



# A Guide to Homeowners' Insurance for California Wildfire Losses<sup>1</sup>

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After suffering historically destructive fires in 2018, California endured five of the six largest fires in state history in 2020. Nearly 10,000 fires burned over 4.2 million acres—making 2020 the most significant California wildfire season on record. Sadly, a recent study from Stanford University<sup>2</sup> predicts that the frequency and potency of these fires will only continue to increase in the coming years and decades, so it is important that homeowners understand what insurance coverage is available for wildfire-related losses.

Insurance companies are in the best position to forecast potential losses resulting from this California wildfire trend. It was estimated the damages from fires in western states in 2020 could exceed \$13 billion.<sup>3</sup>

Historically, insurance companies go to great lengths to avoid accepting coverage for these kinds of losses. They often try to pass the cost back to policyholders, wherever possible, and otherwise retreat from the market. They do this through premium increases, denials of uncertain claims, and aggressive adjusting practices.

Case in point: Florida. In the wake of massive flood losses arising from hurricanes, enough insurers retreated from that market that the federal government had to step in to bridge the gap and help fund flood insurance in the state. It remains to be seen whether similar patterns will emerge in California, although the California legislature has generally been protective of policyholders in this regard.

Insurance companies have and will continue to make the cost of coverage for wildfires account for the expense of the coverage they provide for those losses. They will also take advantage of every opportunity available to them to minimize payments made on claims. Homeowners should be aware of the tools available to them to maximize the coverage afforded under their insurance policies.

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<sup>1</sup>This article is an updated version of [A Guide to Homeowners' Insurance for California Wildfire Losses](#) originally published in the California Business Journal in November 2018, authored by William S. Bennett, an SDV associate.

<sup>2</sup>Michael Goss, et al, [Climate Change Is Increasing the Likelihood of Extreme Autumn Wildfire Conditions Across California](#), Environmental Research Letter, (<https://iopscience.iop.org/article/10.1088/1748-9326/ab83a7>).

<sup>3</sup>Matthew Laviertes, [Western U.S. Wildfires Cost Insurers up to \\$13 Billion in 2020](#), Reuters, (<https://www.reuters.com/article/us-usa-wildfires-insured-losses-trfn/western-u-s-wildfires-cost-insurers-up-to-13-billion-in-2020-idUSKBN-28P2NQ>).

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## Make Contact

The crucial first step in any insurance claim is making the insurance company aware of the loss. Wait too long, and your claim could be denied. However, if you contact the company too soon, you may not be adequately prepared to present the claim in a favorable light. The best course of action is to quickly contact the insurance company to determine what the timeline is for making a claim and then set up a schedule to complete the process in a timely manner.

First, set a deadline to complete your inventory of lost or damaged belongings. Then determine where you will live in the interim period when you are unable to live in your damaged or lost home. Next, set up a time to have a contractor and an adjuster from your insurance company come to the house and agree on a cost to rebuild in the current market, which will likely be inflated due to the number of people in the same area and in the same situation.

## Rebuilding Your Home

Two people are key in maximizing the coverage you receive for repairing or replacing your damaged or destroyed home. The first is the insurance adjuster. Your insurance company will send this to an insurance adjuster to inspect the site. Remember that he/she/they represent the insurance company and, to some extent, have its best interests in mind. The other key person is the contractor, who will provide a cost estimate for the repair or replacement of your home.

The adjuster and contractor will not voluntarily undertake this process together, but you should insist that they work in tandem to avoid any potential discrepancies in estimates or valuations. It is much harder to get a contractor to revise his number to match the adjuster's valuation, or vice versa, than it is to press them to work together to come up with a number that works on both ends. This minimizes the chance that you could be left with an insurance check that does not fully cover the cost to rebuild your home.

## Documentation and Contents

Make an inventory of what you own. Note everything of value, even things of nominal value, can be substantial in aggregate. Take pictures of everything in your inventory. Note what the item is, its age, the life expectancy (for calculating depreciation), the cost to replace it (including tax), and the name of the store or website where you can obtain the replacement. This preemptive documentation is invaluable in the claims process. Store this documentation off-site in a secure location or scan and save it in the "cloud."

If you have not completed these preparations before you suffer a loss, don't worry because you can still get coverage for your lost property. It may just take some extra work. Put together a list of everything you can think of that you lost. When you are able to return to the burned structure, look around for any belongings burned, melted or intact. Take pictures of these items and incorporate them into your inventory.

When the adjuster gets to your claim, it will likely be one of many claims filed by people who suffered similar losses in the affected area. The more documentation you can provide to the adjuster, the easier it will be for them to make decisions and obtain a better settlement value for you in an efficient manner.

## Additional Living Expenses

If you have lost your home or been temporarily displaced while it is being repaired, you will need to find

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alternative living arrangements. Coverage for these expenses can vary from policy to policy; however, the key is that this coverage is intended to cover additional living expenses. This means that anything added to what you must continue to pay for your destroyed home will be covered.

For example, if you have a mortgage payment, you can expect to get coverage for the rent cost associated with a similar property. You probably will not be covered for the cost of the utilities at the rental property because the utilities at your lost home ceased when the house burned down. You may be entitled to additional, less obvious coverage, such as gasoline costs due to a longer commute.

### Ancillary Fire-Related Losses

Some policies cover costs for fire-related damage even if the house is not fully or partially burned. Smoke and ash damage, for example, is destructive and may be covered. If your home was exposed to smoke or ash from a wildfire, have an inspection performed to evaluate its impact, especially since it is not always visible to the layman's eye.

However, as noted above, insurance companies use adjusters of their choosing that do not necessarily have your best interests in mind. If you suspect that the adjuster is not performing a proper inspection, consider pushing for an independent examination from a qualified expert paid for by the insurer. The insurance company may reject this, leaving you with the option to pay for it yourself. This is a judgment call, but where the damage is significant, it may be worthwhile for you to pay the cost and/or file a complaint about your insurer's conduct with the California Department of Insurance.

### Basis of Coverage

Above all, review the language of your policy. Ultimately, the only coverage you have is the coverage that your policy says you have. Therefore, it is best to review the policy terms to determine what you are entitled to before filing a claim and beginning the adjusting process. Communicate with your agent and think about what coverage you would want if your house was lost in a fire. When talking to your agent, make sure the coverage they are selling you matches what you envision.

For example, some policies may cover a particular home value but do not account for the increased costs associated with being one of many losses that occur simultaneously in a single area. The limited number of contractors and limited available materials drive up the price. If your policy is based on home value rather than actual replacement cost, you could be stuck with a deficiency in coverage.

Dealing with the insurance claims process for the first time after you experience a loss is a lot to handle in the midst of a very stressful time in your life, but it can still be done effectively. Follow the steps above and be careful not to let your insurance company or its adjusters trick you into committing to anything less than the full value of the coverage afforded by your policy. There are attorneys and other service providers who specialize in these types of claims who can help you with the process.

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