What to Know About Insurance If You Live in a Fire-Prone Area

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Your homeowners' or renters' insurance should cover the repairs. If you don't yet have a policy, here's what to do.
The California Camp Fire has destroyed more than 12,000 homes as of Tuesday morning, and displaced more than 300,000 people. The damage will cost insurers between $7.5 billion and $10 billion, according an estimate risk modeler RMS.

Buying homeowners' insurance in a fire-prone area was already tricky. It could get more challenging yet for residents of these areas, whether their homes were damaged or not. Homeowners who didn't buy enough insurance before the fires may face thousands in repair costs. And insurers could drop coverage or raise prices in fire-damaged areas in the years to come.

So if you live in a wildfire-prone area, how can you protect yourself?

Does homeowners insurance cover fire damage?

Most homeowners' insurance covers fire damage. But if you live in a high-risk area, you may need to pay for additional coverage. The advocacy group United Policyholders estimates that around two-thirds of California residents don't have enough insurance. If you rent, buying renters' insurance will typically cover you in a wildfire. You can learn more about that here.)

Having enough coverage is especially important in a place like California, which has seen a migration over the past couple of decades to areas made up of scrublands and forests that are at an extremely high risk for wildfires.

"I think insurers are going to begin rethinking their strategy of who they insure," said Chris Folkman,

senior director of Product Management at RMS. “Wildfires have gone from a seasonal issue to a year-round problem. Insurers are going to be treating wildfires in the same way they treat other perils, like hurricanes.”
Could wildfire losses be enough to lead insurers to drop coverage or even go out of business? For now, homeowners can rest easy.

“These companies have plenty in their reserves, and we do regular financial analysis on the companies every six months,” Nancy Kincaid, spokeswoman for the California Department of Insurance, said. “There should be no concerns about companies going out of business.”

Will insurers raise prices?

Laws are in place to keep insurers from dramatically raising rates. In many states, including California, insurance companies need to get approval for increases from insurance regulators. In California, insurance companies also have a two-year moratorium against dropping policyholders after a disaster.

After that, they may be able to drop high-risk policies. Almost 20 percent of policyholders in California say their insurance company dropped or declined to renew their policy in the past three years, according to a United Policyholders survey.

If you get dropped, you will have to find new homeowners’ insurance. You may also be able to take advantage of California’s Fair Access to Insurance Requirements plan, which provides homeowners’ insurance to owners of high-risk properties who can’t get insurance anywhere else. It only covers fire-related risks, so you would have to find insurance for other dangers somewhere else.

The FAIR plan is a last resort for people who can’t find insurance anywhere else. Even if you don’t like your rates, if you can find coverage through an insurance company, you won’t qualify for coverage under the FAIR plan.

The pool of homes covered under the FAIR plans is low — around 4,300 — but the number has grown significantly since 2014 as more homeowners move to uninsurable properties.

How to protect your home in a fire-prone area

“People are making the mistake of buying a home without even thinking of how much homeowners’ insurance is going to be,” Kincaid said. “And then they end up under-insuring their home.”

The process of shopping for homeowners’ insurance in a high-risk area should begin when you start looking for a home. Kincaid said when she was looking for a home, she would send her insurance broker the addresses of home listings to get an average homeowners’ price quote. If it was too high, she wouldn’t bother looking at the listing.

“It’s a fact of life now,” she said. “Don’t just look at the crime rates and schools in your neighborhood. You need to be looking at the homeowners’ insurance rates, or you’re going to get sticker shock.”

If you already own a home, it’s important to protect the assets you have. The key to protecting your home, said Kincaid, is to make sure you have enough coverage.

Kincaid said her rule of thumb is to insure to the cost per square foot to rebuild — and to focus on the current value of the home, not just the value you purchased it at.

“If you made improvements to the home, you need to factor that into insurance,” she said. “People don’t think of these things. I’ve asked my friends and they think it gets updated automatically each year.”

If the cost of your homeowners’ insurance rises each year, it’s typically to account for inflation and the rising costs of doing business, not the amount of your coverage increasing.

The easiest way to take stock of what needs to be covered is to take an inventory of your entire home and everything in it. You can do this by making a video. Kincaid said it can take less than 30 minutes. Afterwards you can upload the video to the cloud to have ready when you need it.

“You will never remember everything after that fact so you need to protect yourself,” she said. “Don’t leave money on the table.”

Knowing what homeowners’ insurance does and doesn’t) cover can get confusing. Here are 20 questions you should be asking before when looking for the right policy.

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