

California wildfire insurance crisis shows signs of easing

Financial Service Network

Two of California's worst wildfires in 2018 cost Allstate Corp. a half-billion dollars, but the insurance conglomerate was able to give investors some reassuring news: It had already shrunk its footprint in California by half, creating a buffer of sorts against future losses.

Earlier this year, however, Allstate told California regulators it planned to expand its homeowners' coverage throughout the state — taking on new customers for the first time in nearly 15 years.

"We've been there for Californians throughout the wildfires by paying thousands of insurance claims and we extended our coverage offerings this year to help alleviate the homeowners' insurance availability crisis," the company said in a statement to The Sacramento Bee.

After the mega-disasters of 2017 and 2018, insurance carriers dropped tens of thousands of homeowners in the Sierra foothills and other fire-prone areas of California, forcing policyholders into a costly, state-mandated insurance pool. Customers who were paying, say, \$2,000 a year for coverage are now paying twice or three times as much.

Now, however, something is stirring in what Allstate once dubbed "catastrophe-prone California." Following four years of turmoil, traditional insurance companies are inching their back into wildfire country.

Armed with higher rates — and better information about the risks from mega-fires — they're beginning to underwrite policies in areas they'd been abandoning. While the state-run insurance pool, the California FAIR Plan, is still taking on new customers, its rate of growth is slowing down.

One big company, CSAA Insurance Group, has promised not to drop any more customers through the end

of 2023. Several major carriers are offering discounts to encourage homeowners to install fire-resilient roofs, clean the brush from their yards and take other safety measures.

Bottom line: A crisis that's plagued rural California is starting to moderate.

"There are little green sprouts, I would say, coming up," said Amy Bach, executive director of United Policyholders, a consumer advocacy group based in San Francisco. "We are starting to see a little loosening in the underwriting."

The crisis is far from over. On Wednesday, California's insurance commissioner prohibited insurance companies from dropping nearly 210,000 homeowners in areas affected by this year's wildfires, another in a series of orders aimed at easing a shortage of affordable coverage in fire-prone areas. The moratorium requires insurers to retain these policyholders for a year and covers people who live near some of the largest wildfires of 2021, including the KNP Complex in Sequoia National Park.

Nevertheless, despite the ever-increasing risk of wildfires from climate change and other factors, California has lately become a better place to do business.

Companies have been getting rate increases from the state Department of Insurance — at the same time that claims for wildfire damages have declined significantly. Even last year, when more acres burned in California than ever, the damage to buildings wasn't nearly as bad as during 2017 or 2018 and insurers made money on homeowners' coverage, according to Department of Insurance data.

What's more, companies have decided they can't simply ignore California, where homeowners' insurance is a \$9 billion-a-year business.

"What I'm sensing from the insurance companies is that it's very hard to say no to the largest insurance market in the nation," said Attila Toth, chief executive of Zesty.ai, a Bay Area tech company that's partnered with Farmers Insurance Group to analyze risk and expand coverage. "Many of them are now saying, 'How do I write business but in an intelligent way?' "

Some insurers still leaving wildfire zones

That sentiment is by no means universal; some companies are still retreating from California's fire zones

as quickly as they can.

Take Chubb Group, a global property-casualty insurer with offices in Zurich, New York and elsewhere. In late October the company, which specializes in covering California high-end homes, said it's dramatically reducing its customer base in wildfire areas, even places where the risk is considered moderate.

"Someone else will have the pleasure of writing that business, unfortunately," Chief Executive Evan Greenberg told investment analysts.

Greenberg said Chubb has been unable to get rate increases large enough to justify the risk. Other industry executives agree: While premiums have risen in the past couple of years, they're still too low to spark a wholesale return to fire-prone communities.

"If you let me charge a premium level to support those higher losses, I can go into those higher risk areas," said Rex Frazier, president of the Personal Insurance Federation of California, which lobbies for several major carriers.

Generally speaking, insurance premiums are a reflection of past experience. Frazier said insurers want the California Department of Insurance to adopt a "catastrophe model" for setting premiums — a system that leans more heavily on models that predict future risk.

It's a controversial idea. Bach, the consumer advocate, some catastrophe models could be useful — but also might be used by companies to exaggerate the risk they face. Insurance Commissioner Ricardo Lara isn't yet sold on it.

"Commissioner Lara's top priorities are making insurance easier for consumers to find and afford," said his spokesman, Michael Soller. "He has not seen compelling evidence yet that complex catastrophe models can serve that purpose."

Soller said the market is getting healthier, and "we're seeing the first positive movement in many years on insurance being more available." But he acknowledged: "The job is not done."

On that point, the industry agrees.

Conditions are improving, but “it’s probably coming too slowly for people on the FAIR Plan,” Frazier said. “There’s still some distance between here and there.”

A California homeowner’s insurance woes

The situation certainly isn’t improving quickly enough for Conor✓ Scott.

He found out in late June that his carrier, Grange Insurance Association of Seattle, wasn’t going to renew the homeowners’ policy on his ranch-style home in the woodsy Alta Sierra area south of Grass Valley.

“Your property does not meet our wildfire eligibility,” the letter from Grange said.

The experience left him feeling helpless.

“It just feels like it’s a broad brush, it’s happening to everyone,” said Scott, 29, who’s lived in his home for two years. “It’s intimidating. Insurance companies are huge. “

Like thousands of rural Californians, he wound up on the FAIR Plan, the state’s “insurer of last resort,” an entity created by the Legislature to guarantee coverage to Californians after the riots and brush fires of the 1960s. State officials say its enrollment jumped from around 140,000 homeowners in 2018 to more than 200,000 last year — and that’s in spite of a series of moratoriums imposed by Lara. The moratoriums force insurers to retain customers for one year if they live near an area hit by a recent big wildfire.

“We’re still hearing about people not getting renewed,” said Staci Heaton, senior regulatory affairs advocate with Rural County Representatives of California, a lobbying group. “Some insurers are moving back in and some are not renewing.”

Being a FAIR Plan customer means additional paperwork: Customers not only have to buy FAIR Plan coverage for wildfires, but they also have to get separate coverage from a traditional company for other risks like burglary. (Lara ordered the FAIR Plan to start offering broader policies, but it’s fighting him in court).

There’s also the issue of cost. While it’s a creature of the state, the plan gets no taxpayer subsidies and

is hardly a bargain. Homeowners typically pay two or three times as much as they used to.

Scott is no exception.

He and his family live on a narrow, curvy road, in a semi-rural area, surrounded by oaks and manzanita. The risk of wildfire was driven home dramatically in August, when the River Fire destroyed 142 homes and businesses in an area a few miles southeast of Alta Sierra.

His wife and two small children evacuated, but Scott, a bearded, burly ex-Forest Service firefighter, stayed behind to keep an eye on things. “I was sitting here watching the smoke,” he said. “I felt comfortable.”

Losing his insurance, in some respects, was scarier. He didn’t ask Grange to reconsider, figuring “it isn’t a fight you can win.” Eventually, he wound up with the FAIR Plan for wildfire insurance and Mercury General for everything else. Total cost: more than \$3,100 a year, more than double the \$1,400 he was paying Grange.

He isn’t thrilled about the higher price but considers himself relatively fortunate: “I know there’s a lot of people up here who can’t get insurance at all. If they can get it, they can’t afford it.”

With market conditions brightening, the FAIR Plan’s surge in business has begun tapering off. The FAIR Plan expects enrollments to increase 13% this year — down from 25% last year and 40% in 2019, said spokeswoman Hilary McLean.

But for those stuck with its coverage, life on the FAIR Plan could get even more expensive. In late August, about two weeks after the River Fire was contained, the plan filed a request with the Department of Insurance to raise rates almost 49%.

Giant wildfires cost insurers billions

There was a time in the insurance industry when the thing to worry about was hurricanes. Wildfires were considered manageable.

That notion more or less ended when a series of devastating fires ripped through Northern California

wine country in October 2017. That was the beginning of a binge of destruction that shredded insurance company's risk models. Of the 10 costliest wildfires in American history through 2020 — all in California — eight of them have occurred since 2017, according to the Insurance Information Institute.

The worst stretch, financially, was 2017-18, capped by the deadly Camp Fire in Paradise. According to the Department of Insurance, carriers collected a total of \$15.6 billion in premiums from California homeowners over those two years — and paid \$29 billion in claims.

The companies eventually got about \$11 billion back from PG&E Corp., whose equipment was blamed for starting most of the big fires. But 2017-18 still represented a financial disaster that sent companies fleeing for the exits.

Property claims were a lot more tolerable in 2019 and 2020. The number of buildings destroyed fell in half, even though California saw a record 4 million acres burn in 2020. The industry made money: Insurers collected \$18 billion from homeowners and paid \$6.3 billion in claims.

So far this year, despite losing nearly 2.5 million acres, California has seen just over 3,600 buildings destroyed by wildfire, according to Cal Fire. While two small communities were heavily damaged — Grizzly Flats and Greenville — nothing close to the 2018 destruction of Paradise has occurred.

The industry says it's encouraged by the reduced losses but is far from convinced that risks have fallen.

"We have to figure out if this is a trend or a blip. We've been relatively lucky," said Mark Sektnan, vice president at the American Property Casualty Insurance Association, a lobbying group.

Last year, the department tried to fix the insurance problem with legislation: Lara introduced a bill, AB 2367, which would have forced insurers to sell coverage in places where homeowners and communities had made themselves more fire-resilient.

Insurers objected and the bill died. An industry-sponsored bill — which would have committed insurers to expanding coverage while allowing for more generous rate increases — also died.

But the failed attempts at a legislative fix helped spark a dialogue among regulators and industry officials about how best to lower the risk of property damage from fire. With industry input, Lara's agency has

been working for the past year with Cal Fire and the Office of Emergency Standards on developing standards for home-hardening. Insurers have also been working on setting standards with an industry group, the Insurance Institute for Business & Home Safety.

Insurers struggle to calculate wildfire risk

Allstate commanded more than 10% of all the homeowners' insurance policies in California when it made a momentous decision in 2007: It would no longer sell new policies in "catastrophe-prone California," as the press release put it.

The decision appeared to be vindicated on Nov. 8, 2018, when two major wildfires started hundreds of miles apart. The Camp Fire killed 85 people in Paradise and destroyed more than 10,000 homes; the Woolsey Fire near Malibu killed three people and burned 1,500 homes.

California Insurance Commissioner Ricardo Lara speaks at a state Capitol news conference in Sacramento. Massive wildfires are making it harder for some California homeowners to get property insurance, pitting commissioner Lara against the industry in an escalating conflict that will likely extend into 2022's statewide elections. Lara, a Democrat, has ordered the pool, the California Fair Access to Insurance Requirements Plan – also known as the FAIR Plan, to sell more than just fire insurance. Rich Pedroncelli AP

Together they cost the company \$529 million, Allstate said. The loss would have been worse if the company hadn't already cut its California business in half, the company announced.

Now, the company is ready to grow again in California. In a filing with the Department of Insurance earlier this year, it asked for a 4.6% rate hike and said it will resume selling new policies to homeowners.

With the rate-hike request still pending, the company wouldn't comment in detail. But the move is being watched closely in the industry.

"It's significant that they want to write new business in every ZIP code," Frazier said.

Yet Frazier and others believe the industry needs to get a better handle on the risks before it can plunge back into wildfire areas in great numbers.

To that end, some companies are taking a more granular approach. While most companies look at neighborhoods and communities, Farmers Insurance's partnership with Zesty.ai is an attempt to evaluate the risks that lurk at each potential property.

Blending artificial intelligence software with aerial images, Zesty.ai can get a fix on issues like terrain and construction materials.

"We can identify the roof material. We can identify things like the slope," said Toth, the Zesty.ai CEO. "We can identify many things that identify the vulnerability of the structure."

Farmers didn't respond to requests for comment, but the company has told the Department of Insurance the technology could enable it to sell coverage to as many as 30,000 homeowners who would have been overlooked. The department earlier this year granted Farmers a 7% rate increase.

Higher premium rates in wildfire areas

Farmers isn't the only company charging more for insurance coverage.

The Department of Insurance has approved dozens of rate increases in the past few years. Most of the increases have come in at 6.9%, and that isn't a coincidence. If a company asks for anything higher than that, consumer groups or other outsiders can intervene and force administrative hearings that can stretch the process out for a year or longer.

In any event, insurance executives say the premium increases are beginning to stabilize the market after years of turmoil.

Tod Johnson stands in front of his house in South Lake Tahoe, Calif., on Tuesday, Aug. 31, 2021, a day after the city was ordered to evacuate because of the fast-growing Caldor Fire. He spray-painted his house, which is not insured, hoping that firefighters would help save it if the fire reaches his neighborhood. (AP Photo/Terry Chea) Terry Chea AP

"Rates had been artificially forced down by the Department of Insurance," Sektnan said. "Companies are now getting to the point (that) they're starting to feel comfortable with the rates they're allowed to charge."

Some companies have gotten bigger rate hikes — CSAA received an 18.5% increase earlier this year. The company has told the Department of Insurance it will refrain from dropping any customers through the end of 2023.

“We intend to continue to renew all of our policyholders at sustainably priced rates,” said CSAA spokesman Jason Willett.

In the meantime, under prodding from the Department of Insurance, some major insurers are already offering discounts to homeowners who are maintaining “defensible space” around their homes, installing fire-resilient siding and taking other steps to reduce risk.

The discounts are “something we’re continually, constantly asking about,” Soller said.

CSAA, for instance, is offering a 15% “Fortify Your Residence” discount for homes with roofs made of clay, slate or other resilient materials, and meet other standards for safety. The insurer is offering an additional 5% savings if the homeowner’s community meets certain thresholds.

The largest homeowners’ insurer in California, State Farm Group, is also getting into the discount business. According to the Department of Insurance, the company is planning to offer savings of 5% to 7% for homes with fire-resilient roofs and other safety features. But the proposal is tied to the company’s request, still pending, for an overall 6.9% rate hike. The company declined to comment on the plan.

Even with discounts, it’s obvious the price for homeowners’ coverage in much of rural California will continue to rise — it’s just not clear by how much.

“We have an understanding that (insurers) need the ability to cover their losses,” said Heaton, of the Rural Counties organization. “Folks in rural areas, they know they’re going to have to pay more for insurance.”