

California Positioned to Lead National Property Insurance Reform

Bloomberg Law

Insurance attorney Daniel Veroff says the devastating Los Angeles County wildfires have created an opportunity for California to address systematic underinsurance of homeowners.

The devastating Los Angeles County wildfires in January exposed a crisis that has been decades in the making: the systematic underinsurance of California homeowners.

As thousands of families discover that their insurance coverage falls hundreds of thousands—or even millions—of dollars short of rebuilding costs, the legal and regulatory response must address the root causes, not just the symptoms.

The path forward requires coordinated action across multiple fronts, informed by decades of advocacy by organizations such as United Policyholders.

As of May 12, 2025, more than 38,100 claims had been filed, with over \$17 billion paid out—just a fraction of the damage. Total losses are estimated between \$76 billion and \$131 billion, with up to \$45 billion in insured losses, making this one of the costliest wildfire events in US history.

Yet the real crisis for consumers lies in the gap between what insurers promised and what they delivered. From 2003 to 2024, California’s Department of Insurance reportedly received 888 formal complaints about wildfire underinsurance.

According to Verisk, insurers use 360Value for more than half of US property replacement cost estimates in reconstruction costs at the point of sale. California regulators, through market conduct exams, found that major carriers such as State Farm, CSAA, and USAA used the software in ways that directly caused underinsurance.

Insurers prioritize the software's speed and efficiency over the potentially cumbersome and time-consuming process of more traditional methods of estimating a home's replacement cost. They do this despite the research that the software routinely underestimates construction costs.

The economic incentive is obvious. Low estimates mean cheaper premiums, more sales, and less exposure in the event of a total loss. But for policyholders, it means false security.

However, California agencies are starting to act. Last year, the Alameda County district attorney sued Farmers Insurance for allegedly operating a "widespread scheme" to underinsure homes using ZIP code data instead of property-specific details.

Internal Verisk documents showed the company explicitly prioritizing speed over accuracy—in 2019, 360Value's head provided a memo to Farmers suggesting ways to "increase the speed of calculating a replacement cost," acknowledging this would require "an acceptance of a lower reliability of the replacement cost value."

California's regulatory response has intensified following systematic investigations. Through its market conduct examinations and intervention in individual complaints from the 2015–2017 wildfires, the Department of Insurance has returned more than \$198 million to policyholders.

Individual company penalties have been substantial: USAA was required to pay \$4.5 million in additional coverage, while Allstate faced \$7.4 million in required additional payments to insureds.

Still, the loopholes in existing regulations are deeply problematic. California Code of Regulations Section 2695.183 requires detailed replacement cost estimates that consider specific structural components, costs of permits and debris removal, and local market conditions.

But the regulation includes language stating that "no provision of this article shall be construed as requiring a licensee to estimate replacement cost or to set or recommend a policy limit," which effectively undermines enforcement potential.

A later-enacted rule in California Insurance Code Section 10103.4(a) failed to close the loopholes, on the one hand requiring insurers to estimate replacement cost consistent with Section 2695.183 on an every-other-year basis, but on the other hand excusing this obligation if a mere offer to do so is made.

California has an opportunity to lead a national reform of property insurance practices. Insurance companies need to be mandated to estimate properly, and the law needs to be modified to hold them legally liable when they let homeowners falsely believe they're being given a reliable estimate.

Consumers aren't without responsibility, however. Despite increasing public awareness of the underinsurance problem after a decade of devastating wildfires, many consumers still don't know anything about their own insurance until it's too late.

There is too much on the line—not just for the individual consumer, but for the greater economy, as underinsurance often translates to an inability to rebuild and a loss in the housing supply for an already restricted market.

The alternative is a future where insurance becomes increasingly illusory, communities are unable to recover from disasters, and the burden of climate adaptation falls entirely on individuals rather than the risk-pooling institutions designed to share that burden.

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