

Why didn't Marshall fire homeowners have enough insurance? Watchdogs blame industry software.

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In 2021, a Louisville couple bought \$419,000 worth of insurance coverage for their home, based on their agent's recommendation. Now, that policy payout is only providing about half of what they need to rebuild the house they lost in the Marshall fire.

In a lawsuit filed this summer, the couple blamed their agent, their insurer and the company that built the software their agent used to tell them how much coverage they needed.

They're not alone in finding fault with the software.

Industry watchdogs, including Colorado Insurance Commissioner Michael Conway, say the computer programs used by insurance companies to provide replacement cost estimates to homeowners are a problem because they consistently underestimate how much families need after they lose their homes in natural disasters.

Conway said he identified the issue while investigating complaints after the Marshall fire, the Dec. 30 conflagration that destroyed more than 1,000 homes in Boulder County. He said he hopes the legislature can find a way to force insurance companies to provide more accurate estimates when selling policies.

The problem, he said, is insurance companies use one software program to provide estimates of how much homeowners insurance customers need and a different software program to price out what homeowners need to replace their houses after they burn to the ground.

“We have had some conversations with consumers who bought their homes six to 12 months before the fire and the amount they were told they needed was wildly different from what they actually needed,” Conway said. “That’s a problem and it’s a problem we have to figure out.”

Change could be hard to come by. Lawsuits have not been successful and it will take legislation to force insurance companies to change the way they recommend coverage to customers, said Amy Bach, executive director of United Policyholders, a nonprofit organization that advocates for consumers.

Meanwhile, the insurance industry is pushing back on any new regulation, saying consumers are as responsible for figuring out how much coverage they need as the agents they work with.

“It’s a shared responsibility,” said Carole Walker, executive director of the Rocky Mountain Insurance Information Association, which represents insurers in Colorado. “On both sides, we’re looking at the communications piece to make sure we get the best replacement cost estimate possible and that it’s updated.”

“Beholden to the software”

In July, Douglas and Amanda Mayfield filed the lawsuit in Boulder County over their homeowner’s insurance, saying their Louisville home was underinsured by as much as \$431,000.

The Mayfields were out of town visiting relatives when the fire ravaged their neighborhood. They’d left their golden retriever Lucky at home under the care of a pet sitter. They lost their dog and everything they owned, the couple told The Denver Post following the devastating wildfire.

The Mayfields, who declined to be interviewed for this story, said in their lawsuit that they renewed their homeowners policy in 2021 with \$419,000 worth of dwelling coverage, per their insurance agent’s recommendation. After their home burned, the insurance company estimated it would cost \$555,055 to replace it. And the Mayfields say an estimate for actual costs to rebuild the home they once had now stands at \$850,000.

The crux of the lawsuit revolves around the Mayfields’ accusations that their agent failed to inform them of extra coverage they could buy and failed to procure an extended benefits policy that would have

provided an additional 50% of coverage on the amount insured. But they also blame the company that provided the software for the original estimate.

“Our client was very specific in saying, ‘I think it’s going to take this much to insure my home,’ but the agent was only able to quote a significantly lower amount based on what the software said,” said Shirin Chahal, one of the attorneys representing the family. “The agents are beholden to the software.”

The insurance company, Progressive, used a product called Marshall Swift & Boeckh Cost Estimator, a software program sold by CoreLogic. CoreLogic knows customers and insurance companies rely on its product to assist them in making informed choices when buying property insurance, the lawsuit said.

But it failed the Mayfields. CoreLogic should have known its software undervalued replacement costs in Colorado, based on experiences with other wildfires over the last 10 years, the lawsuit stated.

“Had plaintiffs known the true full replacement costs of the property, plaintiffs could have secured a policy with the correct limits to rebuild their home in the event of a total loss in a wildfire,” the lawsuit said.

Efforts to reach CoreLogic and Prudential for comment were unsuccessful.

“We’re able to simplify that process”

The programs that insurance companies use are provided by outside vendors. Almost every company uses the same products.

Verisk is one of the largest in the country, providing its 360Value and Xactimate programs to insurance companies across the United States. Its 360Value program provides the quotes for underwriting property insurance and Xactimate provides the replacement cost estimates on the claims side, said Trish Hopkinson, product director for 360Value.

Verisk’s programs ask agents to enter data for nine key areas that most impact a home’s value — square footage, the year built, the number of stories, the foundation type, whether there is a finished basement, what the exterior walls are finished with, the size of garages or carports, whether or not there are

fireplaces and the quality grade of home such as economy, custom-built, premium or builder's grade.

The computer builds a three-dimensional model of the house and spits out a rebuild estimate without the homeowner or agent having to consult with a contractor.

"That's the beauty of it," Hopkinson said "We're able to simplify that process."

The program is updated monthly to reflect the current costs of supplies and materials used in home construction, Hopkinson said.

"When that information is accurate for a structure and we compare it to total losses we've found that on average we are within 10% on total loss replacement," she said.

There's not a clear answer as to why companies would choose to use different software programs for underwriting and calculating claims.

"Discussing appropriate policy limits is often done at the agent level, and agents may use a different platform than an insurer claims team does. Even within an insurer, underwriting and claims teams may make their own decisions about what solutions to buy and from what vendors," said Stephen Clarke, Verisk's vice president of government relations. "Contractors may also be using a completely different solution."

But Clarke said if a company uses both of Verisk's products, then there is a minimal difference because they rely on the same data for their estimates and calculations.

When asked why the Marshall fire homeowners are seeing such a disparity between the values they were cited when buying insurance and the replacement costs on their losses, Hopkinson said it's because of the unique situation the country is facing as it emerges from a pandemic and experiences historic inflation.

And natural disasters that destroy hundreds of homes at one time cause "unprecedented upward pressure on prices," she said.

Verisk officials have been speaking with Conway and Colorado legislators about the problem and possible solutions, Clarke said.

“We appreciate the problem,” he said. “We certainly don’t like to see people not be made whole.”

“Big groundswell of anger”

For years, United Policyholders has been on the ground after Colorado wildfires to advise people who’ve lost their homes. And every time, about two-thirds of the people they work with report being underinsured, Bach said.

“Underinsurance has plagued wildfire survivors and has impeded wildfire recovery for a very long time,” Bach said. “A big part of the problem is the software the insurers are using when they issue the policies.”

Homeowners rely on their agents and the tools they use to give them accurate estimates for replacing their homes.

“If walk into an insurance agent’s office and say, ‘I want you to insure my home,’ they would ask, ‘How much do you want?’ And you’d say, ‘I don’t know. What do you think I need? You’re the professional.’ If they said they couldn’t provide it, you’d leave,” Bach said.

Bach recommends the Colorado General Assembly pass a law that requires insurance companies to provide a more accurate estimate and then allow their customers to decide what to buy. But the true replacement costs need to be given upfront, she said.

“The whole system isn’t set up right,” Bach said. “At the end of the day, the one thing that would fix it was if the law said, “You, insurance company, must make a recommendation on adequate limits.”

Lawsuits over coverage have popped up in other areas, especially in California. But they either are tossed by the courts or settled behind closed doors. That’s kept consumers in the dark over how the insurance industry provides estimates, Bach said, and lawsuits, thus far, have not been effective in forcing change.

“That’s why there’s a big groundswell of anger and effort going on now to change the law,” she said.

But Walker, who represents the insurance industry in Colorado, warns that forcing people to buy more expensive insurance could cause a ripple effect, especially in an economy where inflation this year has risen at historic rates.

“The easy answer to underinsurance is to require everyone to have more insurance,” she said. “We don’t want people as they look at their insurance bill and start looking at rates to make a decision between buying groceries and putting food on the table and buying insurance.”

And there’s a delicate balance between putting more requirements on the industry and making it affordable for companies to continue to do business in the state. She pointed to Florida, where insurance companies are pulling out of the state because of the increasing frequency of natural disasters and litigation over claims. Some warn the state’s property insurance market is on the verge of collapse, Walker said.

The industry doesn’t want state-imposed mandates but is willing to sit at the table and discuss ways to improve, she said.

Conway wants insurance companies to do better.

“The obligation is absolutely on the insurance companies to get this right,” he said. “Saying homeowners have a duty to completely understand how much they need is inaccurate. What’s most important from my vantage point is making sure the insurance companies give good, accurate information on what a homeowner needs. What the homeowner does with that information is up to them.”