

Wildfires Not Expected to Impact Insurance Rates in California or Nation

by NAMIC

Policyholders whose homes or businesses were damaged or destroyed by the wildfires that swept through Southern California should not see increases in their insurance premiums nor have their policies cancelled, according to the Insurance Information Institute (I.I.I.).

“The homeowner and commercial markets in California are generally healthy and competitive and for the most part events like this are already factored into rates,” said Dr. Robert Hartwig, president of the I.I.I.

Insurers expect to pay as much as \$1.6 billion to thousands of policyholders affected by the wildfires. “Despite the magnitude of the loss, this event is well within the range of what insurers anticipated and, in and of itself, should not drive up rates,” said Hartwig, noting that insurers paid \$41.1 billion to 1.75 million policyholders in the wake of Hurricane Katrina. Hartwig pointed out that rates are determined by the long-run frequency and cost of such events, as well as the price of building materials, labor, additional living expenses (such as hotel charges), and litigation.

Hartwig observed that rates did not spike in the wake of the 2003 wildfires in California that caused more than \$2.2 billion in damage, a fact confirmed by the California Department of Insurance. In fact, some insurers have recently been lowering homeowner rates in California, in some cases by as much as 20 percent. “The cost of insurance in fire-prone areas, however, is already high and will remain so to reflect the risk of building and living in these vulnerable areas,” he said.

Rates will not go up for homeowners who do not live in these fire-prone areas in California, nor will the wildfires affect the cost of insurance in other states.

“Rates cannot be raised arbitrarily,” said Hartwig. “Insurance is regulated by the states. While the regulatory processes in each state vary, three principles guide every state's rate regulation system: that rates be adequate (to maintain the financial strength of insurance companies to pay claims), but not excessive (not so high as to lead to exorbitant profits), nor unfairly discriminatory (price differences must reflect expected claim and expense differences).”

More good news for homeowners is the fact that those who file claims with their insurer do not risk losing their coverage. “There is no homeowners’ insurance crisis in California,” said Hartwig. “Insurance is widely available and affordable throughout the state, although one or two insurers out of many have decided to reduce their exposure in the area by not offering policies to new customers.”

Hartwig warned, however, of the risks of living in fire-prone areas of the country. “As more people continue to build homes in parts of the country historically prone to wildfires, Mother Nature’s toll will increase,” he said. “People should carefully consider the risk before building or buying a home in these areas. For those already living in these high risk areas, the value of loss mitigation has never been clearer.”

But the insurance industry is doing its part to educate consumers about protecting their homes from wildfire through its national organization, the Institute for Business & Home Safety (IBHS), according to Hartwig. “The IBHS provides important steps homeowners can take to create a survivable space for your home,” he said.

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