

[Underinsured wildfire victims feel burned again](#)

The Los Angeles Times

Some policyholders believe companies deliberately sold them less coverage than they would need to rebuild. An industry group says the issue is overblown.

When Dave Wilder and his wife, Lynn, surveyed the remains of their Running Springs house after it burned to the ground in a wildfire near Lake Arrowhead 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 in recent days, 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. Just over 30,000 of those claims had been settled as of June 20, leaving almost 9,000 unpaid or disputed. It's not clear how many of those claims involve underinsurance. As of this week, the Department of Insurance had received 90 complaints from policyholders who said their insurance did not adequately cover their losses from last fall's fires. But officials say many underinsurance cases may not result in complaints to regulators.

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“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.

Considering Poizner's gubernatorial aspirations, it's unlikely he'll do much to upset the deep-pocketed insurance industry. What he should do is push for legislation that requires insurers to come up with an accurate replacement cost, rather than the more casual approach often given to home appraisals.

If that cost comes in low after a natural disaster — based on, say, an average of three rebuilding estimates from licensed contractors — the insurer would be required to make up the difference.

This should provide a strong incentive for insurance companies to offer customers the most comprehensive policies, and to ensure that those policies are updated on an annual basis. Failure to report any improvements, of course, would leave the policyholder liable for any additional costs.

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, or more than \$400,000.

He believes State Farm was negligent in determining the actual cost to rebuild his home, and he's spent the past year trying to gain a more favorable settlement.

Wilder paid \$723 a year in insurance premiums. According to State Farm, covering an additional \$200,000 in replacement costs would have boosted Wilder's premiums by as much as \$500 annually.

Bill Sirola, a State Farm spokesman, said he couldn't comment on an individual policyholder's situation. "We want to do everything we can to get homeowners back to where they were before the tragedy," he said. 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 website like AccuCoverage, which charges \$7.95 for a rough estimate.

"You should never ask the insurance company what your replacement cost would be," Wilder said. "You tell them how much coverage you want." Some insurers will let you do this, others won't. But if an agent says you can get away with less coverage than you think you need, get up and leave.

That's someone who may not be such a good neighbor when the smoke finally clears.