California Homeowners Insurance Crisis
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Insurance in California is currently in a crisis, due to the lack of availability of new policies and the fact that many insurance companies are non-renewing policies.

The majority of insurers have stopped accepting new customers, regardless of where the home is located. This significantly and adversely affects new homebuyers. In addition, policies for homes located in high fire areas are being non-renewed, as well as policies written by insurers who are no longer selling insurance in California (companies like CSE, Kemper and Nationwide Private Client/Crestbrook).

Lets first look at the THREE LEVELS, so to speak, of homeowners insurance companies:

<u>Level One - Preferred/Admitted Insurers</u>:

These are the insurance companies offering the best policies in terms of coverage, limits and premium. They also have the strictest guidelines of trying to qualify for a new policy. In addition, these are the companies who are primarily non-renewing policies in high fire hazard areas, due to wildfire concerns.

The most well-known names are Allstate, AMICA, Chubb, Cincinnati, CSAA, Farmers, GEICO, Liberty Mutual, Mercury, Nationwide, Progressive, PURE, Safeco, State Farm, Travelers, Safeco and USAA.

<u>Level Two - Non-Preferred/Non-Admitted Insurers</u>:

These are the insurance companies offering policies that provide less coverage, fewer endorsement options, lower limits and higher premiums. These companies are often considered the "secondary market" and are not approved or backed by the State of California. They are not likely to be in compliance with the state's insurance laws and regulations. If the homeowner files a claim and it can't be paid because the insurance company became insolvent, the claim simply won't be paid.

The most well-known names are American Modern, American Western Home, AZGUARD, Evanston, Great Lakes SE, Kinsale, KW Specialty, Lloyd's of London, MSI/Spinnaker, Private Client Select, Scottsdale and Vault E&S.

For reference, the preferred/admitted insurance companies must follow state regulations regarding how much they can charge and what risks they can (or can't) cover. Non- preferred/non-admitted insurers do not have to follow these regulations, which allows them to take on higher risks. Being non-preferred/non-admitted doesn't affect the validity of their policies or that they aren't regulated to some extent. The regulations are just different from those that govern preferred/admitted insurance companies.

<u>Level Three - California FAIR Plan:</u>

The California FAIR Plan is deemed the last resort for homeowners who have been declined by every insurer and are unable to purchase a policy. Essentially, it is a fire insurance program for high-risk properties. The policy primarily covers fire, smoke, lightning and internal explosion. However, additional coverage is offered for windstorm and hail, as well as for a few other types of loss.

Unfortunately, one major fire could wipe out every last dollar the California FAIR plan has. Nothing can prevent the California FAIR Plan from going bankrupt in the case of an extraordinary catastrophic event. Their current exposure far outweighs the ability to pay claims.

When purchasing a California FAIR Plan policy, it's important that the homeowner also purchase a companion policy called a DIC (Difference in Conditions) policy. This companion policy provides coverage for common perils, such as theft and water damage. In addition, liability and medical payments can be added to the DIC policy.

In terms of what is being done in California to open the market back up with insurance companies writing new policies, as well as stopping insurance companies from continuing to non-renew policies, there is work being done.

In September 2023, Governor Gavin Newson issued an executive order directing the insurance commissioner, Ricardo Lara, to develop a regulatory plan to stabilize the insurance market. In response to Newsom's order, Laura announced his plan of "Sustainable Insurance Strategy". This is a set of regulatory reforms that will allow insurance companies to incorporate the cost of reinsurance into rates, as well as the ability to use "forward-looking estimations" of risk for I catastrophic models. California is the only state where insurance companies are not allowed to do either.

These reforms will result in greater availability of policies, but at higher premiums. The current estimated time-frame, in which all regulations are to be enacted, is December 2024.

It's important to mention that there are things a homeowner can do to prevent their insurance company from issuing a non-renewal of their policy. Insurers are now completing aerial inspections of homes.

Some of the best actions that can be taken, to keep a home insurable, are as follows:

- Maintain the condition of the roof. If a roof has debris, algae or moss on it, has deterioration or discoloration or other signs it's not well maintained or past its lifespan, this will trigger non-renewal. The maximum allowable age of a roof is 25 years, unless tile or metal. A tile or metal roof can be 30-35 years, depending on the condition.
- Trim tree limbs so that they are not hanging over the roof of the home.
- Be certain there is clearance of at least 100 feet from the home for all unmanaged vegetation.
- Install ember-resistant venting.
- Enclose eaves with non-combustible materials.
- Replace wood decking with TREX or similar decking.
- Replace wood siding.
- Update the following, if not already updated:
    - Electrical (the service panel/breaker box) cannot be more than 25 years old. For older homes, replace knob & tube wiring (there can be none).
    - Plumbing (pipes, lines, fittings, connectors, knobs, valves, drains and hoses in visible areas) needs to have been updated in the last 25 years and the water heater in the last 15 years.
    - Heating System: It can be no more than 25 years old.
- Don't file a claim that can be paid out-of-pocket, especially a water damage claim (these are highly scrutinized). Also, more than one claim (regardless of the amount of the claim or type of claim) in a five-year period will likely result in the non-renewal of the policy.

For more information or questions about homeowners insurance in California, please reach out to:
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We understand the thought of an inspection can be stressful, so our inspection staff has developed a general list of commonly seen items you can address prior to your inspection date. Since every property is unique, often times our inspectors may find other mitigation requirements not listed on this guide. Be assured, with our staff's prior experience as firefighters, they can explain any additional requirements in detail.

Preparing Your Property

•Reduce ignitions near the home by removing any combustible mulch, wood chips, leaf litter or pine needles within 5 feet of all buildings and attachments

•Reduce potential heat near your home by cutting all tree branches back at least 10 feet from the home and any accessory buildings

•Reduce ignitions underneath decks and porches by removing any vegetation, debris or combustible items

•Reduce potential flame contact with propane tanks by removing any vegetation and combustible items within a 10-foot radius of the tank
Reduce potential flame spread by removing any standing or downed dead vegetation

•Contact your electric utility to remove any branches in contact with power lines

Preparing Your Home and Accessory Buildings

•Reduce ember intrusion by ensuring all vent openings (eave, gable & foundation) are protected with ember resistant vents with at least 1/8 inch mesh

•Reduce ignitions on the roof by removing leaf litter, pine needles and any moss accumulation

•Clean gutters and install non-combustible gutter guards to prevent future accumulation of debris

•Reduce ember intrusion by repairing any gaps In shingles, siding, window trim and garage door weather stripping

•Reduce ignitions on decks and porches by repairing any rotting wood and cleaning out debris from between decking