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[Insurance shortfalls hamper Sonoma County fire victims’ ability to rebuild](https://uphelp.org/insurance-shortfalls-hamper-sonoma-county-fire-victims-ability-to-rebuild/)

The Press Democrat

Josh Nix thought he was doing everything right in August when he renewed the insurance policy for his Mark West area home just east of Luther Burbank Center for the Arts.
Nix answered the questions posed by his carrier, USAA, in an online form used to determine the proper amount of coverage for his three-bedroom, three-bathroom house on Willowgreen Place. The home, which he bought in 2013 for $554,000, was valued at around $800,000, but the digital calculator showed that he needed only $293,000 for structure coverage.
Nix decided to round it up, purchasing a $300,000 policy that would go into effect on Oct. 3.
“I answered the questions honestly,” said Nix, a 38-year-old husband with two young children. With eight years of active duty service in the U.S. Coast Guard, Nix chose USAA because it catered to service personnel. “I believed it was a product that would sufficiently cover me on a total loss.”
He would soon find out the painful truth: His insurance policy would not replace the home he lost. Rebuilding his home would cost around $325,000 more than his insurance policy covered — and that doesn’t even include the cost of paying off the $425,000 mortgage Nix still owed on his gutted home.
Nix is not alone. The firestorm, which destroyed more than 5,500 homes in the North Bay, revealed one of the stark realities of insurance: many homeowners don’t have enough coverage to replace their homes following a disaster.
Consumers are blaming insurance companies, saying they were misled to believe they had adequate coverage. Insurance companies contend that consumers are responsible for deciding how much insurance to buy, noting that price is a driving factor when many homeowners make their decisions.
Despite the ubiquitous TV commercials where insurance companies tout they are “on your side” and are “like a good neighbor,” many local residents feel their insurers are more of an adversary than an ally.
Almost 70 percent of local fire victims believe they do not have enough insurance to replace or rebuild their homes, according to a survey by United Policyholders, a San Francisco-based consumer group.
“Nobody is looking out for your best interest,” Nix tearfully recounted in an interview. He has decided to

sell his lot to a builder for $265,000 in a deal scheduled to close on Monday. “They sold me a half a policy,” he said of USAA.

In a statement, USAA disagreed with Nix’s version of events.

“We disagree with the way Mr. Nix has described how his coverage was established,” the company said in a statement. “We provide our members an estimate of the minimum amount of coverage they should obtain to rebuild. Members may choose to insure for an amount greater or less than the estimate provided by USAA. We cannot give additional coverage to those who chose to purchase less.”

Nix and others have been left scrambling with insurance shortfalls that can range from as little as tens of thousands of dollars to more than $1 million, according to Amy Bach, executive director of United Policyholders. The problem is evident in every neighborhood ravaged by fire across the North Bay, although the biggest shortfalls are centered in Fountaingrove and other upscale neighborhoods.

“Most people will find themselves underinsured,” Bach said. “Those are some breathtaking numbers.”

The ramifications of the large gap between insured and uninsured losses will be significant. If homeowners don’t have enough money to rebuild, financial pressures could force many to leave the North Bay and delay efforts to rebuild.

The problem is proving more difficult to solve than other obstacles to rebuilding. While government officials took action to speed up debris removal and streamline permitting, they do not have the same power to force insurers to provide more relief.

As of March 12, insurers have paid out $4.6 billion in residential claims in Sonoma County, or two-thirds of the $6.9 billion in insured losses left by the destruction of 4,821 homes, according to the state Department of Insurance.

The way insurers review and approve fire claims is playing an integral role in the speed of rebuilding. Contractors will not start a construction job until they are sure there is enough money to complete the project. Thus, many are waiting for policyholders to negotiate settlements with their carriers.

Many policyholders discover they are underinsured when contractors deliver ballpark estimates on the cost of rebuilding, which can range from as low as $280 per square foot for a group build in Coffey Park to as high as $600 per square foot in Fountaingrove, said Keith Woods, chief executive officer of the North Coast Builders Exchange.

Even those who opt to go forward can face delays. Fire victims must get detailed, line-by-line estimates for rebuilding, which can spark further wrangling with insurance carriers and trigger more setbacks.

Some policyholders have hired public adjusters, who negotiate with insurers for a fee.

“The insurance companies are lowballing,” said Eric Keith, chief operating officer at Sonoma County

Builders, who is ready to rebuild 10 homes in the Fountaingrove area. Four of those clients are still waiting to hear back from their insurance adjusters after presenting detailed pricing information on their claims. “I could be starting on their house if not for that,” Keith said of the delay.

Insurance carriers use software programs to calculate the cost of rebuilding, but they haven’t adjusted their models to reflect sharp increases in the cost of labor and materials after the October wildfires, Keith said. As a result, they have lower estimates of what it costs to build a home today in Sonoma County, he said.

The actual cost of framing and roofing is about double the amount offered by insurance companies, Keith said. To help some customers negotiate with their insurer, Keith has reworked the carrier-provided estimates to show the true cost for rebuilding.

The end result? Many fire victims will find themselves without sufficient funds and will end up ultimately selling their lots, like Nix.

“That’s the easy button right there,” Keith said of selling lots. He envisions more fire victims choosing that option if the claims process becomes too burdensome or takes too long.

Displaced homeowners have few options. Some will try to pay for rebuilding by scraping together claims from other parts of their insurance policy — most notably reimbursement for losses of personal property, such as furniture, appliances and clothing. Those funds could be combined with personal savings or a low-interest Small Business Administration loan to rebuild. Others may be forced to band together with their neighbors to negotiate a package deal with builders and lenders, which can lower the price of rebuilding. Then there are those who just may simply eat the cost of the gap — if they can afford it.

All of those individual decisions will have a collective effect on the local economy.

“That’s the big policy conundrum for policymakers in Sonoma County,” said Robert Eyler, director of the Center for Regional Economic Analysis at Sonoma State University, who has studied the cost of rebuilding. “If people start walking away en masse, what kind of public policy issue does that create?”

The problem of underinsurance has been around for decades, making it especially frustrating for recent fire victims.

In the past, insurers offered policies that guaranteed your home would be rebuilt if it was destroyed in a fire. But today, only a limited number of homeowners qualify for such coverage, and only a small subset of insurers even offer it.

Policymakers became aware of the problem following the 1991 Oakland Hills fire — the costliest American wildfire until the North Bay blazes broke the record last year — but many homeowners were not aware until they were personally affected.

“In case after case, California residents whose homes had been damaged or destroyed explained why they had believed their homeowners insurance would enable them to rebuild their dwellings. Once they presented their claim to their insurance company, though, these homeowners discovered that their coverage fell well short of what they needed — sometimes by hundreds of thousands of dollars — to rebuild their homes,” the California Supreme Court stated in a January 2017 decision that provided state Insurance Commissioner Dave Jones more authority to regulate the industry.

It is a lesson that more Californians are learning on a more regular basis as wildfires have become more destructive in the Golden State since the turn of the century, exacerbated by drought and increased building near forested areas. They include such costly blazes as the 2003 Cedar and 2007 Witch wildfires in San Diego County; the 2003 Old fire in San Bernardino County; and the 2015 Valley fire in Lake County.

A 2013 report by industry analyst Marshall & Swift/Boeckh found that 60 percent of American homes were essentially underinsured by an average of 17 percent. The state Department of Insurance found in a 2008 survey that those with so-called “extended replacement coverage” — policies that can pay out as much as 150 percent of the overall limit in some cases — still ended up paying out-of-pocket costs in 57 percent of the cases.

So why does this keep happening?

The simple answer, analysts said, is that insurers try to attract and keep customers by focusing marketing messages on affordable annual premiums, rather than the amount of coverage needed for a worst-case scenario.

“People view this as an investment, not as a protective measure,” said Howard Kunreuther, a professor at the Wharton School at the University of Pennsylvania, who has studied the industry. “The best return on a homeowner) policy is no return at all.”

The industry contends that it’s not in their best interest to underinsure their customers because that would also put the carriers at risk, said Mark Sektnan, vice president of the Property Casualty Insurers Association of America. Insurers have been sued for both underinsuring a customer and overinsuring a customer. They also want to keep customers happy, given that it costs four times more to obtain a new client than retain an existing one.

“We try and provide a reasonable estimate of what it costs to rebuild. It’s impossible to predict every possible situation,” Sektnan said. Most carriers, for example, increase their policy coverage annually for inflation.

He added that carriers offer additional products to ensure clients will have sufficient coverage in event of a natural disaster. They include extended replacement cost coverage and policies for building code upgrades, which will pay for items such as sprinkler systems that are required in new homes.

But carriers will get pushback from their consumers about paying more. “They are very price sensitive,” Sektnan said of consumers.

Indeed, agents are under pressure to make sales. The correct amount of coverage can result in customers taking their business elsewhere to another carrier because of the higher cost, said McKenzie Smith, a broker with CIG Redwood Empire Insurance Center in Petaluma.

Smith noted one customer who was about $150,000 underinsured. He urged the customer to boost the coverage to no avail, even though it would only add a few hundred dollars more annually to the cost of his premiums. “You can only force so much,” Smith said. He added that he will drop his clients who will not insure to the proper amount.

The October wildfires have not only exposed the widespread problem of underinsurance, but also exacerbated it by driving up construction costs. With so many people seeking to rebuild, the combined costs for construction labor and materials have increased about 30 percent since Jan. 1, said Matt Everson, a former financial planner who is assisting fire victims in compiling detailed rebuild estimates.

“I think the other thing they can’t figure in is the demand for surge pricing,” Everson said. “The prices are going up because of supply and demand.”

Given the severity of the problem, policymakers have tried to exert pressure on carriers to offer more generous settlements. For example, Jones has called on carriers to provide up to 100 percent of personal property claims without providing an inventory — which has had some success.

“I’m using every ounce of my authority and then some to help fire survivors,” Jones said in an interview.

But he only has limited powers. Even though Jones won his state Supreme Court case last year against the industry, he still did not get the authority to require insurers to set or recommend an insurance policy for a replacement home. Instead, the court ruling only provided limited power over how carriers communicate with policyholders and how they calculate policies for replacement coverage if they prepare estimates for a customer.

“The Legislature has not given me the authority to have them carriers) pay more than what’s in the contract,” Jones said.

Lawmakers have helped apply pressure as well, unveiling a series of bills intended to address perennial issues that have reappeared again with the local fires. They include AB 1797 by Assemblyman Marc Levine, D-San Rafael, which would require carriers to offer a replacement cost estimate for rebuilding at each annual renewal and for new policies; and SB 1263 by Sen. Anthony Portantino, D-Glendale, which would automatically increase coverage limits to 150 percent of the policy in the event of declared state of emergency. Jones noted that past measures have been opposed by insurance lobbyists.

“I’m hopeful, given the enormity of the damage and loss that people suffered, that the Legislature will act and not be influenced by the insurance industry,” Jones said.

But industry representative Sektnan noted that major changes to coverage could make homeowners insurance unaffordable to many Californians.

“You can put bells and whistles on it, but they may not be able to afford it),” he said.

Legislative action may not help local fire victims who find themselves facing a significant gap between their insurance payout and the cost of rebuilding. Jones said his office has helped recover $43.5 million for local policyholders who have filed complaints with his department, though many of those charges concerned misrepresentation of a policy. The legislative threat, however, may spur the carriers to make offers more amenable to their clients.

“Those insurers have the resources to pay those losses,” said Jones, who noted that carriers were also beneficiaries of the federal tax cut bill passed late last year.

There have been successful precedents for applying such pressure.

“The one thing that carriers are very concerned about is their reputation,” said Kunreuther of the Wharton School. He noted some insurers in the aftermath of Hurricane Andrew in 1992 initially balked at paying claims for homes built under more lax building codes, but ultimately paid out under public pressure. “They decided that it was in their best interest,” Kunreuther said.

Nix is hoping such pressure — especially from policyholder groups that formed in the aftermath of the fires to trade personal stories and insurance strategies — may help his family’s plight.

After five months of dealing with USAA, he has strong, visceral feelings about insurers. When an insurance commercial comes on TV, Nix must change the channel. But unlike some other USAA policyholders, he has not filed suit against the company, hoping that mediation through the state Department of Insurance may be more fruitful.

“It’s just another cog in the wheel with the stress,” he said of the claims process.

He realizes that his family is lucky because he took his wife’s advice to buy another house near Piner High School two days after the Tubbs fire, paying for it with savings and temporary living expenses from the carrier.

As a result, Nix now has more time to spend playing with his kids rather than to worry about making the math add up. But, still, he would rather have the funds to rebuild on his old lot.

“No amount of money is worth the amount of stress this process has ensued,” Nix said.

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