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Homeowners Fear Losing Insurance in Midst of California Fires

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California homeowners and regulators have a new fear about wildfires ravaging the state: that insurers will drop coverage.

Massive, out-of-season fires in northern and southern California are causing billions of dollars in claims and challenging expectations of when and where to expect blazes. State law gives insurers more leeway to drop coverage than to raise rates, and some are taking the opportunity, concerning California Insurance Commissioner Dave Jones.

Homes in the Sierra Nevada foothills were dropped after wildfires swept through the region in recent years, and some other Northern California homes also have been cut from rosters, Jones said.

“We may see more of it,” he added in an interview. Insurers must renew fire victims’ policies once, but after that homeowners could be driven to unusual, expensive policies.

Retired firefighter Dan Nichols of Oroville, California was surprised when Liberty Mutual dropped his coverage this year, following a wildfire in the region.

“I was shocked and angry,” said Nichols, 70, by email.

Liberty Mutual must “responsibly manage” its overall exposure to California’s wildfires as part of a strategy to safeguard its ability to pay homeowners’ claims, a spokesman said. The insurer still issues policies in California and its strategy is not in response to recent fires, he said.

Nichols found a better deal through AAA, but others are not as lucky. In San Andreas, a community northeast of San Francisco, homeowners typically use specialty insurers, known as “surplus lines carriers," for policies that cost about 20 to 40 percent more than a mainstream insurer, said Fred Gerard, who owns an insurance agency in the area.

Insurers must be cautious by not covering too many homes in one area, said Janet Ruiz, a spokeswoman for the industry's Insurance Information Institute. "They tend to spread their risk so they can pay claims," Ruiz said.

Drier weather and higher variability of weather patterns often seen as effects of climate change have led insurers to turn to new computer models that provide house-by-house predictions of risk, using factors such as local topography and brush cover, a change from past practices that were based on a region's history of blazes.

"Relying solely on company history leaves many insurers) exposed," said Matt Nielsen, senior director in global governmental and regulatory affairs at modeler RMS. A new wave of models coming out next year will "revolutionize the way insurers understand and manage risk for wildfires," he said.

"You can't control mother nature, but you can identify her target zones," wrote rival Verisk Analytics Inc in a brochure for its FireLine model.

Jones said the state was reviewing the new models, partly in light of drier weather conditions, more frequent, unpredictable and severe fires, and climate change.

A California poll by consumer advocacy group United Policyholders found that computer scoring was a reason for a significant number of policy cancellations in the last few years.

United Policyholders Executive Director Amy Bach said that the differences in scores generated by various models raised questions about their accuracy.

"We want to make sure it's a fair system," Bach said.

Reporting by Suzanne Barlyn; Editing by Peter Henderson and James Dalgleish)