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After Fires, Homeowners Feel an Insurance Pinch

By SOLOMON MOORE

LOS ANGELES, Nov. 12 — Daniel and Doris Okonsky, whose custom-built 6,500-square-foot house was destroyed in the recent wildfires in Southern California, have been poring over receipts and family photos to estimate the damage.

But like many of the 14,000 homeowners who suffered losses, the Okonskys are discovering that the insurance on their hilltop home in San Diego County might not be enough to rebuild it.

"I have about $1.5 million coverage for dwelling only," Mr. Okonsky said, or the equivalent of about $230 per square foot of construction. "For custom-home construction I am getting prices like $350 up to $500 per square foot."

As Californians recover from another season of devastating wildfires, one of the biggest obstacles is a painfully familiar one. As many as 40 percent of homeowners statewide lack enough insurance to cover their home-replacement costs, according to the California Department of Insurance, and most realize the problem only when it is too late.

After past disasters, California state officials tried to raise homeowners' awareness of their coverage limits by requiring policies to be written clearly and with disclaimers about what is not covered. But several national studies suggest that many homeowners tend to underestimate risk and do not understand that their policies do not guarantee replacement of their homes.

"Most Americans still think that full coverage means full coverage, but insurance companies know otherwise," said Douglas Heller, executive director of the Foundation for Taxpayer and Consumer Rights, an advocacy organization.

Guaranteed home-replacement policies have become increasingly rare in California since the 1990s, when a series of catastrophic earthquakes and wildfires sent insurers' profits plummeting. Most California policies have limits on construction, although some include inflation riders or extension policies to create buffers beyond the estimated replacement price.

An analysis by The San Diego Union-Tribune of 2,137 houses that were destroyed in unincorporated areas of San Diego County in the last big wildfires, in 2003, found that only 46 percent had been rebuilt by late last year. In many cases, policyholders said they had not resolved their insurance claims or received enough money to replace their homes, The Union-Tribune reported.

Insurance industry officials say many homeowners contribute to the problem of insufficient coverage. In seeking to keep premiums low, the officials said, homeowners often do not inform their insurers about renovations, opt out of adequate coverage or fail to update their policies.

Some public opinion surveys back up that notion. A Mason-Dixon poll on attitudes about flood insurance in coastal areas, for example, suggested that many homeowners often opted out of recommended disaster coverage and only rarely reviewed their policies.

Half of the homeowners polled in flood zones, according to the poll released in May, incorrectly believed that standard residential insurance policies covered flood damage and a third of homeowners had not reviewed their policies in more than three years.

A separate study by the RAND Corporation, a research group, concluded that only about half of homeowners living in high-risk flood zones throughout the nation had flood insurance policies.

Robert P. Hartwig, president of the Insurance Information Institute, a trade group, said, “The principal cause of underinsurance is the failure to report improvements to the home to the insurance company, and it’s a common problem.”

But John Garamendi, the California lieutenant governor who served two terms as the state’s insurance commissioner, has placed much of the blame on the insurance companies. At a news conference earlier this year, Mr. Garamendi said that “lack of clarity in the language” of policies was a main reason that homeowners had insufficient insurance. He also said that, in some cases, insurance agents and insurance companies “were giving bad information to the consumers.”

But Mr. Hartwig disagreed. “That is a figment of John Garamendi’s political imagination,” he said. “Garamendi doesn’t seem to remember that he’s not the insurance commissioner any more. There’s no evidence of that. There’s no report from any state agency that suggests that’s the case.”

Jim Wells, president of Marshall & Swift/Boeckh, a firm that estimates construction costs for many large insurers, said insurance companies had improved the models they used to estimate replacement costs. But many of the companies, Mr. Wells said, did not take the next step and contact homeowners who held policies written with older, less accurate information.

“Sometimes the insurance companies believe their agents have that responsibility,” Mr. Wells said. “Sometimes it is an expense they’re not ready to bear even though it pays for itself in higher premiums. Sometimes it’s just not the way they did business in the past, and sometimes they think it’s the policyholders’ responsibility and not theirs.”

In the meantime, the cost of rebuilding a house keeps going up.

The Census Bureau estimates that residential construction costs in the Western states were 35 percent higher in 2006 than in 2003. Much of that increase was caused by growing international demand for materials like copper, steel and concrete, and high gasoline prices, industry experts said.

Bob Rivinius, president of the California Building Industry Association, said the housing construction slump that has followed the subprime mortgage crisis might help keep prices in check. Still, Mr. Rivinius said, construction prices are likely to remain relatively high because of California’s fast-growing population and slow-growing housing stock.

Mick Pattinson, president of Barratt American Inc., a privately held, $250 million-a-year residential building firm based in Carlsbad, Calif., said that average construction prices in the state ranged from $130 to $200 per square foot. Palatial custom-built houses like many lost on bluff-tops in the Rancho Bernardo neighborhood of San Diego and neighboring Poway could cost as much as $400 to $500 a square foot, industry experts said.

John and Madeleine Bera, a recently retired couple whose house was among 14 that burned down on their block in Rancho Bernardo, were nearing the end of their 30-year mortgage and had plans to spend time sightseeing along the East Coast.

Instead, the Beras, both in their 70s, have been taxing their memories trying to recall the stained-glass windows they collected, each piece of imported furniture, and rare, first-edition books so that they can better negotiate with their insurance company.

“This isn’t what we planned on doing with our retirement,” Mr. Bera said.