Will the loss of insurance carriers lead to a coverage crisis in California?

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Californians now have even fewer insurance carriers to choose from, following a recent announcement from Farmers Insurance.

The company stated it saw a spike in applications for homeowners insurance and as a result will be limiting the number of new homeowners policies in the state, effective July 3.

State Farm and Allstate had already announced that they would stop writing new policies.

While there are more than 100 insurers still operating in California, concern is mounting that future withdrawals could lead to a broader insurance crisis. State Farm and Allstate said existing policyholders are not affected.

Allstate stopped writing new homeowner, condominium and commercial insurance policies in California as of last month, after quietly "pausing" new policies in 2021.

State Farm, the largest homeowner insurer in California, announced a similar cutback for new property and casualty insurance May 27. The company reported a net loss of $6.7 billion in 2022 compared to $1.3 billion of net income in 2021.

Farmers said starting this week, it'll cap the number of new homeowners policies each month.

California is the largest insurance market in the nation, and fourth largest in the world. A growing industry concern is whether wildfire claims will cut too deep into required capital reserve limits, and also whether insurers have expanded coverage in the state beyond their ability to serve such a large market.

These pullbacks and concerns come on the heels of similar actions in 2022 when home insurer American

International Group Inc.’s Private Client Group and Chubb Ltd. announced they would no longer write new policies for multimillion-dollar homes in rural, unprotected California areas due to catastrophic events.

In October 2017 alone, more than 5,300 Sonoma County families and homeowners lost houses and nearly everything they owned in the deadly Tubbs Fire, just one of several North Bay firestorms that month that included the Kincade, Nuns and Glass fires. More than 4 million acres burned in California in 2020, Cal Fire reported.

GEICO shuttered its 38 statewide sales offices during the summer of 2022, while continuing to offer policies online or by using the firm’s mobile app.

Angst over insurer rate hikes
A key reason for these cutbacks is due to the alleged inability of insurers to raise or adjust insurance prices quickly. That’s because of state regulations and other market forces, such as the cost of construction and rebuilding due to wildfires and inflationary pressures along with drought and other climate threats.

“We are in a challenging period. Anxieties associated with wildfires and political issues are keeping insurance rates low, along with the lack of the state’s ability to use forward-looking models that insurers believe should be utilized to help determine a proposed new rate structure,” according to Amy Bach, executive director of United Policyholders in San Francisco.

She said carriers rely on historical weather data to propose rate hikes beginning at the 6.9% level automatically allowed without stringent regulatory review and hearings.

Janet Ruiz with the Insurance Information Institute said the California Senate Insurance Committee is considering several potential rule-making changes. She said this committee knows the industry wants to shorten intervention and approval processes and sees the need for new technology to look ahead to potential risks from climate change.

Ruiz observed that there are many scientific ways to look at potential risks. Among them: using wind tunnel analyses to see how fire and embers travel, slope and hill contour assessment, Doppler radar comparisons and long-range forecasts focusing on the likelihood of extreme weather — such as summer droughts, high heat and cold, and wet winters — to factor into the rate-making process.

"Now the whole insurance market is having problems covering higher claim levels in excess of allowed premiums that go back five years or more," Bach said.

The insurance industry has three chief concerns, according to Bach. Under Proposition 103 they can't use future-looking tools (such as Artificial Intelligence property analysis techniques, etc.) to anticipate the need for higher rates down the road.

"In addition, insurers also are not permitted to pass along rising reinsurance costs and are not happy with California's rate regulation policies. Insurers say the state has not been giving them rate increases they want and need to make a profit," Bach said.

Proposition 103, passed by California voters in November 1988, requires "prior approval" before insurance companies can implement property and casualty insurance rates above 6.9% without the possibility of intervention.This ballot measure also required each insurer to "roll back" its rates 20% to what they were on Nov. 8, 1987.

"We can't undo Prop. 103, which was an approved ballot measure, but the surge in devastating wildfires, inflation, skyrocketing construction budgets and rising reinsurance costs are at an all-time high, and carriers cannot use reinsurance costs for catastrophic events as a reason when applying for rate increases," Bach said.

"Reinsurance" is when insurance companies share risk by buying insurance policies from other insurers as a way to limit their own losses during a major catastrophe. Reinsurance shields any one insurance company from too much exposure as a result of a large disaster.

Fire-resilient mitigation
Bach said as of April 12, California's Department of Insurance asked all carriers to file a discounted rate structure for mitigation efforts made at the personal property and community levels.

As part of its Safer From Wildfires regulation, 12 property and structural mitigation fire-safe factors must be folded into insurance rate planning, rewarding certain policyholders who prepare their property for wildfires, known as "fire hardening."

Commissioner Lara said in Orinda, for example, 30% of the homeowners formed a Firewise USA

Community leading to lower insurance costs and expanded coverage options.

California Reps. Mike Thompson, D-St. Helena, and Doug LaMalfa, R-Richvale, introduced the Disaster Mitigation and Tax Parity Act, where rebates that homeowners receive for hardening their homes against natural disasters will be exempt from federal taxes. A companion bill was introduced in the Senate.

“Businesses located in wildfire areas have seen their rates go up. Inflation and the explosion in tech tools, along with shrunken competition in California, for years have led to where we are today,” Bach said. “I call it a ‘ZIP Code Crisis’ since insurers often apply restrictive policies to all customers within ZIP codes where major fires have occurred.”

“The 2023 U.S. Wildfire Forecast from AccuWeather meteorologists, estimates that 400,000 to 1 million acres could burn in California this year. That puts the state at average or slightly above average for fire danger later in the summer, given heavy winter rains resulting in more light fuels, such as high grass and brush,” said Cal Fire Unit Chief Mike Marcucci.

Shopping for coverage

Tom Hubert, senior vice president at Redwood Credit Union who oversees the Auto, Insurance and Wealth Services division, said: “Our role is to advise consumers and businesses on their options and provide guidance on what they can do. The nonrenewal of policies in such areas is due to the high cost of claims in high fire-risk areas, making several carriers unwilling to write new lines.”

Hubert said Redwood Credit Union shops around across as many carriers as possible to find who has the best overall coverage for customers and at what prices.

Carrier cutbacks are also affecting more than just those in fire zones; they also involve changes in coverage with most carriers wanting to bundle both auto and home coverage.

“Frankly, its gotten harder to gain placements, forcing people to go to the California FAIR Plan, the state’s safety net insurance plan of last resort, which is more expensive. While this program can be good for structural protection but calls for add-on premiums for personal property and other coverages,” Hubert said.

FAIR Plan boosts coverage
The association for California Fair Access to Insurance Requirements Plan (FAIR) decided March 29 to raise the limits for commercial property and other business owners from $7.2 million and $8.4 million, respectively, to $20 million per location.

The limit for personal dwelling claims is $3 million, which is double the original level.

The FAIR Plan also is seeking a 48.8% increase in its dwelling fire rate, according to Victoria Roach, president of the association.

Debra Costa, vice president and vintner practice leader with Heffernan Insurance Brokers, says insurance has become an extremely difficult marketplace.

“We are seeing demand for 10 to 12 carriers or more to come together to insure winery and vineyard owners these days. Groups of insurers each cover a quota percentage of an umbrella policy with no carrier covering more than $5 million. Given the need for coverage of high-value properties, Lloyds of London is back issuing policies,” Costa said.

“The availability of insurance is one of the highest priorities for farmers. The State Farm and Allstate pullouts have further exacerbated insurer availability,” according to Napa County Farm Bureau CEO Ryan Klobas.

“The Farm Bureau has been instrumental in supporting SB 11 and SB 505 as well as ways for our members to obtain the insurance they need as well as obtain financing for agriculture operations, he said.

SB 11, passed in July 2021, narrows the exclusion of farm risk to commercial commodities or livestock, allowing farmers, ranchers and vintners to purchase necessary basic property insurance from the State’s FAIR Plan, covering home, animal and feed barns, crop storage units and buildings holding equipment.

Those in the agricultural community say having this insurance coverage also can help them acquire loans.

SB 505, as of May 18, expands the FAIR Plan’s clearinghouse program to allow commercial insurance policies under the FAIR Plan to move back to the admitted commercial market.