A year later, majority of North Bay fire victims still await reimbursements from home insurers to rebuild

The Press Democrat

Consider the unfortunate plight of Laney Wall and Scott Rooks. They were married Sunday but remain unable to start building a new house to replace their Santa Rosa home that burned down in last October's wildfire. The two are Air Force veterans who served in the Iraq War and are longtime home insurance policyholders of USAA, an insurer catering to military families.

When they bought their home in the Fountaingrove neighborhood four years ago, the couple said they were assured by a USAA agent that $551,000 of insurance to cover the structure would be enough to rebuild in the case of a disaster. Now they find themselves in limbo at a Healdsburg rental house, because they figure they're short $1.4 million of coverage in order to rebuild. They'll take their case to mediation on Thursday, making a bid to get more money from their insurer.

"It's devastating," said Wall, who finished law school in the spring at UC Hastings College of the Law and took the bar exam this summer. "That was my entire life's savings in the house."

The couple's experience offers a stark example of the crucial role adequate home insurance plays in rebuilding after the historic Tubbs fire a year ago. And it highlights why most fire survivors in Sonoma County still struggle to rebuild.

To be sure, permitting delays, construction labor shortages and price increases for building materials all factor into rebuilding timelines. Insurance payouts, however, are pivotal in determining whether people have enough money to build a new home after a disaster. One year after the fierce wildfires, fewer than 50 homes of the more than 5,300 destroyed in the county have been fully rebuilt. Insurers' delays in paying homeowners' claims are the main reason for the slow rebuilding effort, officials said.

"We're still very much in the recovery process," said California Insurance Commissioner Dave Jones. His office reported there are $7 billion in residential insurance claims from Sonoma County as a result of the devastating fire, with about $5 billion of them paid by insurers as of mid-May. Those numbers, however, likely do not reflect the true cost of rebuilding at today's prices, experts say.

"There continues to be issues and disputes between homeowners and insurance) companies" over things like replacement-cost coverage, Jones said.

In fact, across the North Bay, 53 percent of the thousands of fire victims still have not settled with their insurers regarding dwelling coverage to get fully reimbursed for their property damage, according to a new survey by United Policyholders, a San Francisco-based nonprofit consumer advocacy group focused on insurance matters. More than 500 local fire victims responded to the survey.

Even more troubling is that 66 percent of survey respondents reported they will be underinsured on their homes, according to the survey, jeopardizing whether those victims will have enough money to rebuild or be forced to sell their lots and move.

"I consider it a crisis," said Ken Klein, a California Western School of Law professor and expert on natural disasters, of the number of underinsured North Bay homeowners. Klein estimated 80 percent of U.S. homeowners are underinsured by at least 20 percent or more to replace their homes after a total loss.

California lawmakers have grappled with the thorny issue of underinsurance for decades, going back to the aftermath of the 1991 Oakland Hills fire when insurance companies moved away from home policies with guaranteed replacement cost coverage. After subsequent fires such as the 2003 Cedar and 2007 Witch wildfires in San Diego County, legislators made only incremental progress in solving the problem, said Klein, whose home was destroyed in the Cedar fire.

Earlier this year, another effort was made. State lawmakers representing the North Bay attempted to push through a package of bills to reform the homeowner insurance system and provide relief to local fire victims. Among them were retroactive proposals allowing policyholders to combine different home coverage areas to pay for the rebuild of a main home structure, and allowing 80 percent of personal property claims to be automatically paid, without forcing policyholders to conduct a full inventory of lost items in their burned homes.

However, the powerful insurance industry lobby in Sacramento stymied much of the agenda, including any retroactive insurance relief for fire victims. Nonetheless, a few key measures were signed into law by Gov. Jerry Brown, including increasing insurance coverage from two years to three for rental living expenses after a home is destroyed. Another measure requires insurers to renew homeowner policies for at least two years — instead of one — if the total loss of a home was caused by a disaster.

Unfortunately, one important bill cited by the state insurance commissioner that would have greatly helped alleviate the critical homeowner underinsurance problem was watered down by industry lobbyists. The legislation, AB 1797 by Marc Levine, D-San Rafael, would have required insurance companies to provide homeowners an estimate every two years of how much it would cost to rebuild their homes. Although the governor signed the bill, it has provisions placing the onus on homeowners to request the home-replacement cost estimate from their home insurers, Jones said.

“We’re back to consumers having to ask for it, which is the problem that exists now,” the insurance commissioner said.

Insurance industry representatives defended their response to the 2017 Tubbs wildfire, which resulted in almost $10 billion in claims, making it the costliest wildfire in the nation’s history.

“We’re happy with the response of the insurance industry,” said Janet Ruiz, the West Coast representative for the Insurance Information Institute, a New York-based nonprofit group. “We have had a really huge effort and devoted large resources with their claims and rebuilding processes.”

The industry contends many of the rebuilding estimates for North Bay properties have dropped in 2018, especially as contractors offer deals for neighbors.

Ruiz disputed the survey results from United Policyholders that show the high numbers of fire survivors still waiting for insurance reimbursement and those whose properties are underinsured. But she did not offer any comparative data.

Indeed, not all Sonoma County residents whose homes were damaged or ruined by the fires have found themselves without enough insurance coverage. One of them is Tom Francois, who will move into his new Fountaingrove home on Tuesday, a year to the day after his former house of 19 years was leveled by the Tubbs fire. He had a homeowner policy with The Hartford that included a provision for up to 150 percent structure coverage, which will fully cover the $790,000 price tag for his new custom home.

Francois said he didn’t know he had the coverage provision — which was included in the policy at the request of his late wife — until he filed an insurance claim and worked with a contractor on plans for his new house.

“It was almost like divine intervention for me,” he said.

Many others, however, have not been as fortunate. In addition to the money insurers paid in property claims to fire victims, the state insurance department has gotten $46.5 million more for 508 of the North Bay victims through its complaint process. Another 43 fire survivors were offered the option of mediation — the recourse Wall and Rooks are taking — with their home insurers to try to reach an agreement on more money to rebuild.

Others have opted to sue their home insurers and fight a protracted battle in court that provides no guarantee to fire survivors they will receive any additional money. For example, last year a group of USAA policyholders sued the carrier, alleging it committed fraud by underestimating the amount of replacement-cost coverage they needed to rebuild. Claremont attorney Michael Bidart, who is representing the USAA plaintiffs in the case, said he is preparing a similar suit for local fire victims who had policies with Farmers Insurance Group.

As the wrangling with insurers continues, there will be ramifications for all homeowners going forward given the increased risk of wildfire damage statewide and insurers' big losses. Some large insurers took steep losses in California last year from homeowner policy claims, with State Farm having $3.9 billion in losses, Farmers $1.9 billion and CSAA Insurance $1.3 billion. But the insurance commissioner said those large insurers remain on solid financial footing and benefit from the federal tax cut enacted last year.

A big concern ahead is that some residents in greater fire-prone areas will have their homeowner policies dropped by insurers and find it difficult to get home coverage from other carriers, said state Sen. Bill Dodd, D-Napa. Dodd said he's especially worried about rural areas between Santa Rosa and Napa, and has heard reports of homeowners in Lake County already dealing with this dilemma because that area has been a magnet for blazes the last four years.

"We want to make sure, if they get to do business in the state of California, that they do business in all areas," Dodd said of home insurers.

Jones, the state insurance commissioner, has received no reports of home insurers pulling out of California altogether because of heavy insured losses from last year's wildfires. He expects home insurers likely will make decisions on whether to renew annual homeowner policies on a home-by-home basis.

"Some homes in Santa Rosa will be given a high ranking by insurers, and they will decline to renew," Jones said.

Still, the California insurance market remains healthy for competition, even after the steep losses from the fires in 2017 and so far this year. This is in sharp contrast to what happened in Florida, when many home insurers fled the state after Hurricane Andrew in 1992 and still refuse to write new homeowner policies in most parts of the Sunshine State. In Florida, the state remains the largest home insurer and has absorbed more big losses from hurricanes in 2004 and 2005.

By contrast, the California home insurer of last resort, the FAIR plan, is a minor player with only 124,000 homeowner policyholders out of more than 8 million statewide. The plan, though, has picked up 6,000

more policyholders the last four years, largely in fire-prone areas such as Lake County.
Still, many North Bay homeowners should expect their insurers to eventually increase annual insurance premiums. Before raising prices, though, insurers will have to justify any premium increases and get the approval of the state insurance commissioner under rules set in place by Proposition 103, the 1988 law.
Even Ruiz, the Insurance Information Institute representative, doesn't foresee the potential "right away" for widespread home insurance price increases in California.
For newlyweds Wall and Rooks, the immediate worry is having enough money to build another house in Fountaingrove. Wall is angry and thinks insurers should focus on making certain that people's homes are fully covered under the worst circumstances.
"It shouldn't take your house burning to the ground for you to learn this way," Wall said of the quandary she and her husband are in with inadequate coverage.
In a statement, USAA said it could not comment specifically on the couple's home insurance because of privacy laws. The insurance company said it would "continue to work with our members throughout the recovery process" in the North Bay.
Like industry counterparts, USAA said the ultimate responsibility for the amount of homeowner coverage to buy rests with the policyholder. "Our members have the final decision on how much and what type of coverage they should purchase, and members have different preferences," the insurer said in a statement.
But Rooks sees it much differently, especially since USAA's television commercials tout the company's pledge to be there for military members in their time of need.
"They are riding on the backs of the military," said Rooks, an airline pilot. "They are nothing more than an insurance company that uses the military."