

California fires an insurance wake-up call

The Seattle Times

Many homeowners in California have discovered that their homes that were destroyed by recent wildfires were underinsured. So who is to blame, the homeowners or insurance agents?

When Dave Wilder and his wife, Lynn, surveyed the remains of their house after it burned to the ground in a wildfire near Lake Arrowhead east of Los Angeles in October 2007, the thing that struck him most wasn't the devastation, and it wasn't the loss of everything they owned. It was the sound his wife made — a mournful wail, almost a howl of despair, that echoed through the charred trees on the hillside.

"It was something I'd never heard before, something from deep inside her," Wilder, 61, recalled. "I don't ever want to hear it again."

He thought things couldn't get any worse. He was wrong. Wilder soon learned that the amount of insurance coverage he had was nowhere close to the actual amount it would cost to replace his house.

With more than 1,000 homes lost to flames recently, other homeowners may find themselves facing similar "underinsurance" problems.

According to the California Department of Insurance, nearly 39,000 claims were filed after the wildfires that swept across Southern California last October and November. Slightly more than 30,000 of those claims were settled as of June 20, leaving almost 9,000 unpaid or disputed.

It's not clear how many of those claims involve underinsurance.

But officials say many underinsurance cases may not result in complaints to regulators.

"It's not the vast majority of claims, but it's not insignificant," said state Insurance Commissioner Steve Poizner. "This is a very serious issue."

Candysse Miller, executive director of the Insurance Information Network of California, a trade group, said the issue of underinsurance has been blown out of proportion by a relatively small group of unhappy policyholders.

“It happens, but it doesn’t happen as often as you might see in the media,” she said.

Miller laid much of the blame for underinsurance on consumers who try to keep their costs down by not reporting home improvements to insurers, causing policies to reflect lower replacement costs.

“There are a lot of different reasons why underinsurance can occur,” she said. “This is right at the forefront. People just don’t want to have to spend more for insurance.”

Miller said “human error” on the part of insurers might sometimes result in a policy failing to cover a home’s full replacement, but this is rare. By and large, she said, insurance companies want to sell customers as much coverage as they can.

But Amy Bach, executive director of United Policyholders, said nearly three-quarters of 265 fire victims surveyed by her group after last year’s fires said they’d been underinsured.

“All those people failed to insure themselves properly?” Bach asked.

She said insurance agents frequently offer customers less coverage than they actually need so the agent can come up with a more competitive quote.

At the same time, Bach said, some insurers try to limit their exposure to fire claims by deterring people from purchasing higher levels of coverage.

“People might not even know they need more insurance,” she said.

“The agent says they’re fine. Most people would trust their agent.”

Bach advised homeowners to take a close look at their policies and make sure that the square footage is accurate.

She also suggested crunching the numbers to determine whether the

policy covers at least \$200 per square foot — the low end of most homes' replacement cost.

"If you're insured for less than \$200 per square foot, you're probably underinsured," Bach said.

Poizner said his office is working on legislation to address underinsurance, but he declined to provide details.

Wilder said he bought his 1,758-square-foot house for \$99,900 in 1984. It was originally insured by State Farm for about \$90,000, or \$51 per square foot.

Over the years, Wilder and his wife made improvements to the property, raising the insurance level to \$202,000, or \$115 per square foot.

"Each year, we always asked our agent if we had enough insurance, and he always assured us that we had good coverage," Wilder said. But the \$202,000 check he received after losing his house fell far short of the actual replacement cost.

Wilder said estimates he received from contractors after the blaze were closer to \$230 per square foot.

Wilder advised other homeowners to get their own replacement cost before sitting down with an insurance agent.

This can be done by hiring a contractor or by going to a Web site like AccuCoverage that charges \$7.95 for a rough estimate.