The dilemma of property insurance on the Hill

Idyllwild Town Crier

The California Department of Insurance (CDI) is rolling out new regulations mandating that insurers in the state offer discounts to policyholders who undertake fire hazard mitigation and structure "hardening." The rules are intended to make decisions about rate and risk more transparent and more tuned to the specific risk of an individual property, as opposed to just the zone it is in.

The new regulations give the insurance industry 120 days to comply, meaning they are expected to take effect this summer. Other regulations that may take effect this year include a mandate that the California Fair Plan offer, in addition to its present plans covering only fire and related threats, plans approaching the traditional comprehensive plans offered by standard carriers.

An April 13 public hearing allowed consumer interest groups to put forward comments on the proposed regulations regarding risk assessment. United Policyholders wrote that under the present system, "Wildfire risk models that failed to distinguish between properties that have very distinct wildfire risk profiles have been the blunt instruments and guiding forces behind the rate segmentation of double and triple-digit rate increases that are financially crippling residents in rural areas." Confirming an experience common to local homeowners, they went on to say that "[w]ith very few exceptions, insurers non-renew without identifying risk reduction improvements that could preserve the coverage or giving the homeowners a chance to improve their risk profile. With few exceptions, most homeowners are reporting that their premiums doubled or tripled at renewal and their only option was the California Fair Plan."

The comments go on to suggest there is a path forward; that insurance costs can motivate citizens to action, in this case mitigation, and that "[a]ligning costs to mitigation can prompt that action!" Homeowners may experience a sort of fatalism, thinking "if a catastrophic wildfire hits my community, my abatement and mitigation won't count for much." But recent history shows this thinking is wrong. In the state's most destructive fire, the 2018 Camp Fire, the town of Paradise alone lost over 14,000 homes. But comments submitted to the CDI by Consumer Watchdog, Consumer Federation of America, and Consumer Federation of California, state that: "[f]ifty-eight percent of the new homes in Paradise, built to meet California’s 2008 fire-resistant building codes, survived … while just nine percent of older homes did.” This means that even in worst-case scenarios, individual decisions and actions make a difference, and each year Idyllwild sees many house fires contained before they spread to neighboring structures, owing to the good work of firefighters, but also the homeowners’ abatement efforts.

Presently, some insurers already offer discounts to homeowners in high-risk areas who undertake wildfire risk mitigation, and as Insurance Commissioner Ricardo Lara’s proposed regulations have gone through the process of public comment, more insurers have gotten with the program.

But not all. The state’s site (insurance.ca.gov) sent a news release in February including a link to a list of insurers who are on board, noting that “[c]urrently, 17 insurance companies representing 40 percent of the insurance marketplace have answered Commissioner Lara’s call to offer discounts, up from just 7 percent of the market … three years ago …”

On the other hand, reporting by El Dorado County Democrats (edcdems.org) noted that Governor Newsom’s 2020 emergency declaration protected 2.4 million policy holders in highest risk areas from cancellations, but that the insurance companies have “pivoted to increase non-renewals in other areas to mitigate their impacts.” New regulations or executive orders often have unintended consequences, and the businesses affected tend to look for a way around them.

The new regulations also mandate that consumers be able to review and appeal the scores used to assess their wildfire risk. Currently, the process of assessing risk is complicated and opaque. Hemet-based insurance broker Bob Severns explained to the Crier that “over 200 factors come into play when quoting a homeowner policy. … Standard companies can get very particular as to how a house is built.”

Traditionally, this was focused mostly on the home’s construction; details like type of roofing and siding, a structure’s age, and its plumbing and electrical, etc. In the CDI’s “statement of reasons” that accompany the new regulations, it notes that “one scoring system often relied upon by insurers has assessed wildfire risk based solely on a property’s fuel (i.e., vegetation), slope, and firefighter access.”

The statement goes on to say that “[t]he proposed regulation requires insurers, in assigning wildfire risk scores or otherwise classifying wildfire risks, to conduct a more granular, and thus more accurate risk assessment. By requiring insurers to include wildfire mitigation measures — and the reduction in risk therefrom in their risk assessment — insurers’ rates and premiums will no longer be excessive, inadequate, or unfairly discriminatory due to failure to consider mitigation measures."

The goal of the regulations is to incentivize risk reduction and to stop "discriminatory" rate increases, where homes with equal risk would pay different rates based on little more than a ZIP code. New risk models allow a more granular approach to individual properties. Community-based mitigation actions also will have to be factored into risk assessments.

Idyllwild Fire Department (IFD) Chief Mark LaMont told the Crier he had "in fact heard from several property owners whom [sic] have stated that they realized reduced insurance premiums after informing their carriers of the Idyllwild Fire ISO PPC Class 2." He is referring to the Insurance Service Office's Public Protection Classification system, which rates local fire departments and community preparedness on a scale from 1 (the best) to 10 (the worst). Idyllwild's score was "lowered from 3 to 2, which you very rarely see," according to Severns, and is a source of much pride in the community and IFD.

LaMont went on to stress, "[P]roperty owners should definitely … shop multiple sources for insurance, and contact their broker/agent to inform them of the ISO PPC Class 2 within their community, which should bring their premiums down. Property owners should also document their abatement efforts/safety improvements, and 'Home Hardening Efforts' on their property, and, they should mention IFPD's ISO PPC Class 2 status when having these conversations with their carriers."

A new tool allowing homeowners and prospective buyers to evaluate wildfire risk at a more granular level was rolled out last week. Nonprofit First Street Foundation released a nationwide wildfire risk assessment, which CNN has called a "massive trove of data that shows homeowners and business owners how at-risk their property is to wildfire." Realtor.com will integrate this tool into its website, allowing prospective buyers to better understand the risk at any individual address.

The First Street Foundation Wildfire Model comes with a report titled "Fueling the Flames," which bears grim tidings: Riverside County places at the top of the nationwide list in number of properties with at least 0.03% (three in 10,000 or 1% over 30 years) risk of burning this year.

This reporter visited the site, riskfactor.com, and read that his home had 6/10 fire factor, meaning it has been assessed as having a 10.58% chance of being affected by wildfire over the next 30 years. The risk is given as 0.19% this year, growing to 0.53% annually in 30 years. This risk rating was shared by many neighboring addresses, although the percentages vary slightly. Risk, the site reminds us, accrues like interest, growing into double digits.

Some Idyllwild addresses entered in the site yielded higher numbers, seven being common. Visitors to the site also will find fire history for their community, in addition to numbers for flood risks, and links to many other resources quantifying the environmental changes driving rising risks and the mitigation efforts of individuals and communities.

These new regulations regarding transparency in fire risk assessment are not the only ones that may soon affect policyholders. In November 2019, Lara ordered Fair Plan to come up with a plan to offer a basic comprehensive, or HO-3, policy for homeowners in wildfire areas. Currently, homeowners who cannot insure themselves through the normal or "voluntary" market go to a Fair Plan broker for a policy covering only fire, smoke, explosion and lightning, and then purchase a separate policy called a "Difference In Conditions" policy covering everything else, including liability.

Fair Plan covers about 200,000 California homes. Expanding its mission would require it to process many more claims. Returning to local insurance broker Severns, "The carrier is not set up to do that. It sounds great, but it needs to be a fluid situation on the back side; they need the manpower to handle it. They don't have a claims department that can take on traditional claims set up right now."

The insurers responded to the new regulations with a lawsuit, California Fair Plan Association v. Ricardo Lara, arguing that Lara had exceeded his authority, and asked the court to annul or vacate the order. In a statement, Fair Plan held that the new rules "would negatively impact consumers and further destabilize the voluntary insurance marketplace because the order provides no incentive for the private market to offer insurance in areas at risk of wildfire."

After a preliminary injunction, the case went back and forth until July 2021, when the Los Angeles Superior Court ruled that the commissioner had the authority to require the Fair Plan to offer insurance that included liability coverage, but that the HO-3 policy would need "some customization" to stay within that authority. Subsequently, in September, CDI issued order 2021-2, requiring a "quasi HO-3 policy"; less than traditional comprehensive, but still forcing Fair Plan to offer coverage beyond fire. In February 2022, the court denied the Fair Plan's request for another injunction.