenario, your company could use your failure to report the accident as a reason not to pay your defense costs if you are sued.

Your insurer also may find out about the accident if your state or local laws require a police report be filed. (Such reports are usually mandatory if injuries or significant property damage is involved.) Most insurers comb Department of Motor Vehicle records looking for unreported incidents. You can find out if a police report is required by calling your local law enforcement agency.

The damage involves water or mold

Insurers are seriously spooked by a rising number of water damage and mold claims in several states. Mold claims cost insurers $1 billion last year, five times the amount spent in 2000, according to the Insurance Information Institute, a trade group. Consumers who make water damage claims risk losing their coverage, and may even find their homes blackballed, meaning that coverage is unavailable at any price.

That's because insurers are trying to steer clear of "problem" properties, using a central database known as the Comprehensive Loss Underwriting Exchange or CLUE. Ninety percent of insurers share claims information through CLUE, and they use the information in the database to decide whether or not to insure a home. Some companies are so sensitive about mold losses that even a single water damage claim on a house is enough for them to refuse coverage.

That does more than make it tough to buy a policy. It can also be a red flag for future buyers. If they have trouble getting a policy because of past claims, you may have a tough time selling your home.

The damage resulted from your neglect

You open your front door, step into your home -- and the floor collapses underneath your feet thanks to termite damage.

This might seem the perfect time to use your insurance. But homeowners policies specifically exclude problems that result from pest infestations, rot and other indications that you’ve failed to properly maintain your home.

The insurer’s viewpoint is that you should have detected the termites and had them exterminated long before they could eat through the structure of your home. Likewise, long-term damage from leaking roofs and faucets is usually considered preventable and not covered.

You’re also on the hook if you make a bad problem worse. If a windstorm blows off part of your roof and you leave the hole uncovered, you might lose coverage for contents that were exposed to further damage.

All this doesn’t mean you can never use your insurance coverage. But using the coverage prudently, especially these days, will ensure it is there when you are really in need.