



EMPOWERING THE INSURED

JUN 05 2008

June 5, 2008

The Honorable Chief Justice Ronald M. George
 And the Honorable Associate Justices
 Of the California Supreme Court
 350 McAllister Street
 San Francisco, CA 94102

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Re: *Agnes H. Everett v. State Farm General Insurance Company*
 (2008) Fourth District, Division 2,
 Case No. E41807, 08 C.D.O.S. 5181

Request for Depublication

Dear Hon. Chief Justice Ronald M. George and the Associate Justices
 of the California Supreme Court:

United Policyholders ("UP") submits this letter respectfully requesting
 depublication of *Agnes H. Everett v. State Farm General Insurance*
Company under California Rules of Court, Rule 8.1125.

Everett involves the very serious and problematic issue of
 "underinsurance" (inadequate coverage). Underinsurance is the most
 common and formidable impediment to financial recovery for the
 majority of disaster victims in California today. [See Exhibit 1; Federal
 Emergency Management Agency Composite Recovery Program
 Summary dated December 7, 2007] A recent 2007 wildfire insurance
 claim survey found that homeowners were insured by an *average of*
\$240,000. [See Exhibit 2; United Policyholders Survey Results
 Overview] UP has an entire section of its website dedicated to solving
 this problem.

http://www.unitedpolicyholders.org/claimtips/tip_underinsurance.html

Representations such as the one made in the attached selection from
 an Allstate homeowners policy confirm the belief held by the vast
 majority of homeowners that insurance companies, agents and
 brokers are responsible for setting the policy limits on their property.
 [See Exhibit 3; Allstate Insurance Company, **Important Notice:**
 Dwelling Profile. Allstate has determined that the *estimated* cost to
 replace your home is....}

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Yet *Everett* imposes a duty on individual homeowners to set their own policy limits based on their own calculations of the cost of reconstructing their homes. This is neither realistic nor even possible. Homeowners do not walk into insurance agents' offices and request policy limits based on personal knowledge about lumber and materials prices, the going rates for drywall and painting subcontractors, the cost of a builders risk policy and/or what it will cost to comply with the newest building codes. If one did, he or she would likely be suspected of planning to commit arson.

Everett further asserts that lay people should be held responsible for second guessing the assurances of full coverage that they routinely get from insurance professionals.

"Replacement Cost" policies are now standard

Replacement cost homeowners' policies with "extended coverage" endorsements have become standard in the state of California. Actual Cash Value policies which are less expensive and less valuable are very rarely sold to homeowners today. In an Actual Cash Value policy, an insurer owes the depreciated value of a home which is far below its replacement cost.

Homeowners' policies today are marketed with "extension" features that are marketed to assure peace of mind

Insureds pay higher premiums for replacement cost policies and for endorsements that add "extended" coverage over and above replacement cost coverage. Insureds do so in order to have the security of knowing they will have sufficient insurance proceeds to replace their home in the event of a disaster.

Property policies contain automatic inflation adjustment features that purport to keep coverage current with rising material and labor costs. And for more premium still, insureds routinely buy "building code upgrade" endorsements. Under this endorsement, the insurer promises to pay the increased cost to rebuild due to changes in building codes that took effect after the home was built.

Replacement cost policies with inflation adjusters, **and** extended replacement cost **and building** code upgrade endorsements are standard in today's homeowner's insurance marketplace. They are sold as products that allow the homeowner to replace the home they had with one of like kind and quality in compliance with applicable laws and ordinances.

Producers set policy limits by applying formulas

When a homeowner undertakes to insure their home, a producer (agent or broker) or a company sales representative calculates the amount of coverage, as in Exhibit 3, based on the information the homeowners provides about the characteristics of the home. But *Everett* fails to reflect this reality of property insurance transactions. At the point of sale, *the producer* (agent, broker or company sales rep) sets the amount of insurance in accordance with insurance company guidelines. Not the consumer. Insurance companies have underwriting guidelines and use various computer software programs to set the value they will agree to insure. The software program purportedly uses current construction costs and the individual features of homes. The producer then multiplies these costs with the square footage of the structure and calculates the amount of insurance on the structure. Other coverage amounts such as contents, landscape, etc are automatically set as derivative percentages of Coverage A. Thus, if Coverage A is calculated wrong all of the other coverages will be wrong as well.

If a producer does not properly use this software or if he or she fails to input the accurate information as to the features of the dwelling or if he wants to ensure his commission by quoting a low figure along with a false promise of adequate coverage, the home will be underinsured.

Prospective insureds do not obtain contractor bids in order to buy insurance. It is unheard of to suggest that the insured would need to do this and again each and every year in order to obtain adequate policy limits for continuing coverage. Contractors are not in the business of providing free estimates for hypothetical construction projects. And it is fantasy to suggest that an insurer will agree to insure a home based on an insured's determination of value.

Replacement cost policies provide that in the event insureds do not rebuild, the insurer is obligated only to pay the actual cash value of the property (replacement cost less depreciation.) But, when homeowners are underinsured, they *cannot* rebuild because they do not have sufficient insurance proceeds, despite their payment of increased premiums for an extended replacement cost policy.

Everett allows insurers to be unjustly enriched by charging for "replacement cost" policies but paying out less than full replacement on claims

Underinsurance means insurers take higher premiums from consumers for the promise of replacement cost coverage but then pay claims on the basis of actual cash value. One can see that a widespread practice of underinsurance means greater profit for insurers.

The insurer and the producer are the professionals. They have the knowledge and experience with claims to know current building costs, the inflation factors related to construction costs and they participate in industry and government studies to promote safer buildings and work with government to establish changes to the building codes. Insurers and producers also have the benefit of industry associations and publications for the purpose of determining potential losses. Indeed they participate in actuarial studies to determine the appropriate "incurred but not reported" reserves for every premium dollar they take in. (See, Cal. Code of Reg. Title 10 §2319.2, subd. (a), (b).)

Under existing California law, a producer is liable for misleading homeowners when the producer determines the replacement cost limits and represents these limits are adequate when they are not. (*Desai v. Farmers Insurance Exchange* (1996) 47 Cal.App.4th 110.) *Everett* would shield these producers for this conduct and shift the duty to the homeowner to determine the policy limits.

The opinion makes the following harmful assertions:

- 1) Regardless of *any and all representations or assurances that have been made orally or in writing by an insurance agent, broker or company representative*, it is a policyholder's legal duty to determine whether or not their property is adequately insured.
- 2) Regardless of the fact that insurers pay claims every day all across the U.S. and are in possession of all available information on current construction and repair costs, it is a policyholder's legal duty to calculate and maintain policy limits that are adequate to fully replace their home and contents in the event of a total loss.
- 3) Regardless of *any and all representations or assurances that have been made orally or in writing by an insurance agent, broker or company representative*, it is a policyholder's legal duty not to accept an agent or insurers' replacement cost figures for their home but to independently determine whether or not those figures are accurate.
- 4) An inflation protection provision in an insurance policy that creates the expectation that it will function to adjust policy limits upward to account for increased costs over time need not actually do that.

In just a few weeks, this opinion has already had a devastating impact on the hundreds of innocently underinsured California residents who lost their homes in last fall's San Diego area wildfires and who are in the throes of claim settlement negotiations. Insurance companies and their attorneys are already waving the *Everett* decision around as a shield that's going to absolve them of any liability for deceiving their customers into thinking they were fully insured.

Everett threatens the financial security of the 15 million homeowners in this state as well as the tax base of local and state governments. As a matter of public policy, this court should not permit *Everett* to set a precedent that threatens to make ghost towns out of areas of catastrophic damage because homeowners cannot rebuild their homes.

Over the years I have personally met and reviewed documents with thousands of disaster victims in the Oakland/Berkeley Hills, Point Reyes, South Lake Tahoe, San Diego, Lake Arrowhead, and other communities throughout California. The number of them who have been severely underinsured is staggering. These innocently underinsured homeowners include attorneys, physicians, professors, accountants, even Judges. These are not people who couldn't afford to pay for full coverage.

Most people's homes are their biggest asset. Their property taxes fund community infrastructures, schools and public services. The vast majority of homeowners have ***no expertise in calculating construction costs*** and at best only a vague idea of what it would cost to replace their home and possessions in the event of a total loss. But they know they want to protect their biggest asset so they rely on insurance professionals to assume their risk of loss in exchange for the premiums they pay.

They and countless California homeowners impacted by future wildfires and other natural disasters will be irreparably harmed by the continued publication of the *Everett* decision.

Everett puts the onus on people who are not trained or competent to set policy limits

As a matter of public policy it is simply unfair for the law to impose a duty on one who lacks the means to fulfill it. *Everett* puts the onus on people who are not trained to and are not competent to be calculating policy limits.

Following disasters, such as last fall's San Diego fires, United Policyholders holds public meetings to educate victims on navigating the road to recovery and solving problems that may arise. The most recent victims are reporting to United Policyholders that they had read newspaper accounts of the underinsurance problem and that they had ***tried to increase their insurance before last fall's fires***. Hundreds of 2007 wildfire victims called agents and insurer representatives to make certain they had adequate insurance. In all cases, they were told their limits met underwriting guidelines and their limits were adequate or more than adequate.

Other coverage amounts such as contents, landscape, etc are automatically set as derivative percentages of Coverage A. Thus, if Coverage A is calculated wrong all of the other coverages will be wrong as well.

United Policyholders conducted an analysis of the cause of underinsurance. It found three common market force causes of underinsurance:

- 1) It is more profitable to underinsure properties than to fully insure them;
- 2) It is easier/cheaper to keep using the outdated formulas/software;
- 3) Competition means agents fear losing a sale so they quote low to close the deal and earn their commission.

The California Department of Insurance held a hearing on underinsurance after the Cedar Fire bore out this analysis. Insurance Commissioner John Garamendi elicited testimony from the software company whose "replacement cost valuation" software most insurers use to calculate policy limits. This underscored that the insurance companies and their agents – not property owners-- set the amount of coverage an insurer will agree to pay. It also highlighted the deficiencies in the use of this software which may not be the most current way to value property or which is susceptible to human error. As a result of this hearing it became common knowledge that the use of this defective software catastrophically underinsures homeowners, yet insurers continue to use it.

But California's Department of Insurance did not solve the underinsurance problem. To this day, agents and insurers are still using this software, still underinsuring homes, and still hiding behind fine print disclosures that disclaim responsibility for setting limits in blatant contradiction to the advertising and sales representations they make to their customers.

Everett v. State Farm ignores long held California law and has already begun to exacerbate the problem of underinsurance. This court should depublish the opinion before Insurers are able to use it to shield themselves from fulfilling the promises made to their insureds.

Statement of Interest

UP is a non-profit organization dedicated to integrity in the insurance system, educating the public on insurance issues and protecting policyholders' rights. Founded in 1991, the organization is tax-exempt under §501(c) (3) of the Internal Revenue Code. Foundation grants and donations support UP's work. Detailed information about the education and disaster relief work the organization is doing in wildfire areas around the state can be found at www.unitedpolicyholders.org.


Insurance is a public trust. The 15 million homeowners in this state pay substantial premiums for the peace of mind of knowing that they transferred their risk of loss to a reliable, solvent insurance company and that in the event of a loss that company will pay sufficient funds to allow them to rebuild their homes.

United Policyholders has a vital interest in seeing that insurance companies do not attempt to retrocede this risk back to their policyholders through the device of taking premium for replacement cost coverage but paying losses only on an actual cash value basis.

UP pro-actively monitors legal and marketplace developments and advances policyholders' interests in courts throughout the country by filing *amicus curiae* briefs in cases involving important insurance principles.

A diverse range of policyholders and policyholder advocates communicate on a regular basis with United Policyholders. By processing these communications and monitoring the insurance marketplace and the industry in general, United Policyholders is able to submit pertinent and accurate information to courts throughout the country via *amicus* briefs. United Policyholders has participated as *amicus curiae* in more than 240 cases across the country involving significant insurance issues. The organization's reputation as a reliable friend of the court was enhanced when its *amicus curiae* brief was cited in the United States Supreme Court's opinion in Humana v. Forsyth, 525 U.S. 299 (1999), and its arguments were adopted by this Court in Vandenberg v. Superior Court, 88 Cal. Rptr.2d 366 (Cal. 1999) and in TRB Investments, Inc. v. Fireman's Fund Ins. Co., 145 P.3d 472 (Cal. 2006).

Respectfully submitted,



Amy Bach, Esq. S.B. No. 142029
On behalf of United Policyholders



Registration closes on January 9, 2008

Registrations Received as of 12/06/07	18,350
Approved Eligible Housing Program Assistance (IHP + HA)	\$18,625,311.86
Approved Other Needs Assistance	\$3,158,842.12
Small Business Administration Loan Applications Sent	12,712
Small Business Administration Loan Applications Returned	1,402
Small Business Loans Approved	382
\$ SBA Approved	\$45,604,000.00

*IA SUMMARY

County	Reg	Max Grant \$28,800	*IHP Eligible	IHP Amount	*HA Eligible	HA Amount	*ONA Eligible	ONA Amount
Los Angeles	1,956	9	128	\$466,653.92	63	\$354,367.60	84	\$112,286.32
Mendocino	1	0	0	\$0.00	0	\$0.00	0	\$0.00
Orange	402	1	36	\$135,161.31	35	\$96,212.28	4	\$38,949.03
Riverside	303	0	15	\$49,347.28	12	\$21,115.36	8	\$28,231.92
Sacramento	1	0	0	\$0.00	0	\$0.00	0	\$0.00
San Bernardino	3,505	2	282	\$572,251.30	256	\$393,242.38	59	\$179,008.92
San Diego	12,182	178	1,298	\$9,668,663.18	1,166	\$6,868,297.25	560	\$2,800,365.93
TOTAL	18,350	190	1,759	\$10,892,076.99	1,532	\$7,733,234.87	715	\$3,158,842.12

- * IA = Individual Assistance
- * IHP = Individual and Household Program
- * HA = Housing Assistance
- * ONA = Other Needs Assistance

The Green Valley Lake area (The Slide Fire) it is estimated 75% of homes lost were 2nd homes and/or vacation homes. Running Springs appears to be 50%/50% full time vs. part time.

In Lake Arrowhead -- The Grass Valley Fire we believe could be as high 60% full-time.

Overall approx. 45% are estimated as "full-time" owner occupied with another 20% of the homes lost being occupied by full-time renters.

With regard to insured vs. uninsured --- Renters did not have insurance!! -- 100% of renters we have worked with had no insurance coverage.

On the "owner side" appears that over 95% were insured. The problem is that of those insured almost everyone is UNDERINSURED. Overall, those insured have coverage for 50% - 60% of replacement cost.

EW 1

United Policyholders
Results Overview



Date: 6/4/2008 3:44 PM PST
 Responses: Completes
 Filter: No filter applied

1. Was your dwelling damaged or destroyed as a result of the October wildfires in San Diego and San Bernardino counties?

Damaged		15	7%
Destroyed		198	93%
Total		213	100%

2. Did you have insurance on your dwelling?

Yes		212	100%
No		1	0%
Total		213	100%

4. Did you have an "extended replacement cost" or other type of provision in your policy that increased your stated dwelling limits?

Yes		162	90%
No		19	10%
Total		181	100%

5. Were your extended replacement cost limits:

25%		34	20%
50%		64	38%
Other, please specify		69	41%

9. At this time, have you received an independent estimate of what it would cost to repair, rebuild or replace your home with one of like kind and quality in compliance with today's building codes? ("Independent" means you picked, not your insurer or adjuster) If your answer is "No", skip to Question 16.



Yes		157	74%
No		55	26%
Total		212	100%

10. Are your insurance policy dwelling limits sufficient to cover the cost of repairing, replacing or rebuilding your home?



Yes		47	26%
No		133	74%

		Total	180	100%
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12. Has your insurance company made a settlement offer on the dwelling portion of your coverage?

Yes		79	45%	
No		97	55%	
		Total	176	100%







13. If yes, is the amount of that offer above your policy limits?

Yes		31	33%	
No		62	67%	
		Total	93	100%



14. Is the amount of that offer sufficient to rebuild your home?

Yes		35	36%	
No		63	64%	
		Total	98	100%



16. The following question is only for those who do not yet have an "independent" dwelling repair/replacement estimate: Please circle all applicable reasons why you have not received an independent estimate of what it would cost to repair/replace/rebuild your damaged or destroyed home:

Can't find a qualified professional who will take the time to come out		2	3%
I'm not building the same house		17	26%
I don't want to or can't pay for an estimate		6	9%
I'm relying on the insurance company/adjuster to get that information		7	11%
I'm overwhelmed		24	37%
Other, please specify		39	60%



17. Are you considering buying a replacement home instead of rebuilding?

Yes		61	29%	
No		150	71%	
		Total	211	100%







19. Do you feel you have reached a settlement with your insurance company on the dwelling portion of your loss?

Yes, we have reached a settlement		59	28%
No we are still negotiating		152	72%
Total		211	100%






21. Have you filed a formal complaint (Request for Assistance "RFA") with the California Department of Insurance?

Yes		34	17%
No		165	83%
Total		199	100%



22. If you have not filed a formal RFA with the California Department of Insurance, please explain why you haven't:

I'm afraid it will make matters worse		10	7%
I don't want my insurance company to be angry with me		6	4%
I don't know how to file an RFA		5	4%
I can't file an RFA yet because we're still negotiating		41	30%
I don't think it will do any good		18	13%
Other, please specify		77	57%

24. What is your understanding of how long your insurer will cover your Additional Living Expenses "ALE" (sometimes called "Loss of Use")?(Circle one)



12 months		5	3%
24 months		112	60%
Until we can move back in		16	9%
Until our limits run out		19	10%
Other, please specify		34	18%
Total		186	100%

25. Did your insurance company ever offer to give you a list of items that are typically reimbursable under the "ALE" portion of your policy?



Yes		42	22%
No		146	78%

Total	188	100%
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26. Did your insurance company provide you an advance of at least three months of ALE after you found housing?

Yes		147	78%
No		42	22%
Total		189	100%



27. Are you worried that you are going to run out of ALE benefits before you rebuild/repair/replace your home?

Yes		60	33%
No		120	67%
Total		180	100%



29. Personal Property/Contents Coverage Do you believe you have enough insurance coverage on "contents" to replace everything you lost?

Yes		90	48%
No		98	52%
Total		188	100%



31. Has your insurance company paid you at least 40% of your total Personal Property/Contents limits?

Yes		124	65%
No		67	35%
Total		191	100%

32. Is your insurance company requiring you to itemize all items in order to be fully reimbursed for your Personal Property/Content loss?



Yes		153	75%
No		50	25%
Total		203	100%

33. If "Yes", did you ask if they would "waive" the requirement to itemize all items?



Yes		71	46%
No		85	54%
Total		156	100%

Did your insurance company explain "depreciation" and how they calculated depreciation on your Personal Property/Contents



35. items?

Yes		88	45%
No		107	55%
Total		195	100%








36. Did your insurance company explain what you need to do to collect the balance (above ACV) of what you're owed for items on your Personal Property/Contents list after you replace them?

Yes		82	44%
No		106	56%
Total		188	100%

37. If you are underinsured on your personal property/contents claim (meaning your insurance is less than what it will cost to replace everything that was damaged or destroyed), have you asked your insurer to pay over policy limits?

Yes		33	24%
No		105	76%
Total		138	100%

42. What area was your home in?

Dulzura		1	0%
Escondido		23	11%
Fallbrook		16	8%
Lake Arrowhead		29	14%
Ramona		23	11%
Rancho Bernardo		82	38%
Running Springs		8	4%
Other, please specify		36	17%

Allstate Insurance Company

Policy Number: _____ Our Agent: B.
For Premium Period Beginning: July 18, 2007

Important Notice

DWELLING PROFILE

Allstate has determined that the *estimated* cost to replace your home is : \$385,323.

The enclosed Policy Declarations shows the limit of liability applicable to Coverage A—Dwelling Protection of your homeowners insurance policy. That limit of liability must be at least equal to the estimated replacement cost of your home as shown above.

Many factors can affect the cost to replace your home, including its size, type and any unique features. Allstate's estimate of the replacement cost of your home is based, in part, on the following home characteristic information, which includes information you provided to us.

DWELLING STYLE: Colonial, 2.0 Story(s), 1 Family(s), Built 1987, 3000 sq. ft. Living Area

CONSTRUCTION: 100% Slab, 20% Cathedral Ceiling

ADDITIONS: 1 Custom Kitchen(s), 1 Custom Half Bath(s)

2 Custom Full Bath(s), 1 Large Custom Deck(s)

1 Standard Masonry Fireplaces, 1 Attached Two Car Garage(s)

DETAIL: Exterior Wall - Stucco(100%), Roof - Tile/Lightweight or Concrete(100%)

Int Walls - Partitions - Sheetrock(100%), Wall Coverings - Paint(100%)

Ceilings - Wood(10%), Ceilings - Textured Sheetrock(90%)

Flooring - Average Carpet/36 oz. Nylon(70%), Flooring - Average Tile(30%)

Heat&Air Cond. - A/C same ducts(100%)

SPECIAL FEATURES: Systems - Burglar Alarm System(1), Systems - Smoke Alarm System(1)

Exterior - Picture Windows(1), Exterior - Atrium Doors(1)

Exterior - Bay Windows(2), Exterior - Stained Glass(2)

Interior - Wet Bar(1), Interior - Hanging Lights(1)

Exh. 3

PROOF OF SERVICE

Re: **Letter to Hon. Ronald M. George and Associate Justices**
Caption: *Agnes H. Everett v. State Farm General Insurance Company* (2008)
Fourth District, Division 2, Case No. E41807, 08 C.D.O.S. 5181

I declare that I am employed in the County of San Francisco, California. I am over the age of 18 years and am not a party to the within action; my business address is 222 Columbus Avenue, Suite 412, San Francisco, California 94133. On June 5, 2008, I served the forgoing document described as **Letter to Hon. Ronald M. George and Associate Justices**, by placing a true copy thereof enclosed in a sealed envelope addressed as follows:

 X (BY MAIL) I deposited such envelope in the mail at San Francisco, California. The envelope was mailed with postage thereon fully prepaid with adequate postage for first class delivery and deposited each with the U.S. Postal Service:

Everett, Agnes : Plaintiff and Appellant	Christian J. Garris Law Offices of Christian Garris 633 West Fifth Street, 28th Floor Los Angeles, CA 90017
State Farm General Insurance Company : Defendant and Respondent	Randall M. Nunn Hughes & Nunn 401 "B" Street, Suite 1250 San Diego, CA 92101 James R. Robie Robie & Matthai 500 S. Grand Avenue, Suite 1500 Los Angeles, CA 90071-2609
Court of Appeal , Fourth District, Division 2	3389 Twelfth Street Riverside, CA 92501

I declare under penalty of perjury under the State of California that the foregoing is true and correct. Executed on June 5, 2008 at San Francisco, California.


Emily Cabral