

October 2017 Wildfires Debris Removal Insurance Issues

(10/24/17)

Background: Homeowners' (HO) insurance policies cover costs for debris removal in a few different ways. The most common type of HO policy will have three separate major coverages applicable to debris removal:

Coverage A (Primary Structure): Cost to rebuilt or replace the primary structure including reasonable cost for debris removal.

Coverage B (Other Structures): Cost to rebuilt or replace other structures including detached garages, sheds, etc.

Coverage C (Contents or Personal Property): Cost to replace personal property including for debris removal of personal property.

In addition to debris removal coverage that can be paid from the above coverages, many HO policies provide a specified additional coverage for debris removal. The most common HO policy will add additional debris removal coverage of 5% of the policy limits for Coverage A, if Coverage A limits are exhausted (used up) for the actual rebuild costs. Likewise, there is additional coverage of 5% of the policy limits for Coverage B, if Coverage B limits are exhausted (used up) for the actual rebuild costs for the Other Structures. Also, there is additional coverage of 5% of the policy limits for Coverage C, if Coverage C limits are exhausted (used up) for the actual replacement of personal property.

FEMA, state and local governments in order to avoid a "duplication of benefits" would only seek to collect the additional specified coverage amounts for debris removal (i.e. 5% of Coverage A, plus 5% of Coverage B, plus 5% of Coverage C. This would leave the primary coverage limits intact for the rebuild and avoid underinsurance caused by consolidated debris removal.

Example: Typical HO Policy:

Coverage	Coverage Limits	Specified Additional Debris Removal Coverage
Coverage A: Primary Structure	\$200,000	(5% Cov A): \$10,000
Coverage B: Other Structures	\$20,000	(5% Cov B): \$1,000
Coverage C: Contents	\$100,000	(5% Cov C): \$5,000
Total Direct Coverage Available for Debris Removal (Amount to be paid to County)	NA	\$16,000
Sample Debris Removal Cost*		\$75,000
Deficiency (Homeowner not liable for this deficiency only if they go through the Consolidated Debris Removal Program)**		\$59,000

* The Average Cost for Debris Removal from the Valley and Butte Fires was about \$150,000. \$75,000 is a very conservative cost.

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** If the insured does NOT go through the consolidated debris removal program, the \$59,000 deficiency would erode the insured's primary coverage limits, leaving less money to rebuild.

Less Common Type of HO Policy: Another type of HO policy has less coverage than the above scenario and does not provide for an additional specified debris removal coverage. In this case, as noted above, attempting to collect debris removal costs would erode most of the Coverage A, B and C limits leaving very little for the property owner to rebuild (i.e. underinsured). However, under these policies, FEMA, state and local governments will only seek to collect from these types of policies if (after the property owner rebuilds and replaces) there is coverage left over in any of the Coverages A, B, or C.

For example using the same coverage limits as above:

Coverage	Coverage Limits	Amount of Coverage Used by Insured to Rebuild	Amount Available for Consolidated Debris Removal
Coverage A: Primary Structure	\$200,000	\$200,000	\$0
Coverage B: Other Structures	\$20,000	\$18,000	\$2,000
Coverage C: Contents	\$100,000	\$ 93,000	\$7,000
Total Coverage Available for Debris Removal (Amount paid to County)	NA	NA	\$9,000
Sample Cost on Invoice			\$75,000
Deficiency (Homeowner not liable for this deficiency only if they go through the Consolidated Debris Removal Program)**			\$66,000

** If the insured does NOT go through the consolidated debris removal program, the \$66,000 deficiency would erode the insured's primary coverage limits, leaving less money to rebuild.