

Mold and the Insurance Industry

April 2005

Concern about the consequences of mold contamination has become one of today's top subjects. The implications of the emerging mold issue for insurance and the economy are serious.

From the insurance perspective, damage from mold, like rust, rot and mildew is specifically excluded in standard homeowners and commercial property policies. Mold contamination is covered under these policies only if it is the result of a covered peril. For example, the costs of cleaning up mold caused by water from a burst pipe are covered under the policy because water damage from a burst pipe is a covered peril.

But mold caused by water from excessive humidity, leaks, condensation or flooding is a maintenance issue for the property owner, like termite or mildew prevention, and is not covered by the policy. Most people routinely clean up mold before it grows large enough to become a hazard. Caught early, mold usually can be removed by a thorough cleaning with bleach and water.

While mold has been around for millennia, the number of mold claims submitted to insurers increased significantly. But if insurers are now going to be asked to pay claims for something that is not covered in the policy, the price of insurance will inevitably rise. Should the longstanding coverage exclusion for mold be eroded by jury verdicts or judicial interpretations, the basic premises on which the property insurance contract is based will be reversed, and the economic consequences will be severe. To prevent this, corrective action by regulators and legislators is being taken.

To avoid confusion, many insurers are now inserting clarifying language in their homeowners and commercial property policies. Some companies may decide to cover all mold claims and price the policy accordingly. Others may exclude mold, but offer an attachment to the policy, called an endorsement, that allows you to add the coverage. Still other companies may provide a tighter definition of what is and what is not covered. While some may prefer to create an absolute exclusion. Most major insurers have announced some form of restriction on writing water damage policies.

As to mold in general, there are more than 100,000 species of mold of which at least 1,000 are common in the United States. According to the Center for Disease Control (CDC), there is always a little mold everywhere – in the air and on many surfaces. The CDC suggests people should take routine measures to prevent mold growth in the home and in commercial structures, usually by stopping the accumulation of moisture.

Property owners should be aware that mold should be cleaned up as soon as it appears. Keep in mind that mold cannot grow without access to moisture. The most effective way to treat mold is to immediately correct underlying water damage and clean the affected area.

The common health concerns from molds include hay fever-like allergic symptoms, the CDC reports. Certain individuals with chronic respiratory disease may experience difficulty breathing. Individuals with immune suppression may be at increased risk for infection from molds. Anyone with these conditions should consult a qualified medical clinician. There are very few reports that molds containing certain mycotoxins inside buildings can cause unique or rare health conditions and a causal link between the mold and these conditions has not been proven, the CDC says.