California wants to force insurers to reward homeowners for fireproofing homes

CAL Matters

When Ashley Raveche and her husband bought their home in Mill Valley, they thought they were doing everything right. The 1,300 square foot house already had vents with screens that make it harder for embers to get in and a tar and gravel roof, top-rated for fire safety. They installed double-paned windows, which are less likely to explode under extreme heat. They cut down four trees within 10 feet of their house. They kept the gutter and roof clear, and the local fire marshal performed an annual inspection.

But their efforts — totaling more than $10,000, by Raveche's estimation — weren't enough to insure their home in Marin County. In February, their insurance company said it wouldn't renew the policy because the "risk is unacceptable"

"I panicked," she said. "I was just like, 'This is too much, we are doing absolutely everything we possibly can.'"

It was the second time an insurance company had declined to renew her home insurance coverage in five years, she said.

In response to wildfires that have blazed across the state, some Californians have spent thousands of dollars trying to fireproof their homes — often at the urging of state and local officials — to reduce their risk of burning. But some have confronted an unpleasant reality: Taking those steps doesn't prevent their premiums from ballooning, or keep them from being dropped by their insurance company.

Now the California Department of Insurance has proposed new rules that would require insurance companies to take homeowners' preventative steps into account when setting premiums. The rules

United Policyholders
Empowering the Insured

would also require companies to be more transparent about how they gauge a home's wildfire risk.

But some consumer groups are ringing alarms about what they see as loopholes that would leave homeowners stuck, like Raveche, with a fire-hardened home and a non-renewal letter. Insurance industry trade groups, on the other hand, worry that the rules are getting ahead of science, and that transparency requirements would expose intellectual property.

The agency plans to have the rules finalized this summer.

New fire insurance guidelines
The proposed rules, rolled out in February, require insurance companies to do several things, including:

- Make the models or tools they use to assess wildfire risk public, and require that companies send individual policyholders their wildfire risk scores on a regular basis
- Explain to policyholders what specific factors influenced each consumer's score, what they could do to lower their score, and how much they can expect to see their premium go down if they take the actions outlined by the insurance company
- When setting prices, insurers would have to take into account whether a homeowner or commercial property owner has reduced a property's wildfire risk by taking specified steps, including clearing vegetation from under decks and installing fire-resistant vents
- When setting prices, insurers would have to take into account whether a home is in one of three types of fire risk-reduction communities, such as Firewise.

The state Department of Insurance also proposed giving policyholders the right to appeal their wildfire risk scores.
Part of the goal is to provide incentives to more people to protect their properties from wildfires. "Money is tight for most people," said Amy Bach, executive director of United Policyholders, a consumer group. "If I have a choice between spending money on taking out my favorite tree, and, like, buying a new flatscreen, I'm going to buy a new flatscreen, right?" There has to be a compelling reason for people to do things they don't want to do, she said.

"Home hardening" is aimed at reducing a house's risk of burning during a blaze. There's evidence to suggest it works, too: A 2020 study from the National Association of Insurance Commissioners found that "structural modifications can reduce wildfire risk up to 40%, and structural and vegetation modifications combined can reduce wildfire risk up to 75%."

California already regulates insurance more than a lot of other products. Insurers, for example, can't just increase their prices whenever they want to — they have to submit their pricing plans to the insurance department for approval. But, says Bach, that's in part because they have an advantage most industries don't: People must buy their product in order to get a mortgage.

"They sell economic security," said Bach. "They have a special obligation."

That's why it's stressful for homeowners when an insurance company decides it will no longer cover them.

When homeowners can't find a private company to cover them, they can turn to the state-created FAIR Plan, which offers bare bones coverage, often at higher cost. Coverage through the FAIR Plan is intended as "a temporary safety net" until a homeowner can find other coverage.

"A loophole that can swallow the rule"
Steve Poizner, who lives 15 minutes from the San Jose airport, said he took some extra steps to protect his home after an insurance agent came out to inspect the property. He said he upgraded his fireproof vents and cleared vegetation around the house, and the company gave him a policy.

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It's far from certain the numbers will stay low. The number of California properties facing severe wildfire risk will grow sixfold over the next 30 years, according to projections from First Street Foundation, a nonprofit.

Three consumer groups — Consumer Watchdog, Consumer Federation of America and Consumer Federation of California — sent feedback to the insurance department, pointing to what they see as a loophole: The rules require insurers to take home-hardening efforts into account when setting prices, but not when deciding whether to cover someone or renew a policy.

Source: https://uphelp.org/california-wants-to-force-insurers-to-reward-homeowners-for-fireproofing-homes/ Date: November 24, 2024

“A homeowner could literally rebuild their home in concrete, in the middle of a concrete field, and still be non-renewed by an insurance company,” said Carmen Balber, executive director of Consumer Watchdog.

“It is a loophole that can swallow the rule,” she said.

Insurance department spokesperson Michael Soller rejected the term “loophole.” He pointed to the department’s initial reasoning for the rules and expected benefits, which says insurance companies “may become more comfortable writing and retaining policies for properties with completed mitigation actions, even if the property is located in an area with a higher overall risk of wildfire.”

Not wading into coverage decisions may also have been a pragmatic decision for the department. Insurers would be more likely to sue over rules that mandate coverage, since the department’s authority to regulate coverage decisions is not clear cut, said Michael Wara, a lawyer and climate scholar at Stanford Law School. A suit could keep the rules from going into effect for years.

“This may be a situation where you kind of have to choose between doing something that’s sort of pretty good — maybe even really good — but not perfect,” said Wara.

Insurers want to protect their risk tools
Consumer groups aren’t the only ones pushing back against the proposal. Trade organizations representing insurers have their own set of concerns.

One is that the science on wildfire mitigation is still developing, said Mark Sektnan, vice president for state government relations for American Property Casualty Insurance Association, a trade group. That means there may not be good data on exactly how much one strategy — or several — reduces a homeowner’s fire risk, and insurers need data to decide how much of a discount to offer.

The proposed rules, for example, would require companies to take into account whether a home is in a “Fire Risk Reduction Community,” a new certification created by the state Board of Forestry and Fire Protection. The criteria for the certification was finalized last month, according to Edith Hannigan, the Board’s executive officer, and the list of the communities that meet the requirements is yet to be released. There hasn’t been any significant analysis on how much safer certified communities are, since it’s brand new, Hannigan said.

That’s problematic, said Seren Taylor, senior legislative advocate for Personal Insurance Federation of California, another insurance industry trade group, because everything in insurance “is about understanding risk and having data.”

The new program was “established with the expertise of the Board of Forestry, with consideration of community programs like Firewise,” said Michael Soller, a spokesperson for the Department of Insurance.

Another concern Taylor cited has to do with intellectual property. Many insurers rely on models, often provided by separate companies, to assess the risk of wildfire to a particular home or area, taking into account factors like the slope a home is on, or the kind of roof it has. The rules require insurers to make those models public.

“These companies spend tens of millions of dollars building complex computer models,” said Taylor, and they want to create models that are more accurate than their competitors.

“What our folks are concerned about is that these modelers will say, ‘Well, we’re not going to use our most innovative new models, because why would we invest in that technology if we’re just going to have to hand it to our competitors? So we’ll give you version 2.0, but you’re not going to have version 4.0,’” Taylor said.

Still, he said, the federation completely agrees with the goals of the proposed rules — they point in the direction some insurers are already heading.

Currently 20 insurance companies voluntarily give homeowners some kind of discount for reducing their wildfire risk, according to the insurance department.

Still trying in Mill Valley
Raveche’s community, meanwhile, is using some cutting edge measures to prepare for wildfire.

More than 250 Mill Valley residents piled into their cars to simulate an evacuation, with Google researchers standing by and gathering data to model traffic flow. Her community partnered with NASA, so fire officials can access high-quality satellite images during an active fire, she said. Raveche, who is a board member of her fire district, just wrote a guide for short-term rentals so that visitors can figure out evacuation routes and sign up for emergency alerts.

After her insurer declined to renew her policy in February, she was able to get coverage from another company. But despite her many efforts, she's not optimistic it will last.

"I think it'll probably be covered for two years, maybe three," she said. "And then I see them dropping us."

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