PUBLIC COMMENT
From: Trades
Agenda Item: 7. Informational Hearing on Wildfire Disaster Relief and Recovery Status
Meeting Date: 05/28/25

May 27, 2025

The Honorable Ted Gaines, Chair, California Board of Equalization
The Honorable Sally Lieber, Vice Chair, California Board of Equalization
The Honorable Antonio Vazquez, Board Member, California Board of Equalization
The Honorable Mike Schaefer, Board Member, California Board of Equalization
The Honorable Malia M. Cohen, California State Controller
c/o Executive Director Yvette M. Stowers
Executive Office, MIC: 73
PO Box 942879
Sacramento, CA 94279-0073

Re: Wildfire Disaster Relief, Recovery Issues, and the Impact of Insufficient Replacement Costs

Dear Chair Gaines and Members of the Board of Equalization,

On behalf of the American Property Casualty Insurance Association (APCIA), the National Association of Mutual Insurance Companies (NAMIC), the Pacific Association of Domestic Insurance Companies (PADIC), and the Personal Insurance Federation of California (PIFC)—collectively referred to as the “trades”—we appreciate the opportunity to provide input on the Board’s informational hearing titled “California Wildfire Disaster Relief, Issues Impacting Recovery, and the Impact of Insufficient Replacement Costs.”

Underinsurance Challenges

We appreciate that the Board is concerned about homeowners who purchase an inadequate amount of property insurance prior to suffering a fire loss. This issue is not new, and all three branches of California government have previously considered and scrutinized the issue. “Underinsurance” remains a multifaceted issue that can arise from homeowners providing outdated property information, failing to report renovations, or not increasing their coverage limits as needed. It is critical for policyholders to monitor their policy limits and purchase additional amounts of insurance. In Everett v. State Farm General Insurance Co.[1], the California Court of Appeal stated that insurers are not:

> [d]uty bound to set policy limits for insureds. It is up to the insured to determine whether he or she has sufficient coverage for his or her needs. In fact, the California Residential Property Insurance Disclosure statement provides that it is the insured's burden to obtain sufficient coverage: "To be eligible to recover extended replacement cost coverage, you must insure the dwelling to its full replacement cost at the time the policy is issued, with possible periodic increases in the amount of coverage to adjust for inflation." Additionally, the insured "must notify the insurance company about any alterations that increase the value of the insured dwelling by a certain amount."

In addition to underreported changes, other contributing factors include:

- Demand surge following natural disasters, which strains labor and materials availability and drives up reconstruction costs beyond traditional modeling assumptions.
- Shock inflation, as seen during the COVID-19 pandemic, which resulted in construction cost increases of up to 60% over two years.
- Compliance with new codes, such as green energy ordinances that mandate features like solar installations, often leading to substantial and unexpected increases in rebuild costs.

Despite offering coverage enhancements such as Extended Replacement Cost and Ordinance and Law endorsements, insurers cannot unilaterally prevent underinsurance. Many policyholders decline or underutilize such options, underscoring the importance of consumer education and periodic coverage reviews.

Replacement Cost Estimates and Legislative Oversight

California's Legislature and Department of Insurance have taken steps to enhance the accuracy and utility of Replacement Cost Value (RCV) estimates. In 2018, the Legislature passed Assembly Bill 1797 (Levine)[2], which codified the requirement for residential property insurers to provide policyholders, every other year at the time of renewal, with an updated estimate of the cost to rebuild or replace the insured structure.

This statutory requirement builds on California Code of Regulations, Title 10, Chapter 5, Subchapter 7.5, Article 1.3 (Sections 2695.180–2695.183),[3] which specify detailed elements that must be included in any RCV estimate provided to policyholders. These elements include:

- Labor, building materials, and supplies
- Overhead and contractor profit
- Demolition and debris removal
- Permits and architectural plans
- Structural specifications (foundation, frame, roof, siding)

- Number of stories and square footage
- Geographic location
- Age of the structure and interior finishes

The Senate Insurance Committee analysis for AB 1797[4] highlighted that these requirements were first adopted by the California Department of Insurance in 2011 in response to increasing wildfire-related losses. It noted that the magnitude of the 2017 wildfires—particularly in urban areas like Santa Rosa—coupled with ongoing labor shortages, permitting delays, and rebuilding backlogs, created conditions virtually guaranteeing that many homeowners would find themselves underinsured.

As wildfire risk continues to grow statewide, the need for accurate RCV data and proactive engagement is critical. While the insurer can provide a data-informed estimate of replacement cost, it is ultimately a homeowner's responsibility to select coverage limits. The tools exist to support informed decisions, but those tools must be used.

Policy Design and Access to Insurance

While mandating higher minimum coverage limits may appear to reduce underinsurance risk, it also risks pricing some consumers out of the insurance market entirely. Well-intended mandates could unintentionally increase the number of uninsured homeowners, thereby shifting recovery burdens to public agencies.

A balanced approach that emphasizes consumer choice, affordability, and access to optional coverage endorsements, while reinforcing education and transparency, is more likely to promote financial recovery and community resilience.

Conclusion

The complex issue of "underinsurance" has been closely examined by the California Department of insurance, the Legislature, and the Courts for almost twenty years. The mission of the California State Board of Equalization (BOE) is to serve Californians through fair, effective, and efficient tax administration in support of state and local governments.

While we do not understand how the BOE's mission intersects with this issue, we hope it is not BOE's goal to eliminate consumer choice and self-determination regarding their insurance coverage. If the BOE has valuable expertise in estimating replacement costs and construction projects, that will be welcome information.

It seems clear that continued cooperation among regulators, insurers, and consumers will be essential to ensure Californians are equipped with the tools and knowledge necessary to withstand future catastrophes.

Thank you for your time and attention to this matter.

Sincerely,

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Footnotes

[1] Everett v. State Farm General Insurance Co., 20 Cal.App.5th 1023 (Cal. Ct. App. 2018).
[2] AB 1797 (Levine), Chapter 205, Statutes of 2018. Available at: https://leginfo.legislature.ca.gov
[3] Cal. Code Regs. tit. 10, §§ 2695.180–2695.183. Adopted by the California Department of Insurance in 2011.
[4] Senate Insurance Committee Analysis of AB 1797 (2018), June 13, 2018. Available through California Legislative Information archives.