

Wildfires may spark higher premiums, non-renewals for homeowners

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San Francisco Chronicle – Some Californians could pay more for homeowners insurance or have their policies not renewed as a result of wildfires that swept the state this summer, state Insurance Commissioner Dave Jones said last week.

“I would anticipate that we will see an increase in non-renewal letters,” Jones told Sacramento’s KCRA-TV when he was visiting victims of the Butte fire. “We just went through the seventh-worst and third-worst fire in California’s history. It stands to reason insurance companies are looking closely at what the risks are.”

KCRA interviewed Phil Stokes of Shingle Springs, who received a letter from Liberty Mutual saying his policy was not being renewed due to “unacceptable risk for wildfire.” The letter cited concerns about flammable vegetation, wind patterns and accessibility. Liberty did not provide a response to KCRA or The Chronicle.

So far, non-renewals do not appear to be widespread. Consumer group United Policyholders has “heard rumblings,” but “we don’t have a full-blown crisis on our hands by any stretch yet,” said its executive director, Amy Bach. Still, “between the drought and the Rocky, Butte and Valley wildfires, we expect to see some constriction in the marketplace.”

With auto insurance, Proposition 103 requires companies to cover anyone who qualifies as a good driver under California law. No such law applies to homeowners insurance, where companies “are free to decide what level or type of risk they want to write,” said Joel Laucher, the insurance department’s deputy commissioner for rate regulation.

Discrimination limited

Under the Unruh Civil Rights Act, companies cannot refuse to sell homeowners insurance or charge higher premiums based on a person’s marital status, sex, race, color, national origin, religion or ancestry. But they could decide to insure only homes that are no more than 10 years old, which could wipe out

large swaths of urban areas, Laucher said. Or they could insure homes only in areas with an ISO Public Protection Classification of one through four. ISO is a company that rates communities on a scale of one (best) to 10 (worst) based on their municipal fire protection efforts.

ISO's parent company also gives individual properties a risk score based largely on density of brush, slope and access. CoreLogic provides similar scores. Insurance companies use these scores to decide where to sell insurance and how much to charge.

Insurance companies must get their ratings plans approved by the state insurance department. If they want to raise premiums, or make any changes that affect premiums, they must submit a new plan and get it approved.

"We are looking at the company's overall loss ratio," Laucher said. If a company wants to raise rates on certain homes or areas to compensate for increased fire danger but its overall loss ratio hasn't changed, it has to lower rates elsewhere. If its loss ratio has gone up, it could get a net increase in rates. However, the ratings impact of catastrophes "is spread out over at least 20 years. You don't load them all into one year's experience."

A company that wants to stop renewing policies might — or might not — need to submit a new ratings plan. "In most cases, when a company decides to not write a particular segment of business, they will have to refile their rates," Laucher said. "They can make changes sometimes without filing if the change does not affect the rate. But the law says they can't be unfairly discriminatory. It has to be consistent with the rule they have for new business and renewals."

For example, if a company's rate plan says it won't insure homes within 1,000 feet of brush, and it discovers that it is insuring a home within that range, it could not renew the policy without prior approval. California has a law prohibiting insurers from refusing to renew a policy on a home that is being rebuilt and requires them to renew a policy at least once if a total loss was caused by fire or other catastrophe. Laucher said he has not seen a significant change in rates as a result of the drought and wildfires. But that could shift.

Areas of risk

Premiums in areas at risk of wildfire are likely to rise over time, said Robert Hartwig, president of the Insurance Information Institute, a trade association. "You are in the midst of a long-term drought and that drought condition is likely to continue," he said. El Niño, if it arrives, could provide "temporary respite." Homeowners facing non-renewal or a premium increase should contact the insurance department to make sure "it was applied fairly and consistent with the company's approved rating plan," said Laucher. That goes for all increases, not just fire-related ones. Some companies have within their plan the right to remove a claims-free discount or add a surcharge if you file a claim. This does not have to be disclosed in

the policy.

You can file a complaint with the department by calling 800) 927-4357 or at www.insurance.ca.gov. If your premiums go up or you are canceled, shop around. Don't overlook smaller companies and independent agents.

If all else fails, contact the California Fair Plan, which will insure any home in the state if it is in good condition. Its standard policy covers damage to the home or contents from fire or lightning, internal explosion and smoke. For an additional premium, you can add extended coverage for windstorm, hail, explosions, riots, aircraft, vehicles and volcanic eruptions) and vandalism/mischief.

Major insurance companies will provide a policy that covers what the Fair Plan won't. All companies that sell homeowners insurance in California must belong to the Fair Plan.

The Fair Plan has not had an increase in applications or new business over the past six months, said John Boeder, its vice president for underwriting. But it has been getting a lot of claims from Butte and Valley fire victims.