

Wildfires may soon be uninsurable risks for homeowners

CBS News

Homeowners in wildfire-prone areas of California and other Western states now have yet another worry: Insurers have issued an ominous warning that they could be facing a “wildfire deductible” in coming years or, even worse, the prospect of having their home insurance canceled altogether. The surprising scenario came in part from Aon, the largest insurance broker in the U.S., where meteorologist Steve Bowen pointed out that fire losses have exceeded \$10 billion for the second year running. In California, the Camp Fire alone has killed 86 people and damaged or destroyed nearly 20,000 homes.

House fires of almost any kind have traditionally been covered under home insurance policies — no questions asked. But “risks that were once insurable ... will become uninsurable,” said Birny Birnbaum, executive director of the Center for Economic Justice. “Insurers have long excluded wind in coastal states and earthquake and flood everywhere from homeowners’ policies.”

Perils such as hurricanes, earthquakes and flooding are what insurers consider “primary” risks, which puts them in a category of being insurable only under special circumstances. Earthquakes generally require a separate policy or a separate endorsement. Flood insurance is handled by the federal government although surplus carriers will insure above the federal minimum). But home fires have always been “secondary” risks.

“The standard assumption of wildfire being a ‘secondary’ peril may evolve in the future,” Aon’s Bowen said. He added that this “may lead to a shift in mindset that causes industries [like insurers] to alter their view of fire risk.”

Consumer advocates such as Bob Hunter, director of insurance for the Consumer Federation of America, said the intent is clear. With wildfires now graduating to the highest level of peril for insurers, they’re going to react accordingly — by running away, raising rates whenever possible or inserting “deductibles” in their contracts so they pay out less and put more burden on policyholders.

Worldwide, fires and explosions account for nearly a quarter of the value of all insurance claims,

according to Allianz Global.

Are insurers' current losses from conflagrations like the Camp Fire bad enough to cause serious economic losses for insurers? No, said Amy Bach, executive director of San Francisco-based United Policyholders. Property-casualty insurers now have a huge "policyholders' surplus," the amount of money available to pay claims, of nearly \$760 billion, the highest in history.

But that doesn't mean they want to lose money in the future, especially as the wildfire danger from climate change, drought and unmanaged forests increases in states like California. If the current problems continue and grow, "there will be a strain on both public and private insurance," predicted Birnbaum.

Penalized for not clearing brush

"Insurers have been very aggressive in limiting coverage in the past, and I see what Aon is doing as trying to get out in front of this problem in the future," said Bach. Some insurers appear to be not waiting even for a month to go by before taking action.

One letter from a Woodland Hills, California, insurance agency informed a homeowner earlier this year that his insurer was adding "a 20 percent wildfire deductible" to his policy based on a survey showing that he hadn't cleared brush 150 feet from his house.

Allstate, the second-largest home insurer, sparked concern when it said on its website that some policies may exclude coverage for wildfire. "Coverage may vary by geographic location and by policy," Allstate said.

Farmers, also a major home insurer, issued an "Amendatory Endorsement" limiting liability for "Wild Fire Smoke, Soot, Char, Ash, Odor Damage," particularly if it was "not visible to the unaided human eye." Will more restrictions appear in the future? Probably. Home insurers are likely to take several approaches to limiting coverage.

Desirable — but vulnerable — areas

Advocates for the industry are quick to point out that this won't affect all 40 million Californians, such as those who live in urban areas. But it will cost people who live in rural or "wildlife-urban interface areas," where tree lines and brush meet development and tract homes in hilly areas. These are the very areas where many city-dwelling Californians want to escape to and live.

One insurance solution is to simply abandon areas that have already seen a major fire, like the ill-named town of Paradise in Butte County and also in Ventura County, where the Woolsey fire destroyed 2,000 homes and killed three people at almost the same time as Paradise went up in flames.

By law, insurers are required to write one renewal after a declared disaster, according to Madison Voss, deputy press secretary for the California Department of Insurance. After that, however, "the Department

doesn't have the authority to require insurance companies to write ... in a particular area," Voss said. That would throw hundreds of thousands, perhaps millions, of Californians onto the state's FAIR plan, a "last resort" insurance vehicle for the otherwise uninsurable. An alternative, although not always a good one, is to get home insurance with a "non-admitted carrier." That's an insurer who isn't licensed in California but can still sell there. The downside: If the carrier goes bankrupt, homeowners can't get a bailout from the state, as they did when Merced Property & Casualty recently became insolvent.

Adding wildfire deductibles

Given their huge resources, insurers seldom declare bankruptcy. Far more likely is that others will follow the lead of carriers who have already started to add wildfire deductibles. Wind deductibles are common in hurricane-prone areas such as New York and New Jersey, and since California fires are often wind-driven, that's a likely course of action for insurers there.

They're also likely to insist that anyone in a fire-prone area such as Hidden Valley Lake, California, join with neighbors in a community cleanup effort to remove brush from their surroundings. "We clean our lots by June 15," said resident Janet Ruiz. "The homeowners association checks, and if not, they hire someone and charge the homeowner."

A wildfire there in 2015 damaged or destroyed 100 homes, but it could have been a lot worse, Ruiz said. Building codes governing fire resistance for new housing, already strict in the state, are likely to be enforced to the letter, she said.

Ruiz, who works for the Insurance Information Institute, a group that represents property insurers, said insurers don't necessarily want to charge more. But they will, if California and other dry Western states continue catching fire. It's partly a matter of education and the hard work of cutting down dead trees and clearing brush.

Some of that may be in the control of homeowners and insurers. "But chronic climate risk is the creeping change" that worries all companies, warned Greg Lowe, global head of resilience at Aon. And that goes far beyond what happens in anyone's immediate surroundings.