

[Insurer goes bust from Camp Fire with millions in claims unpaid. How will it affect Paradise homeowners?](#)

The Napa Valley Register

Millions of dollars in potential losses from the Camp Fire have ruined a small Merced County insurance company, providing another element of uncertainty for homeowners following the deadliest and most destructive wildfire in California's history.

A judge declared Merced Property & Casualty Co. of Atwater insolvent during a brief court hearing Monday afternoon in Merced County Superior Court. The ruling by Judge Brian McCabe allows the state Department of Insurance to seize control of the busted company.

Merced Property is facing about \$64 million in potential liabilities in Paradise, the state agency said in court papers. The monetary pain could go even higher: A financial statement the company filed with regulators said it had sold a total of \$141 million worth of coverage in the area affected by the Camp Fire, although reinsurance policies will cover some of its losses. Reinsurance is coverage purchased by insurers to handle major disasters.

Policyholder claims will surely dwarf the company's finances, listed as more than \$23 million in stocks and other financial assets.

"Merced incurred significant losses as a result of the Camp Fire," Insurance Commissioner Dave Jones' office announced. "Based upon preliminary confirmation of multiple total losses and mounting claims, the financial condition of Merced deteriorated rapidly."

Besides killing 88 people, the fire destroyed more than 13,000 homes, mainly in Paradise.

With the state taking control of Merced Property, all of its policyholder claims will be turned over to the California Insurance Guarantee Association, an industry-funded group that pays claims when insurers go under.

Under state law, the association can pay up to \$500,000 per claim, said the association's executive

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director, Wayne Wilson. Any policyholder with a claim in excess of \$500,000 will become a creditor in a state-run liquidation of Merced Property's assets, he said.

The median value of an owner-occupied home in Paradise is a little more than \$200,000, according to Census estimates. About 3 percent of the homes are valued between \$500,000 and \$1 million. It is unknown how many Merced policies exceed the state's \$500,000 cap.

"Some guy might have built a mountain cabin up there for \$2 million," Wilson said.

All told, the property damage from the Camp Fire could exceed \$7.5 billion, according to estimates by risk consultant RMS.

Merced Property officials told state insurance regulators Nov. 16, eight days after the fire started, that the company was headed toward insolvency, according to court papers. On Nov. 20 the company's board of directors approved a resolution saying Merced Property was prepared to "consent to the imposition of delinquency proceedings," according to court papers.

It will take a while to retrieve Merced Property's files from the company's Atwater offices and sort out payments to policyholders, Wilson said. Another complication: The Butte County Sheriff's Office has only just begun to allow claims adjusters into the burn zone to verify damages.

"We don't know exactly what we're dealing with until people can get in there and take some pictures," Wilson said.

Nancy Kincaid, a spokeswoman for the state Department of Insurance, said she didn't know how many claims Merced Property has received from Camp Fire homeowners.

The company was formed in 1906 by a group of farmers in Merced County who found it difficult to obtain fire insurance because the area had no firefighting abilities, according to the company's website.

Although the business remained comparatively small, it grew from about 100 policies to underwriting property throughout the region.

The company confined its business to Merced County until 2013, when it was acquired by an Idaho insurance company called United Heritage Mutual Group. At that point the Merced company began expanding "up through the Central Valley, Sacramento and the northern valley," Wilson said. "I think it was this concentration of risk in Paradise that kind of tipped this over the edge."

The company lost \$180,000 last year on premium revenue of \$5.5 million, according to Department of Insurance records. Still, the company carried a solid A-minus rating from insurance consultant A.M. Best before the fire, Kincaid said.

Merced Property's president, Kevin Lucke, couldn't be reached for comment. Jeffrey Neumeyer, general

counsel with United Heritage in Idaho, referred questions to the California Insurance Department's liquidation office.

Kincaid said the parent company isn't on the hook for any of the claims. "The company in California is responsible for the losses," she said.

Kincaid said her department has been reviewing financial records of other insurers with business in the Camp Fire region and "they could not find another company in a similar situation." She said it's rare for property-casualty companies in California to go insolvent; most failures engulf workers' compensation insurers.

Consumer advocates and industry groups said the announcement is a sign that should serve as a lesson since rising insurance costs have pushed more homeowners into the non-admitted insurance market, where there is no guarantee fund to back up an insurers' claims. Customers often buy coverage from non-admitted insurers, which don't have to pay into the guarantee fund, if they can't get insurance from a mainstream company.

"This is a good example of why it's so important to have this guarantee fund and what the risks are to consumers if they buy insurance through a company that doesn't contribute to the fund," said Amy Bach, executive director of United Policyholders.

"This is scary and it's unfortunate but we have a safety net in place for situations like this so that those victims who lost their homes in the Camp Fire and insured by this company will not be left with no coverage."

The move is only the latest sign of the underlying toll wildfires are having on the homeowner's insurance market, said Rex Frasier, president of the Personal Insurance Federation of California.

"It certainly wouldn't be surprising that a regional carrier that is concentrated in one these fire areas can't withstand the pressure from one of these major fires," Frasier said. "Everyone just assumes that all will be well, but California's wildfire risk is very hard to manage and it takes a lot of financial wherewithal."

Wilson said Merced Property policyholders can contact the guarantee association at 818) 844-4300.

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