[Are Insurance Companies Letting Down Colorado Forest Fire Victims?](#)

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Buyer beware: Residents grappling with rebuilding costs after the Fourmile Fire near Boulder may receive only a fraction of the money they need to restore their homes. Do insurance companies underinsure customers as a means of staying competitive?

For many victims of the Fourmile Fire in Boulder County, Colorado, the five months after the fire has brought little relief from insurance carriers. About 50 residents filled the county commissioners' hearing room in Boulder on one of the coldest nights this winter to voice their frustrations.

As one resident after another offered testimony to the Colorado Division of Insurance on Feb. 2, it became clear that there probably wouldn't be the relief many residents thought they had purchased.

From Boulder County's perspective, only a handful of residents appear to have reached settlements, or at least gotten close enough to take out a permit to rebuild one of the 169 structures lost in the Labor Day fire.

And while most of the insurance division's consumer affairs staff, along with a number of county staffers, were on hand to assist, it's apparent that many of the residents will shoulder a bulk of rebuilding costs, despite their intention to carry insurance for full replacement value.

"You can't believe what they offered to rebuild. It's like a cartoon. They aren't even close ... or covering one-third of what it actually costs to rebuild," said one a resident in his 50s who lost his home when the Fourmile Fire burned through his Sunshine Canyon neighborhood, west of Boulder on Sept. 6. "If this is what their software) program says it's going to cost ... Well, I could just make up a number and say it costs three times what it actually costs."

Residents at the meeting requested anonymity, saying they are still trying to settle with their insurance carriers and they feared retribution.

"I meant to be able to replace my home," said another Sunshine Canyon resident who lost a home in the Fourmile Fire. "A friend of mine had just lost her home in a wildfire in 2009." Despite contacting her insurance agent, telling him of her concerns and attempting to buttress her coverage, the woman said

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she still appears to be covered for only about one-third of the cost of her home's replacement.
The concerns go on and on, according to residents and local officials. One resident was told solar panels installed less than a year before the blaze would be depreciated 66 percent. Excessive depreciation of household goods is a common complaint, as is low-balling of construction costs in the steep terrain west of Boulder. Many complain their insurance-provided temporary living expenses will likely expire before they are even close to rebuilding their homes.
It comes as little surprise to Karen Reimus, a disaster recovery coordinator for United Policyholders, a nonprofit consumer advocacy organization that has addressed insurance complaints in a number of disaster scenarios. Reimus herself lost her San Diego-area home in the 2003 Cedar Fire less than a year after it was built, and was recruited by the Boulder County commissioners to help residents address their insurance concerns after the Fourmile Fire.
"It's very counterintuitive that there could actually be an incentive for an insurance agent) to actually underinsure a home," she said. "But it happened to us, and I distinctly remembered having a discussion with our agent about being able to rebuild our home. We had a relatively brand-new policy with one of the more expensive companies and yet found ourselves very underinsured."
In fact, a United Policyholders study of the Cedar Fire found that 66 percent of respondents reported being underinsured—and the average amount by which people reported being underinsured was $319,500 for a market in which the average price of a new home was $714,000, acording to San Diego Magazine. Insurance spokespeople contacted challenged those numbers – especially the polling technique and the definition of "underinsured" – but there seems little doubt that underinsurance is a fact of life in disaster areas, especially in wildfire disasters.
For the most part, insurance companies continue to offer policies for homes in the so-called Wildland-Urban Interface WUI) in which homes in the West are subjected to wildfire danger. Of course, insurance carriers cannot deny coverage in specific areas without withdrawing from the entire state.
In fact, in California, a state-backed insurer created to provide affordable insurance to homes that private insurers won't protect, the California FAIR Plan, has actually lost 91,000 policies in the last 10 years to private insurers, spokesman Mike Harris said. While he said this year the FAIR Plan is showing a modest 6 percent increase in policies, competition between insurance carriers has been robust even in California, where almost half the state's homes are in wildfire-prone locations.
While insurance carriers are quick to point out that homeowners in the WUI are responsible to make sure their insurance coverage is up to date and can cover construction costs, there are competitive factors at work. Certainly, agents are aware that a premium that truly guarantees full replacement may price them out of consideration.

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But underinsurance becomes more of an issue in wildfire areas because the extent of the damage is more severe than in other fires, said Amy Bock, the executive director of United Policyholders.
“When a fire burns a single home in an urban setting, seldom is the damage actually 100 percent,” she said. “But wildfires burn so hot that often the foundation is lost, and the policy limit doesn’t take that into account.”
“Generally they the insurance carriers) do know, but they are looking for that balance in price),” Bach said. “The insurance companies reason that we’re not insuring for a total value because the chances are they will never see a total loss.”
Carole Walker, executive director of the Rocky Mountain Insurance Information Association, said it is almost ludicrous that a majority of insurance agents would be systematically underinsuring homes.
Still, Walker, whose agency is essentially a public relations arm of the insurance industry, was at the Feb. 2 meeting in Boulder and was concerned about the claims that agents may have been underinsuring homes to be competitive.
“That’s something that they should file a complaint for,” Walker said, adding that she’d change agents or companies if she discovered her insurer was not providing a quote for requested full coverage. “We’re fortunate that in the states I represent we have a very stable and competitive market. There are 120 insurance carriers in this state.”
Colorado’s insurance division said only seven complaints have been filed about insurance companies related to the Fourmile Fire, though at least 70 residents had contacted the division for help.
Walker said that’s not all that unexpected, given that settling claims is a legal process that necessarily seems long and drawn out.
“It isn’t a blank check. There has to be proof of loss,” she said. “In some ways it should be a huge wake-up call, because we do provide home) inventory software.”
For many policy holders, the final insurance payout will not come until after the home is completely rebuilt, and that process will require input from the mortgage lender and homebuilders, she said.
Rebuilding in the Fourmile burn area also requires approval from Boulder County, she said, and the county has very strict codes in the WUI regarding building materials. It also has across-the-board regulations now on Green Building, which has greatly added to the reconstruction cost for homeowners.
Some of the criticism of insurance companies has come from Boulder County officials, one of whom was quick to point out State Farm as the worst offender. The county also hired United Policyholders, an agency at least partially financed by trial lawyers, Walker said.
County officials have held a series of meetings with residents, as well as sponsoring two meetings with United Policyholders and hosting the Colorado Division of Insurance, but the county has no real legal

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standing to enforce settlements or enact insurance regulations.
At the state legislature, a bill has been introduced by local Rep. Clair Levy to reduce the potential short-term tax burden of residents seeking to rebuild their homes, but no bill proposing new restrictions or requirements on the insurance industry has yet been introduced.
Local leaders’ focus on resident frustration over fire coverage has left insurers feeling wary.
“I don’t know that adding legislation or restrictions on the insurance industry) is really going to help policy holders. It could very well add to insurance premiums,” Walker said. “It is a legal contract. You need to know what your exclusions are and what your limits are.”
“If insurance companies are selling a policy and calling it full replacement, or extended benefit, it should be,” she said.
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Jeff Thomas has an masters of science in natural resource management and behavior from the University of Michigan and was a Ted Scripps fellow in environmental journalism.<

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