Increasingly Unavailable and Unaffordable': Home Insurance Threatened Amid Wildfire Crisis

KQED

David Bevacqua never had trouble insuring a home in California, but he was in for a rude surprise after recently buying a house in Bass Lake, in the Sierra Nevada foothills.

"None of the insurance companies would quote me," he said. "I didn't know what was going on."

Bevacqua is not alone. As more and more destructive wildfires have whipped through the state in recent years, Californians living in areas considered a high wildfire risk are seeing their insurance rates creep up — or in cases like Bevacqua's, having insurers simply pull out of some communities altogether.

Between 2015 and 2016 alone, according to the state insurance commissioner's office, there was a 15 percent increase in "insurer initiated non-renewals" in fire-prone areas. That means homeowners wanted to keep their insurance but the companies refused to renew their policies.

Since Bevacqua couldn't get a policy on the "admitted" market, where rates are regulated by the state, he ended up going with an alternative known as the FAIR Plan. Created in the 1960s, it's a very limited, expensive option-of-last resort for consumers who cannot find insurance elsewhere.

"I'm paying twice as much as I expected, and now I have to deal with three separate policies on this one house," he said, referring to yet another policy he bought covering earthquakes.

Ah, California.

Stories like Bevacqua's have caught the attention of policymakers in Sacramento, who have made a number of tweaks to laws governing personal property insurance in recent years, including legislation prohibiting insurers from canceling policies after a home burns down, and laws aimed at making sure people understand their policies and are not underinsured.

But more sweeping insurance reforms have died under pressure from the insurance industry, and as of yet, no one seems to be ready to completely overhaul the state's insurance market. According to the industry, 98 percent of Californians with home insurance are still covered by the traditional, regulated market, with the other 2% using the FAIR Plan and other policies not regulated by the state.

“The reason I hesitate about rethinking the entire insurance industry is that in California — despite these fires, despite the challenges — we have a robust market,” said California Insurance Commissioner Ricardo Lara. “We still feel comfortable that our insurance market is strong and healthy enough to be able to pay out claims.”

Mark Sektnan, of the American Property Casualty Insurance Association, agrees.

“Overall we still see the market as very competitive, very viable,” he said. “But we do understand that homeowners in certain areas may be facing challenges.”

‘Increasingly Unavailable and Unaffordable’

California actually has some of the most consumer-friendly insurance laws in the nation, thanks to a 30-year-old ballot measure that set the rules still in effect today.

Those rules require insurance companies participating in the regulated market to base insurance rates on a customer’s individual level of risk.

And while the state insurance commissioner must approve the amount insurers can charge, he can’t force them to offer insurance if they think the risk is too high.

Those restrictions make sense, Lara said, to ensure that the insurance market stays financially healthy.

So while he is concerned about the cost and availability of insurance in wildfire-prone areas, he said that basing prices on the level of risk that a home poses makes sense, even if it is driving up costs for those who are the most vulnerable.

The Commission on Catastrophic Wildfire Cost and Recovery, set up by the state Legislature and governor to study wildfire costs, agreed with Lara, warning that if California “artificially masks” expensive insurance in high-risk regions by subsidizing rates, it will incentivize risky behavior and make insurance more expensive for people in other parts of the state where wildfires are not a threat.

Still, the commission’s recent report said that while “the home insurance market is not in crisis yet,” the state is “marching toward a future where home insurance will be increasingly unavailable and/or unaffordable” for Californians in high-risk fire areas.

The commission focused on areas known as the wildland urban interface, or WUI, which refers to regions where homes are built near forests or other wildlands threatened by wildfire.

“In evaluating whether to subsidize homeowners insurance in the WUI, policymakers need to consider whether the state wants to encourage more people to move into the WUI,” the report states. “We believe doing so will lead to more deaths and injuries of both residents and first responders, destruction of property, loss of homes, more damages to be paid by utilities … consequent costs to shareholders and utility ratepayers, and more costs for local, state and federal governments and taxpayers."

Discounts for Clearing Brush?

Consumer advocate Amy Bach, executive director of the insurance consumer group United Policyholders, agrees that the current risk-based system should not be changed.

That's because at its core, she says, insurance is "basically just a very kind of informed gambling."

"When you buy insurance, you're basically transferring your risk onto the insurance company," she said. "The insurance company looks at you and says, 'OK what is this person's risk profile? How old are they? How responsible are they? What's their history? … ' They're just deciding, what is this risk worth that I'm taking on, and what am I going to charge this person?"

Lara, the insurance commissioner, said he is trying to figure out how to "incentivize more of the admitted market insurers to stay in" high-risk areas to ensure lower prices and consumer protections.

"I know that's a lot to ask in some of these communities," he said.

But he noted that California is the largest market in the country.

"It is a massive market for the insurance companies. I don't think it behooves them to leave the market. But also we have to figure out how we learn to coexist and how do we ensure that the market is robust so that they can pay out the claims and we can continue with our daily lives."

One way to do that could be requiring insurance companies to offer lower prices to individuals and communities that invest in materials and initiatives that make them less vulnerable to fire. That could include clearing the area around a home of dangerous brush that can ignite during a wildfire, or building homes with more fire-resistant materials.

Lara said his office is pushing insurance companies to consider those sorts of discounts, similar to the discounts they give good drivers, for example. He said the industry is open to the concept.

The industry is indeed exploring the idea, says Mark Sektnan, of the American Property Casualty Insurance Association. But to make it work, companies would need entire communities to participate in reducing a wildfire threat, because fires come with a uniquely unfortunate risk compared to other natural disasters.

"If you mitigate your house for a hurricane or earthquake — whatever you do for your house directly benefits you, whatever your neighbors don't do, doesn't negatively impact you," Sektnan said. "Wildfire is the one catastrophe where you may take all the correct actions, but if none of your neighbors do, the effectiveness of your own mitigations are not as good."

Sektnan said this kind of communitywide approach is already being taken in at least one market, where the county of Boulder in Colorado is partnering with insurers to bring down everyone's rates.

Lara agreed that collective action is key, saying the state now needs to think about how to ensure communities work together to harden themselves against wildfire.

He also wants to simplify insurance contracts so that consumers have a better idea of their coverage ahead of a disaster.

"How do we create smarter contracts so that people can clearly understand what they're covered [for], what they're paying?" he said.

Climate Questions Loom

Of course, personal property insurance isn't the only insurance question looming over California, as climate change is not only making wildfires more destructive, but it's raising broader questions about the state's resilience.

For one, state firefighting costs have exploded in recent years, so Lara is pushing legislation that would let the state take out insurance to cover those cost overruns.

State leaders are also debating the possibility of a multibillion dollar wildfire insurance fund that would help protect the state's utilities against financial ruin when they're found liable for fires.

And Lara is also exploring more out-of-the-box ideas, such as taking out insurance policies on natural resource like wetlands or forests that are threatened by climate change but whose existence actually helps mitigate its effects.

Lara, a former state lawmaker, authored legislation in 2018 to create a working group to address the broader question of climate change and insurance; that group will start meeting soon.

"Where are we most vulnerable as a state? Where are we most at risk? " he said. "We know, for example in the Bay Area, the wetlands around the bay are critical, and we have to make sure that they're strong and they're thriving so that we could defend against potential flooding or sea level rise."

In other parts of the world, this is already happening. For example, a coral reef off the coast of Cancun, Mexico, was recently insured in a collaboration between the government and nongovernmental organizations.

"The world's already starting to figure out how do we bring in the insurance industry in our united front against climate change," Lara said.

Now, California must do the same.

Source: https://uphelp.org/increasingly-unavailable-and-unaffordable-home-insurance-threatened-amid-wildfire-crisis/ Date: July 24, 2024