*After the Wildfires...*

# What can we expect from the California Insurance Market?

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## Brace yourselves

No, this is not an early warning for the Big Earthquake we've been expecting for some time now. Sadly, this is to prepare you for how we expect the recent wildfires to further impact an already overwhelmed and unprecedented insurance market.

**The recent Palisades and Eaton fires burned more than 40,000 acres in early January.**

More than 16,000 structures were destroyed, most of them residential. To put that in perspective, the Camp Fire in 2018 destroyed 11,000 homes in Paradise. And 6+ years later, it's estimated that only 2,500 of those homes have been rebuilt.

While it's possible that a number of those owners chose not to rebuild another wood frame structure in an area that is in such high risk of wildfire, it's still a strikingly low number. This should serve as a warning, not just for those in Los Angeles, but to all those homeowners in our State. With so many homes in need of rebuilding, and demand surge expected to skyrocket, we should expect significant delays in the rebuilding process, and construction woes for years to come.

"Demand Surge" refers to the sudden and large increase in demand for products and/or services.

Quite simply, we don't have enough contractors, trained construction workers, and materials to rebuild 16,000 homes as fast as we'd like.

This means that the cost for those materials and labor is going to rise significantly due to competition. Before the wildfires, it was common to see replacement cost estimates per square foot somewhere between $200 and $400. Going forward, this will increase significantly. To what, we don't yet know. But some are suggesting it could be as much as $800 to $1,000 sq/ft.

It’s highly unlikely that any of the homes that burned were insured to this amount per sq/ft and nobody could have predicted this level of damage in January our “wettest” month. This will likely mean that most carriers will be paying out policy limits, further depleting their reserves beyond what they would have expected.

**Communities all over California will be impacted in two ways.**

First, the carriers will likely increase their minimum Insurance To Value (ITV) requirements, meaning they’ll be automatically increasing your property limits so that if you do suffer a loss during this demand surge period, there’s more available coverage to help you rebuild. Carriers need to get the rate they feel is required to offset the exposure they’re taking on. Second, reinsurance (insurance for the insurance carriers) rates will surely go up as those companies will be significantly impacted by these losses and will need to replenish their reserves to be able to pay future claims. This will drive up premiums for most, if not all folks in CA.

And if your carrier does not automatically increase your property limit, the Board should strongly consider requesting they do. In addition, owners should reach out to their personal lines agents about increasing their Additional Living Expense coverage. Between the 16,000 displaced owners, and the army of loss adjustors, remediation companies, and construction folks that will be looking for lodging, the cost to rent a home, apartment, or hotel is going to be very high for a very long time. Owners should also increase their Real Property coverage inside of their units, regardless of the scope of coverage on the Master Policy, so that they have more coverage for rebuilding the interior of their units if the Master Policy limits are insufficient. They should also purchase Loss Assessment Coverage which could help in the event limits are insufficient and the Board levies a special assessment.

The CA Fair plan estimates that it will see losses of approximately $4.75 Billion while demand surge could drive this up further. And considering that the Fair Plan has reserves of just $377 Million and reinsurance of only $4.9 Billion, those rates will surely go up to replenish their reserves. Again, we’re not even close to the hottest and typically windiest time of year in Southern California.

The Department of Insurance (DOI) has recently announced its intention to expand their offering of the CA Fair Plan to Condo Associations this Summer 2025, increasing limits by allowing for up to $100M on a single location and up to $20M per building. While this may be welcome news for large Associations who are paying exorbitant premiums, it's also concerning to most industry experts. It's widely known that the FAIR plan didn't have enough money to cover their obligations from the Palisades and Eaton fires, so increasing their obligations to handle risks up to $100M in values doesn't sound like a good idea for the financial solvency of the FAIR plan.

**Many Boards are wondering what this will mean for their budgets.**

Unfortunately, nobody knows. But State Farm recently made an emergency request of the CA Department of Insurance to increase their rates by 22% in order to help fund the losses they're expecting. To their credit, they seem to be the only carrier that has made the choice to "pause" Non-Renewals on Condo Associations that were in the wildfire areas of LA County. But again, this serves as an indication we should expect increases in premiums, and not just for those folks with high Brush Scores. And if you're looking for a best guess on premiums for your budget, 22% seems as good a place to start as any.

We expect carriers to tighten their underwriting guidelines even further. All carriers have their own proprietary software for measuring risk. There are number of companies that provide this, and most carriers use multiple risk modeling systems to try to get a leg up on the competition. One of those companies is called RMS, and they assign a risk score between 1 and 100 with 100 being the highest risk of Wildfire loss. Before these fires, most of the preferred carriers wouldn't consider quoting anything with a risk score over 20. But many buildings lost in these fires had RMS Brush Scores as low as 6. How the preferred carriers react remains to be seen, but the scope of this damage will surely mean further tightening of their guidelines.

The CA Insurance Commissioner launched the "Safer from Wildfires" initiative last year with the hope that if homeowners undertook fire mitigation measures around their homes, insurers would offer discounts for them. While this is a great idea from a risk mitigation standpoint, as it will better protect your home from wildfires, sadly this will not impact premiums for Common Interest Developments. None of the Commercial Carriers insuring CIDs currently have filings with the Department of Insurance to allow for these discounts, and we don't expect them to start.

**There is hope!**

**The Insurance Task Force for the CA Legislative Action Committee is working on several initiatives that may help.**

First, the task force is working on a bill that would help protect Boards who are unable to obtain insurance that meets the requirements of their CC&Rs. Second, they are seeking a bill that would both define what a “wildfire” is and amend the Standard Fire Policy (SFP) Form allowing CA Admitted Carriers to offer coverage that is not as broad as the SFP. The intention of this bill would be to allow CA Admitted Carriers to quote a fire policy that excludes “Wildfire” losses. With the result being that Wildfire losses would be covered as part of your DIC policy. Most master EQ policies for Condo Associations are written on a DIC policy, which stands for Difference in Conditions.

This is like what happened after the Northridge EQ in ’94 when the preferred carriers all stopped offering master EQ policies. The Surplus Lines market took those risks writing DIC policies for Condo Associations to cover the peril of Earthquake, and in some cases even Flood. In the future, you could have a DIC policy that covered and had separate deductibles for Earthquake, Flood, and Wildfire perils. This would allow carriers to spread the wildfire risk much more evenly just like with EQ policies, where owners would purchase Wildfire Loss Assessment coverage from their personal lines carriers or another state program similar to the CEA.

In the current environment, your Insurance is precious. The last thing you want to do is to give your carrier any reason to non-renew you. Toward that end, make sure that all payments are made on time, increase your deductible to insulate your loss history, and comply as quickly as possible with your carrier’s mandatory life/safety recommendations. If you need more time to complete them, let the carrier know. Communication is key when it comes to your insurance. Don’t be afraid to reach out to your broker to check in on any of the above points (and maybe check in on their mental health). They’re definitely swamped right now, but open lines of communication are never a bad thing. Stay safe out there folks. This too shall pass.