Adjusters International
The right way to settle claims®

Insights for Your Industry®

PROTECTING YOUR PROPERTY

Burning Considerations

What recent wildfires have taught us about insuring the oldest property peril

Not long ago, it was tempting to think that fire disasters, other than those occurring in war, were a thing of the past. Thanks to modern construction methods and professional fire-fighter services, conflagrations such as the Great Chicago Fire of 1871 were widely believed to be consigned to history.

That perception changed with the Oakland Hills, California fire of October 1991. Originating as a local grassfire, the blaze grew into a firestorm that consumed more than 1,500 acres and 3,000 dwellings, killing 25 people and injuring 150, and causing more than $2.5 billion in damage (in 2020 dollars).[1]

Since that event, California has been plagued with numerous wildfires in areas of "urban wildland interface," where homes are located amidst dense vegetation near wilderness areas that, dried out by drought, provide ample fuel for wind-driven flames. California's wildfire season has, for practical purposes, been extended to essentially the entire year, and unprecedented levels of fire loss have been recorded across western North America.

The city of Fort McMurray, Alberta, had to evacuate nearly 90,000 people during a devastating 2016 wildfire that took two months to bring under control and was not fully extinguished for more than a year. About 1.5 million acres were burned, and about 2,400 structures destroyed within Fort McMurray itself.[2]

The state of Oregon saw record levels of wildfire in 2021. Toward the end of that year, suburban Denver, Colorado, was struck by a 6,000-acre wildfire that burned at least 1,000 homes. Four months later, more than 19,000 people were ordered to evacuate in the face of an advancing wildfire near Boulder, Colorado (the fire was quickly contained and the order lifted).[3]

Reflecting the magnitude of the wildfire problem, the U.S. government appropriated $3.3 billion toward wildland fire risk mitigation in its 2021 infrastructure bill, which also established a new federal Wildland Fire Mitigation and Management Commission.[4]

Wild Land and Wild Fires

As the term "wildland" suggests, the principal federal responsibility regarding wildfire is to control the spread of fire in wilderness areas managed by the U.S. government. Exposure of man-made property to wildfires is addressed through local efforts to manage vegetation, establish

Sheila E. Salvatore, Editor | Editor@AdjustersInternational.com | 126 Business Park Drive, Bldg 2 | Utica, NY 13502
Copyright 2022 Adjusters International. All Rights Reserved.
800.382.2468 | AdjustersInternational.com
Insights for Your Industry® is published as a public service by Adjusters International, Ltd.
It is provided for general information and is not intended to replace professional insurance, legal and/or financial advice for specific cases.
E01-1026

Wildfires
Continued

firebreaks, and institute other measures to limit the spread of fire, withstand the effects of fire, and suppress fires where they occur.

Whatever the condition of the climate or the effectiveness of the federal response, property owners and local officials have some ability over the long run to curb their exposure to wildfire. In the short term, however, there is a scramble to adjust to a new normal in the West.

Property insurers, policyholders, and claims adjusters are also adjusting to new conditions created by the surge in wildfire losses. That may come as a surprise, since fire loss is the oldest peril insured under residential and commercial property policies, long known as "fire" policies before coverage for other causes of loss ("perils") was added to them.

"What was once a consistent underwriting and pricing environment has now become what is an ever-changing marketplace," says Matthew Davis, president of GDI Insurance Agency in Turlock, California. "We've had to adjust our initial interactions with clients to prepare them for potential price increases and coverage limitations." Among other things, Davis says insurance buyers need to budget for substantial premium increases over three to five years.

For claim adjusters, the situation would seem to be straightforward: If something is covered by a "fire" policy, and it burns, it's covered up to the limit of insurance (presuming it isn't set intentionally by the insured). That's true, but the recent rise in wildfire losses to dwellings has led to widespread indications that most were underinsured for the cost of reconstructing their homes.

A recent edition of *Adjusting Today*[5], another publication of Adjusters International, describes the various factors that homeowners, their agents and brokers, and claim adjusters must consider when establishing coverage and getting the full benefit of it, should a loss occur. Those factors include:

- The dollar amount of insurance established to cover a dwelling or other structure (the "limit");
- The relation of that amount to the actual cost of reconstructing a structure;
- The "loss settlement" terms for applying that limit to a loss; and
- The amount of additional insurance provided for costs of demolition, debris removal, and building code upgrades.

Worst of Two Worlds
In itself, wildfire does not raise fundamentally new questions about insurance and loss adjusting. As already indicated, fire is a well-known and widely-adjudicated property insurance peril. But the high levels of wildfire loss frequency and severity seen in the 21st century have added new dimensions to consideration of what constitutes adequate insurance coverage.

Copyright 2022 Adjusters International. All Rights Reserved.
Insights for Your Industry® is published as a public service by Adjusters International, Ltd. It is provided for general information and is not intended to replace professional insurance, legal and/or financial advice for specific cases.

Wildfires
Continued

To understand what's at stake, it's important to note how wildfire disasters compare with other catastrophe perils.

First, wildfire damage is almost universally insured, as fire loss is covered under most private homeowners policies for (1) direct damage to buildings and contents by covered perils, (2) additional living expenses (ALE) an insured incurs while the damaged dwelling is uninhabitable, and (3) the "fair rental value" of a part of an insured residence that is normally rented but rendered uninhabitable by insured damage.

Dwelling property coverage may be more restricted under state "Fair Access to Insurance Requirements" (FAIR) plans, which are insurers of last resort in some states for chronic perils. In some areas of California, the state's FAIR plan is the only source of dwelling fire insurance for homeowners who cannot purchase it in normal markets.

California FAIR plan dwelling coverage is limited to loss by fire, lightning, internal explosion, and smoke. Coverage for ALE and fair rental value is limited to 10% of the dwelling property limit, with an option to increase the coverage to 20% of the limit. Coverage for vandalism and malicious mischief can be added; coverage for other property perils must be acquired through "Difference in Conditions" policies available from private insurers.

In this respect, wildfire contrasts with floods and earth movement, for which many exposed homes are not insured at all. Moreover, most of the residential flood insurance that is in place is insured by the National Flood Insurance Program (NFIP), which provides no coverage for additional living expenses (ALE). Coverage for ALE and fair rental value is available for earthquake damage under policies provided by the California Earthquake Authority, but the coverages are optional. In California and elsewhere, observers believe that take-up rates for residential earthquake coverage fall well below what is needed.

Under homeowners insurance, wildfire exposure is similar to the exposure to wind and hail damage, the biggest source of homeowners property loss in most states, in that there is coverage for both physical damage and ALE. One could say, however, that compared to wind and hail disasters, wildfire disasters combine the worst of two worlds — the intense devastation of a tornado or convective storm with the widespread damage of a hurricane. This combination puts intense pressure on insureds and insurers.

Copyright 2022 Adjusters International. All Rights Reserved.

Insights for Your Industry® is published as a public service by Adjusters International, Ltd. It is provided for general information and is not intended to replace professional insurance, legal and/or financial advice for specific cases.

Wildfires
Continued

The Urgency of Time

The nature of homeowners wildfire damage — frequent, severe, and widespread, with many fires resulting in total losses — has led to a new sense of urgency regarding the amount of time needed to rebuild after a wildfire disaster.

The edition of *Adjusting Today* referenced above describes the impact of "demand surge" on the time and money needed to repair or replace damaged structures.

Other things being equal, it takes longer and costs more to reconstruct a home when nearby properties are also damaged than if the home suffered damage on its own. That's because, in the wake of a disaster, there is increased demand for building permits, design services, demolition and debris removal services, and for building contractors plus the cost of their supplies and materials.

It's not uncommon to see demand surge increase the cost of reconstruction beyond the limit of coverage available in a homeowners policy, especially if that limit was determined on the basis of the replacement cost of a home without consideration for demand surge.

The situation in California is different — and worse. "In an average claim we usually expect a dwelling to be rebuilt within 12-15 months," says Robb Greenspan, SPPA. "For wildfire claims this time period can be 36 months."

Greenspan is president of The Greenspan Co./Adjusters International based in Northridge, California. According to Greenspan, it often takes two years after a total loss just to complete architectural plans and secure all the necessary permits for reconstruction. Those delays are compounded by turnover of claim adjusters assigned by insurers to each claim. "There can be five, six, seven of them," Greenspan says. "Each one seems to start from scratch."

The problem of discontinuity among carrier claim adjusters in California became great enough to lead the state to enact a statute regarding the practice. Under the law, if a homeowners insurer assigns three or more principal adjusters to a claim within six months, the insurer must provide the policyholder with a detailed written report on the status of a claim and the matters still under consideration.

Time to Collect

Adjusters are finding that the extended time needed to rebuild homes after a wildfire is putting added pressure on their clients to settle for less than what it will cost to rebuild.

Sheila E. Salvatore, Editor | Editor@AdjustersInternational.com | 126 Business Park Drive, Bldg 2 | Utica, NY 13502
Copyright 2022 Adjusters International. All Rights Reserved.
800.382.2468 | AdjustersInternational.com
Insights for Your Industry® is published as a public service by Adjusters International, Ltd.
It is provided for general information and is not intended to replace professional insurance, legal and/or financial advice for specific cases.

Wildfires
Continued

When an insured dwelling is destroyed by fire, the policyholder typically has four options listed in the table below, under a "replacement cost" policy, each of them subject to the applicable building property limit and other provisions:

Four Replacement Cost Settlement Options

#						
#1	Accept payment for the property's ACV	*and*	Sell or abandon the insured location	*and*	Collect nothing for replacement cost
			or		
#2	Accept payment for the property's ACV	*and*	Repair or replace at the same location	*and*	Collect replacement cost balance after completion*†
			or		
#3	Accept payment for the property's ACV	*and*	Buy or build at a new location	*and*	Collect replacement cost adjustment after completion*†
			or		
#4	Negotiate a settlement amount for ACV and replacement cost combined.	n.a.	Insured's option	n.a.	Included in settlement offer

*Typically includes coverage for building code upgrades.
†Subject to the policy's limitations.

Under options #2 and #3, the insured has to wait for payment of full recovery, which is not easy for a household experiencing prolonged distress. The more construction is delayed by post-disaster conditions, the longer it takes for affected households to tap one of their remaining assets, an insurance settlement.

Also, under option #3, when rebuilding at a new location, insureds and their adjusters need to be prepared if insurance companies attempt to deduct the value of land from the determination of damage. That practice is now prohibited by law in California, but may be utilized or attempted elsewhere.

According to Greenspan, many homeowners are enticed by offers from their insurers for an upfront payment of a large portion of their insured limits without having to submit a claim. Months or years later, many insureds learn the amounts they collected were not enough to make them whole for their loss. By then, the time limit for making a claim or filing suit may have passed. Even if they can still file a claim, valuable evidence and memories to document the claim may have been lost.

Importance of ALE

To reduce the pressure to settle for less than what they may be entitled to, homeowners and their insurance brokers and agents are urged to carefully evaluate the extent of their "loss of use" coverage, and how long it will last following a loss. While most homeowners policies provide up to 12 months of ALE coverage, Greenspan recommends that insureds acquire at least 24 months of coverage.

Also, insurance for additional living expenses can provide homeowners with a buffer of time in cases where insured damage makes a residence uninhabitable, a common occurrence in wildfires. Found in the "loss of use" section of most homeowners policies, ALE coverage pays *additional* costs insureds incur if they are forced to find alternative shelter (e.g., a hotel room, rental property, etc.) because insured damage has made their home uninhabitable.

Sheila E. Salvatore, Editor | Editor@AdjustersInternational.com | 126 Business Park Drive, Bldg 2 | Utica, NY 13502
Copyright 2022 Adjusters International. All Rights Reserved.

Insights for Your Industry® is published as a public service by Adjusters International, Ltd. It is provided for general information and is not intended to replace professional insurance, legal and/or financial advice for specific cases.

Wildfires
Continued

In the most commonly used standard provision, "additional living expenses" are described as follows:

> any *necessary increase* in living expenses incurred by you so that your household can maintain its *normal standard of living* (emphases added)[6]

"Necessary increase" refers to the fact that only essential expenses above an insured's normal level of living expenses are covered, but that the standard for what constitutes a "necessary" expenditure depends on one's normal standard of living, and not merely on what it would take to survive while the insured dwelling is uninhabitable.

So, when it comes to "necessary increases" in expenses to maintain a "normal standard of living," what's covered and what's not covered?

California law requires that an insurer provide a policyholder, upon request, with a list of items covered as additional living expenses.[7] While it is presumed that the coverage will extend to additional costs for basic shelter and sustenance (otherwise the coverage would be illusory), there are no specific requirements for what must be covered, or how to establish an insured's "normal standard of living."

Given that, a homeowner would be well-advised to know ahead of time what types of costs might be compensable or not. Examples of expenses that might need clarification include:

- The additional cost of rental vehicles for urban homeowners who don't own a vehicle, but are forced to live temporarily in a location without access to public transportation;
- The additional cost of boarding pets for homeowners forced to live temporarily in a location that does not allow pets;
- Additional costs for accommodating people with special needs when forced to abandon a dwelling specially equipped for them; and
- Additional costs for tuition or participation fees when individuals are forced to live temporarily away from the community where they attend school or participate in athletic or cultural activities.

In each of these cases under standard policy language, the insurer would have the burden of demonstrating that the expense claimed was not covered under the policy. Insurers can resist paying certain claims and drag out the process of loss settlement, however, creating more pressure on policyholders to settle quickly.

Value of Contents

Homeowner insurers commonly establish the amount of insurance provided for household personal property (or "contents") as a percentage of the dwelling property limit, even if it is expressed as a dollar amount. That limit can easily be too low to compensate for the loss of all of one's clothes, appliances, and furnishings. That's especially the

Copyright 2022 Adjusters International. All Rights Reserved.

Insights for Your Industry® is published as a public service by Adjusters International, Ltd. It is provided for general information and is not intended to replace professional insurance, legal and/or financial advice for specific cases.

Wildfires
Continued

case if the dwelling limit is too low for reconstructing the dwelling.

Even with an ample limit, however, an insured cannot expect to collect on all of its contents coverage unless the policyholder can document what was lost and how much it was worth. Insureds are encouraged to maintain inventories and receipts for all valuable items of personal property online or in a safe location. Insureds are also urged to preserve photographs of every room showing clearly what each contained immediately before the loss occurred. This documentation should be stored physically and/or electronically away from the insured location.

An insured and its adjuster also want to make sure they are not precluded by insurance company reporting rules from making otherwise legitimate claims for damage to personal property.

In California, insurers are allowed to provide their own contents inventory reporting forms, but they cannot require an insured to use their forms if the insured provides the essential information in another format. In the event of a total loss, homeowners in California have the option whether to claim contents losses for each individual item or by categories of items (clothing, shoes, books, food items, CDs, DVDs, etc.).[8]

In other states, if an insurer requires a specific method for reporting contents claims, an insured may not have the detailed information required to lodge a claim for an item of personal property. Such a situation could be contested in a court or with the state insurance department, but even a meritorious claim will add more time to the process of achieving a final loss settlement.

Advice from Two Pros
In light of what they have seen in recent years, Davis and Greenspan advise property owners to take steps they may not have considered in previous years.

Davis encourages both homeowners and commercial property owners to increase their level of defense against wildfire by establishing defensible space around structures, storing water onsite for fire suppression, and moving flammable materials and supplies as far away from buildings as possible.

Given the likelihood that wildfire hazards and insurance costs will be elevated for some time to come, Davis also encourages commercial enterprises to seek locations outside fire-prone areas to manage their risk of loss.

As a claims adjuster, Greenspan finds that "about 80% of wildfire victims are grossly underinsured." He urges insureds to review their policies twice a year to make sure they have enough coverage, "especially in today's

Sheila E. Salvatore, Editor | Editor@AdjustersInternational.com | 126 Business Park Drive, Bldg 2 | Utica, NY 13502
Copyright 2022 Adjusters International. All Rights Reserved.

Insights for Your Industry® is published as a public service by Adjusters International, Ltd. It is provided for general information and is not intended to replace professional insurance, legal and/or financial advice for specific cases.
E01-1026

Wildfires
Continued

inflationary conditions, where construction costs are skyrocketing.

"Have a home builder help determine the cost to rebuild your home in today's market and increase your limits accordingly," he says. "In addition, purchase at least two years of ALE coverage, since this is the average time it takes to start rebuilding after a wildfire."

Greenspan notes that, in California, insurers are now required to provide at least 24 months of ALE coverage following a covered loss related to a declared emergency that renders a dwelling uninhabitable. Insurers are also required to provide up to 12 months of extended ALE coverage, up to 36 months in all.

Regarding personal property, Greenspan urges insureds to, "review the value of your contents and pay attention to articles for which coverage is limited in your policy. This includes fine arts, cash, gold, watches, jewelry, antiques, rugs, and more. If you have items like this, consider purchasing a 'personal articles floater.'"

In almost all cases, claims that may be easily managed when a dwelling is damaged on its own will become more complicated and costly for the insured when scores of homes are damaged. The resurgence of fire damage calls for a renewed focus on fundamental fire underwriting, loss control, and claims management.

---

[1] Wikipedia, Oakland firestorm of 1991; accessed at https://en.wikipedia.org/wiki/Oakland_firestorm_of_1991
[2] Wikipedia, 2016 Fort McMurray wildfire; accessed at https://en.wikipedia.org/wiki/2016_Fort_McMurray_wildfire
[3] Kieran Nicholson and Alex Burness, "NCAR fire prompts evacuation of 19,000 people in south Boulder, Eldorado Springs," Denver Post, March 26, 2022; accessed at https://www.denverpost.com/2022/03/26/boulder-wildfire-ncar/
[4] See Wildland Fire Mitigation and Management Commission https://www.usda.gov/topics/disaster-resource-center/wildland-fire/commission
[5] *Adjusting Today* Underinsurance at https://www.adjustersinternational.com/publications/adjusting-today/avoiding-a-double-disaster
[6] Insurance Services Office, HO 00 03 01 11 Homeowners 3 – Special Form, p. 5
[7] California Insurance Code, Section 2060 (a)
[8] California Insurance Code, Section 2061 (a)

Sheila E. Salvatore, Editor | Editor@AdjustersInternational.com | 126 Business Park Drive, Bldg 2 | Utica, NY 13502
Copyright 2022 Adjusters International. All Rights Reserved.

Insights for Your Industry® is published as a public service by Adjusters International, Ltd. It is provided for general information and is not intended to replace professional insurance, legal and/or financial advice for specific cases.
E01-1026