

Jim's Perspective...

Property Insurance and Fortuitous Risk of Loss

As we all know, one of the fundamental characteristics of insurance is that loss to insured property must be fortuitous. Property and casualty insurers underwrite single family homes with the risk management understanding that only a portion of insured homes might sustain a loss, and when a loss occurs, it is unexpected and random. The entire group of single family home risk exposures pays a premium to create an insurer surplus of money that is available to pay the claims of the small number of homes that might sustain a loss. If a large number of homes are certain to sustain property damage losses on a regular basis, the premiums paid by all of the homeowners would not be economically feasible.

In their book, *Principles of Insurance*, authors Mehr and Cammack set forth their criteria of an insurable exposure. One of the essential characteristics of an insurable exposure is that it is, “unlikely to produce loss to a great many ‘insurable exposures’ at the same time.” “No insurer,” they elaborate, “can afford to insure a type of loss likely to happen to a large percentage of those exposed to it.”¹

As I ponder the fundamental characteristics of insurance, I wonder how the property insurance marketplace will continue to function in California and Florida with the wildfires and hurricanes/tropical storms. As you may have read, the Dixie Fire in the Sierra Nevada Mountains, 175 miles north of San Francisco, is now the second largest single fire in California history. In the latest news article that I read, about 550 homes have been destroyed in this fire, and, in total, 1,027 buildings have been destroyed which figure includes the 550 homes. The town of Greenville, with a population of about 800 was totally destroyed. Just recently, the Caldor Fire, which started August 14, has torn through the town of Grizzly Flats, population 1,200. The Sacramento Bee reports that the fire has destroyed 50 homes, as well as the town’s elementary school, church and post office. Apparently only a few structures were spared. As of August 23, there was zero containment of this fire. It is now very close to Lake Tahoe. The Dixie fire is now closing in on Susanville, CA., population 18,000. See also a very good article in this week’s PIA National Newsline about insurers’ use of AI technology for wildfire risk analysis.

The California Department of Insurance was the chief sponsor of Senate Bill 30, passed in 2018 and now Chapter 614 of the California insurance statutes which, in part, resulted in formation of an investigative group called the California Climate Insurance Working Group to study and make recommendations about managing the fire insurance risk in the future. This group of 40 people, which includes international and U.S. based insurance leaders, proposes the creation of a “climate insurance” program that includes a pilot program offering basic levels of disaster insurance. This program also encourages local and state planning entities to explore nature-based insurance solutions with investments focused on making healthier forests, wetlands and urban tree canopies.

This working group also recommends parametric insurance policies, which, as I wrote about some time ago, provides pre-specified payouts based upon a trigger event – and insurance for

¹Mehr, Robert I. and Cammack, Emerson, *Principles of Insurance*, Homewood, Ill. Richard D Irwin, Inc. (1961).

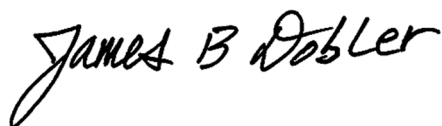
entire communities to guarantee that all residents have some coverage. All of these proposals from the working group, and the Insurance Department's involvement in establishing the working group, have arisen because of insurance consumers that either can't get fire insurance or face a yearly premium that is so high, that the consumer can't afford it.

There also is a California FAIR Plan which is a private entity that all property insurers writing insurance in California must participate as a member of the plan. But as the loss experience of the plan deteriorates, more insurers may withdraw from California. Recently, the California Commissioner of Insurance temporarily banned insurers from non-renewing homeowners policies in areas impacted by the wildfires. It is the third straight year that the Commissioner has imposed a 1-year ban on non-renewals. The ban does not yet apply to the Dixie and Caldor fires because the Commissioner is not able to set the final perimeters applicable to those fires since they are not contained and still spreading.

Right now, Florida experienced another tropical storm. Florida already has a state-backed "insurer of last resort" (Citizens Property Insurance Group) for owners of property that can't get windstorm coverage. Citizens predicts its enrollment of property owners by the end of 2021 will reach 766,000 properties that are technically insured by the state. The surge of enrollments in Citizens is fueled by rate increases for property insurance in the range of 30% to 40%. These rate increases reflect ballooning reinsurance costs and extensive litigation costs related to insurance coverage.

Also in response to extensive property insurance rate increases, the Florida Legislature passed Senate Bill 76 which goes into effect July 1, 2021. Among other things, it limits the actions of public adjusters, contractors and other companies that encourage property owners to file windstorm claims. Citizens does have a reinsurance program, but as this state insurance entity continues to grow, with limited ability to raise rates, it does raise an increasingly dangerous liability for the state's taxpayers. The CEO of Citizens has warned that Florida's property insurance market is unhealthy, and has predicted even higher Citizens enrollment in coming years.

Historically, there has always been considerable discussion amongst insurance professionals about insurance programs operated by the states or the federal government. Flood insurance is an obvious example. I fear that the California and Florida property insurance markets are only going to get worse. I ponder too, what each state might do in terms of forcing property and casualty insurers to accept fire and windstorm risk exposures in these states. If insurers withdraw from these states, where will agents place these risk exposures? I read about the Hackberry Wildfire in Banner County, and another fire in northern Morrill County, but on the whole, the wildfire and windstorm exposure in Nebraska has been manageable and we are lucky to have a very health property insurance marketplace. Hopefully it stays that way.



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