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Insurance Considerations For LA Wildfire Recovery

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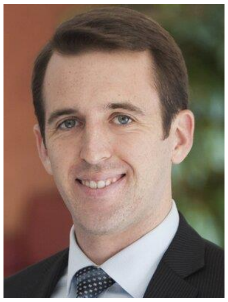
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Even with the flames still burning in the Pacific Palisades, Altadena and other parts of Los Angeles County, the scale of the damage caused by the current Southern California fires dwarfs previous fire disasters.

Total insured losses have already been estimated at more than $30 billion, far exceeding the previous record of $12 billion in insured losses caused by Northern California's Camp Fire in 2018.[1] Thousands of dwellings and commercial buildings have been destroyed; countless lives and businesses have been disrupted. Insurance will play a vital role in the recovery efforts of both companies and families.

Businesses and homeowners will face lasting impacts from property damage or destruction, while bearing additional expenses to resume their lives and operations while the damage is addressed. There is also potential for significant business income loss resulting from not only direct physical damage to property, but also disruptions such as property damage, road closures or evacuation orders in surrounding areas; power outages and interruption of other utilities; and supply chain disruptions.

The devastating wildfires that have rapidly spread across Los Angeles this month underscore the need for businesses and homeowners to be prepared to make insurance claims when natural disasters strike. This article details five recommended steps to help preserve and maximize insurance recoveries in the wake of this ongoing tragedy and others like it. It is critical that policyholders evaluate the potential for coverage of these losses and understand the complex process of pursuing insurance recoveries.

1. Identify all available insurance policies.

Locating and carefully reviewing all potentially applicable insurance policies is a critical first step in seeking recovery for a policyholder's losses.

For businesses, the most likely source of coverage will come from a company's first-party commercial property and business interruption policies. These policies, which can be marketed under a variety of different names by different insurers, typically contain the following key coverages potentially applicable to losses caused by fire:

- Property damage insurance typically covers physical loss or damage to business premises and other property owned or leased by the policyholder, such as damages caused by fire, but also disasters involving wind, ice, snow or water.

- Time element/business interruption insurance refers to coverage for losses resulting from the inability to use damaged property for its normal uses or a decrease in production, including, for example, loss of earnings or profits.

- Contingent time element/business interruption coverage insures against business interruption or extra expense losses caused by physical loss, damage, or other disruptions to a supplier, customer, or other party in a supply chain.

- Extra expense coverage covers additional expenses incurred in excess of regular operating costs to continue or resume normal operations or mitigate losses while the loss or damage to property is ongoing or being repaired, replaced or otherwise addressed.

- Service interruption insurance generally covers damage to property and goods as well as income losses caused by interruption of utility services to covered premises, such as power outages, often requiring physical loss or damage at the utility service provider's premises.

- Ingress/egress insurance provides coverage for losses incurred when access to and from an insured property is prevented by physical damage — for example, surrounding fire damage or fallen trees prohibiting entrance.

- Supply chain insurance may provide additional coverage for disruptions in the supply chain, including coverage for nonphysical interruptions.

For homeowners, policies may include the following coverages that may apply to losses due to fire:

- Dwelling coverage typically covers the replacement cost, i.e., the amount needed to rebuild a home of like quality in present day, or the actual cash value of the destroyed home and other covered structures when damaged or destroyed by fire.

- Contents/valuable articles coverage typically covers the homeowner's personal property at the insured home from damage or destruction by fire.

- Extra coverages may include:

    - Loss of use and/or additional or extra living expenses for the reasonable increase in a family's normal living expenses that is necessary to maintain the homeowner's usual standard of living after their home becomes uninhabitable. Insurers may also cover forced evacuation expenses and loss of fair rental value of the home in certain circumstances.

    - Fair rental value if the home was rented to others, held for rental, or occupied by the owner and becomes uninhabitable. Fair rental value typically means the fair rental value of the home less any expenses that do not continue while it is not fit to live in. The details of this coverage vary from policy to policy. Attention should be paid to limits and duration of this coverage.

- Forced evacuation expenses due to a reasonable threat of damage or destruction from fire or as required by a civil authority's evacuation order due to a nearby fire, even if there was no damage to the home.

- Miscellaneous other coverages that may assist with rebuilding or repairing homes damaged by fire include coverage for construction materials; additional costs of complying with building codes when rebuilding or repairing; temporary or precautionary repairs to prevent additional covered damage; stabilizing or excavating land; debris removal; landscaping restoration and tree removal or replacement; replacing alternative power or water systems; and other expenses.

Some California homeowners may have fire coverage through the state's FAIR Plan as a last resort, because the private insurance market has increasingly refused to provide fire coverage for homes in high-risk areas in recent years. FAIR Plain policies typically provide more limited named peril coverage for fire and other specified risks, including:

- Dwelling covers the physical structure of the homeowner's dwelling, excluding the land on which it is located, from damage by fire and smoke.

- Other structures covers structures apart from the dwelling itself, including those connected to the dwelling by only a covered walkway, wall, fence, etc. from damage by fire and smoke.

- Personal property covers the homeowner's property, or that of a guest or employee, that is located at the dwelling, from damage by fire and smoke.

- Reasonable repairs coverage applies when damages has already occurred and the homeowner incurs reasonable costs to protect against further damage.

All these business and homeowners' coverages often have varying applicable limits of liability or time limits, and different deductibles may also apply.

2. Understand the protections under state law.

State insurance rules and policyholder protections play an important role — and may evolve — in the wake of natural disasters. It is important to understand how existing laws regulate insurers' claim handling obligations, and what emergency actions state governments are taking to provide additional support to policyholders.

The Southern California wildfires are no exception. On Jan. 23, California Insurance Commissioner Ricardo Lara released a bulletin to insurance companies and adjusters handling recent wildfire claims to ensure compliance with residential policyholder protections.[2] The bulletin calls attention to several key safeguards that apply to homeowners subject to this state of emergency and others, including the following:

- At the policyholder's request, the insurer must provide advance payment of at least four months of living expenses for a covered loss. This protection also applies to "fair rental value" coverage under FAIR Plan policies.

- Provided that the dollar limit, if any, stated in the policy for additional living expense coverage has not been exhausted, homeowners are entitled to that coverage for at least 24 months, plus a 12-month extension in the event of reconstruction delays beyond their control. After that three-year period, further six-month extensions are required for good cause.

- The insurer must pay at least 30% of the policy limit for "contents" coverage for a furnished dwelling without requiring an itemized claim, up to a maximum $250,000. An itemized claim may be required to recover the remainder of the policy limit.

- If the policy limits to rebuild or replace the primary dwelling are inadequate, homeowners may combine their aggregate policy limits for their "primary dwelling" and "other structures" coverages to rebuild or replace the main dwelling.

- If homeowners that suffered a total loss elect or rebuild or purchase a new home elsewhere, they remain entitled to the full amount the insurer would have owed had the home been rebuilt where the loss occurred, including any applicable coverage for "extended replacement cost," and increased costs of complying with local building codes.

The commissioner also recently set a one-year moratorium on insurers canceling or not renewing residential property insurance policies in high-risk areas near the wildfires subject to the California governor's Jan. 7 declaration of a state of emergency.[3] This action protects California homeowners who may yet be affected by the ongoing wildfires from having their insurance lapse or be rescinded before the need arises to make a claim, at least through Jan. 7, 2026.

3. Comply with notice, proof of loss and suit-limitation clauses.

Identifying and complying with time-sensitive policy requirements is a crucial step in preserving rights under an insurance policy. For example, insurance policies often require that an insured provide adequate notice of a claim. Although requirements for how and when to give notice or file a claim vary by policy and state law and need to be carefully examined, many policies require notice of a loss as soon as practicable.

Commercial property policies also generally require that a sworn proof of loss be submitted within 60 to 90 days, or sooner, absent written agreement by the insurer.

Finally, many policies also require that any suit under the policy be filed within one or two years after inception of the loss.

4. Document damage and maintain records.

Evaluating the full extent of loss and damage following a fire takes time. A business should begin documenting and quantifying any damage or business interruptions as soon as possible; this may involve collaboration among the business's operational, finance and accounting personnel.

Homeowners should take similar steps when seeking recovery for their lost or damaged possessions and their extra expenses due to fire or other causes of loss. Key actions will include the following:

- Separate any damaged property from undamaged property to the extent possible and when safe to do so.

- Take photographs and videos of the damage, including structural damage, affected objects and the surrounding vicinity.

- Itemize damaged or lost items, their date of purchase and value, and collect receipts.
- Track extra or expediting expenses needed to continue business operations, such as:
    - costs of emergency gear and protective equipment
    - added freight charges for quicker delivery of emergency supplies
    - relocation costs
    - advertising or notification costs
    - costs associated with maintaining lost power, e.g., generators
    - costs for water or other affected utilities
    - overtime pay.
- Locate business accounting records relevant to financial performance and loss of earnings or revenue.
- Obtain copies of fire department, police or other relevant reports.
- Keep crisis response, evacuation, and other recovery-related purchase orders, invoices, receipts, and other documentation.

5. Cooperate with the insurance company.

Many insurance policies require that the policyholder cooperate with the insurer's investigation of a claim. Cooperation does not mean capitulating to unreasonable requests by the insurer or responding to requests that are irrelevant to a coverage determination, designed to limit or deny coverage, or to increase the burden on the policyholder. However, reasonable cooperation is generally required.

Conclusion

Businesses and homeowners affected by the destructive Southern California wildfires must act swiftly and strategically to navigate the complexities of the insurance recovery process.

By identifying all applicable policies, understanding relevant state law, adhering to notice and proof of loss requirements, documenting damage thoroughly, and reasonably cooperating with insurers, policyholders can maximize their chances of securing coverage.

The path to recovery may be challenging, but with careful planning, businesses and families can move forward with the full benefit of the insurance they purchased to protect against catastrophic events like the ongoing wildfires.

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[1] https://www.wsj.com/livecoverage/cpi-jpmorgan-citi-goldman-earnings-stock-market-01-15-2025/card/l-a-fires-could-cost-insurers-30-billion-according-to-new-forecast-43JE01jKBGuW6ycSv7Qe.

[2] https://www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/upload/Bulletin-2025-2-Wildfire-Consumer-Protections-and-Advanced-Payments.pdf.

[3] https://www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/upload/Bulletin-2025-1-One-Year-Moratorium-for-Palisades-and-Eaton-Fires-9-January-2025.pdf.