A Calif. Law May Aid Homeowner Recovery After LA Fires

By **Keith Meyer and Kya Coletta** (June 25, 2026)

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Construction costs surged in May at the fastest annual rate since the pandemic, compounding an already dire underinsurance problem for victims of the January 2025 Los Angeles wildfires.

As thousands of fire claims move from loss documentation into the rebuilding phase, counsel representing policyholders are increasingly encountering a common data point: insurers' replacement cost estimates that were outdated or incomplete at the time of loss.

With reconstruction bottlenecks now forcing these coverage gaps into the open, California Insurance Regulation Section 2695.183 has emerged as a critical tool in the practitioner's arsenal.

The Regulatory Framework: What Section 2695.183 Requires

Section 2695.183 requires residential property insurers to provide replacement cost estimates to policyholders and establishes mandatory standards for such estimates. The regulation has been in effect since June 27, 2011, and has survived sustained industry opposition, ultimately receiving the imprimatur of California's highest court.

When an insurer communicates a replacement cost estimate in connection with an application for or renewal of a homeowners policy, Section 2695.183 specifies precisely how that estimate must be calculated.

The estimate must account for the expenses that would reasonably be incurred to rebuild the insured structure in its entirety, including at minimum: the cost of labor, building materials, and supplies; overhead and profit; the cost of demolition and debris removal; and the cost of permits and architect's plans.

It must also account for the specific components and features of the structure, including the foundation type, framing, roofing and siding materials, square footage, number of stories, wall heights, geographic location, interior features, the structure's age, and the size and type of any attached garage.

The estimate must reflect the cost to rebuild the specific property being evaluated, not the cost to build multiple or tract dwellings. It must not be based on the resale value of the land or any outstanding loan balance, and must not include a deduction for physical depreciation.

Critically, the regulation imposes an ongoing obligation on the insurer: At least annually, the insurer must take reasonable steps to verify that the rebuilding estimate is up to date and reflects the current costs of reconstruction, including changes in labor, building materials and supplies, based upon the geographic location of the insured structure.

In other words, the burden is on the insurer to ensure that the policy's replacement cost limit will in fact be sufficient to replace the structure if necessary.

The regulation recognizes that insureds may obtain their own independent replacement cost appraisals. In practice, however, many insureds likely pay little or no attention to their insurers' estimates when renewing their policies.

In other cases, policyholders rely entirely on insurer-provided estimates; estimates that, as the regulatory record demonstrates, have frequently and significantly undervalued the true cost of rebuilding. Either way, the insurer is setting the replacement cost value for the policyholder.

Understanding Replacement Cost Coverage and Its Variations

A standard replacement cost policy obligates the insurer to pay the actual cost of rebuilding the insured structure up to the policy limit. If a homeowner carries $2 million in replacement cost coverage and the home is a total loss, for example, the insurer is obligated to pay up to $2 million toward reconstruction.

The accuracy of the coverage limit is therefore paramount: If the true replacement cost is $2.5 million, but the policy was written for $2 million, the homeowner is exposed to a $500,000 gap.

Guaranteed replacement cost coverage — under which the insurer pays whatever the rebuilding actually costs may be regardless of the policy limit — was common as recently as the 1990s but is now rare.

More commonly, carriers offer "extended replacement cost" coverage, adding a buffer (often 25% to 50%) above the stated limit. Even these buffers can be consumed entirely if the original replacement cost estimate was substantially inadequate, a scenario the regulatory record suggests is common in wildfire contexts involving large-scale reconstruction demand.

A Regulation Won in Court: The Legal History of Section 2695.183

Section 2695.183 is not merely a disclosure regulation with administrative compliance implications. Subdivision (j) expressly provides that communicating a replacement cost estimate that does not comport with subdivisions (a) through (e) "constitutes making a statement with respect to the business of insurance which is misleading and which by the exercise of reasonable care should be known to be misleading, pursuant to Insurance Code section 790.03."

The insurance industry did not accept the requirements of Section 2695.183 without a fight. Just weeks before the regulation took effect in June 2011, insurance industry representatives filed an action challenging its validity on multiple grounds: that it exceeded the commissioner's authority by defining a new unfair or deceptive insurance practice; that it improperly restricted the underwriting of insurance; and that it violated insurers' constitutional free speech rights.

The trial court agreed and invalidated the regulation, and the Court of Appeal affirmed.

In 2017, in Association of California Insurance Companies v. Jones, the California Supreme Court reversed, and confirmed the commissioner's authority to impose replacement cost requirements.[1] It also confirmed that the regulation could properly find that noncompliant estimates constituted misleading statements prohibited by Insurance Code Section 790.03.

The Bad Faith Nexus: Subdivision (j) and Misleading Statements

The bad faith hook under Section 2695.183 is that a replacement cost estimate must reflect the actual replacement cost of the structure, and that if an insurer underestimates the replacement cost, the insurer has made a "misleading statement" under Insurance Code Section 790.03.

While Section 790.03 does not create a private right of action, it can be used by policyholders to show that the insurers' conduct fell below the standard of care required of all insurers doing business in California.

Every insurance contract in California contains an implied covenant of good faith and fair dealing, the breach of which sounds in tort.

Under the California Insurance Code, if an insurer makes misleading, untrue or deceptive estimates, statements or representations in connection with a policy, or acts unreasonably in a manner that deprives the insured of the benefits of the policy, the insurer has engaged in "unfair or deceptive acts or practices" under California Insurance Code Sections 790.03(a)-(b).

California's insurance regulations establish the standard of conduct for insurers in California.[2] Evidence that the insurer violated a regulatory standard, particularly a regulation that declares such a violation to constitute a "misleading statement," is directly relevant as to whether the insurer acted reasonably and in good faith.

A finding that the insurer acted unreasonably and the violation of an insurance regulation, let alone the violation of a regulation designating an inadequate replacement cost estimate as "misleading," provide the foundation for a bad faith claim.

The Los Angeles Wildfires and the Underinsurance Problem in Practice

The compliance failures that Section 2695.183 was designed to address are not hypothetical.[3]

Consider a representative fact pattern from the current litigation landscape.

> Fire Loss Fact Pattern
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> A homeowner purchased her property in 2011, at which time her insurer provided an initial replacement cost estimate. That estimate was generic, failed to account for many of the home's specific characteristics, and did not satisfy the detailed requirements of subdivisions (a) through (e) of the regulation.
>
> In the years that followed, the insurer never provided an updated estimate reflecting changes in construction costs or the home's improvements, despite its annual obligation to do so under subdivision (e).
>
> By 2025, construction costs in Los Angeles had increased substantially, and the replacement cost estimate on which the policy limits had been based was years out of date and materially inadequate. When her home burned down in the January fires, the insured discovered that her policy limits were insufficient to cover rebuilding — a shortfall traceable directly to her insurer's failure to maintain accurate replacement cost estimates as required by law.

This pattern is likely to recur across many of the Los Angeles fire claims. Many homeowners received generic, pro forma replacement cost estimates when they first purchased their policies and never received substantively updated figures thereafter.

Others may have received annual statements but contained unrealistic replacement cost estimates. Either way, these communications would constitute misleading statements within the meaning of subdivision (j).

The post-loss environment further underscores the inadequacy of noncompliant estimates. The severe bottleneck in permit approvals, elevated contractor pricing driven by extraordinary demand, and supply chain disruptions affecting building materials that inevitably accompany a catastrophic wildfire event all drive reconstruction costs well above preloss projections.

That these conditions are both foreseeable and recurrent in California's wildfire landscape makes them relevant to whether an insurer's replacement cost estimate was realistic at inception, and strengthens the argument that estimates failing to account for the true cost of rebuilding, as required by Section 2695.183, were misleading from the outset.

Evaluating a Potential Section 2695.183 Claim

For counsel representing policyholders affected by the January 2025 fires, the threshold question is whether the insurer complied with its regulatory obligations.

Relevant documentary evidence includes: the original policy application and any replacement cost worksheets provided at inception; all annual renewal statements and accompanying estimates; internal insurer records reflecting the estimation methodology; and any communications between the insured and insurer regarding coverage adequacy.

Where the record reflects a failure to provide required annual updates — or where the estimates that were provided were materially inadequate, failed to account for the home's actual characteristics or ignored prevailing local construction costs — a prima facie regulatory violation may exist.

By operation of subdivision (j), that violation could constitute a misleading statement, which in turn, could be used as evidence of bad faith. The next question is whether the insured can establish that the violation caused or contributed to the underinsurance that produced her loss.

In cases where the insurer's inadequate estimate led the insured to carry insufficient coverage, the causation argument is relatively direct: had the insurer provided accurate and compliant replacement cost figures, the insured would have had the information necessary to purchase adequate coverage. That argument anchors a common-law bad faith claim. The measure of damages may include the difference between the actual replacement cost and the policy limits, precisely the underinsurance gap that Section 2695.183 was enacted to prevent.

Conclusion

The January 2025 Los Angeles wildfires have produced a crisis of insurance adequacy that will take years to resolve. For counsel navigating these claims, the question is not merely what a policy says, but whether the insurer met the legal obligations imposed by California's

insurance regulations that were designed specifically to ensure that coverage kept pace with actual replacement costs.

Section 2695.183 provides a potentially powerful doctrinal foundation. Where an insurer failed to provide compliant replacement cost estimates — at inception or through required annual updates — subdivision (j) establishes that the insurer has made a misleading statement within the meaning of Insurance Code Section 790.03. While that statute creates no private right of action, a regulatory violation of this character could support a common-law bad faith claim under the implied covenant of good faith and fair dealing.

Practitioners should review their clients' policy histories with care, obtain all estimate documentation from the inception of coverage, and assess whether the insurer met its annual update obligations under Subdivision (e). Given the current surge in construction costs and the reconstruction bottlenecks that are only now revealing these coverage gaps, the regulatory compliance question has never been more consequential.

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[1] Association of California Insurance Companies et al. v. Jones, 2 Cal. 5th 376 (2017).

[2] Spray, Gould & Bowers v. Associated Int'l Ins. Co., 71 Cal. App. 4th 1260, 1274 (1999).

[3] A 2008 Department of Insurance examination of the four largest homeowner insurers found that the recommended coverage understated the actual rebuilding costs in more than 80% of policies examined, and 57% of policyholders with extended replacement cost coverage remained underinsured. Jones, 2 Cal. 5th at 383. A United Policyholders survey of 2007 Southern California wildfire victims likewise found only 26% adequately covered, with the underinsured falling short by an average of $240,000, often after relying on the insurer's own replacement cost tool.