State Farm won’t write new home policies in California. Here’s what could happen next

SF Chronicle

State Farm, California’s largest property and casualty insurer, ceased writing new homeowners’ policies in the state on Saturday, citing wildfires, rising construction costs and challenges with reinsurance. Consumers were left worrying that their rates would soar and it would be harder to get insurance.

Some insurance advocates say the news is not as catastrophic as it may appear, noting that there are more than 100 other insurers still doing business in the state, although at least two others, AIG and Chubb, which both cater to high-end homes, have made similar moves this year.

“It is significant, but it’s not the end of the competitive home insurance market in California,” said Amy Bach, executive director of United Policyholders, a nonprofit advocate for insurance consumers, which holds free webinars about finding coverage, including one on June 9. “This is one company making a business decision. We have lots of good work streams in place to keep people’s assets protected, and this is not a reason to panic.”

Existing State Farm customers are not affected. The company will continue to write new auto policies in California.

And State Farm’s decision may not be permanent, said Lloyd Dixon, a senior economist at the RAND Corporation who has studied the impact of wildfire risk on California’s residential insurance market. Insurance companies have previously paused and restarted writing policies in California and other states, Dixon said.

However, Harvey Rosenfield, executive director of Consumer Watchdog and author of California Proposition 103, the 1988 ballot initiative that requires insurers to get state approval for rate hikes, thinks that State Farm's action, which he called "economic manipulation," could trigger a stampede by other insurers.

"By creating an artificial shortage, the insurance industry will put enormous pressure on the (state insurance) commissioner to increase rates beyond levels that are justified," he said. "It will destabilize the insurance marketplace in the state. It's a game of chicken now that they're playing with insurance regulators."

Both Bach and Rosenfield agree that State Farm and other insurers want to boost rates and loosen regulations.

"What we're seeing now is a full-court press by insurers to weaken the rate regulation regime in California," Bach said. "A lot of other states are not as aggressive about protecting consumers as California. Insurers look at those states wistfully and say, 'In Idaho, we can do whatever we want; in Nevada, we can get our rate increase approved in three weeks.' "

Indeed, Mark Sektnan, vice president for state government regulations for the western region of insurance industry trade group American Property Casualty Insurance Association, said as much.

"The California regulatory environment is certainly the most challenging of all the 50 states, both in the complexity of the regulatory system and the amount of time it takes to get a rate increase," he said.

Sektnan hinted that other insurers might limit their California coverage.

"There are companies that are evaluating California as a state and trying to balance the risk of writing in California, which has very serious wildfire issues driven by climate change and communities built in these wildland urban interface areas with the ability to get adequate rates," he said.

Santa Rosa Realtor Ernest Berghof said he's not concerned about State Farm's action, even though the massive Tubbs Fire of 2017, which racked up almost $7.5 billion in losses, underscored his region's vulnerability.

"I haven't had any issues with getting properties insured," he said. "What we've seen in the past and see today is there's always a company that wants to assume that risk and can do it."

Source: https://uphelp.org/state-farm-wont-write-new-home-policies-in-california-heres-what-could-happen-next/ Date: July 1, 2024

For homeowners who cannot find insurance, especially those in wildland urban interface areas that are susceptible to wildfires, California offers the FAIR Plan as a temporary safety net. In general, FAIR — "the state's insurer of last resort," according to the plan itself — costs more and provides less coverage than traditional insurance, as it covers a higher concentration of high-risk properties.

California requires all insurers to participate in FAIR as the price of doing business here, but they do so reluctantly. When FAIR's losses exceed its reserves, insurers are assessed based on their percentage of the state market.

In the wake of State Farm's decision, in one worst-case scenario, more people in high-risk fire areas would turn to FAIR as other insurance choices become unavailable, and insurance companies would foot more and more of the uncompensated losses, said Rex Frazier, president of the Personal Insurance Federation of California, an association of property and casualty insurance companies, including State Farm.

FAIR insured 272,846 California homeowners in 2022, more than double the number in 2018, it said. That's a small fraction of the state's insured homes, which Bach pegged at 15 million.

"How many times do you think companies are going to be willing to pay those assessments?" Frazier said. "At some point, if the FAIR Plan grows, it's going to destabilize the entire market because companies are going to be in a race to reduce their market share."

State Farm's market share has grown dramatically in just the last five years: from 17.6% in 2017 to 21.22% in 2022, according to Michael Soller, a California Department of Insurance spokesperson.

That's because the company is the only insurer that has not non-renewed any customers because of wildfire risks after the 2017 fires, Frazier said.

"They stayed open for new business in a lot of areas where others didn't," Frazier said.

Insurance companies, citing inflation and wildfire risks, point to two main issues that prevent them from charging what they say is necessary to maintain business in California.

The first centers around reinsurance — essentially insurance for insurance companies that allows them to offload some of their liability. Reinsurance rates have surged in the last few years as the industry reassesses wildfire risk, but the California Department of Insurance has not allowed companies to incorporate the costs of reinsurance into their policies, Frazier said.

“Would we rather want companies to write new business, albeit at a higher price, or do we want the company to say, ‘Sorry, I’ve run out of headspace to write more’?” Frazier said.

The second issue insurers have is that California requires wildfire risk to be priced based upon an insurer’s average wildfire losses over the last 20 years. Insurers want to be able to use forward-looking loss projection models, citing increasing wildfire risk with climate change.

In response to industry concerns, Soller, with the Department of Insurance, highlighted the state’s various initiatives to mitigate wildfire risk, including grants for fuel reduction, home hardening, prescribed fire and defensible space.

“Insurance companies’ first and only solution is raising rates on homeowners and consumers,” Soller said.

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