

Affected by the Wildfires in Southern California? You Might be Safe From Home Insurance Cancellations Through 2026

Investopedia

The ongoing wildfires in Southern California have upended countless lives, devastating local communities, erasing cherished historical landmarks, and sending thousands of residents into shelters to await news on whether it's safe to return home again—if their home even still exists.

AccuWeather estimated that the damage would cost as much as \$57 billion.

Much of the economic recovery will be borne by insurance companies paying out claims for damaged and destroyed homes. Insurers, already stretched thin from the destruction caused by wildfires in previous years, have canceled or stopped renewing thousands of home and fire insurance policies in the most fire-prone areas of the state, according to local news reports. As homeowners begin assessing the damage, many will have to rebuild their lives without the benefit of insurance.

But thanks to a recent update to California law, there's a glimmer of hope for homeowners affected by the wildfires.

Good News for California Homeowners—For Now

The recent moratorium prohibits insurers from canceling or not renewing home insurance coverage for homes located near or adjacent to an area under a state of emergency for at least one year after the emergency has been declared.

“The moratorium rules that the legislature in California put into place prevent post-disaster marketplace instability and protect consumers from being dropped and then having a hard time getting replacement

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coverage,” said Amy Bach, CEO of United Policyholders. “That’s something that’s unique to California.”

After Governor Gavin Newsom’s proclamation on Jan. 7, these rules meant that homeowners in the Palisades Fire in Los Angeles County were protected by the moratorium even if their home was not damaged.

Executive Department, State of California. “Proclamation of a State of Emergency.”

Two days later, Insurance Commissioner Ricardo Lara expanded the moratorium to include ZIP codes affected by the Eaton Fire, and the commissioner has continued to use the power of his office to protect even more areas under the authority of Gov. Newsom’s declaration of emergency.

California Department of Insurance. “Commissioner Lara Expands Moratorium Protecting More Wildfire Survivors.”

Homeowners can find out whether their ZIP code is subject to the one-year moratorium by visiting the California Department of Insurance’s website.

After the moratorium ends, homeowners won’t necessarily lose their coverage. While it’s likely that some insurers will decide to stop serving Californians in riskier areas at that time, a recent initiative by Commissioner Lara could provide an incentive for insurers to continue providing coverage.

“[Commissioner Lara] did a series of things last year that were designed to give insurance companies the tools that they said they needed to take their finger off the pause button and start selling again and stop dropping people,” Bach said.

Among these changes are the ability to base their rates on predictive catastrophe models instead of historical data and the right to pass off a portion of their reinsurance costs to policyholders in the form of rate increases.

While higher premiums can be painful, they may be a crucial trade-off for continuing to receive coverage in a fire-prone area of the state.

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But if homeowners still can't find coverage after the moratorium expires, their options become more complex.

"If they really can't find anything in the admitted market [insurers who are subject to the state's regulatory system], they can try the non-admitted, surplus lines market, and those are more lightly regulated," Bach said. "If they can't find anything there, the fallback remains the FAIR plan."

The California FAIR plan is a business cooperative that extends basic fire insurance coverage to residents who can't get it through an insurer. Because its FAIR plan insurance is a limited catastrophe policy and its premiums are higher, it's considered a last-resort option, although more and more Californians rely on this coverage every year.

Steps to Take if You're Denied Coverage or Your Policy Is Canceled

If you're denied coverage or your policy is canceled, talk to your agent or broker to try to figure out why. It may be because you're living in a certain area, or it may be because of something easier to solve, such as trimming and removing dead foliage that could contribute to your fire risk.

But if nothing can be done, you may still find coverage from another insurer directly with a company, or an agent or broker.

"You should start shopping right away," Bach said. "Try your best to find an agent or broker that has access to options for you. Broaden your search beyond your current agent or broker if you need to.

Another option is to reach out to an organization like Bach's United Policyholders, which is a nonprofit that advocates on behalf of policyholders. On the site, you can access resources for finding affordable coverage, speaking to a recommended agent, and understanding your rights as a policyholder.

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