Insurance Crisis: Another Major Home Insurer To Limit Business in California

The San Francisco Standard

Another major insurance company plans to impose new restrictions on its homeowners business in California, potentially worsening the state's growing insurance woes and making it more difficult for homeowners and buyers to cover their residences.

United Services Automobile Association—more commonly known as USAA—will sharply increase its wildfire safety demands for all new home policies, according to a little-noticed filing submitted to state regulator earlier this year.

While the exact impact of the change is unclear, the proposed rules represent a significant departure from the company's previous wildfire standards.

As of 2022, USAA was the seventh-largest provider of homeowners insurance in California, according to the Insurance Information Institute, an industry group.

Starting in March 2024, four USAA companies plan to only sign new homeowners policies if the home in question has a wildfire risk score of 1 on a scale of 32, where a higher number signifies greater risk, according to the filing.

Previously, USAA had a different cutoff score for each county, but none of the scores were below 12. The company generates the proprietary scores based on a mixture of publicly available U.S. Department of Agriculture Forest Service data and data and models from private companies, it said in the filing.

Additionally, two of the USAA subsidiaries—the USAA Casualty Insurance Company and Garrison Property and Casualty Insurance Company—plan to only accept new applications for a primary homeowners insurance policy when the customer is replacing their existing homeowners policy.

USAA did not respond to a request for comment. In a comment to The Standard, the California Department of Insurance said that the filing was currently under review, but "because these are underwriting guidelines, our experts review them for impact on rate but cannot approve or disapprove them."

In the filing, the company blamed the changes on "expected rate inadequacy."

"Exposure with Wildfire Score of 2 or higher is more unprofitable than exposure with Wildfire Score of 1 due to the wildfire risk," the company wrote to the California Department of Insurance.

Amy Bach, who leads San Francisco-based nonprofit United Policyholders, isn't entirely convinced. "These scoring models are killing the market," she said.

Bach believes the proliferation of underwriting models that assign properties single numerical scores has eroded human underwriting and may even be helping to fuel the current insurance crisis.

"Once we started seeing people get that bright line—you're a 32, you're a 7—that's when it seems like the crisis went into overdrive in California," she said.

Latest Bad News
In recent months, a string of home insurers have restricted business in California or outright exited the state.

In May, State Farm—the largest provider in California—announced it would stop signing new homeowners policies in the state. It soon emerged that Allstate had already implemented a similar policy.

Just over a month later, The Standard revealed that Farmers Insurance, the second-largest provider, was limiting the number of new homeowners policies it would sign in California. That news poured cold water on hopes that other major insurers could pick up the slack left by State Farm and Allstate.

Since then, AmGUARD, a subsidiary of Berkshire Hathaway, has announced in a filing that it will withdraw its homeowners program and gradually "non-renew" its existing policies. Safeco also moved to drop 950 policyholders in the Bay Area. Its parent company, Liberty Mutual, decided to stop offering business owner insurance policies starting this fall.

Representatives of the industry have blamed the insurance companies' retreat on several factors. Climate change is fueling increasingly destructive and frequent forest fires. Construction costs have skyrocketed, making it more expensive to replace homes damaged or destroyed by natural disasters. Interest rates remain elevated.

Most significantly, the state's regulatory model keeps prices artificially low and does not allow insurance companies to get rate increases approved quickly enough, according to Rex Frazier, president of the Personal Insurance Federation of California, an industry lobbying group.

That disincentivizes them to operate in high-risk areas.

"The pricing system we have can function in a low-inflation environment," he said in a recent interview. "But the deficiencies of strict price controls become very evident when there's significant inflation."

Advocates for policyholders say the reasons for the issues are more complicated. Some believe that the insurance companies are simply angling for less regulation.

Bach from United Policyholders said she believes that insurers are now actually getting their rate requests approved at a faster clip. Their moves to restrict business in California are "starting to feel more and more like a political strategy," she said.

As insurance options have narrowed, Californians have found it increasingly difficult to find coverage for their homes. The problem is particularly acute for homebuyers: Having a homeowners policy is generally required for a mortgage.

Experts expect the insurance crisis to lead to higher housing costs.

Part of the reason is that more people will have to utilize the California Fair Access to Insurance Requirements (FAIR) Plan, an insurer of last resort for people who cannot find insurance on the private market. While the FAIR Plan cannot turn you down, it costs significantly more than regular insurance.