North Bay residents face new risk after wildfires: insurers dropping their homeowner policies

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Stacie and Jad Elkhoury avoided tragedy two years ago when flames from the Nuns wildfire stopped just short of their home southeast of Sonoma. The house did suffer some smoke damage to upholstery and rugs, for which they filed a claim with their insurance company, Nationwide, for reimbursement.
However, a few weeks ago, the Elkhourys were notified by a different insurer the coverage on their vacation home in Truckee — where they took refuge in 2017 after the fire — was being dropped because it was in a brush zone. Such areas with trees and vegetation make properties a high fire risk.
The couple has owned the 2,000-square-foot property in the Northstar Resort development since 2015. Lloyd's of London, the London-based insurance market that specializes in insuring higher risk global properties, covered the home because it already was difficult to find a traditional home insurer.
"Our property has never been threatened up there. If that's a high risk, I just can't imagine what it is for Sonoma County," Stacie Elkhoury said, noting the local home is insured by Nationwide's private client group.
She now fears the same scenario could happen with the family's Sonoma home. "I'm really afraid it's just a matter of time," Elkhoury said.
The Elkhourys' experience is playing out across California, as many other homeowners also are receiving similar policy cancellation letters from insurance companies. This insurers' adjustment of risk isn't just the result of the 2017 wildfires that devastated Sonoma County, but also what happened last year in the communities of Redding and Paradise and elsewhere in California. The insurance sector is adapting to the new normal of frequent and severe wildfires statewide.
There is no official count of how many county or state homeowners are receiving home insurance cancellation letters, but insurance agents said they expect the number will increase this year as insurers comb through their customer files and drop coverage of properties in regions where they have an

overconcentration of risk.

“Folks have started to get notified the last six to eight months. … It’s going to continue,” said Rich Stark, personal lines department manager at the George Peterson Insurance Agency in Santa Rosa. “What was an acceptable risk on September of 2017, can be an unacceptable risk today.”
The downside for those who receive such letters from home insurers? Get ready to pay an annual premium about double, at minimum, to cover your home with a new insurer, Stark said.

Insurance market still stable

Despite the uptick of insurers not renewing homeowner policies in risky areas, the California insurance market remains relatively stable as analysts and insurance agents said they aren’t aware of any carriers who have stopped writing new property policies. It’s nowhere like Florida, they say, where home insurers essentially stopped writing new homeowner policies in much of the state after major hurricanes nearly 30 years ago and again in 2004 and 2005 — forcing the state to fill the void as the home insurer of last resort.
That’s not the case in the Golden State. The California home insurer of last resort, which is called the FAIR plan, covered only 122,687 homeowner policyholders of more than 8 million statewide at the end of 2018. That was a decrease of 482 policyholders from 2017.
The state’s insurer of last resort, however, has been a necessary safety valve to insure those homeowners who reside in rural fire-prone areas around the Sierra Nevada mountains, and places such as Lake County, where residents have seen large swaths of land torched in recent years.

“We still see this as a pretty healthy market,” said Janet Ruiz, the West Coast representative of the Insurance Information Institute, a national insurance industry trade group. Insurers typically comb through their portfolio on a periodic basis to insure they do not have too much risk in a certain locale, Ruiz said.

Insurers want to avoid what happened to Merced Property & Casualty, a small insurer that closed as a result of property claims filed after the November Camp fire, the costliest disaster in the world last year with $12.5 billion in insured losses. Merced had $64 million in claims and only $23 million in assets, and so was taken over by the state Department of Insurance.
The policyholders were protected, though, because Merced was covered under the California Insurance

Guarantee Association, which will pay up to $500,000 per claim for carriers that become insolvent and our members of the organization.
Some insurers still see opportunity in the California insurance market, Ruiz said. She said that companies such as Delos Insurance Solutions and Spinnaker Insurance Co. of New Jersey have entered the market, which has attracted so-called surplus lines insurers that cover risks outside of standard underwriters.
Reinsurance companies, which provide insurance to insurance companies, have encouraged their clients to take more risk in wildfire areas, said Amy Bach, executive director of United Policyholders, a San Francisco-based consumer advocacy group.

Uncertainty for homeowners
Still, consumers, especially those living in high-risk areas, will see greater challenges to keep and find home insurance coverage. "I'm not super pessimistic," Bach said. "But I'm worried."
As more homeowners have their insurance policies dropped, state lawmakers' interest undoubtedly will be piqued and they likely will try to intervene. State Sen. Bill Dodd, D-Napa, said he has heard anecdotally of homeowner policy cancellations, but is awaiting more data. housing costs, thousands leave county

"I take a very dim view of insurance companies being able to take risks in urban areas that don't do it in rural areas," said Dodd, who added that he will join the Senate insurance committee this legislative session to further explore the home insurance quandary.
The state Department of Insurance has the authority to request data from insurers on policies they cancel. Ricardo Lara, the new California insurance commissioner, intends to seek those numbers from carriers so his agency has a full picture of the effect of the wildfires in the past couple of years, his spokesman Michael Soller said.
While state lawmakers try to understand the severity of the home insurers scaling back their coverage risk in California, local homeowners are grappling with the fallout.
They include Jackie and Tom Lueder of Occidental who had been alerted by Liberty Mutual in 2017 their homeowner policy would be dropped, then were able to get a one-year reprieve.
"I just went into stress and panic," Jackie Lueder said of the first cancellation letter, which came about a month after the 2017 North Bay fires.
After they received another similar notice a year later from Liberty Mutual, even though they never filed a claim in the 30 years they had the policy, they decided to look for another home insurer.
A local agent secured them with a homeowner policy through The Travelers Companies, which offered a

more comprehensive coverage — but with a more expensive price tag.
"It was a pretty big jump," Lueder said of the annual premium increase.

Closer scrutiny of property
Home insurers are looking at certain things to determine whether they will continue coverage, said McKenzie Smith, an insurance broker in Petaluma. They include how close policyholders' properties are to a fire hydrant and a fire station — and whether it is a volunteer unit? Does their street have only one way to exit and enter? How close are shrubbery, trees and vegetation to the structure?

Last week, Smith went out to check on a 4,300-square-foot house outside of Sebastopol that was valued around $1.6 million. He had to determine whether he would be able to insure the property given it was in an isolated area. He later found the structure would have to be insured by the state.

Costlier policies
County homeowners now may find they may have to pay as much as $6,000 to $8,000 a year to obtain homeowner coverage because of precisely where they live, Smith said.

Such exorbitant insurance prices will have an effect on the local real estate market. Realtors are being encouraged to raise the issue with their clients at the beginning of the home-buying process so it doesn't scuttle a potential deal.
"They need to look at this upfront," said Stark, who recently invited 20 real estate agents into his office to explain the status of the property insurance sector for the state's high-risk areas.
Meanwhile, Stacie Elkhoury said she was surprised Lloyd's is canceling coverage on the family's Truckee vacation home, with a fire station less than a quarter of a mile away. In addition, the property is not surrounded by any brush and the resort has strong fire mediation practices, such as the regular pickup of pine needles that drop to the ground.
"That scares me as a homeowner," Stacie Elkhoury said. "These are professionals studying liability and risk and they are saying no amount of money would be acceptable for the risk to keep us as a policyholder."