



SALLY J. LIEBER

VICE CHAIR
CALIFORNIA STATE BOARD OF EQUALIZATION

MEMORANDUM

Date: June 4, 2025

To: Ted Gaines, Chair, Board Member, First District
Antonio Vazquez, Board Member, Third District
Mike Schaefer, Board Member, Fourth District
Malia M. Cohen, California State Controller

From: Sally Lieber, Vice Chair, Board Member, Second District

Report on the Board's May 28, 2025, Informational Hearing on the Underinsurance Crisis in California.

At our May 2025 Informational Hearing on "Wildfire Disaster Relief and Recovery Status" we heard testimony from some of our state's leading experts on the underinsurance crisis facing California property owners.

The firestorms destroying California homes and communities have exposed a heartbreaking second disaster for fire victims – a rampant crisis of underinsurance, often occurring when policyholders believed that they were insured for full replacement value.

Fire survivors are unable to fully recover and rebuild when they are underinsured, and a lack of rebuilding can destabilize the public services that rely on property taxes at a time when they are needed the most. This hearing made it clear that the silent threat of 'black box' underinsurance is a widespread crisis for California homeowners.

At the Informational Hearing data were presented indicating that 40% to 80% of wildfire survivors found that their property was underinsured for full replacement value. One survey indicated that many homeowners were underinsured for full replacement value by as much as 34%, and some by much more.

Most homeowners are not experts in demolition, clearing and rebuilding, and instead rely on replacement cost estimates generated by insurers and agents. These estimates are algorithmically derived and can rely on outdated or incomplete data, a situation that can even be masked from the view of agents.

Although some homeowners are informed of the risks involved and still choose to underinsure their homes, the vast majority of those who are underinsured are underinformed about the true cost of full replacement and the options that may be available to provide for adequate full replacement cost coverage.

Legislative and regulatory solutions are needed to ensure that property owners have adequate information regarding the risks of underinsurance and the options that may be available to them to provide for full replacement value. Pursuant to the testimony that we received, these responses can include:

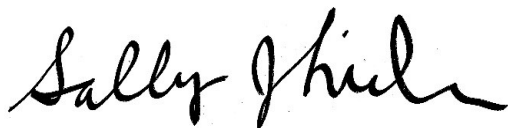
- Requiring insurers to report the differences, if any, in algorithmically driven predicted rebuilding costs vs. the true full replacement building costs, and the number of policyholders affected.
- Requiring insurers to clearly and robustly inform policyholders (e.g., including the word “Warning” in bold and colored typeface) that the replacement coverage provided in policies may not sufficiently cover full replacement costs, including materials and labor; and that policyholders should consider acquiring supplemental coverage.
- Requiring the Department of Insurance to publish a Uniform Standard Dwelling Replacement Cost Estimate based upon current data on construction costs by square foot for similar properties in a geographic area.
- Requiring insurance companies to offer policyholders a minimum 50% Extended Replacement Cost (ERC) option to account for future cost volatility.

- Requiring insurance companies to provide policies with replacement cost coverage that includes all code upgrades and ordinance requirements without exclusions or limits.
- Requiring that the intermediaries providing value information to insurers or consumers warrant that the information provided regarding full replacement value is accurate and based upon the most recently available data. Failure to provide such a warrant of accuracy could be considered a fraudulent business practice, in violation of Business and Professions Code section 17200.
- Revising the Insurance Code to include a duty for insurance companies to warn policyholders that changing economic conditions may impact full replacement cost estimates. Currently, Insurance Code section 10103.4(d) places the onus on the policyholder providing: “This section is not intended to change existing law with respect to the duty of the policyholder or applicant to select the coverage limits for a policy of residential property insurance.”
- Considering other legislative or regulatory changes to address underinsurance.

Our pursuit of solutions to this rampant crisis of underinsurance is consistent with the Board’s role in examining the relationship between adequate insurance and sustaining California’s property tax system, and reflects our commitment to partner with taxpayers, the insurance industry, and the Legislature in exploring solutions to this underinsurance crisis.

I urge my fellow Board members to inform your constituents about this risk and the threat that it may pose to their own financial stability and ability to recover from a disaster.

Sincerely,



Sally J. Lieber, Vice Chair

cc:

Matt Cox, Chief Deputy, Office of Chair Ted Gaines
Douglas Winslow, Chief Deputy, Office of Vice Chair Sally J. Lieber
Alexander Fay, Staff Counsel, Office of Member Antonio Vazquez
Cody Petterson, Chief Deputy, Office of Member Mike Schaefer
Hasib Emran, Deputy State Controller
Yvette M. Stowers, Executive Director

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