

[‘I think that’s simply fraud’: California hearing probes solutions to underinsurance after Chronicle investigation](#)

SF Chronicle

In an impassioned hearing that extended well beyond its two-hour allotted time, builders, insurance experts and policyholder advocates testified to the California Board of Equalization about the harms of widespread and severe underinsurance among California wildfire survivors, after a Chronicle investigation that exposed the severity of the issue.

“Daily, insurance companies are handing estimates to their clients that are materially misleading and saying ‘check it out.’ ... I think that’s simply fraud,” Matt Everson, a construction expert who is working with hundreds of Los Angeles wildfire survivors, told board members Wednesday.

The California State Board of Equalization is the state agency tasked with overseeing property taxes. Vice Chair Sally Lieber called for the hearing in response to a Chronicle investigation that exposed the prevalence of underinsurance in the state and identified the role that insurance companies’ use of flawed algorithms play in leaving homeowners without enough insurance coverage to rebuild.

“This becomes the second tragedy after their home vanishes, learning how they are vastly underinsured, sometimes by hundreds of thousands of dollars,” Lieber said Wednesday.

Underinsurance, which occurs when a person’s insurance coverage is too low to rebuild a home, is a longstanding issue for survivors of wildfires in the American West, Amy Bach, executive director of consumer advocacy group United Policyholders, told the board. Surveys by her organizations have consistently found that 40% to 80% of wildfire survivors say they are underinsured.

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<https://uphelp.org/i-think-thats-simply-fraud-california-hearing-probes-solutions-to-underinsurance-after-chronicle-investigation>

/ Date: July 7, 2026

“It’s not a new problem. It’s a stubborn problem,” Bach said, sharing photos of underinsured survivors following wildfires in the early 2000s.

The state has never done a comprehensive study on how many people in California are underinsured. However, officials with the California Department of Insurance told the Chronicle this month that they are “actively collaborating” with researchers to explore the possibility of conducting such a study.

One of those researchers is Ken Klein, a professor at California Western School of Law. At Wednesday’s hearing, Klein presented the results of a preliminary data analysis he performed on more than 60,000 California claims over four years.

Klein’s analysis found that of the roughly 9,000 policyholders in the data who lost their homes due to disasters or one-off accidents, roughly two-thirds of them were underinsured. Those homeowners were underinsured, on average, by about 34% — even after extended replacement cost coverage, extra padding that provides additional money if a consumer’s base coverage limit isn’t high enough.

Insurance industry representatives were invited to participate but did not appear. Instead, a coalition — the American Property Casualty Insurance Association, the National Association of Mutual Insurance Companies, the Pacific Association of Domestic Insurance Companies and the Personal Insurance Federation of California — sent a letter to the board ahead of time.

“‘Underinsurance’ remains a multifaceted issue that can arise from homeowners providing outdated property information, failing to report renovations, or not increasing their coverage limits as needed. It is critical for policyholders to monitor their policy limits and purchase additional amounts of insurance,” the groups wrote.

The letter said that increasing coverage limits would require increasing premiums and potentially exacerbate concerns about the affordability of home insurance in California.

Experts pitched a variety of solutions, some of which would have limited impacts on pricing.

David Shaffer, an East Bay insurance agent of more than 40 years, testified that there is no legal obligation for insurance companies to recommend an accurate cost to rebuild. Klein suggested that the

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state could mandate disclosures in insurance policies that make clear insurance companies' rebuilding estimates are not always accurate.

Bach and Klein also endorsed the idea of requiring home insurance companies to offer customers the option of buying at least 50% extended replacement cost coverage. Bach noted that purchasing extended replacement cost coverage often costs less than raising the overall coverage limit. Klein said his data analysis supported the idea that 50% extended replacement cost would significantly reduce underinsurance.

Other experts called for more dramatic change. Schaffer proposed altering the section of California Insurance Code that governs replacement cost estimates to require insurers to include — and later pay — for all costs associated with rebuilding a home in compliance with modern building codes. Such coverage is available but not standard.

Everson said that if insurers recommend policy limits to homeowners, they ought to bear some legal responsibility for what happens when those policy limits are too low. He also pitched the state creating its own public database of reconstruction costs based on what it actually takes homeowners to rebuild after wildfires.

Multiple board members expressed an interest in continuing to look into the issue. Lieber said she hopes to partner with state lawmakers ahead of the next legislative session.

At the end, Lieber revealed she had contacted her husband as they sat in the hearing — and found she was probably underinsured herself. Based on Everson's testimony, Lieber said, her rebuild would probably cost about \$800 a square foot. But her current policy covers her home for only about \$297 a square foot.

"So I am, unknowingly, one of the poster cases," she said.

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