As Fire Season Approaches, CA Homeowners Face Insurance Woes

Patch

As major companies stop selling new policies in the Golden State, rates are rising sparking fears of an insurance market collapse.

The recent decision by the California Department of Insurance to allow Allstate to raise insurance rates for California homeowners is adding to insurance woes across the Golden State.

The move, according to the East Bay Times, isn't good for California homeowners who are already struggling to find coverage in a now limited market.

"That will mean higher bills for Allstate's existing customers, and no relief for other homeowners in the state who are losing their coverage in areas ravaged by recent destructive wildfires, floods and landslides," the East Bay Times said.

At the end of May 2023, State Farm announced it would stop selling home insurance policies in California due to "historic increases in construction costs outpacing inflation, rapidly growing catastrophe exposure, and a challenging reinsurance market."

Allstate followed suit shortly after due to worsening climate conditions that have made doing business there difficult.

"The cost to insure new home customers in California is far higher than the price they would pay for policies due to wildfires, higher costs for repairing homes and higher reinsurance premiums," according to a statement made by Allstate.

According to data compiled by the industry-supported Insurance Information Institute, California has more than 1.2 million homes at risk for extreme wildfire, far more than any other state.

Insurance Market Collapse Is A Valid Concern For Some

With two major carriers stopping the sales of new home policies in the state, fears of an insurance market collapse have ignited.

According to Cal Matters, the news of State Farm's announcement struck some as the "beginning of a fresh emergency, with insurers abandoning" the fire and flood ravaged state.

"But the retraction of California's biggest home coverage provider is only the latest development in a wildfire-fueled crisis that has smoldered beneath the surface of the state's insurance market for years."

In its article "State Farm won't sell new home insurance in California. Can the state shore up the market?" Cal Matters said that, "after the disastrous fires of 2017 and 2018, the number of Californians who were told by their insurer that their policy wouldn't be renewed jumped up by 42 percent" to almost 235,000 households.

"The two severe wildfire years wiped out decades of industry profits," Cal Matters said.

California FAIR Plan Could Also Take A Hit

According to the Associated Press article "California insurance market rattled by withdrawal of major companies," some California homeowners already are going without coverage, and the shortage of new policies could make it more difficult to buy a home.

"A state-run pool that serves as the insurer of last resort for many could face pressure as enrollments surge," the AP said. "The state pool — the California Fair Access to Insurance Requirements Plan — provides basic fire insurance coverage for properties in high-risk areas when traditional insurance companies will not."

Enrollments have jumped in recent years to 272,846 homes in 2022, the AP said.

The FAIR Plan is funded by levies on private insurance companies that do business in the state.

“A lot of other insurers have stopped selling,” Amy Bach, executive director of United Policyholders, told Cal Matters. “If you talk to an agent or broker today, they’re going to tell you it can be pretty hard to find insurance” outside of the FAIR plan.

According to data compiled by the industry-supported Insurance Information Institute, California has more than 1.2 million homes at risk for extreme wildfire, far more than any other state and according to Cal Matters, as the risk of catastrophic wildfire ramps up across California, that risk falls disproportionately on the FAIR Plan.

“If an especially severe fire season renders the plan bankrupt, the tab will fall on those insurers still doing business in the state in proportion to their share of the market,” Michael Wara, director of the climate and energy police program at the Stanford Woods Institute for the Environment, said.

State Farm, as the largest insurer, would have to chip in the most. Cal Matters said that’s “one reason the company might have decided to not issue new policies anywhere in California” rather than just limiting new policies to places with low wildfire risk.

“State Farm is saying ‘we want less of that,’” Wara said.

Cal Matters said that the consequences of a continued decline of insurers in California could be far more costly in the long run.

History Tells A Compelling Story

Dan Dunmoyer, president of the California Building Industry said that to understand the current issues with homeowners insurance in the state one only needs to look back to other natural disasters in the state.

After the Northridge Earthquake dealt roughly $42 billion in damage across Southern California in 1994, many home insurers opted to stop doing new business in California entirely, Dunmoyer said. Because home insurance is a basic requirement for most home loans, the exodus of insurers caused the state real estate industry to grind to a halt.

“The whole world stopped,” he said. “That’s the worst case scenario. We’re not quite there yet.”