

The Role of Catastrophe Insurance in Displacement



Presenter: Matt Sedlar, CEPR Climate Analyst

Survivor Story

Candance



I have a neighbor who ... had plenty of money. Money wasn't the issue for her, right? But four times she had been dropped by her fire insurance at \$36,000 a year and still was dropped from her fire insurance.



Guess what? She had no insurance on her home when it burned because it had been dropped that many times.

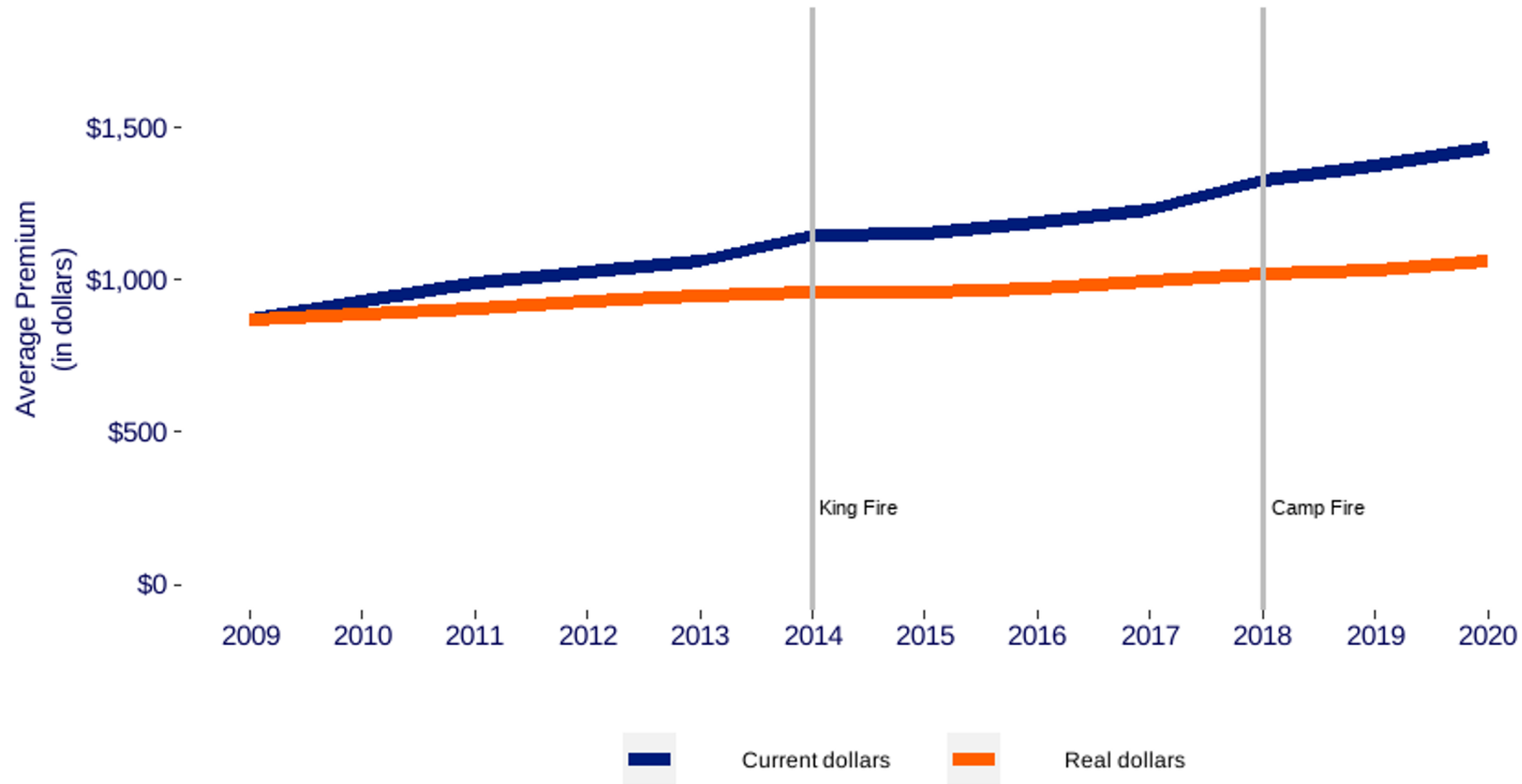
Candance, Caldor Fire survivor



How Fires Affect Insurance Premiums

Average Premiums of Property Holders

Homeowner Fire Insurance Premiums, 2009-2020



<http://cepr.net>

Source: California Department of Insurance, Consumer Price Index. Zip codes 95636, 95684, 95720, 95721, 95726, 95735, 96150 and 96155.

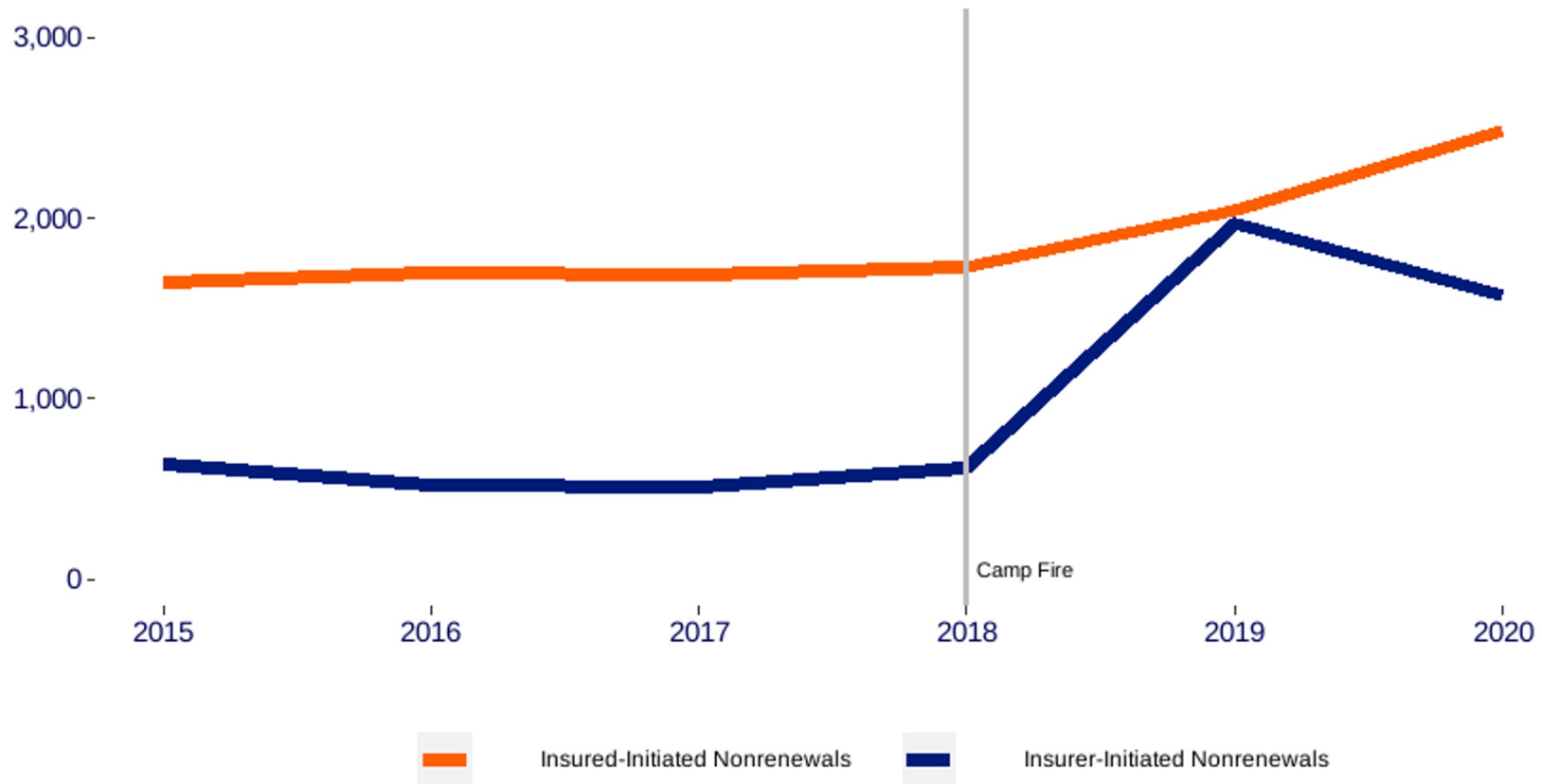
Inflation index set to 2009.



How Fires Lead Insurers to Drop Policy

Insurer vs. Insured Initiated Non-Renewals

Fire Insurance Nonrenewals, 2015-2020



<http://cepr.net>

Source: California Department of Insurance. Zip codes 95636, 95684, 95720, 95721, 95726, 95735, 96150 and 96155. Includes homeowner's coverage forms similar to policy forms HO-2, HO-3, HO-5 & HO-8, dwelling fire forms (excluding dwelling fire contents only coverage), landlord business owner policies (residential policies of 4 units or less), and mobile homes.



History of Fair Access to Insurance Requirements

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Armed National Guardsmen march toward smoke on the horizon during the street fires of the Watts Riots in Los Angeles. Hulton Archive/Getty Images.



History stems from insurance industry redlining in urban areas prior to and during the riots of the 1960s.



National Advisory Panel of Insurance in Riot-Affected Areas argued for a comprehensive and affirmative program to provide equitable insurance access.



Congress authorized with the Urban Property Insurance and Reinsurance Act of 1968, and California's FAIR Plan was established in August 1968.



How Do FAIR Plans Work?



Allow homeowners to purchase insurance on the residual market



FAIR Plan Associations are insurance pools with participating companies writing higher-risk policies proportionate to the share of property insurance they underwrite in the state.



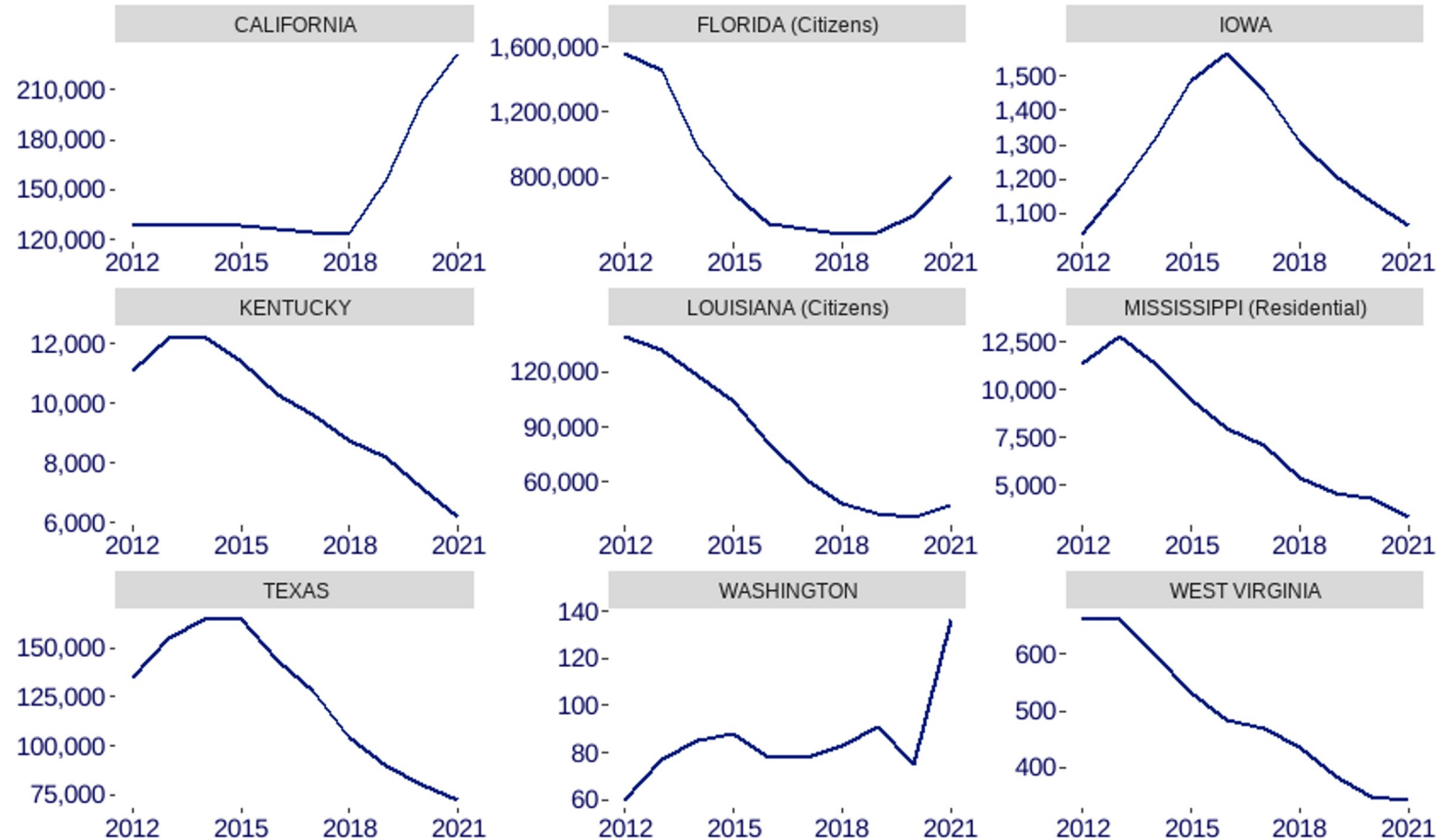
Plans cover fire, wind, hail, explosion, riot, civil commotion, aircraft, vehicle, smoke, vandalism and malicious mischief.



California's Number of FAIR Plan Policies are Increasing

Years Reviewed: 2012-2021

FAIR Plan Policies Issued, 2012-2021



<https://cepr.net>
Source: Property Insurance Plans Service Office.



What Does This Mean for Homeowners?

The Underinsured



I didn't realize what a vast difference [between the Difference in condition and the FAIR Plan] there was until this fire. But it didn't cover my fences. It didn't cover my trees. You had to like check a box and say, yes, I want my trees covered.

Yes, I want my fences covered. Yes, I want all this covered. And I didn't even think about that when I bought

Jolene, Caldor Fire survivor

The Uninsured



In some communities, such as South Lake Tahoe, higher premiums are correlated with insured-initiated nonrenewals

$R^2 = 0.3593$

$F(\text{df regression, df residual}) = 7.168 \text{ on } 1 \text{ and } 10$

$DF, p = 0.0232.$



What Happens to Survivors?



I didn't have any money, but I had a house there. I was very happy.

And then, I did not have enough money to keep paying the fire insurance, so I had no insurance.

David, Caldor Fire survivor



[W]e started shopping for houses looking around, and the market was going nuts at the time. A house would go on the market, and it would be gone in one day.

So we started to really get a little obsessed with 'Okay, let's find a house.'

Wendi, Caldor Fire survivor



One of these solutions is not like the other.

- ④ The state-run model
- ④ Maximum coverage caps
- ④ Mandated “climate” insurance
- ④ Affordable housing solutions outside the WUI and other at-risk areas



Upzoning, Upzoning, Upzoning



More medium-density housing development.



Replace aging housing stock in areas land restrictions with medium-density housing.



Address barriers to homeownership.



Questions or Comments?

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Thank you!



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