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Saturday, May 31, 2008 at 01:08PM

Insurance Update

A reader and I have been discussing his travails since his house burned to the ground in the October fires. The struggle he's had with the insurance companies has made him an expert on the latest goings-ons, and he shares them today - mostly the concerns about being under-insured. I always thought that I had 'guaranteed replacement cost' in my policy, but that has gone away:

Attached is the appellate court's ruling (attached PDF). Like I said, if you haven't already, it's really important to call your agent and make sure you have enough coverage. It is amazing, I've talked to dozens of people and everyone thinks they have sufficient coverage. I think people are scared to talk to their agent because their premiums will go up. It's not always the case. I convinced my neighbor who didn't lose his house to call his agent and he got his coverage doubled and his premium actually went down. Like a lot of things the first \$250-\$300K is the most expensive part of insurance ... the last \$700K is cheap!

The insurance industry admits that nationwide 65% of home owners are underinsured by an average of 30%.

<http://www.realestatejournal.com/buysell/taxesandinsurance/20060829-mcqueen.html>

<http://moneycentral.msn.com/content/Insurance/Insureyourhome/P35340.asp>

A quick way to see is to run a quick Marshall and Swift

www.accucoverage.com

I've got a full version of the software package and can run a very thorough "appraisal" and let someone know just how bad their situation is. The Marshall and Swift software is what the insurance agents use to determine your policy limits. BTW, they use another package to decide what your house was worth after it burns down (Xatimate) ... Guess which one is more conservative in it's estimates?

The people I've been working with in Southern CA place the underinsured number at 95% locally. Sounds really high, but they are working very close with the "fire victims". I can't believe it's only the people who lost their homes that are underinsured ... I think you just don't realize it until you need it (i.e. it's too late).

Insurance companies are like bookies. The chances of you having a total loss are <1%. But the insurance companies are risk adverse and they want market share, so they want to underinsure you. They want the

most expensive part of your policy (the first \$250K or so) and then after that it's all risk, so they really don't want that part. They also layoff their liability on the secondary market (just like a bookie) so they can mitigate risk. Funny how you hear that insurance companies are going to go belly up after a Witch fire or a Katrina. Last year alone CA homeowners premiums were \$7B.
<http://www.insurancecoverageblog.com/archives/first-party-insurance-southern-california-wildfires-and-insurance-claims.html>

On average the insurance industry only pays out 33 cents on the dollar
<http://www.insurancejournal.com/news/west/2006/06/30/70010.htm>

... pretty good racket. With 1 in 8 people in this country living in CA and profit margins like that, they aren't pulling out of CA and they certainly aren't going broke. Even a year after one of the biggest disaster in this country (Katrina) the insurance companies had record profits.
<http://www.pantagraph.com/articles/2007/04/07/money/doc4618639ef29c3204754284.txt>

Also, just for your own edification, all insurance companies are not created equal. All State is far and away the worst (yes I do have data to back up that statement). According to one well respected Bad Faith Lawyer "they are the only company out there that will spend \$20M in lawyer's fees to keep from paying \$1M over policy limits". State Farm is pretty bad, but not as bad as All State ... every year they get a little closer to All States model. In this fire, Farmer's has been the best of the big 3, but I guess in other fires they weren't so good ... not sure what that means.

USAA and AAA are both seen as excellent and fair. I've also heard good things about Liberty Mutual , Travelers and The Hartford. Chubb is suppose to be very good, but also very expensive.

Two organizations that are out there to help people are:

www.carehelp.org (these guys are incredible)

and

www.unitedpolicyholders.org

Trust me, no one is prepared for this sort of thing, and I've seen grown professionals (Doctors and Lawyers) totally devastated by the over whelming situation this places you and your family in. In the last fire (Cedar) a couple of people committed suicide and there were numerous divorces. There are organizations out there that can help and do a good job. Everything from insurance problems to counseling ... I'm not a big counseling guy, but if you need it there are several support groups.

A future blog topic that you might be interested in is the class action vs SDG&E ... it's going to be huge. All of the insurance companies are trying to retain subrogate rights and they are going to sue them for well over a Billion Dollars. It's pretty much common knowledge that SDG&E started 2-3 of the fires and it looks like the lawyers have dug up a mound of evidence showing neglect.

This is going to be a real polarizing topic. As we all know SDG&E will just pass the losses off to their customers. I've heard that SDG&E has a billion dollars of liability coverage ... I've also been told (by one of the lead lawyers in the class action) that SDG&E made a cooperate decision to not have any liability coverage ... sounds crazy, but he should know ... he sued them back in circa 2004 for the fabricated rolling blackouts and won \$500M (ruling was something like \$24B, but they settled on \$500+Meg).

I think the pending class action will make that decision look like found change.

<http://www.allbusiness.com/legal/trial-procedure-summary-judgment/5536318-1.html>

People who were affected will be looking for more (or in some cases some) money, people who weren't affected will take SDG&E's side and say "you shouldn't live in the sticks". Some people who were really underinsured will only be able to move on if they get some money from the class action.

Both sides probably have a valid argument, but the last time I looked Rancho Bernardo isn't exactly the sticks. One of these years we're going to have a fire that will burn to the pacific (ala Malibu last year) and it is going to be devastating on a whole new scale.

Posted on Saturday, May 31, 2008 at 01:08PM by [Jim the Realtor](#) | [5 Comments](#)

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Reader Comments (5)

As a cheapskate of some reputation my DVD collection has grown from yard sales and price leaders. I got this great piece of software DVDpedia for the Mac that scans the SKU and indexes each disc. I was shocked to see the replacement value of many thousands of dollars. Moral being don't just calculate structure replacement costs but contents as well.

May 31, 2008 | [Rob Dawg](#)

Jim,

Any advice on how to figure out is someone is underinsured? Are there any online calculators for that sort of thing?

My MIL's house is only insured for \$225,000. It's a 3 bedroom, 2 bath ranch in La Crescenta (little community outside of LA). Does that seem reasonable that you could rebuild a similar sized house for that much? Her house could sell for about \$500k (and that's considering the down market. 2-3 yrs ago it could have sold for \$775k!)

She's a widow and has been on her own for a lot of things for awhile now.

June 1, 2008 | [Erin](#)

Good reporting, I worked with firestorm claims (oakland, san diego) I am a ca. licensed public adjuster 20 yrs exp). Many people think they are underinsured, when they are not! It depends on who reads the policy. Certain forms and endorsements can radically increase coverages.. I found your site thru Piggington,

June 1, 2008 | [calpa](#)

I've also heard good things about Liberty Mutual, Travelers and The Hartford.

One thing that's worth looking at when getting insurance is the structure of the company. Mutuals (e.g. Liberty) are policyholder-owned; therefore, there's none of the conflict that would be inherent in having shareholders who are only profit-driven.

June 3, 2008 | [LatexChameleon](#)

My name is on the second lawsuit filed (Payne V. SDG&E) and I will tell you they don't have enough money to make this OK with me. My wife and I gathered up our cats and just barely made it out of Ramona before the San Pasqual Valley was burned out.

There were flames on the side of the road as we moved at 2 miles an hour behind a line of cars trying to get out. Whoever works at SDG&E and made the decision to allow these transmission lines to fall into such disrepair should be prosecuted criminally for killing two people and causing one of the worst fires in California history. How are they going to pay for two dead people?

June 9, 2008 | [Mark Payne](#)

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