Homeowners allege firms underinsured them for wildfires

The Los Angeles Times

San Diego County residents, saying they were misled into believing they had enough coverage, urge the state insurance commissioner to take action. Insurers say it's not a severe problem.

Reporting from Sacramento — As a wildfire sparked evacuations in Southern California on Wednesday morning, victims of a blaze that destroyed 1,600 homes in San Diego County a year ago complained that they were still battling insurance companies to get more money to rebuild.

At issue: underinsurance of homes and who is to blame.

At a news conference in a fire-vacated lot in the San Diego neighborhood of Rancho Bernardo, residents accused some insurers of misleading them into thinking they had enough coverage to replace homes burned to the ground by the Witch Creek fire in October 2007.

"We should not have to fight for everything," said Stephen Stout, who hasn't started to rebuild his 28-year-old home. "It's a never-ending nightmare."

Insurers said they understood the frustration but disputed the idea that they misled policyholders about their coverage. Most of last year's fire claims have been resolved, they said.

Stout and about 35 other homeowners, members of United Policyholders, an insurance consumer group, called on California Insurance Commissioner Steve Poizner for prompt action.

The commissioner must take enforcement action against companies, agents and brokers if investigations find they did not honor commitments to pay for reconstruction costs, the group said. It also wants the

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commissioner to hold hearings, conduct legal investigations and back legislation in Sacramento to deal with what it contends is a widespread problem of underinsurance of homes in fire-prone areas.

Poizner, who said he already had persuaded insurance companies to pay $13-million worth of disputed claims from the 2007 fires, said he had directed his staff to use a variety of tactics to resolve current conflicts and avoid future disputes between homeowners and insurance companies over coverage.

But that's not enough, said Karen Hoy, who so far has rebuilt only the foundation of her 2,100-square-foot Escondido home.

"There needs to be some concrete rules," she said.

Hoy recalled being told by her insurance agent in 2004 that she had enough protection to fully rebuild. But now that her house is gone, destroyed in the 2007 blaze, Hoy says her insurer is offering her $200,000 less than the full cost to rebuild.

United Policyholders blames conflicts involving underinsurance for slowing the reconstruction process in San Diego. Only 100 of 1,600 homes have been rebuilt, the group said, citing a report from the San Diego Regional Disaster Board.

For its part, the insurance industry contends that underinsurance is not a severe problem.

In one year, insurers have settled 91% of about 35,000 claims from last year's fires, said Tully Lehman, a spokesman for the Insurance Information Network of California, a trade group.

Out of 549 formal complaints received by the California Department of Insurance, only 106 involved underinsurance allegations, "so we're not seeing a tremendous impact," Lehman said.

California courts have ruled that homeowners have the primary responsibility for ensuring that they have enough insurance on their property, he stressed.

Insurance companies should not be blamed automatically if a customer winds up being underinsured, said Sam Sorich, a lobbyist in Sacramento for the Assn. of California Insurance Companies. Some

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policyholders may fail to ask their insurers to raise their coverage after remodeling kitchens, adding rooms or making other major improvements to their homes, he said.

Poizner, however, doesn't want to put all the burden on consumers. He said he was ordering Insurance Department auditors over the coming months to investigate how major insurers handled 2007 fire claims, particularly those involving totally destroyed homes.

"We'll be looking for patterns of behavior by insurance companies, of stalling, not paying claims fully and putting up barriers," Poizner said.

The commissioner promised to hold public hearings to gather information to draft proposed legislation next year that would "help address the broader underinsurance problems that emerge every time there is a natural disaster."

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