United Policyholders
Empowering the Insured

[Wildfires make it harder for California homeowners to get insurance]

San Francisco Chronicle

As the cost and risk of California wildfires grow, it's getting harder for homeowners to get and keep insurance in fire-prone regions including the Sierra foothills, Tahoe and some parts of the Bay Area. Homeowners rejected by mainstream companies are turning in greater numbers to alternative carriers that provide less coverage, higher prices or both.

These alternatives include the California Fair Plan, the insurer of last resort for homeowners and renters, and surplus lines carriers such as Lloyds of London, which are much less regulated than mainstream, or "admitted," firms regulated by the California insurance department. Since 2016, both have seen a surge in business, which has accelerated this year in the wake of November's devastating Camp Fire.

Last year, surplus lines carriers sold 49,370 homeowners policies in California with $122 million in annual premiums, both up nearly 60% from 2016, according to the Surplus Line Association of California.

In the first three months of this year, they sold 19,389 policies with $52.6 million in premiums — up 93% and 143%, respectively, from the same period last year.

The Fair Plan sold 33,898 policies in brush/wildland areas last year, up 25% from 2016. The Fair Plan does not have numbers for this year, but in some counties at very high risk of wildfires, they're running 300% ahead of last year, said Tammy Schwartz, its vice president for underwriting and operations.

She cautioned that its numbers in those rural counties are coming from a very small base. The Fair Plan insures homeowners who can't get mainstream insurance for any reason. Overall, it sold 122,687 policies last year, mostly in urban areas. Three-quarters of its policies are in Los Angeles, Riverside and San Bernardino counties.

The Fair Plan and surplus lines are still a very small part of the California homeowners insurance market; combined, they account for less than 2% of all policies sold.

The Fair Plan is not a state agency, it's an association of admitted carriers and backed by them. Its policies "satisfy the insurance required by mortgage lenders," President Anneliese Jivan said.

Its basic policy covers damage from fire, lightning, internal explosion and smoke. Homeowners can purchase additional coverage for windstorm, hail, vandalism and a few other perils. But if they want coverage for liability, theft and water/mold damage, they need to buy an additional wraparound or "difference in conditions" policy from another company.

With insurance department approval, the Fair Plan raised its premiums by 20% on average April 1. However, those with the lowest wildfire risk will get a 10% to 30% rate cut while those with the highest risk scores will get increases up to 69%.

Unlike admitted carriers, surplus lines don't have to get their rates approved and are not part of the California Guarantee Insurance Association, which pays claims when a member firm goes under. Merced Property & Casualty Company, a small company that failed after the Camp Fire, was a member of the Guarantee Association.

When homeowners can't get coverage from an admitted carrier they generally must have three rejections), their insurance agent typically turns to a broker who specializes in surplus lines.

Tom Carvalho, an underwriting manager with Burns & Wilcox in San Francisco, is one of them. The 2017 and 2018 wildfires caused admitted and non-admitted carriers "to reconsider their views on California," he said. "Carriers are defining high brush or high risk areas broader and broader." Because surplus carriers don't have to file rate plans, "they can be very quick to react."

Two years ago, a surplus lines policy was "pretty consistently" 20% to 75% higher than a Fair Plan paired with a wraparound policy. Now, he said, "the market is so in flux it could be four times as expensive," or it might 20%. "We've seen ripples, corrections and over-corrections as everyone is trying to figure it out."

Stephanie Cannell, an independent insurance broker in Mill Valley, had a client in Mill Valley who paid $3,700 for $1.1 million worth of dwelling coverage from Lexington, a surplus lines carrier, last year. When Lexington declined to renew the policy, she got a quote from Lloyds of London for $7,157. "I'm asking if Lexington will reconsider," she said.

Based on anecdotal evidence, Carvalho and others say homeowners in the Sierra foothills and Lake Tahoe area are having the most trouble getting and keeping insurance. But it's also affecting parts of Napa, Sonoma and Marin counties; Lafayette-Moraga-Orinda or Lamorinda; the Berkeley-Oakland hills and Portola Valley/Woodside on the Peninsula.

Regardless of its location, insurers evaluate each home individually based on factors such as prior losses, year built, age of wiring, type and age of the roof, slope, proximity to fire services, road access for fire engines and wildfire risk based on maps and possibly scores from risk-modeling companies such as Verisk, CoreLogic and Risk Management Solutions, said Janet Ruiz of the Insurance Information Institute, a trade group.

Verisk's risk score, called FireLine, rates individual addresses from zero lowest) to 30. The three main factors that determine its scores are fuel to feed a fire, topography and access. The one that changes most often is fuel. After a wildfire decimates an area, its risk score can go down because the vegetation is gone. Verisk has not changed its underlying algorithm in response to droughts or climate change, said Stephen Clark, a Verisk vice president.

About 100 California homeowners who responded to a 2017 survey by consumer group United Policyholders said they were not renewed in the past three years because of a FireLine score.

Clarke, however, said he's heard that some companies are using FireLine "to begin writing more" insurance in high-risk areas "if they can get a premium commensurate with that exposure."

Adrianne Peixotto, an agent with Newfront Insurance, has a client in Sonoma on the same street as a fire station who is being dropped because of high brush exposure. A neighbor on the same street, with the same insurance company, was not dropped. "I have been told the neighbor's house is more easily accessible," she said. "It's hard as an agent to know where to go. We asked around, every insurance company declined this property. They would have to go to Lloyds of London, which was a significant rate increase."

Peixotto said she's getting calls "on a daily basis" from people checking on insurance before they purchase a home. Some have opted not to put in offers.

When Michael Downs and his wife, Alison, moved from San Diego to Berkeley last year to be closer to kids and grandkids, they initially didn't give insurance much thought. They'd had State Farm for their home, autos and liability umbrella since 1977.

"I assumed State Farm would insure me, and we'd go our merry way," he said. It wasn't until they were in escrow on a home in the Berkeley hills that he found out State Farm wouldn't insure it.

"I tried AAA, Farmers Insurance, a few other companies. I started getting the same kind of response: 'What's your address? Hold on a sec. I'm sorry, because of the recent fires, we won't issue a policy in the area. Try the Fair Plan.'"

Because he had no mortgage, Downs was able to close on the home in December without insurance. He finally got a policy in January from Travelers, an admitted carrier. He's paying about $2,000 more to insure the Berkeley home, which is the same size as his San Diego home, but better made.

Bay Area real estate agents say insurance is no longer an afterthought. When Dana Green, a Compass agent who sells in Lamorinda, gets a new listing, she asks an independent agent to run the address and get quotes from insurance companies, which she includes with a disclosure packet given to prospective buyers. Before this year, she only did this when there might be a problem, but now she does it on every home.

"Buyers don't have as many choices, but they still can get insurance," she said. The only time it threatened a deal was on a house with a shake roof in a high-fire zone. “We were able to get insurance but had to agree to make changes to the roof within a certain amount of time,” she said.

Joshua Deitch, a Coldwell Banker agent in Mill Valley, said insurance “has become more challenging and a concern. However, there always seems to be a solution. It’s not just calling your insurance agent anymore. Some of the carriers have hit their maximum limit in Mill Valley), but other carriers have not and are therefore still underwriting. It’s just extra work.”

Amy Gurowitz, who lives in Oakland’s Redwood Heights area, said she got a letter from Liberty Mutual in February saying it would not reissue her policy due to fire risk. “We are near where the Oakland hills fire was in 1989, but we are on the other side of the freeway, not in a high-tree area, and on a major road right by a freeway on-ramp,” she said.

Gurowitz shopped around and got a quote from USAA for roughly the same coverage and price. Strangely, she then got a renewal policy from Liberty Mutual. One person at Liberty said her property was reassessed based on new data, another said the renewal was sent in error but would be honored. Gurowitz decided to go with USAA.

Many of the state’s largest admitted carriers, including Liberty Mutual and Travelers, have said — via email or in published statements — that they are trimming their exposure to wildfire risk in California, but downplayed the number of policyholders affected.

“After careful review of our exposure in Northern California, we are non-renewing only a very small percentage of insurance policies with the highest risk,” a spokesman for CSAA Insurance Group said in an email.

At Farmers Insurance, “We have begun an initiative to reduce our wildfire exposure in the state,” a spokesman said in an email. “Customers who experienced a loss in the recent Camp, Woolsey and Hill fires will not be impacted by this initiative.”

That’s because state law prevents insurers from dropping customers who suffered a total loss caused by a declared disaster for a certain period of time. For losses suffered before 2019, they must offer to renew customers at least once. For losses in 2019 and thereafter, they must offer to renew them at least twice or for 24 months, whichever is greater.

Also starting this year, a new law prevents insurers from non-renewing any residential policy in a ZIP code within or adjacent to the fire perimeter, for one year after a disaster is declared. That will temporarily protect people who live in or near disaster areas but suffered a partial or no loss.