United Policyholders
Empowering the Insured

US homeowners face chronic underinsurance as LA wildfire losses mount

Beinsure

A year after the Los Angeles wildfires, many survivors still face the same hard math. Insurance payouts fall short of rebuilding costs. Homes stand gone. Coverage caps don't stretch far enough.

Multiple studies show many policies never promised full replacement, despite what policyholders often assume.

For years, the gap stayed mostly out of sight. Climate-driven disasters changed that. Large-scale wildfires now strip the issue bare, exposing how widespread underinsurance has become.

Global warming pushes temperatures higher and dries landscapes. Development keeps expanding into fire-prone zones known as the wildland-urban interface. Together, those forces drive heavier losses.

Insurers have paid more than $22.4 bn on wildfire claims tied to the Los Angeles wildfires that erupted on Jan. 7 last year, according to figures released by the California Department of Insurance.

Denni Ritter, vice president for state government relations at the American Property Casualty Insurance Association, said insurers remain focused on helping Californians rebuild after what he described as devastating Southern California wildfires.

January's Los Angeles fires did most of the work. Add in severe convective storms across the US, and insured catastrophe losses in 2025 are set to push past $100 bn for the sixth year in a row, according to the Swiss Re Institute.

Since then, roughly two-thirds of respondents report underinsurance, averaging more than $200,000 per household.

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Independent research backs those numbers. Analysts reviewing losses from the 2021 Marshall Fire in Colorado, which destroyed over 1,000 homes in Boulder County, found 74% of affected homeowners lacked sufficient coverage.

The Insurance Information Institute estimates about two-thirds of US homeowners are underinsured for wildfire losses. Typical shortfalls run near 20%. In some cases, gaps reach 60%.

Coverage limits set years earlier quickly look outdated once rebuilding begins.

Before the 1990s, this tension mattered less. Most US home policies included guaranteed replacement coverage, a commitment to rebuild regardless of cost.

As homes grew larger and more expensive, insurers shifted toward replacement-cost-value coverage, which places a cap on payouts.

To set those limits, most carriers rely on third-party cost estimators. Consumer advocates and plaintiffs' attorneys say these tools often understate real rebuilding costs, keeping premiums lower while exposing homeowners to post-disaster gaps.

One widely used system is 360Value, introduced in 2007 by Verisk Analytics.

Verisk says the model draws on up to 13 million data points and produces estimates consistent with claims outcomes when inputs stay consistent.

Industry trade groups defend current practices. A spokesperson for the American Property Casualty Insurance Association said insurers work with policyholders to explain coverage and adjust limits as rebuilding costs change. Annual policy reviews, especially after renovations, remain standard advice.

According to United Policyholders executive director Amy Bach, that assumption doesn't match reality. She calls it a fiction.

Her proposed fix sounds old-fashioned. Bring back guaranteed replacement coverage. The industry left it behind decades ago. Wildfires keep reminding homeowners what went with it.

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