As wildfires drive insurance premiums up, will homeowners be able to keep up?

Fresno Bee

At first, Lucy Reynolds was unnerved by the non-renewal notice from the insurance company two years ago.

Mortgaged homes must have coverage so Reynolds and her husband needed to find a replacement, quick. She was turned down by her neighbor's carrier and an insurance agent spent a week looking for ways to cover their ranch-style home in the foothills of El Dorado County.

They landed with the Hartford Insurance Company, only their premium was 17 percent higher after receiving a discount through AARP.

"When we bought the house we had no trouble getting insurance," Reynolds said. "I've heard anecdotal stories of people having to pay twice as much as they had before so I felt fortunate that we only had a 17 percent) increase."

More and more, insurance companies are casting a wary eye on Californians who live in wildfire-prone areas, choosing not to renew policies or drop some homeowners' coverage altogether.

Researchers have found that as wildfires become less predictable and more potent, the industry that relies on spreading out risk is in retreat in some parts of California. Some homeowners now buy more expensive insurance products that offer fewer protections and less coverage in case of a catastrophe.

Consumer advocates and industry groups say the state's property insurance market is not yet in a crisis, but the recent spate of intense wildfires will portend lasting change. The Camp Fire that burned through the town of Paradise was only the latest in a string of blazes experts say are growing larger, moving faster and causing more destruction than fires in previous years.

The buildup of foothill communities in the last two decades means many now live in harm's way — and that risk will come with a price.

"I think consumers are going to have to get used to paying more for their homeowners' insurance," said Amy Bach, executive director of the insurance advocacy group United Policyholders.

"The days of your annual premium being under $1,000 are coming to an end here in California. The

question is how much more are they premiums) going to jump."
Looming crisis?
Wildfires are already reshaping the homeowners' insurance market. Some insurance sellers have already noticed the difference. A half-dozen brokers and agents interviewed by The Bee said finding coverage has become more challenging in the last five years.
"All these major companies started pulling out quietly. People got non-renewals; people got flat-out canceled. There are companies that are still doing that today," said Joyce Howard, a broker in Auburn who specialized in high-risk properties until she sold her book of clients in November.
If a homeowner is denied coverage by an insurer three times, they can buy fire insurance through the FAIR Plan — the state's insurer of last resort. Since 2011, the organization has seen enrollment fall by 5 percent but policyholders in counties that border wildlands now account for a greater share than before.
In a state-funded study, researchers found that between 2007 and 2015, insurers renewed fewer policies in ZIP codes in and around the city of San Bernardino and the Sierra foothills of Placer, Nevada and El Dorado counties.
While insurers pulled back from the places with a higher concentration of risky properties, the FAIR Plan saw a distinct increase in market share, according to the study published by the RAND Corporation in September. FAIR Plan officials, when reached, said the increase does not pose a challenge and the organization can adjust.
"The question is how fast are premiums changing. We've found that between 2007 and 2014 the premiums in the high-risk areas that we identified rose by about 12 percent. The premiums in the low-risk areas actually fell by the same amount," said Lloyd Dixon, a RAND economist and co-author of the study.
"You have this situation where overall in the low-risk areas of the state premiums are actually trending downward but you're seeing in those high-risk ZIP codes where premiums are actually decreasing."
Still, Dixon said companies argue that even though the cost of homeowners' insurance has climbed in hazardous areas, the price many pay still does not reflect the full risk because of state regulations.
The state limits rate increases to 6.9 percent, and anything over that can be challenged. Losses paid out from wildfires and other calamities are factored into a 20-year average. As larger and larger claims are paid from the onslaught of fires, experts say premiums will inevitably rise.
That could have some bearing on the state's real estate market if consumers find it too difficult to obtain affordable coverage when buying or selling a house. But Bach and others do not foresee an exodus from those places where wildlands blend into small cities.

Bach said California regulators and industry insiders are clinging to a gambling analogy.
"Insurers are like) gamblers. If they get spooked, they will fold their hand and leave," Bach said. "And so even just calling something a crisis can cause a crisis because perception, when you're a gambler, can be powerful."
ESTIMATING THE THREAT OF WILDFIRES
Many homes in the Sierra Nevada foothills face a wildfire risk similar to the Redding neighborhoods that burned in the Carr Fire. These hazard levels were developed by Cal Fire in 2007, and are being updated by the department.

Graphic: Nathaniel Levine • Sources: Cal Fire, local hazard mitigation plans

'Self-insurance'
Insurance regulators seized control this month of Merced Property & Casualty Co. after the firm said it could not pay its potential $64 million in liabilities stemming from the Camp Fire. The California Department of Insurance said it will turn the company over to an industry-backed guarantee fund that will handle claims.
Such actions are rare and industry groups say it's another reason to be leery of the shift to alternative forms of insurance. The so-called non-admitted market is not regulated by the state and there is no guarantee fund if a company collapses.
"That's one of the reasons we should see it as a concerning development. There are some downsides for that move. That's why the regulated) market is most secure," said Rex Frasier, president of the Personal Insurance Federation of California.
The changes have stirred some anxiety in homeowners like Reynolds who expects her policy with the Hartford to be renewed in January. The 61-year-old former fire inspector watched from a distance as the King Fire burned in Pollock Pines and then the Tubbs, Carr and Camp fires — the most destructive blaze in state history.
Reynolds knows their home — surrounded by mostly woods and brush — could be next.
So every year, she and her husband try to clear some of the 10½ acres they own. They have an RV in storage off-site so they have someplace to live in case of a fire. "Go-bags" are packed all summer for themselves and their dogs. Copies of important documents are stored online.
"You have to start thinking a different way," she said. "I'm starting to think of all of that stuff as self-insurance."

But the actual insurance business is less predictable and consumers often do not have a say. Their insurance premium cost $2,128 this year — up 15 percent from when they first bought with the Hartford. After the barrage of wildfires this year, Reynolds knows another rate hike is in store.
“I just don’t know what the end of the story is here,” Reynolds said. “Insurance companies aren’t going to want to insure us after these catastrophic fires. Where does that leave all of us?”