Home insurance was already hard to get. Then came L.A.'s fires. Here's what the data show, and what else to know.

Insurance News net

David and Peggy Blue were dumbfounded when they were notified last month that their home insurance would not be renewed because of a tall sycamore tree that overhangs their Altadena house. Their appeals for reconsideration were fruitless, leading the former San Diegans on a nerve-racking quest for a new policy.

Carrier after carrier rejected them. Their plumbing is too old, they were told. Same for their home's electrical system. And their 15-year-old roof? It needs to be replaced.

Finally, on Jan. 7, a tentative policy they'd been negotiating with a new carrier came through.

Hours later, the frightening alert came to evacuate their home of 30 years because of a fast-approaching fire that would eventually incinerate much of their community. But their house was spared.

You're very lucky, the insurance agent told them. Four hours after they had secured their new coverage, agents were told to stop writing new policies for the couple's ZIP code.

The Blues' experience is hardly unique. Long before the wildfires decimated some of Los Angeles' most iconic communities, California's insurance industry was already in crisis mode — the legacy of years of destructive wildfires, including blazes in 2017 and 2018, when the Camp fire in Northern California destroyed 153,000 acres and claimed at least 85 lives.

In response, some of the industry's biggest insurers pulled back on writing new policies and on renewing existing ones, fueling mammoth increases in premiums as the pool of available policies from conventional carriers shrank. In San Diego County, single-family homeowners and condominium associations have recounted horror stories about losing their insurance and having to pay far higher premiums just to get some form of fire coverage.

With the state now navigating a new normal amid two of the most destructive wildfires in California history, here's what you need to know about the insurance landscape in San Diego County and how to get the coverage you need to protect your home.

Non-renewals and cancellation of home insurance have generally trended upward statewide in the past decade, according to the state Department of Insurance — and that includes non-renewals initiated by both insurers and consumers.

But non-renewals have slowed more recently, spiking in 2021 but then declining in the two years since, including in San Diego County.

In 2021, nearly 86,000 home insurance policies were not renewed in the county, representing about 13% of the home insurance market. By 2023, that rate had dropped to 10%.

But there are notable geographic disparities. Overwhelmingly, ZIP codes in rural communities, where fire risks are generally greater, have been more likely to have non-renewal rates of 14% or higher from 2020 to 2023, The San Diego Union-Tribune found in its analysis of state data. The ZIP code for Warner Springs had the highest non-renewal rate, at 28%.

While the overall countywide non-renewal rate has decreased since 2020, most rural ZIP codes in areas of significant fire risk have seen their non-renewal rates rise by 2 or more percentage points, an analysis of state data shows.

Shop, shop, shop, experts stress. Rather than call individual insurance companies on your own, consider engaging multiple brokers to help you in your search. Many brokerage firms tend to focus on certain carriers, and not all are familiar with lesser-known companies that write policies in California.

While the overarching concern surrounding insurance has been fire risk, brokers and consumer

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advocates say carriers have also grown increasingly skittish in the past couple of years about insuring older homes and condominium complexes, sometimes insisting on electrical upgrades or opting to not renew policies because of a costly water claim.

“If you get that non-renewal notice, you need to use every one of those 75 days to start shopping,” advised Amy Bach, executive director of United Policyholders, a consumer advocacy group, during a Realtor-sponsored panel discussion last July.

To get started, try the Department of Insurance’s website, where you can find insurance companies and brokers, with an option to narrow the search to those insurers who may write policies in higher fire-risk areas.

That research may help you avoid having to turn to the FAIR Plan — often referred to as California’s insurance of “last resort” — or what are known as non-admitted carriers, out-of-state insurance companies that are not regulated by the state but are allowed to do business here.

While policies from non-admitted carriers will cost you more, those companies are not necessarily riskier than regulated insurers, says United Policyholders. Just be sure to check their financial strength by researching their rating at A.M. Best Company.

In addition, United Policyholders’ website offers a number of tips, among them:

Created in 1968, the FAIR Plan provides basic fire insurance for homeowners who can’t get home insurance elsewhere. Unlike traditional-market insurers, the FAIR Plan will provide coverage regardless of a property’s fire risk — which is why it’s commonly described as a last resort option for homeowners in fire-prone areas the traditional market is less willing to insure.

While created by the governor and Legislature, it is run by a private association and is funded primarily through the policies it sells to customers.

Still, as major wildfires become increasingly common due to climate change and traditional home insurance has become harder to obtain, more homeowners across California have been flocking to FAIR for coverage.

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That’s a problem because FAIR is not a good deal for homeowners. It provides limited coverage at a relatively high price. And because it provides only fire insurance coverage, policyholders would need to buy additional insurance for coverage for plumbing leaks, flood, earthquake or other incidents.

It also increases the risk and potential costs for everyone who has insurance, because the FAIR Plan is an insurance pool whose costs are borne by all insurers in the state.

Homeowners who have no choice but to go on the FAIR Plan can reach out to a licensed insurance broker or agent who will determine their eligibility, research what coverage makes the most sense and guide them through the process of buying a policy.

San Diego County homeowners have grown increasingly reliant on the FAIR Plan in the past four years.

The number of FAIR Plan policies here nearly quadrupled from 2020 to 2024; there were more than 37,300 FAIR policies countywide last year, up from just 9,670 in 2020. And the total amount of FAIR Plan exposure in the county — the potential for paying out losses — has risen more than sixfold in that time, from $6.5 billion to $41.2 billion.

Rural ZIP codes in the county are more likely to be reliant on FAIR Plans, state data show. At least half of insured homes in the small rural communities of Guatay, Palomar Mountain, Warner Springs and Mount Laguna have a FAIR policy, while more than 30% in Alpine, Jamul, Julian, Descanso and Pine Valley use FAIR.

With cost estimates for damage from the Los Angeles fires running into the billions of dollars, it remains to be seen whether the plan will have the resources to pay all the claims it is facing, in addition to its existing obligations outside those fires.

Deputy Insurance Commissioner Michael Soller confirmed last week that FAIR had $377 million available to pay claims, plus $5.75 billion in reinsurance it purchases as a backstop to cover them.

Insurance Commissioner Ricardo Lara has said a number of times that he wants to see people off the plan, arguing in part that it raises costs for all insurers.

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“Don’t settle for the FAIR Plan,” he said last year during an insurance panel discussion organized by the California Association of Realtors. “While the FAIR Plan is a vital safety net, … when the FAIR Plan takes on more customers, it causes traditional insurance companies to withdraw from certain areas, further increasing the dependency on the FAIR Plan.”

More than a year in the making, a new set of regulations from Lara’s office is designed to give carriers the confidence to remain in the California market by letting them charge premiums that reflect the true cost of covering the kind of catastrophic losses wrought by the Los Angeles fires. In return, they must write a larger share of comprehensive home insurance policies in high-wildfire risk areas.

“Without the reforms I’d be a lot more pessimistic about the market in California,” Bach said. “As many reservations as I had about those reforms and what it would do to rates, I’m breathing a sigh of relief that at least we gave the insurers the tools they need to be in this market.

“But the sustainable insurance strategy and the regulations were aimed at restoring availability, not affordability.”

Lara’s plan, which has insurers’ support, aims to not only spur insurance companies to write more policies but also take more homeowners off the bare-bones FAIR Plan.

To incentivize insurers, the state will allow them to use so-called catastrophe modeling when setting rates. Whereas current modeling bases rates off of past events, catastrophe modeling attempts to gauge the risk of future possible disaster events.

In exchange for using catastrophe modeling, insurers will have to write more policies to cover the equivalent of 85% of their share of the state insurance market in areas the state deems distressed — high-fire-hazard areas currently underserved by the traditional insurance market. That means if a company insures 20% of the statewide market overall, it will have to write at least 17% of policies in those distressed areas.

San Diego County as a whole does not qualify as one of those distressed areas, but 19 of its ZIP codes do. They include rural communities such as Ramona, Alpine, Valley Center, Pauma Valley, Julian, Potrero, Pine Valley, Campo, Boulevard, Jamul and Santa Ysabel.

Even if you don't live in one of those areas, you can still benefit from the new regulations if you couldn't get conventional insurance coverage due to wildfire risk and had to get a policy though the FAIR Plan. And some insurance companies that can't meet the 85% requirement will instead have to increase policy writing in wildfire risk areas overall.

A second key component of Lara's plan will allow insurers to pass on to consumers the costs of reinsurance — something insurance companies acquire as a backup source of funding in the event of huge, catastrophic losses. In the past, they hadn't been able to pass on those costs to their policyholders.

State insurance officials have noted that Lara's plan will help address the insurance shortage but not necessarily the cost problem. Consumer Watchdog has argued it will quickly unleash higher premiums by allowing insurers to seek much higher rate hikes.

There's also the question of whether the devastating Los Angeles fires could send insurance companies packing once again.

Experts argue that the Eaton and Palisades fires are just the sort of catastrophic events that the state's new insurance rules are meant to address.

"These fires, while large claim events, are why insurers collect the premiums they do and this is what they're prepared for," said Rex Frazier, president of the Personal Insurance Federation of California. "The key is being able to price to risk and get rate applications through quickly. Our membership still believes that California is still insurable."

While the new regulations became effective this month, a few more steps need to be taken before insurance companies can start filing for new rates. Lara's office has said it expects approvals for some insurers could be completed as early as this summer, with more to follow next year.

Insurance companies will now be required to offer what will be widely varying discounts under the Safer from Wildfires program. Among the qualifying improvements — some of which can be quite costly — are installing ember- and fire-resistant vents, enclosing eaves, clearing vegetation and replacing windows

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with multi-paned glass.

There are no set discount rates, but they can run from 4% to 40%, depending on the insurance company and the improvement, Soller said.

“What we’ve seen is that the amount you get back goes up the more you do, so people should call their agent and get an estimate based on your individual home and the area you live in,” Soller advised.

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