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Many Californians Being Left Without Homeowners Insurance Due to Wildfire Risk

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Acquiring home insurance has long been a mundane but necessary chore. In California, for hundreds of thousands of residents, it's turned into a labyrinthine quest that leaves people with expensive, bare-bones coverage. That's because an increasing amount of Californians have been dropped by their regular insurers after years of devastating wildfires that cost billions of dollars and upended the market.

The problem has been getting worse. In October, California's insurance regulator reported that insurers refused to renew 235,250 home insurance policies in 2019, a 31% increase from the prior year. In ZIP codes that had a moderate to very high fire risk, non-renewals jumped 61%.

The deepening insurance crisis underscores how that market is trying to grapple with a risk that's escalated in recent years, driven by what the California governor has deemed a climate emergency. Insurers say they can no longer shoulder the losses at current prices, so they're seeking to raise rates for some homeowners. But insurers have also been dropping homeowners, refusing to renew policies in high-risk areas for fears that the losses would continue to pile up no matter how much they charge.


Elaine Linssen at her home in Oakland, California. Photographer: Philip Pacheco/Bloomberg

That's left the state's insurance regulator caught in a bind. Insurers fleeing the market means residents are often having to turn to back-up options that can be expensive, like the FAIR Plan, an insurance pool created by the state after bad brush fires and riots in the 1960s. It was meant to be a policy of last resort, but increasingly more residents are having to rely on it. From 2018 to 2019, there was a 36% increase in FAIR Plan policies, according to the California Department of Insurance, and the numbers rose again this year. California regulators are trying to keep private insurers from fleeing the state—but they don't deny that climate change has altered everyone's risk calculation.

On top of that, California is experiencing a housing crisis. People pushed out of cities because they can't afford it often turn to more rural areas, which can be at the greatest risk of fire—and being dropped by private insurers.

With so many residents struggling, and the state and the insurers squabbling over how to manage the ballooning problem, the solutions aren't easy. What's clear is that it's more expensive for everyone. Damages caused by U.S. wildfires cost $24 billion in 2018, with about $18 billion of that covered by the insurance industry, according to Munich Re. The destruction in both 2017 and 2018 was far worse than any other year since the 1980s.

Carolyn Kousky, who is executive director at the Wharton Risk Management and Decision Processes Center at the University of Pennsylvania, said it was a wakeup call. "2017 and 2018 were so catastrophic in terms of the wildfires that we saw that it really suggested to a lot of players that some of the projected changes from climate change, from poor forest management, all of that, were actually already here and hitting now."

Elaine Linssen's home in Oakland. Photographer: Philip Pacheco/Bloomberg

Elaine Linssen, an 80-year-old part-time office manager, lives in Oakland, California. Her home, tucked in the hills, is next to a regional park and hasn't seen a major wildfire close by in almost 30 years. So she was surprised when, in August, her longtime home insurer said it wouldn't cover her anymore. The company, Liberty Mutual's Safeco, cited fire and smoke hazard and dense vegetation. That left Linssen and her retired husband to use the FAIR Plan and additional coverage, for a cost of nearly $4,000 more per year.

"I don't know how long we can sustain paying that," Linssen said. She's considering a move to a different area, partially because of the added expense.

Liberty Mutual reviews each risk that it underwrites to make sure it won't have "an unacceptable" wildfire exposure, the company said in an emailed statement.

The FAIR plan is expensive partially because homeowners need more coverage on top of what FAIR provides. "I've written more FAIR Plan in the past 3 months than I have in the past 40 years," said Jay Zemansky, president of Sadler & Co. Insurance Brokers Inc.


Homes sit nestled amongst dense brush and power transmission lines in the Oakland Hills area of Oakland, California, on Oct. 29. 2020. Photographer: Philip Pacheco/Bloomberg

Insurers leaving markets is an extreme step. Ideally, risk can be pooled well enough that bad losses are offset by the money brought in by policies that don't result in claims. The [retreat by insurers in California](#) underscores just how stark of an issue the wildfire losses have been, according to Mike Zaremski, an analyst at Credit Suisse Group AG.

"Typically you don't see companies actually shrink until they get poked in the shin, until they suffer some pain," Zaremski said.

The companies are trying to rethink how to manage the risk. That's fueled their frustration with California's process to raise rates. Mark Sektnan, a vice president for state affairs at industry group American Property Casualty Insurance Association, argues that the department's methodology needs to change. Right now, insurers seeking a large increase in rates have to go through a complicated and lengthy procedure, he argues. And the companies also must use data from past years and losses to justify prices.

"What you're seeing is a completely new paradigm as it relates to California wildfires," Sektnan said. The insurance companies want to be able to respond to that, he said. "In California, even though we all talk about this being the new normal, California insurance companies are not allowed to use catastrophe models to look into the future. Our rating system requires that you base it on past losses."

For now, the state regulator is trying to find a balance. California's Department of Insurance needs to make sure the market's stable enough to function, while also ensuring that consumers aren't being gouged on pricing. The department says that insurers file rate increases that are right below a limit that would potentially require more public scrutiny, and therefore aren't being upfront about the total increases needed.

California's taken some steps to ensure some stability, at least in the short term. The insurance regulator said in early November that it would institute a one-year ban on insurers refusing to renew clients impacted by wildfires this year, following a similar move made after last year's blaze.

A sign warns of elevated fire danger in the Oakland Hill area of Oakland, California. Photographer: Philip Pacheco/Bloomberg

But that's not a permanent solution. The regulator has been holding hearings to contend with the cycle of losses that fuels the higher insurance prices, questioning insurers that don't take into account efforts made by homeowners to decrease their fire risk. The state wants the FAIR Plan to offer more comprehensive coverage so that residents don't have to buy that policy and other additional coverage, but those proposals so far haven't gone anywhere.

"I'm committed to look at how we give insurance companies the tools to better manage that risk so that we can maintain the competition and a competitive market," Insurance Commissioner Ricardo Lara said at October's hearing. "In return, however, there has to be a firm commitment from the voluntary insurance market to provide and maintain insurance for Californians."

Insurers, of course, have flexibility. Many of the policies renew at least every year, so the companies can adjust pricing or pull back from risky areas. But if homeowners can't afford to pay suddenly high rates, they may find themselves looking to move—and that's when they find themselves squeezed by California's affordable housing crisis. Urban areas boast some of the highest rents and sale prices in the nation. And homes in more rural areas are increasingly being designated as high fire risk.

That's put the wildfire catastrophe right in the heart of the debate on inequality. One way to potentially stabilize the market and cut down on risk is to dis-incentivize development in wildfire-prone areas. Kousky, of the University of Pennsylvania, suggests that programs that cover catastrophic risks like the U.S.'s flood insurance system, could refuse to insure a property after multiple times of it being completely ruined.

"Those can be really effective tools that we should start making use of, but they have to be coupled with equity policies as well," she said.

Kousky has written multiple reports on flood insurance and disaster aid. She argues that ways to address the problem could include measures to more tightly couple insurance with aggressive management of the risk, as well as controlling where developers can build and implementing measures such as stronger building codes across a wider swath of homes.

"There is a path to stabilizing wildfire insurance but it's going to require some things that have typically been really hard for us— society and governments," Kousky said.

Some nonprofit groups are working on mitigation efforts to help homeowners reduce their own risk. The Wildfire Partners program in Boulder County, Colorado, is designed to help residents figure out how to make their property safer.

United Policyholders, a consumer group, is also working on similar efforts in California to urge insurers to reward customers who take steps to mitigate the risk to their homes. "My focus is heavily on mitigation right now," said Amy Bach, executive director of United Policyholders. "Because what are you going to say? Obviously the risk is higher. You can't argue that."

Top Photo: Homes sit nestled amongst brush and power transmission lines in the Oakland Hills area of Oakland, California, on Oct. 29. 2020. Photographer: Philip Pacheco/Bloomberg