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## MARKETS

# California Bans Insurers From Dropping Homes in Wildfire Areas

One-year moratorium applies to 800,000 homes in risky locales, with more likely to be added



Firefighters hosed down a burning house during the Tick Fire near Santa Clarita, Calif., in October.

PHOTO: MARK RALSTON/AGENCE FRANCE-PRESSE/GETTY IMAGES

By [Nicole Friedman](#)

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California regulators temporarily banned insurers from refusing to renew home-insurance policies in certain wildfire-prone parts of the state in an effort to halt an insurance-availability crisis.

Homeowners and businesses in some parts of California are struggling to find insurance coverage and are paying large premiums when they do find it.

Following devastating wildfire losses in 2017 and 2018, insurers have rapidly retreated from insuring wildfire-prone properties. Insurers have declined to renew tens of thousands of home-insurance policies in areas with high wildfire risk in the past two years, including many properties that didn't file claims.

"I'm hearing the same story again and again. People have been dropped by their insurance companies after decades of premium payment and loyalty," California Insurance Commissioner Ricardo Lara said at a press conference Thursday. "This needs to stop."

The state said its moratorium applies to about 800,000 homes, and more areas are expected to be added.

A state law passed last year allows the California Department of Insurance to require insurers to renew residential policies for one year in ZIP Codes that have been affected by declared wildfire disasters.

Previously, insurers had to renew policies for homeowners who suffered a total loss. The current law extends to all policyholders in an affected area, regardless of whether they experienced a loss.

The new law applies to 16 wildfires that occurred in 2019, the state said.

So far, the regulator has mapped the perimeters of seven of those fires and banned nonrenewals in dozens of ZIP Codes. The regulator said it is working with other state agencies to identify perimeters for the remaining nine fires and plans to announce more affected ZIP Codes soon.

The regulator also asked insurers to voluntarily stop cutting off policyholders due to wildfire risk throughout the state for one year.

The moratorium is likely to come as a relief to homeowners with few insurance options. But it doesn't solve the broader problem facing insurers of how to price wildfire risk.

There is "a global reappraisal of what catastrophic wildfire risk means in California," said Rex Frazier, president of the Personal Insurance Federation of California. "How the state copes with that new reality—I think that's the dialogue that's ahead."

California wildfires cost insurers more than \$24 billion in 2017 and 2018, according to the state.

The size of the losses surprised insurers and reinsurers, which sell insurance to insurers. Insurance companies around the globe are racing to study wildfire science and improve their internal underwriting models. They are also trying to account for climate change, which is adding uncertainty to their models.

"The issue of affordability continues to be a massive problem," Mr. Lara said in an interview. "This one-year moratorium gives us time to work on solutions."

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Homeowners who can't find insurance coverage can buy policies from the state insurer of last resort, the California FAIR Plan.

Last month, the insurance department required the FAIR Plan to expand its coverage limit for homeowners to \$3 million from \$1.5 million by April and offer a comprehensive policy option by June. Current FAIR Plan policies cover fire damage but don't include standard home-insurance coverages like theft and liability. Homeowners often buy a

separate policy to fill those gaps.

Anneliese Jivan, the California FAIR Plan Association's president, said the association supports increased coverage limits but opposes offering a comprehensive policy, because it would be burdensome and expensive to provide.

The moratorium announced Thursday applies only to existing home-insurance customers and won't help home buyers, who often struggle to find insurance coverage when acquiring homes in wildfire-prone areas, according to real-estate agents.

The moratorium also doesn't extend to commercial-property insurance. Many small businesses and nonprofit organizations are facing insurance nonrenewals

and higher premiums due to wildfire risk, said Martha Bane, property practice leader at insurance brokerage Arthur J. Gallagher & Co.

Guided Discoveries, a nonprofit organization in San Juan Capistrano, Calif., that runs summer camps and educational programs, is paying about \$500,000 more for insurance this year compared with last year, said Craig Turner, the organization's director of administration.

Guided Discoveries shopped around for insurance this year after its previous insurer raised its premium and reduced coverage limits due to wildfire risk, Mr. Turner said.

Beyond essential maintenance, "we're not going to do any big expenditures this year" due to the increased insurance costs, he said. "It's going to sting."

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