Berkeley homeowners scramble after insurers end coverage citing fire risk

Berkeleyside

The Department of Insurance has been working on regulatory reform but in the meantime many residents are facing scenarios where their only option is the California FAIR Plan, which they say costs too much and covers too little.

Like many around the state, Berkeley homeowners are facing non-renewal of their homeowner's insurance because of the area's outsized wildfire risk. It's taken many by surprise and, with the insurance market in California shrinking, has left several with no clear option other than the California Fair Access to Insurance Requirements (FAIR) Plan, which insures homeowners whom traditional insurers will not. Private insurers back the plan, but homeowners say it costs too much and covers too little.

State regulators and legislators have been working on a series of reforms meant to bring insurers back to the state, but any significant change to the state's laws and regulations governing the industry are still at least several months away.

Losing insurance puts homeowners' mortgages at risk since policies are typically required by lenders. Around Berkeley, homeowners say they have had a rough time finding new policies when their insurers drop them. Difficulties getting new policies have also generated new headaches for the real estate industry.

Michelle Green, a Grizzly Peak resident, said her policy with Travelers Insurance will run out this month, and the insurer said they would not renew it. Her wood siding and a high score for fire risk, evaluated through a third party, were factors in the non-renewal, she said.

Travelers did offer to insure her beyond what the FAIR plan would have covered if that is the route she takes, but her total payments would nearly triple to $8,020 a year, up from $2,800, she told Berkeleyside in May.

Jean-Luc Lamirande, another Grizzly Peak resident, said CSAA Insurance Group had told him they would not renew the policy on his home for three reasons — wildfire fuel sources on his property, the steep incline of the property and a moderately higher fire risk score, also by a third party.

“In the hills, you’ve got slopes, they talk about accessibility to the property,” he said of the insurer. “We actually have a fire station, literally a block and a half away. So if that’s the way that this third party vendor is evaluating properties, I would say that a large percentage of the Berkeley Hills would not meet the standards that they’re looking for.”

Lamirande said that the earthquake insurance on his home was also canceled because the policy was dependent on a comprehensive homeowner’s insurance policy. Like Green, Lamirande said his broker was “fairly confident” that he could get insurance through the FAIR Plan.

Paul Araquisatain, a public relations manager for CSAA Insurance Group, which provides AAA members policies in California, said the properties it insures “are carefully evaluated according to our underwriting guidelines. While every situation is different, conditions beyond wildfire risk that may result in a non-renewal could include excess clutter or debris, hazardous waste and dilapidated vehicles or appliances.”

CSAA “has provided homeowners insurance to AAA members in Northern California for 50 years. Over that time, we’ve helped thousands of AAA members recover from damage and disasters,” Araquistain said. “To continue offering industry-leading insurance coverage, we must periodically evaluate our risk exposure.”

Alison Keene, who lives in the Claremont neighborhood, said her home, like Green’s, had a Travelers policy for years. However, after significant hikes in premiums, she started looking for a different insurer. “USAA said they weren’t writing any new policies in our areas,” Keene told Berkeleyside. “Our agent finally said, ‘You’re just lucky to stick with your Travelers.’” Earlier this year she learned that Travelers would not renew her policy.

Representatives for Travelers did not immediately respond to inquiries from Berkeleyside.

New reality for realty

Anna Bellomo, who runs District Homes and works in realty in Berkeley, Oakland and El Cerrito, said getting homeowner's insurance used to be a foregone conclusion in most parts of the city, but not in recent months.

Now, she said, real estate agents have to make sure their clients can qualify, and for what plan or plans, since if all that's available is the FAIR Plan, they may need to rethink their finances.

"We have to be proactive in a way we weren't before so that our clients understand this," Bellomo told Berkeleyside. "It's something that has changed very much in the last six months. It's been going on a year or more, but it has gotten much worse."

If, for whatever reason, a homeowner lets their insurance lapse, mortgage lenders can impose so-called force-placed or lender-placed policies to protect their investment.

"They really only cover the bank's interest in the loan amount, they don't cover you fully or give you the money you need to rebuild, so we are definitely cautioning people, please don't go there," Amy Bach, executive director of insurance consumer advocate nonprofit United Policyholders, said during a May 23 webinar on insurance issues in Berkeley hosted by Councilmember Susan Wengraf.

Those lender-imposed policies, Bach said, are a "crap-tastic product" that can drive homeowners deeper into mortgage debt, and one on which United Policyholders has sought more data on the federal level.

Changes from Sacramento

The mitigation work the Berkeley Fire Department recommends, even if not required by fire code, could eventually play into how homes are insured in the city, as could actions homeowners take on their own behalves.

Keene's neighborhood maintains a disaster supply cache through Berkeley's Community Emergency Supply Program.

Green and Lamirande's homes fall within a "Firewise Community," a neighborhood group that follows National Fire Protection Association recommendations for reducing fire and wildfire risk, including hardening homes, clearing vegetation and keeping evacuation routes clear. At least one resident has reported having insurance reinstated because of being part of Firewise, according to statements at a recent group meeting. But whether that is available to more homeowners remains murky.

Legislation and regulation are under consideration in Sacramento that would encourage insurers to take fire mitigation work into account, but precisely how that will shape up is also unclear.

CSAA customers in California “may qualify to have a non-renewal lifted if their home has the ‘Wildlife Prepared Home Plus’ designation from the Insurance Institute for Business and Home Safety,” Araquistan said. Participating in a Firewise community would not factor into non-renewal decisions, he said, but could qualify customers for discounts.

A bill by state Senators Josh Becker and Bill Dodd, both Democrats, would “authorize” insurers who use risk models for their underwriting “to account for wildfire risk reduction,” including fuel reduction and home hardening. The bill passed the Senate in May and is before the Assembly; it would take effect in January 2026 if it passes.

In March, the state’s insurance commissioner, Ricardo Lara, introduced a proposed regulation shifting how insurance companies use wildfire risk, among other things, to determine premiums. The new regulation would allow insurers to use catastrophe modeling instead of historical catastrophe data, allowing them to set more predictive and less reactive insurance premiums.

The regulation would also require insurers’ modeling to consider wildfire mitigation work. The agency predicted that “insurance companies will increase their writing because they can better anticipate future losses, rather than making abrupt decisions to non-renew higher-risk policyholders, pause writing of rapidly increase rates.”

The March announcement followed on the heels of an earlier regulatory change announced in February, which the insurance department hopes will fast-track its own process for approving insurance rates.

As states go, California is at the high end of regulatory restrictions on insurance agencies, Karl D. Susman, who runs the Los Angeles-based Susman Insurance Agency, said during Wengraf’s webinar. With inflation driving up costs for construction and labor, climate change ramping up fire risk and other costs also on the rise, the insurance industry in general is pursuing a “ratcheting down (of) the insurance regulation that has kept Californians protected for many, many years,” Carmen Balber, executive director of Los Angeles-based Consumer Watchdog, said at the same webinar.

Closer to home, Alameda County District Attorney Pamela Price announced in May that her agency's Consumer Justice Bureau has sued several insurers, alleging that the carriers gave homeowners inaccurately low replacement costs. Put differently, the agency has alleged that even homeowners who can get insurance may be duped into not carrying enough to replace their property.

The FAIR Plan's limitations
Even though the California FAIR Plan exists as a backstop for homeowners who have lost or cannot qualify for conventional insurance coverage, it is not a long-term solution.

The program began after a series of riots and brush fires in the late 1960s "to ensure the availability of basic property insurance to consumers when coverage in the voluntary market is not available," Phil Irwin, a public relations representative for the FAIR Plan and president of El Dorado-based Gold Insurance Solutions, explained during Wengraf's webinar.

The program is a private association funded by each insurer licensed to issue property insurance within California, Irwin said. While it's available to residents unable to find insurance elsewhere, it "is intended to be a temporary safety option for consumers until they can find coverage in the insurance marketplace," Irwin said.

The FAIR Plan is "an insurer of last resort when nothing else is available for a particular consumer," Irwin said. "It's intended to be the last option."

Part of the frustration some homeowners have faced is determining how, if indeed they can at all, to reverse a non-renewal. While the state mandates certain discounts tied to certain fire risk mitigation work, it does not mandate insurers to provide policies to anyone seeking them, except through the FAIR Plan, Bach said during the webinar.

"Every single insurance company uses a different list of things that they rate people on, and we don't even know what many of them are," Balber said at the seminar.

Insurers must give customers reasons for non-renewals, but the precise calculus for determining wildfire risk, for example, is unclear.

The Department of Insurance is projecting that its regulatory reforms should be completed by the end of the calendar year. In the meantime, the agency has an online portal for questions and complaints and a consumer hotline at 800-927-4357 for anyone with questions about insurance or who needs help dealing with an insurer.

Source: https://uphelp.org/berkeley-homeowners-scramble-after-insurers-end-coverage-citing-fire-risk/ Date: June 30, 2024