Insurers likely to weather California firestorm

Los Angeles Times

Industry observers say damage payouts shouldn't pose any difficulty, but the weak global economy could lead to eventual premium increases.
Once again, thousands of Southern Californians reeling from days of destructive wildfires have been forced to exercise the home insurance policies they hoped they would never have to use.
That it comes at a time of global financial crisis raises a new set of questions: how healthy are the insurance companies that protect homeowners in a region continually battered by fires? And will the current economic climate result in higher premiums?
It may be months before those questions can be fully answered, but several industry officials and observers said Monday that it was unlikely that insurance companies would go under the way banks have.
After years of booming profits and a general aversion to risky investments within the property casualty arms of their companies, insurers are well capitalized to handle the latest fire claims and are not as vulnerable as other financial institutions, several experts said.
"The majority of those who lost their homes do not need to worry about the solvency of companies they're insured with," said Amy Bach, executive director of United Policyholders, a San Francisco advocacy group. "They're all reasonably solvent and perfectly capable of covering all these claims."
Even American International Group Inc., the massive insurer that needed a $150-billion federal bailout from losses stemming from the real estate crash, said that it was comfortably honoring its policies.
"AIG's insurance companies are well-capitalized, separate legal entities that are regulated by the states," said Peter Tulupman, a

company spokesman. “AIG’s issues have not altered our underwriting process or ability to write risks.”

But some watchdogs are more skeptical and believe the cost to consumers will come eventually — though perhaps long after the fires are extinguished.

“These fires, as devastating as they may be, are already built into our premiums,” said Doug Heller, executive director of Consumer Watchdog. “The fact these fires are happening during an extraordinary economic downturn is more of a concern. That’s because the insurance industry makes its profit by investing our premiums. When interest rates are low and bond markets are producing inconsistent returns and the stock market is down, insurance companies make less money.”

Heller believes insurance companies are understating their investment loses after the subprime meltdown and will eventually try to recover those losses by raising rates.

That won’t be easy in California. In order to raise premiums here, insurers would have to prove to the California Department of Insurance that they sustained losses over at least a three-year period.

“An event like these fires does not cause significant increase in rates,” said Samuel Sorich, president of the Assn. of California Insurance Companies.

“The formula for rate filing and rate review looks at a trend in losses over an extended period of time.”

Insurers are also encouraged to invest property casualty policies such as home and automobile insurance in more conservative areas such as municipal bonds.

Doing so maintains liquidity for the insurers, and state regulators have the option of revoking licenses of firms that invest recklessly, said Darrel Ng, spokesman for the state insurance agency.

In the last year, some insurers have reduced rates. Allstate Corp. dropped homeowner rates by 28.5% after it was found to be overcharging policyholders.

Mercury General Corp. dropped automobile insurance rates by 3% and homeowners insurance by 10% — a move that was estimated to save Californians $41 million a year.

The rate cuts came after a series of highly profitable years for insurers when the rate of auto accidents decreased, Sorich said.

“Because of the good years, they’ve been building up capital strongly,” said Robert Hunter, director of insurance for the Consumer Federation of America. “I don’t think we’ll see a remarkable number of insolvencies. Will rates go up? It’s possible. But lately, rates have been going down.”

Source: https://uphelp.org/insurers-likely-to-weather-california-firestorm/ Date: June 30, 2024