# California homeowners facing insurance rate hikes

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In a state parched by a three-year drought, wildfires are at least partly to blame for the price increases, industry officials and even some consumer advocates agree.

Reporting from Sacramento – As California heads into another season of wildfires that have been growing more frequent and more ferocious, homeowners are facing higher prices to insure their property.

In the last year, some big insurance companies have won approvals from regulators for premium hikes ranging from 4% to 7%. And a round of requests for similar increases has been submitted to the state insurance commissioner.

In a state parched by a three-year drought, wildfires are at least partly to blame for the price increases, industry officials and even some consumer advocates agree.

"We seem to be having year after year of [major wildfire] events, when before they occurred every six or seven years," said Sam Sorich, president of the California Assn. of Insurance Cos., a lobbying group in Sacramento.

But Amy Bach, executive director of the San Francisco-based consumer group United Policyholders, said she was more concerned about the quality of the coverage than its cost. She said more fire victims could find that they didn't have enough coverage to pay the entire cost of rebuilding their homes.

"My big concern is that the insurance companies are going to use these fires as an excuse to increase their rates, and the underinsurance problem is going to be the same as it ever was," Bach said. "People are going to be paying more for less."

With an estimated 15 million homes statewide, even a tremendously destructive wildfire like the blaze that destroyed 3,000 San Diego homes in 2003 shouldn't cause a massive surge in the cost of insuring a home, experts say.

In addition, rate increases, which must be approved by the state Department of Insurance, are based on three years of loss experience, delaying the effect on premiums of the fires that occur in any one year.

The dramatic images of firestorms now sweeping through the San Gabriel Mountains produce fear and dread "but don't make for any actuarial implication," said Douglas Heller, executive director of Consumer Watchdog, a Santa Monica group. "We're talking about not even 1% of homes."

But the cumulative effect of six years of more frequent, larger and costlier fires in built-up parts of once rural extended suburbs is bound to show up in homeowners' insurance bills, industry officials say.

Late last year, California Insurance Commissioner Steve Poizner approved a 6.9% increase in homeowner insurance for the state's biggest insurer, State Farm Mutual, and a 4.1% hike for third-ranked Farmers Group Inc. A request for a 6.9% increase at No. 2 Allstate Corp. is pending.

This year, the commissioner is reviewing requests for similar-sized rate jumps from State Farm, Farmers, Hartford, Travelers and a number of smaller companies.

A spokesman for Poizner characterized the premium increases that he had approved as negligible compared with a series of rate cuts that began in 2006 under former Insurance Commissioner John Garamendi now California's lieutenant governor) and continued into Poizner's tenure, which started in 2007.

For example, premiums fell 18% at Farmers in 2006, 20% at State Farm in 2007 and 28% at Allstate in mid-2008.

Reductions approved by Poizner saved policyholders an estimated $700 million, the Department of Insurance said.

But even as insurers were rolling back rates, pressures were building to raise them again.

A first wave of wildfires early this decade, combined with the housing boom, led to greater-than-expected increases in rebuilding costs, said Bob Deverereux, a State Farm spokesman.

Faced with potentially catastrophic losses, Allstate opted in 2007 to limit its risk by no longer seeking new homeowner insurance customers in California, spokesman Peter DeMarco said.

Although California for now remains a competitive market for homeowner insurance, consumer advocate Bach is concerned that more companies could follow Allstate's lead and partially or completely pull out of the state. That's what happened in Florida after a rash of powerful hurricanes.

"I'm worried that people are going to have fewer choices," Bach said, and be forced into a state-backed, insurer-of-last-resort plan that provides extremely limited coverage.

A smaller insurance market with poor coverage could exacerbate the underinsurance problem after fires that wipe out entire neighborhoods, Bach said.

Last year, Poizner proposed legislation to encourage insurers and policyholders to ensure that dwellings have enough coverage to pay for their reconstruction.

The bill, Poizner's spokesman said, failed to gain traction and was dropped.