

Insurers bowing out after wildfires

Firms opting not to renew some homeowner policies

By Kimberly Veklerov



Paul Chinn / The Chronicle

Anil Prasad looks at the trees surrounding his house in the Oakland hills. Prasad says weeks after the devastating fires in Wine Country, his insurance company said it would only renew his homeowners policy if a long list of conditions were not covered.

Two days before Christmas, Oakland hills resident Anil Prasad got a letter in the mail saying his longtime home insurance wouldn't be renewed, citing his property's location "in an ineligible brush area."

Essentially, the fire risk was too great.

The company offered to reinstate his policy but said it wouldn't cover damage from fires, lightning, windstorms, hail, explosions, riots, civil commotion, aircraft or vehicle crashes, smoke, vandalism, malicious mischief, or volcanic eruptions.

"It seems like the only thing they'll cover is someone sneezing on my house," Prasad said.

In addition to this option, the notice said he would need to apply for the state's FAIR Plan, the insurance of last resort for California property owners who are unable to obtain residential policies elsewhere.

Prasad, who works in marketing, said he was stunned, because he had paid his bills on time for the past five years, annually hired a tree crew to help him clear any hazardous vegetation, and never filed a claim or bothered the insurance company, Travelers.

"Retention is always our goal, but it's balanced with thoughtful and disciplined underwriting," Travelers spokesman Matt Bordonaro said in a statement, referring to the process of assessing risk. "We routinely evaluate our risk exposure and make adjustments as necessary."

Prasad is far from alone. Consumer advocates and local officials across the state say entire communities where wildland meets urban development have seen policy non-renewals, cancellations or steep premium increases in recent months and years.

Some fear that insurance companies are getting apprehensive about the growing frequency and ferocity of California's wildfires, illustrated by the record-breaking season that sent firestorms into suburban communities such as Santa Rosa. And the die-off of tens of millions of trees, driven by bark-beetle attack and drought, has created ample tinder for the next catastrophe.

"These fires consumed areas that were thought to be at lower risk. Now it's clear they're not," state Insurance Commissioner Dave Jones told The Chronicle. "We're looking at a future where there will be increasing challenges of insurance availability for some homeowners in some areas of California. The areas where this is a problem are likely to expand."

Jones said his department expects to release a report Thursday on the subject of nonrenewals in California. He said the number of residents enrolling in the FAIR Plan — an indication of market constraints — has not dramatically increased in recent years.

"After every wildfire there have been these small episodic nonrenewal plagues where the disaster got the attention of higher-level executives at the company, and they decide to shrink policy counts in certain risky areas," said Amy Bach, executive director of the consumer group United Policyholders. "It's always been fixable, because there's always been competitors who haven't done that."

The issue has recently become more acute, or at least more visible, Bach said. New technology allows firms to quickly calculate a home's level of risk using satellite imagery and data inputs — like whether it's facing the sun and how much vegetation is nearby.

Assemblyman Jay Obernolte, a Southern California Republican, said thousands of residents in his district, which includes the Mojave Desert, have gotten nonrenewal notices in the last several

years. Obernolte was one of them; his former insurer told him the hill on which his property was built was too steep.

Obernolte's office surveyed his district and found that some of his constituents with identical, next-door homes were getting wide variations in insurance policies and pricing. He said the automated risk-scoring that firms use has major drawbacks.

"Extant dirt access roads might not come up in satellite imagery," he said. "If you go talk to a local fire department and ask how they'd get to a property, they know where the dirt access roads are. That's information that's not available to the insurance companies."

In Placer County, officials said they started seeing insurance nonrenewals about two years ago. Since then, many hundreds of residents, possibly thousands, have gotten the notices.

"The only ones we hear about are when a homeowner makes the unilateral decision to call their county supervisor or my office," said John McEldowney, program manager in the county's Office of Emergency Services. "For every one we hear about, we think it's a fair assumption there are 40, 50, 60 we don't hear about."

Placer County Supervisor Jennifer Montgomery said she's heard from constituents whose insurers suddenly required them to have 10 feet between branches of two trees or 1,500 feet of so-called defensible space around their homes. In one case, she said, that would have required the resident to clear out her neighbors' properties as well.

Local leaders and consumer advocates want insurance companies to give financial incentives to homeowners who mitigate fire risks through activities like vegetation clearing or purchasing a metal roof. State Sen. Ricardo Lara, D-Bell Gardens (Los Angeles County), is introducing a bill this month that would require companies to offer such discounts and to get approval from the state Department of Insurance before reducing policy volume in high-risk areas.

But industry leaders say the market is functioning exactly as it should and that companies need to accurately balance their risk exposure while maintaining solvency and profitability. Ultimately, they say, insurance companies choosing not to write new policies in a certain area or not renewing them is a matter of ensuring that claims can be paid out when disaster strikes.

"There's a number of things wrapped up into this. A company looks at its overall exposure. Are they too concentrated in communities or regions? Would one incident be too catastrophic?" said Rex Frazier, president of the Personal Insurance Federation of California, a trade group. "When we hear local government officials saying to insurance companies, 'Well, you need to write everywhere and lower your prices,' there's a discussion about land use and continuing to build further and further into the forest — and that's a new issue for us."

Frazier, whose organization represents the state's largest firms — State Farm, Progressive, Allstate and others — said the availability of insurance carriers, even in high-risk, fire-prone areas, is not a problem. He gave his own home as an example: It's new and in the middle of the woods. While his old insurance company wouldn't give him a policy, Frazier said, he easily found an online firm called Lemonade that wrote him one.

Frazier said he was skeptical about Lara's bill. The Department of Insurance already regulates rates. If companies had more control over pricing, he said, then they wouldn't need to rely as much on canceling policies.

For most residents who get a nonrenewal notice, foregoing insurance altogether isn't an option. Having a mortgage requires one to have home insurance. And switching companies can mean big premium increases.

Alex Pappas, a retired Peralta Community College District teacher who lives in the Claremont Hills of North Oakland, said his broker told him that his insurance company — Hartford — wouldn't renew his policies in November. So he went with Lloyd's of London and got a \$2,000 premium increase. Pappas said he was lucky to get Lloyd's, and his gratitude only grew when he watched images of this season's destructive wildfires play across his television.

In a statement, Hartford spokesman Thomas Hambrick said: "We continue to write homeowners insurance and provide coverage for homeowners throughout the state, however, we have taken underwriting actions on some homeowners policies in areas where there is a significant vulnerability to wildfire." He said evaluating risks "enables us to pay homeowners claims when customers need us the most."

Prasad, who's also trying to switch firms, said the estimates he's gotten will mean his premium will likely double. Some he's called, like State Farm, said they won't insure his property.

The Oakland Fire Department already requires homeowners to create defensible space to reduce the chances of a firestorm spreading house to house. City Councilman Dan Kalb said it was irresponsible for insurers to back out of policies without examining, in person, the actual dangers and mitigation efforts.

This season's massive wildfires created a heightened awareness of risk, Kalb said, but that shouldn't lead to a "knee-jerk reaction."

"If you live in the Oakland hills and you've lived there for a while, you probably already had that awareness," he said. "Now everyone is thinking about it, including, apparently, insurance executives."

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