

PMP's Dr. HOA Presents
**CA Wildfire Insurance
Discussion**

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Wildfire Insurance Discussion

ESTIMATED INSURED PROPERTY LOSSES

U.S. NATURAL CATASTROPHES 2012-2022

(\$ in Billions)

Year	In dollars when occurred	In 2022 dollars (2)
2012	\$63.5	\$74.9
2013	24.1	31
2014	23.2	29.2
2015	22.9	28.8
2016	31.6	39.3
2017	130.9	158.7
2018	60.4	71.6
2019	38.8	45.2
2020	81.0	93.3
2021	92.0	102.7
2022	98.8	100

- Natural disasters that cause at least \$25 million in insured losses; or 10 deaths; or 50 people injured; or 2,000 filed claims or homes and structures damaged. Includes Puerto Rico and the U.S. Virgin Islands. Includes losses sustained by private insurers and government-sponsored programs such as the National Flood Insurance Program. Subject to change as loss estimates are further developed. As of July 7, 2023. Adjusted for inflation by Aon using the U.S. Consumer Price Index.

Source: Aon / from <https://www.iii.org/fact-statistic/facts-statistics-us-catastrophes>

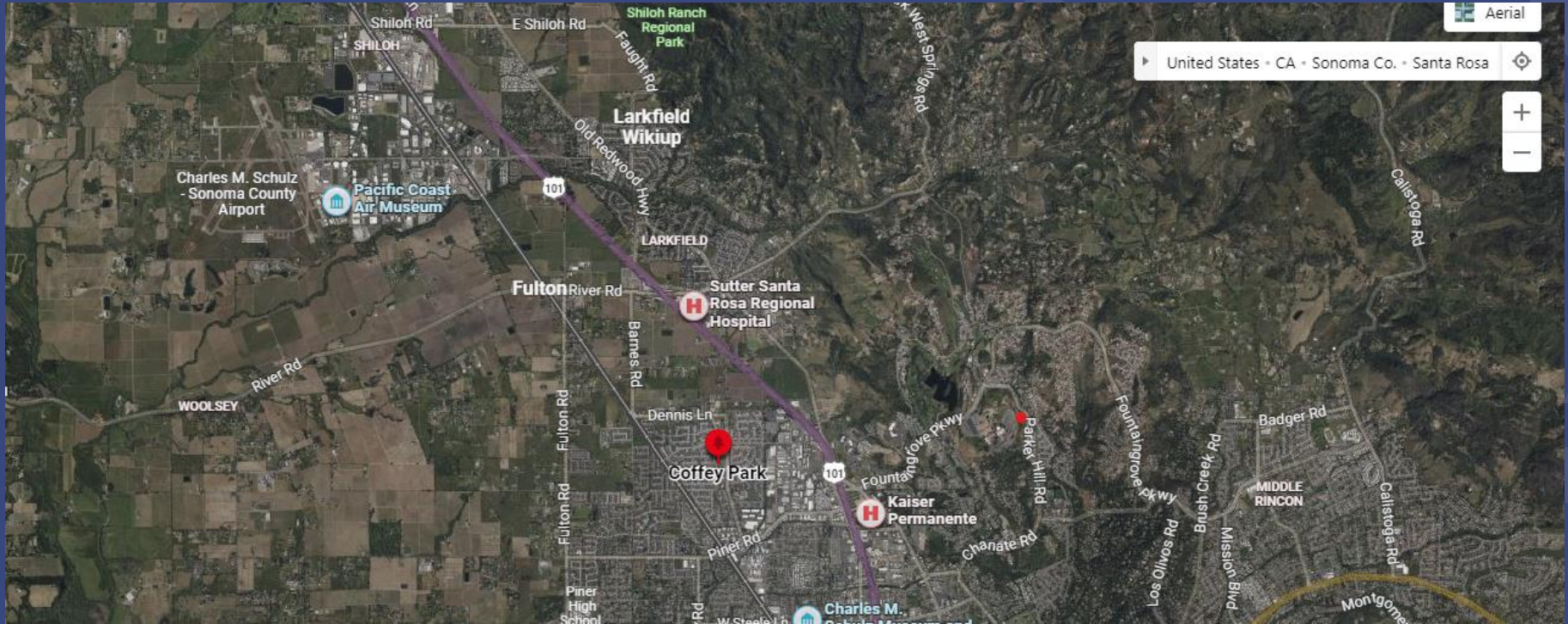
2018 Camp Fire – Paradise, CA (85 people died, 13,900 homes destroyed).



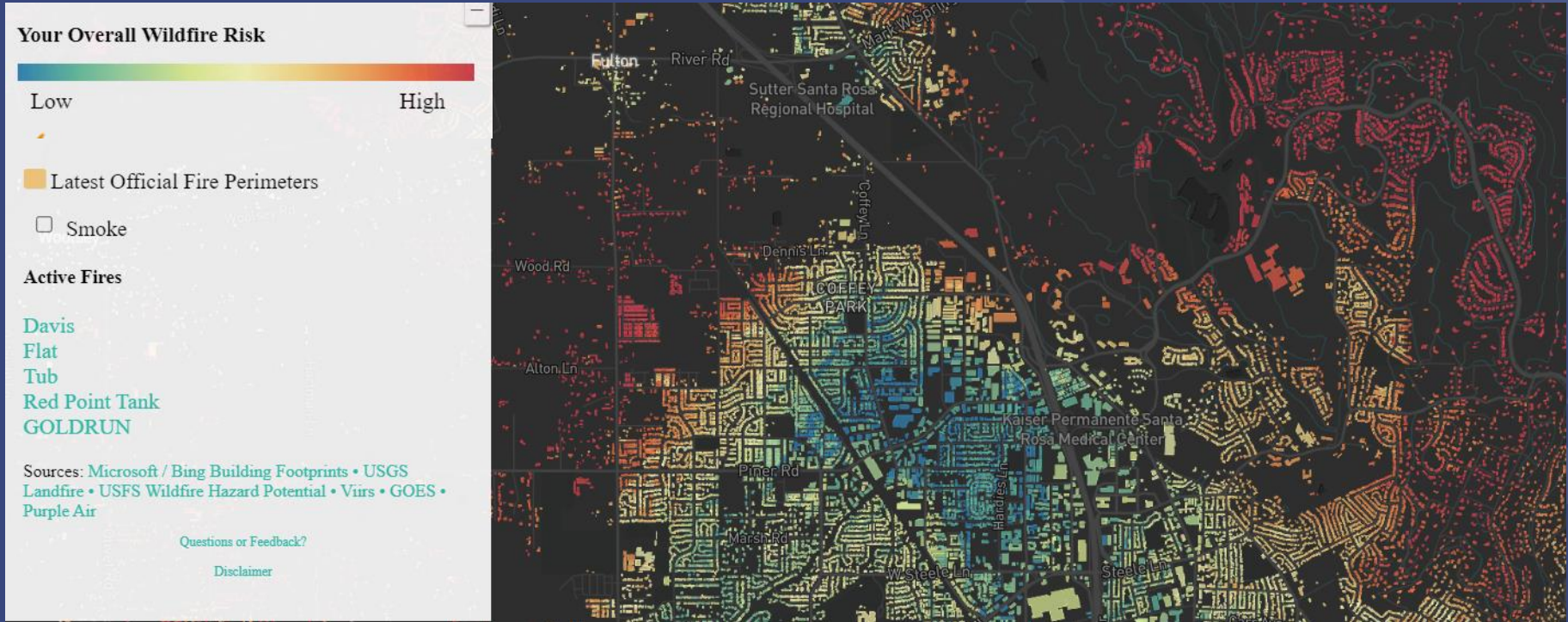
2017 Tubbs Fire: Coffee Park, Santa Rosa – Before & After



2017 Tubbs Fire: Coffee Park, Santa Rosa – Before & After



2017 Tubbs Fire: Coffee Park, Santa Rosa – Before & After



Wildfire Insurance Discussion

According to the Wall Street Journal:

Wildfires in 2017 and 2018 wiped out two times the underwriting profits that insurers had accrued over the prior 26 years.

Wildfire Insurance Discussion – A Perfect Storm

Why are Insurance Premiums so high???

- Inflation Rates Reach 40 Year High
- Social Inflation
 - Can't be modeled or rated for
 - Liability carriers leaving the market
- More Natural Disasters
 - Fires, Rain, Flooding, More Fires
- Rising Building Costs & Underinsured Risks

Wildfire Insurance Discussion – California Department of Insurance

The CDI – California Department of Insurance: The Obstacles

- California is a Standard Fire Policy State (SFP)
 - CA Admitted Carriers Must Match SFP
- Wildfire Risk Modeling & Rates for CA Admitted Carriers
 - Rates must be based on Historical Data
 - Doesn't take into account changing weather or increased construction costs
 - Predictive Modeling difficult, not like EQs.
- CDI's "Safer from Wildfires" Regulation
 - Carriers must offer discounts for fire mitigation efforts

Wildfire Insurance Discussion – A Perfect Storm

- The Excess & Surplus Lines Market (E&S)
 - What is it?
 - Reinsurance
 - Insurance for the Insurance Carriers
 - Capacity
 - Maximum amount of insurance a carrier can offer
 - Hard Insurance Market
 - High Demand for Insurance, Low Appetite to Insure

Wildfire Insurance Discussion

Excess & Surplus Lines Market Challenges

1. Underwriters overwhelmed
 1. Demand for limits outpacing Supply
 2. For Profit Entities! Pressure to insure only the best risks.
2. Quotes are Not Open Ended
 1. Competition for Limits – We need to sell your community as a good risk
 2. When a Carrier quotes, capacity is saved for the risk.
 3. Reinsurance Treaty Requirements may restrict how long quotes are valid
3. Layering Policies
4. Adjust expectations – Timing of Quotes - EXPECT DELAYS!

Wildfire Insurance Discussion

Excess & Surplus Lines Market Challenges

1. Full Limits may not be available
 1. Lack of Capacity – Layering of multiple carriers
 2. Lenders not usually pushing back
2. Appoint an Insurance Committee if possible
3. Notify Owners of any Changes to Property Coverage – Per CA Civil Code
4. If Coverage is unavailable or limited and doesn't meet CC&R requirements, consult Legal Counsel for advice on disclosure.
5. High Premiums not sustainable

Wildfire Insurance Discussion

Planned Developments

- Typically Low Premiums
- Higher Number of Homes = More liability exposure
- Low Capacity, not worth the Premium to Carriers
 - Difficult to calculate risk
- Excluding Trees/Shrubs, Irrigation Systems?
- CA Fair Plan not an option in most cases
- Self Insuring?

Wildfire Insurance - On the Horizon...What Happens NEXT??

- CA FAIR PLAN for Condominium Associations
 - Increasing Limits from \$5.6M to \$20M
 - Carrier of LAST RESORT
 - Basic Coverage
 - Fire, Lightening, Smoke, Internal Explosion
 - Optional extensions: wind, hail, explosion, vehicles
 - NO Coverage for...
 - Theft, falling objects, freezing, WATER DAMAGE, etc.
 - No Liability Coverage
 - Pictures within 5 days of submission (time/date stamped)

Wildfire Insurance - On the Horizon...What Happens NEXT??

- Wrap Policy to compliment FAIR Plan?
 - Currently, no policy designed for HOAs.
 - Waiver of Subrogation as required by Fannie/CCRs?
 - Club Members as additionally Insured?
- Lender Concerns
 - For buildings over 50 years old, Replacement Cost coverage can **ONLY** be added if the plumbing, heating, electrical wiring, and roof have been **updated in the last 10 years.**
 - A minimum of 70% Co-Insurance Penalty Applies
 - Cannot be waived
 - Institutional Lenders & CC&Rs routinely require Replacement Cost Coverage and **prohibit** Co-Insurance Penalties

On the Horizon...What Happens NEXT??

- Thinking Outside the Box...
- Wildfire Exclusion Programs
 - CA Admitted or CA Non-Admitted?
 - Parametric Wildfire Insurance

On the Horizon...What Happens NEXT??

Parametric Wildfire Insurance Programs

Traditional Insurance = Focus on Policyholder being indemnified. Made Whole.

- Magnitude of the loss determines coverage

Parametric Insurance = Magnitude of “Event” determines Coverage. (Must be verified by Government Agency)

- No Deductible.

- Any Economic Loss is paid.

- Expensive

- Coverage may not be triggered, even if loss is sustained

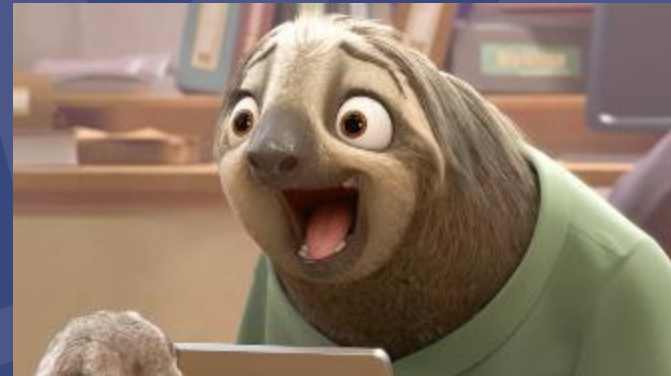
EXPENSIVE! (Set Cost Per Million)

Full Limits likely not affordable

On the Horizon...What Happens NEXT??

Long Term...

1. Need Legislation
 1. Re-Define Standard Fire Policy
 2. Define Wildfire
2. CA Admitted Carriers will Exclude Wildfire
3. Wildfire covered on DIC Policies
4. Wildfire Loss Assessment Coverage for Owners
5. The...DOI...is...slow...



On the Horizon...What Happens NEXT??

On the Horizon...

DOI – Recent Announcement

“CA Sustainable Insurance Strategy”

1. Give Fair Plan policyholders who comply with the Safer from Wildfires Regulations first priority for transition into normal market
2. Improved rate filing procedures for carriers
3. Requiring CA Insurers to write a certain percentage of risks in High Wildfire Risk Communities
4. Don't hold your breath...

Wildfire Insurance Discussion - ACTION ITEMS!!

- Clear Brush and vegetation around your homes!
- Amend CC&Rs to allow Board more Options (the time do this is now!)
 - Partial limits?
 - Higher Deductibles?
 - Allow Board to choose the Scope of Coverage
- The “Nuclear” Option – Amending CC&Rs to insure as Single Family Homes?
 - No longer feasible as carriers leave the state
- Notify Membership of Changes to Property Coverage
- Use ONE Broker Only. Broker of Record.

Wildfire Insurance Discussion - ACTION ITEMS!!

- California Department of Insurance – Contact Us

<http://www.insurance.ca.gov/0500-about-us/05-contact/>

- Who Are My Representatives? :: California Secretary of State

<https://www.sos.ca.gov/elections/who-are-my-representatives>

- California Legislative Action Committee - CAI-CLAC
(caiclac.com)

<https://caiclac.com>

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