State insurance chief bans insurers from dropping coverage of homeowners near Kincade fire

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The state insurance commissioner took a bold step Thursday to prevent property insurance companies from dropping a slew of homeowner customers, banning insurers for a year from canceling coverage for people residing in or near areas where the state's 16 wildfires burned this year.
It protects 140,000 policyholders living close to the Kincade fire that sparked in north Sonoma County in late October from losing coverage on their properties.
For the first time, Ricardo Lara is using a state law that went into effect in January that allows him to provide temporary relief to homeowners from insurance policy cancellations, as a result of residing near land torched by fires that Gov. Gavin Newsom included in 2019 disaster area declarations.
Lara's drastic move shields more than 800,000 home policyholders statewide, while insurers continue to drop property coverage in the state's most fire-prone communities.
Lara's action to interfere with the private insurance marketplace is incredibly rare even nationwide.
The only notable similar example is after Hurricane Andrew struck Florida in 1992, when the state legislature there passed a moratorium on policy cancellations, said Carolyn Kousky, executive director of the Wharton Risk Center at the University of Pennsylvania.
Regionally, residents in 29 ZIP codes around the Kincade fire area in Sonoma, Napa and Lake counties are included.
They are residents of Santa Rosa, Windsor, Healdsburg, Cloverdale, Calistoga, Middletown and Geyserville, according to the state insurance department.
To select the areas included in his one-year home insurance cancellation moratorium, Lara and his staff worked with Cal Fire and the Governor's Office of Emergency Services to identify wildfire perimeters and adjacent ZIP codes.
Lara's order applies to homeowners and renters, and would rescind any property insurance cancellation

notices insurers issued since Oct. 25 to policyholders who live in proximity to the Kincade fire and would be in effect through Oct. 25, 2020. The large majority of the policyholders included are homeowners rather than renters.

Additionally, the insurance commissioner urged insurers to voluntarily not drop any homeowner policies statewide because of due to wildfire risks until Dec. 5, 2020, to allow the California Legislature time to devise a comprehensive insurance legislative package next year.

The insurance commissioner's tactic is a precursor to an expected legislative battle next year in Sacramento after another brutal wildfire season. Lawmakers representing angry homeowners are expected to again tangle with powerful property-and-casualty insurers.

"This wildfire insurance crisis has been years in the making, but it is an emergency we must deal with now if we are going to keep the California dream of homeownership from becoming the California nightmare, as an increasing number of homeowners struggle to find coverage," Lara said while announcing the order during a press conference in Oakland.

Rex Frazier, president of the Personal Insurance Federation of California, which represents big insurers such as State Farm, Progressive, Nationwide and Farmers, said they are not able to sufficiently price the risk of future wildfires in property policies because state law forces them to base policyholder premiums on past experience. Frazier declined to say whether his members would implement the voluntary one-year statewide moratorium on policy cancellations that the insurance commissioner requested.

For years, the homeowner insurance business in California has been profitable. From 1991 to 2016, insurers statewide made $10.2 billion in profits, according to Millman, an actuarial and consulting firm. However, that trend sharply reversed the past two years.

he combined insured losses in 2017 and 2018, mostly the result of claims related to fires, were $20 billion.

Insurers do have reinsurance to cover much of their policy risks, but contend in order to remain financially viable in California they need to be able to set annual policy premiums based on long-term fire risks.

"Insurance isn't like NPR. We can't do a pledge drive," Frazier said.

Most property insurers would need an annual premium increase from 15% to 25% to adequately account for the risk of properties near fire-prone areas statewide, as climate change has increased the frequency and severity of wildfires. Typically, insurers only boost homeowner annual premiums up to 6.9%, under a process overseen by state insurance officials.

Higher rate increases can trigger a potential challenge from policyholders through an elaborate hearing

process that insurers usually do not want to go through.
State insurance officials have been concerned about the increasing homeowner policy cancellation rate. It’s become harder for some Californians to obtain homeowner coverage because of wildfire risks, forcing more of them to get coverage from the state’s insurer of last resort, the FAIR Plan.
In 2018, insurers dropped 167,570 homeowner policies statewide and renewed 7.5 million policies, according to the state insurance department.
Last year in Sonoma County, insurers dropped 2,323 homeowner policies and renewed 130,250 policies.
Lara’s moratorium on homeowner policy cancellations was welcomed by consumer advocates who have pushed for greater insurance regulation following the spate of wildfires statewide from 2017 through 2019.
“It’s certainly a big deal for us,” said Amy Bach, executive director of United Policyholders, a San Francisco-based consumer group.
Bach said most property insurers are able to recoup their losses because state insurance officials approve about 90% of their requests for annual premium increases.
She contends the insurance sector must step up and offer homeowners financial incentives to reduce risks on their properties.
“We need to do everything we can to advance the availability and affordability of insurance,” said state Sen. Bill Dodd, D-Napa, who pressed for greater homeowner policyholder rights during the 2019 legislative session.