The Insurance Problems in LA and What We Should Learn From Them

NAIC Consumer Reps.,

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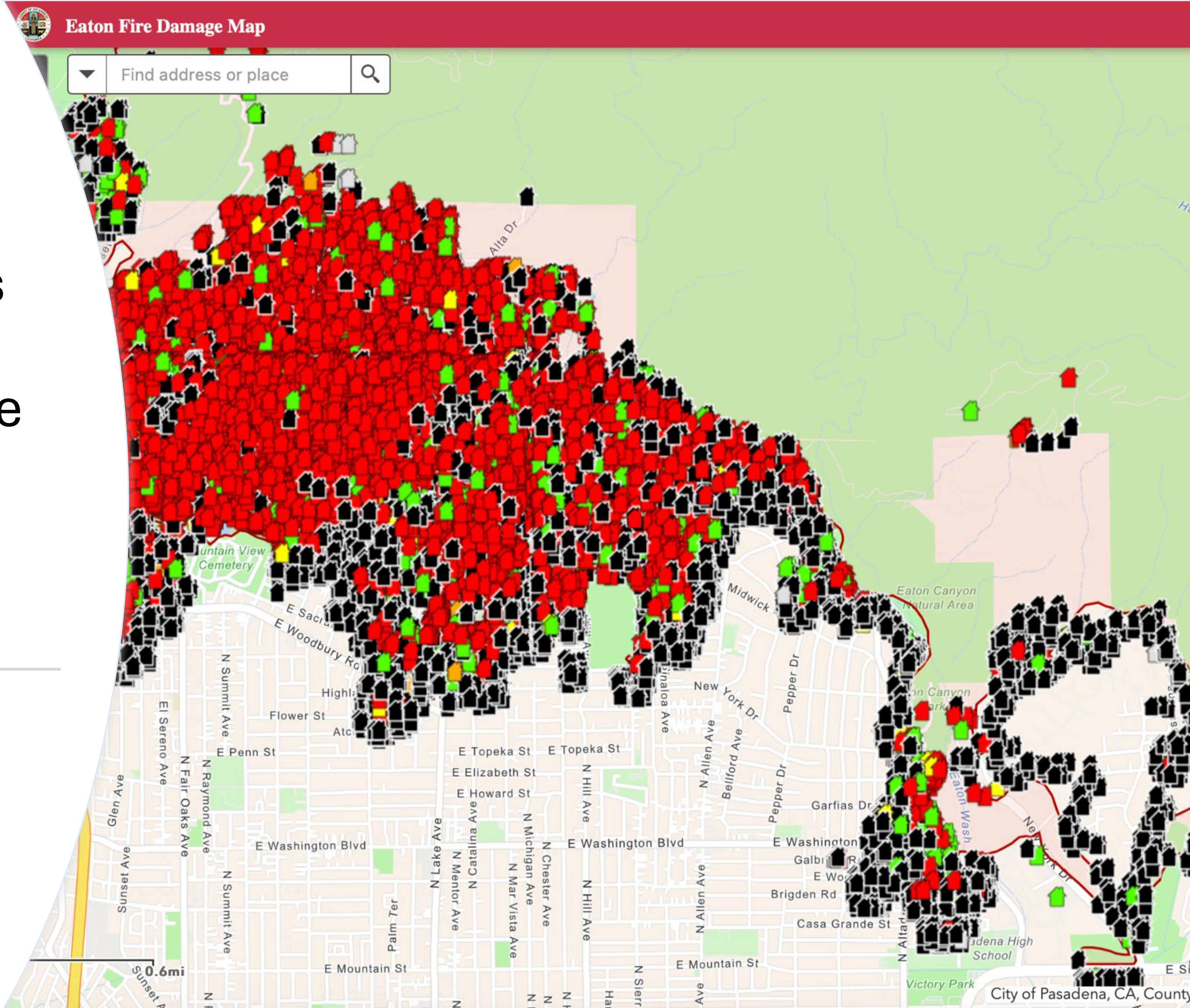
Who are we?

- NAIC Consumer Representative focusing on affordability, adequacy, and availability of P&C insurance
- Researches underinsurance

- Founder and President of United Policyholders (uphelp.org)
- NAIC Consumer Representative

Map of portion of Alta Dena after the Eaton Fire; Destroyed homes are RED and Undamaged homes are BLACK (orange and yellow are minor to major damage)



- We are going to describe the problems that LA is facing and what that predicts for your States:

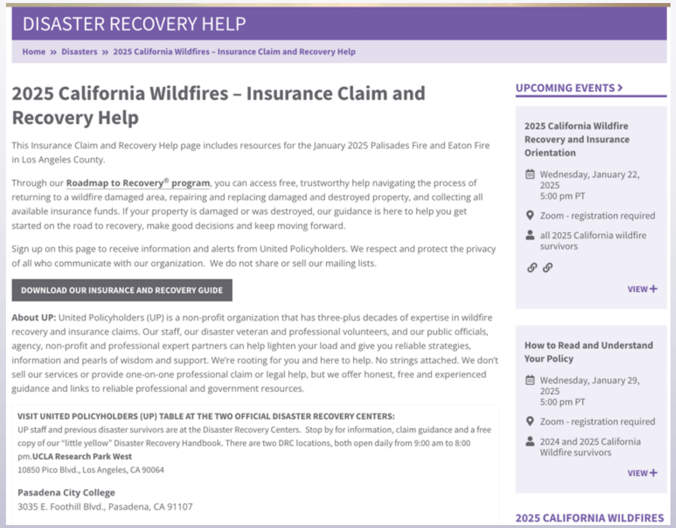
  -Amy will discuss the insurance challenges other than underinsurance.

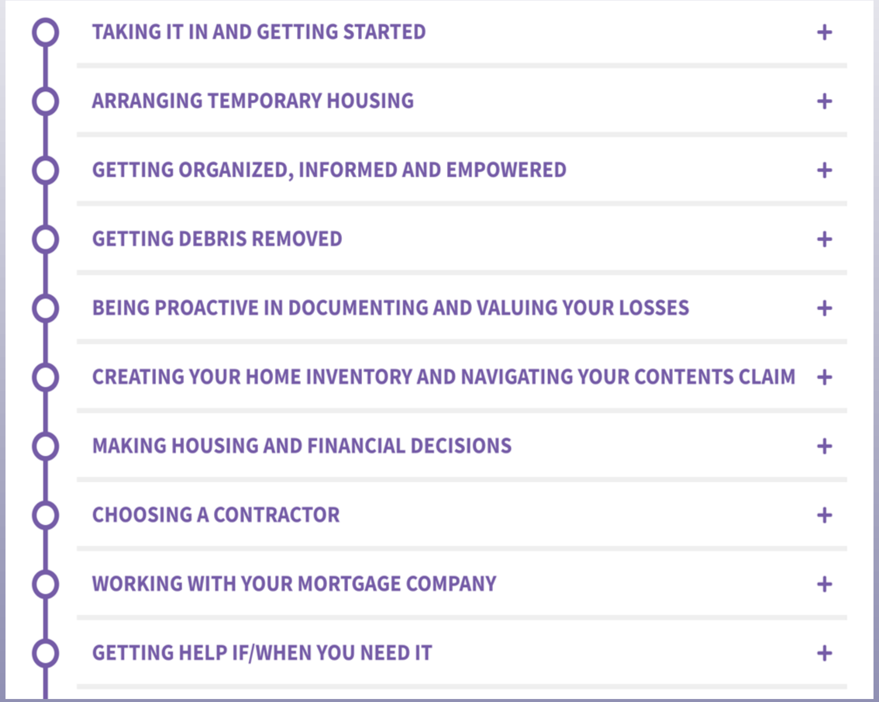
  -I will discuss underinsurance.

www.uphelp.org

www.uphelp.org/recovery/disaster-recovery-help/2025cawildfires

- Step-by-Step guidance that follows the typical recovery timeline
- Links to sign up for events and updates
- Sample letters & claim documents www.uphelp.org/samples
- Survivors Speak Tips www.uphelp.org/survivorsspeak
- Upcoming Workshops and Resources www.uphelp.org/events
- Links to specialized professionals www.uphelp.org/findhelp





Common “hot spots”

- Insured/Adjuster communications (delays, adversarial, valuation disputes, inconsistent claim handling, limited adjuster authority)
- Misinformation on policy benefits owed, state regs/laws
- The pain of itemized contents inventory requirements
- Lowball valuations of dwellings, contents, etc.
- Improper depreciation by adjusters
- Underinsurance (dwelling, ALE, code upgrades)
- Disputes over damage to standing homes and smoke remediation
- Biased contractors/vendors over or understating damage
- Zoning/Permitting issues (setbacks, building codes)
- Scams, hard sell solicitations, fees that eat up insurance benefits

I just completed analysis of over 62,000 fire claims in California, 2018-2021. It describes that over **two-thirds** of destroyed homes **have less reconstruction coverage than incurred loss**.

This is not because of price sensitivity. Of the 62,000+ policies I analyzed, nine out of ten had reconstruction value (RCV) coverage and an endorsement extending that coverage (ERC).

This is not because of demand surge pricing, post-catastrophe.

- Across wildfire years 2018-2021, demand surge steadily ran about 20%.
- This also is what demand surge has been in Colorado after the 2021 Marshall Fire.
- The underinsured homeowners almost all had demand surge baked into their RCV coverage limit *and* had an ERC extension of that limit by at least 20%.
- If coverage is accurately written, demand surge should not cause underinsurance after a catastrophe.

Underinsurance is happening because of the way insurance is bought and sold (which matters to every State). The following describes most of us:

- We first bought homeowner insurance because we were required to do so to close escrow and move into a new home.
- We renewed the policy annually without reflection unless our coverage was cancelled or the premium dramatically spiked.
- If we ever shopped our insurance, then we shopped on premium, not coverage.
- And if we ever asked about the adequacy of coverage, our insurance company assured us that it likely was adequate but offered to sell us a percentage extension endorsement if we wanted to be sure.

90% of Californians, 2018-2021, bought…

- Coverage A in the amount that the insurance company estimated would be the reconstruction cost if the home burned down.
- *And ERC*.

Homeowners still end up underinsured because the point-of-sale estimate is **too low about 95% of the time by an average of about 50%.**

- No one is trying to underinsure.
- But the estimates are a short cut application of claims adjustment estimating tools.
- And point-of-sale is a very different setting from claims adjusting.
- In claims negotiations, an adjuster's estimate is designed to be "an opening bid" grounded in expertise and detail.
- And it leaves room to negotiate with a contractor who wants more money to work with…

...but at point of sale...

- ...there is no contractor,
- ...there is no expertise,
- ...there is no detail,
- ...there often is no negotiation,
- ...and there is no one on fighting for the premium to be higher.

What happens post-loss?

Economists of the Federal Reserve Bank find that in claims adjusting of destroyed homes, 40% of the time the homeowner **is underpaid**, meaning the homeowner settles for less than the insurer's reserve. Underpayments mask the true frequency of underinsurance.

If the claim goes to litigation, then the lawsuit may turn on language in the policy something like this:

The coverage amount listed on your attached declaration page is only an estimate of the replacement cost value of your insured property. It may not be sufficient to replace your property in the event of a total loss. If you have concerns about the estimated replacement cost amount used to derive your coverage, you should take an opportunity to discuss this with us to ensure your property has enough coverage in the event of a total loss.

Based on that language, the insurer often wins…

…because the homeowner is presumed to have read and understood their policy…

…despite research by among others, our own Consumer Rep, Brenda Cude, that this is a fiction.

Conclusions

- 80% of homeowners nationwide have grossly too little Coverage A even for a one-off house fire.
- A catastrophe makes it worse.
- Most total losses happen in a catastrophe.
- And in a catastrophe, having ERC doesn’t fix the problem (in fact, having ERC only fixes the problem about half the time even for a one-off house fire).

We can’t change the underinsurance issues that Los Angeles is going to encounter, but we can make things better in the future.

More coverage = Higher premiums

So, as regulators, you may feel you have no choice but to leave your homeowners holding the bag even for unintentional underinsurance because otherwise everyone's premiums go up.

If you find that endpoint unsatisfactory, then the following slide introduce some ideas about what you could do…

You could start by confirming if California data describes what is happening in your State.

If you are inclined to a market-based solution...

...then gather data insurer-by-insurer in your state, make it public facing, and watch the market do its magic.

If you are inclined to a regulatory solution…

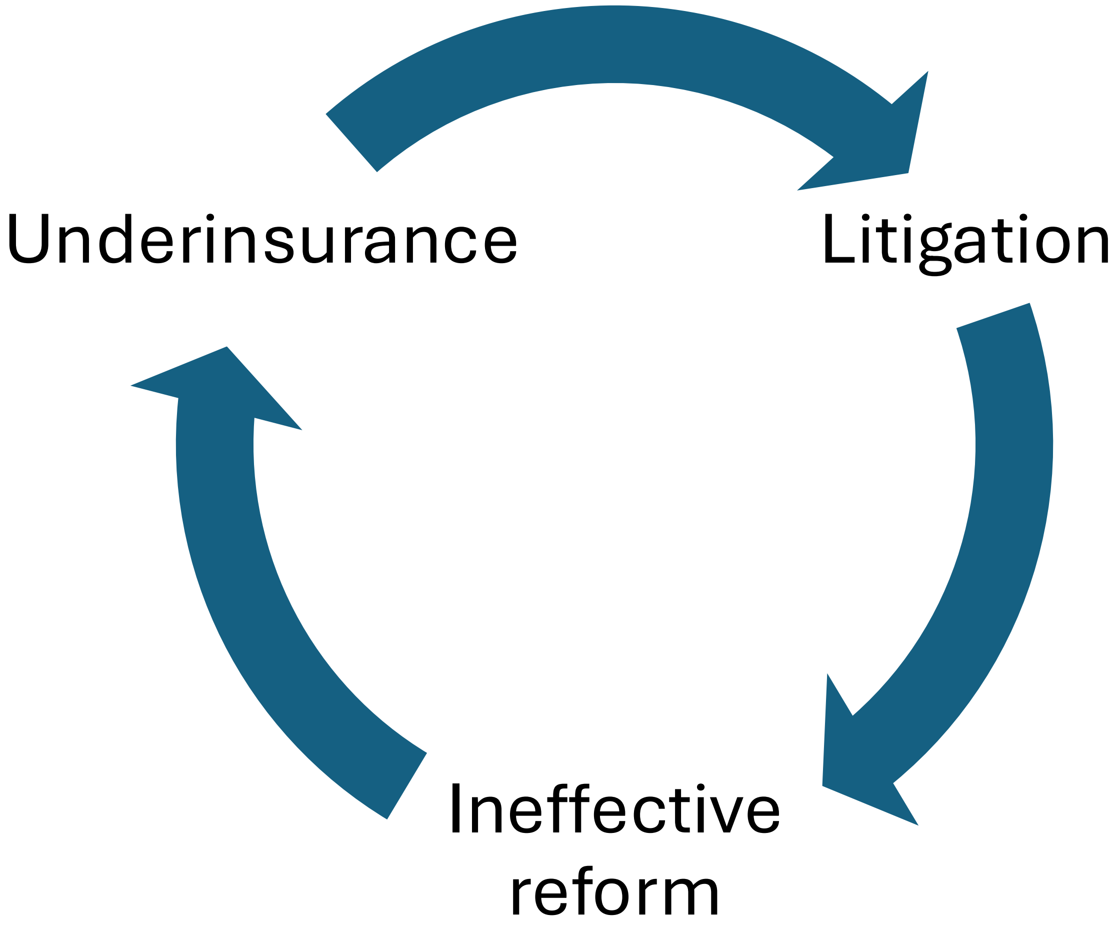
…then consider the approach Colorado is taking:

- **Requiring** an insurer offer 50% ERC.
- **Requiring** prominent disclosure of the option.
- **Requiring** a clear explanation of why a homeowner should consider the option.

Or you could consider a combined market-based and regulatory solution…

- Requiring an insurer to write Reconstruction Cost Value (RCV) coverage.
- Permitting the insurer to estimate the adequacy of the dwelling coverage however the insurer wishes.
- But picking a percentage (5%?, 10%?) at which if a home is destroyed and the dwelling coverage is too low by more than that, then the policy is deemed reformed to be Guaranteed Replacement Coverage (GRC).

We could discuss other ideas, but I think we all agree that we do need to get out of this cycle:



Questions?