United Policyholders
Empowering the Insured

Column: California’s fire insurance market reaches a crisis

Los Angeles Times

Steve Nielsen would not normally have considered himself a resident of California’s wildfire zone. But that ended in October 2017, when a fire swept through Coffey Park, his suburban Santa Rosa neighborhood, destroying his home and those of about 1,200 neighbors.
Since then, Nielsen, 54, has been struggling to rebuild while dealing with one of the most troublesome nemeses confronting residents across the state: the fire insurance industry.
Nielsen says his insurer, State Farm, canceled his homeowners policy last spring, on the grounds that there was “no longer a residence at the address they were insuring,” he says. That means coverage for expenses such as rent at his temporary quarters is ending, which means he’ll be on the hook for rent and his mortgage combined, which is more than he can afford on his income as a freelance audio engineer. He also has discovered that his policy has left him short by about $60,000 of the full cost of rebuilding his home, due in part to a dearth of available construction labor in the rebuilding area. His insurance broker has found him a new policy from another insurer, but the annual premium will be close to $1,000, compared with the $600 he was paying though his coverage limit will be higher).
In one particular or another, Nielsen’s experience has been replicated in California’s foothills and flatlands, in high-income enclaves like Malibu and communities of rural artisans. Although the decision of residents to move deep into the so-called wildland-urban interface where the fire risk is highest can be questioned, the unavailability of affordable fire coverage also affects urban areas where homes merely abut brush-covered landscapes.
Homeowners with records unblemished by a single claim have been told their policies won’t be renewed, forcing them to find coverage through the California FAIR Plan, the state’s industry-funded fire insurer of last resort, or nontraditional “surplus line” insurers such as Lloyd’s of London. What makes the situation urgent for homeowners carrying a mortgage is that fire coverage is typically mandated by their lender.
The implications can reverberate across the economy. “If your insurance has gone from $2,000 a year to $6,000 or $8,000 a year, that’s several hundred dollars a month out of your disposable income,” says

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Jeffrey Michael, a public policy expert at University of the Pacific. “It’s affecting real estate markets, it’s definitely made properties more difficult to sell. That can create a number of impacts on communities by slowing down growth.” Some heavily affected counties were already experiencing stagnant growth, Michael observes, “so this is doing their local economies no favors — and I don’t think it’s reached equilibrium yet.”

Hassles with fire insurance take many forms. For Susie Williams, a software consultant living in Groveland, a foothill community about 150 miles east of San Francisco that was touched by the Rim fire in 2013, it means annual nonrenewals and subsequent premium increases. “Every year, you have to go out and find someone else,” she told me. This year, many of her neighbors even received nonrenewal notices from Lloyd’s. “The conversations with your neighbors always is, ‘Who did you find?’” she says.

For Karl Susman, an insurance broker in West L.A., it means preparing clients in Brentwood, Bel-Air, Malibu and Topanga for huge price increases regardless of the condition of their homes and properties. In areas touching on brushy land, “carriers either have stopped writing or have incredible rate increases,” he says, even for homes that haven’t had a loss; one client’s annual premium went from $4,200 to $22,000.

There are potential consequences for homeowners in areas with minimal or nonexistent fire risk, for they could end up subsidizing residents of the fire-prone foothills if insurers fail to set rates appropriately. The Department of Insurance has to balance the need to prevent cross-subsidization, while approving rates high enough to keep insurers in high-risk markets but not so high that they force residents out of their homes or out of the insurance market altogether.

Unsurprisingly, counties judged to have the highest fire risk, including those directly affected by exceptionally destructive wildfires in 2015 and 2017, have seen the bulk of insurance nonrenewals and the unavailability of new coverage. “That’s troubling for us,” says Michael Soller, a spokesman for the state Department of Insurance, “because the data don’t show the impact of the 2018 fires,” which were more destructive and lethal than their predecessors.

“Nonrenewals come up again and again as a standout issue” in Insurance Commissioner Ricardo Lara’s visits to fire-affected communities around the state, Soller says.

Insurer-initiated nonrenewals in the highest-risk ZIP Codes rose to 8,751, an increase of 10%, from 2016 to 2018, the Department of Insurance has reported, while the number of new and renewed policies fell sharply. The FAIR Plan has picked up much of the slack in the 10 counties with the most homes in high or very high risk areas. New FAIR Plan policies rose by 177% between 2015 and 2018, the department says; since 2017 more than half of FAIR Plan policies are in high risk areas. But the state has no system of tracking all nonrenewals or dropped coverage — only homeowner complaints.

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"We've been calling this a 'crunch,' but it's increasingly feeling like a crisis," says Amy Bach, executive director of the consumer advocacy group United Policyholders. "At this point, there are enough counties impacted by nonrenewals to use the word. What you call it doesn't really matter — the question is, how do we fix it?"

That question places enormous pressure on Lara, who has come under fire for his apparent coziness with the insurance industry he is expected to regulate. He has accepted campaign contributions from the industry and its executives, for example, despite having pledged not to do so. Lara says that the contributions were accepted in error and that he has returned them.

Lara was upbraided recently by the consumer advocacy group Consumer Watchdog for failing to use all the regulatory authority over home insurers granted him by Proposition 103 of 1988, which established his office as an elective post. "As Insurance Commissioner, you have broad power to prevent insurance companies from unfairly penalizing homeowners that you are not using," the group told Lara by letter. These include requiring insurers to give discounts to homeowners who "harden" their homes by clearing vegetation and installing fire-resistant roofing and prohibiting carriers from pricing policies according to risk models that aren't fully transparent.

"The insurance commissioner needs to reform his mind-set so he's looking at the wildfire problem from the consumers' and not the insurers' point of view," Carmen Balber, the group's executive director, told me.

Lara's department, however, believes it needs legislative authority to verify the industry's risk underwriting models, as well as to require insurers to cover or renew a "hardened" property. Lara says he is taking the fire insurance issue seriously. He has made several visits to wildfire zones and this summer created a "strike team" to work with residents in those areas afflicted by nonrenewals and rising premiums.

Industry critics generally agree that fire insurers are facing a "new normal" in terms of the frequency and severity of wildfires in California. "It's hard to argue with insurers when they say climate change has changed their business picture," Bach says. The issue is whether the industry's price-setting for the higher risk is done transparently, and whether customers are protected from abuse. "There's got to be some additional obstacle that an insurer must navigate before it can drop a customer. So we need some heightened regulation."

Thus far, however, the industry doesn't concede that nonrenewals are a problem. Despite a noticeable rise in nonrenewals in high-risk communities, insurers maintain that statistics from the FAIR Plan and surplus line carriers such as Lloyd's of London don't indicate a problem with insurance availability. Therefore, they say, there's little need for new regulations.

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“If we see an uptick in policies moving to either one of them, then we’d know we may have an issue,” says Mark Sektnan, vice president for state government relations with the American Property Casualty Insurance Assn. “So far, we have not seen a significant increase.”

That may depend on how one defines “significant.” FAIR Plan President Anneliese Jivan told the Assembly Insurance Committee at a hearing Aug. 21 that the plan had grown by 22,201 policies in the last year, after 10 years in which its portfolio had been shrinking by 100 to 300 policies a month. Jivan acknowledged that some of that growth may have reflected “panic buying” by homeowners who had been notified that their existing policies would not be renewed but eventually managed to find coverage from traditional insurers that allowed them to cancel their FAIR coverage.

Surplus line insurers also have seen at least an “uptick” in homeowner business, according to Cliston Brown, a spokesman for the Surplus Line Assn. of California, who also testified on Aug. 21. Homeowner coverage rose in the first six months of this year to 2.3% of total premiums among those insurers, after running at 1.4% to 1.8% during the last five years. The surplus line insurers, which mostly serve commercial customers, aren’t permitted to sell residential insurance unless a customer first has been rejected by at least three conventional insurers. “There’s definitely been an increase,” Brown told me.

“The only people who seem to be saying that everything’s under control are representatives of the insurance industry,” Bach says.

Insurers say they’d like to give customers credit for making their homes fire-resistant, but they don’t currently have enough data to establish discounts for any particular measures. “It’s clear that homeowners and communities can do a lot to mitigate the risk,” says Victor Joseph, chief underwriting officer at Mercury Insurance and a son of its founder, George Joseph), “but the data is not well-structured to filter into pricing.” Mercury uses the data to decide whether to accept new business in a given community, but not to set rates.

The “new normal” may force the industry to face up to more oversight, however. Says Bach, “The Department of Insurance needs to step up its oversight of how insurers are deciding who they’ll cover and how much they’re going to charge.”

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