LEADERS' CHOICE INSURANCE

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NEWSALERT

Special Report: Commercial Property

How the L.A. Fires May Affect Your Coverage

THE FIRES that have ravaged large swaths of homes and businesses in Los Angeles are likely to significantly alter the California commercial property insurance market. Policyholders may need to brace themselves for surging premiums, policy non-renewals and uncertainty.

These wildfires will result in record payouts by insurers. Moody's RMS estimates insured property losses from the fires will be up to $30 billion, and uninsured property losses will be billions of dollars more.

So many insurers have in recent years left the state or curtailed the number of policies they write due to the wildfire threat. It's unclear if the latest fires will prompt more to do the same.

The L.A. fires are likely to have severe consequences for the state's market of last resort, the California FAIR Plan, which may see more than $3 billion worth of claims from the fires.

The FAIR Plan does not have the resources to cover damages above $2.3 billion at this stage. If its ultimate claims exceed that, all property insurers in the state will be surcharged — and likely will pass those fees on to policyholders.

This report looks at the current state of the market and how commercial property policies may be affected.

The state of the market

The state's homeowner's and commercial property insurance market is in a state of crisis.

Mainstays like State Farm and Allstate have stopped taking on new customers and have been shedding others they deem too risky. State Farm has dropped more than 100,000 policyholders in the last year alone.

Some common factors that can prompt a carrier to refuse coverage are the age of the roof or the age of the property. Commercial property owners who have recently filed claims are often dropped as well by their insurers and find it hard to secure new coverage.

The bottom line: The market was already turbulent before the L.A. fires.

Commercial property rates

Commercial property rates have been increasing an average of 20% a year recently, but many property owners have seen their rates double or triple. Even those who are forced to go to the FAIR Plan for coverage face significantly higher premiums, particularly if they live in a wildfire-prone area.

Besides wildfires, a number of other factors have converged to drive insurance rates even for properties in areas not prone to wildfire, like urban, suburban and industrial areas. These include:

- **Rising repair costs** – Rebuilding costs have jumped more than 30% since 2020.
- **Reinsurance costs** – Insurance companies purchase their own insurance called reinsurance to manage risk, especially in catastrophe-prone regions. Reinsurers have raised rates and increased the thresholds for when they'll start paying claims due to the increased risk in California.

See 'FAIR Plan' on page 2

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FAIR Plan Takes on More Than It Can Handle

Property owners may be in for more rate increases thanks to necessary new rules that just took effect in January. These rules, aimed at coaxing more insurers back into the state, will allow insurers to factor in expected future costs of natural catastrophes and the cost of reinsurance when pricing their property policies.

The Department of Insurance has also been expediting rate increase requests, which in the past sometimes have taken years to get approved. Moody's has predicted that property rates will rise again as a result of the fires.

Risk to the FAIR Plan

As more property owners have lost their coverage, they've increasingly turned to the FAIR Plan, which has put it in precarious shape. As of Sept. 2024 (prior fiscal year-end), the FAIR Plan's total exposure was $458 billion, a 61.3% increase from Sept. 2023.

Compare that to the FAIR Plan's $200 million in reserves as of Sept. 30 last year, and $2.5 billion in reinsurance.

Current estimates are that the FAIR Plan will likely face more than $3 billion in claims from the fires, mostly from homeowners, but also the hundreds of businesses that were damaged or destroyed.

Under state law, if the L.A. wildfires exceed its reserves and reinsurance, the plan can charge all private insurers in the state based on their portion of the insurance market for the first $1 billion above what the FAIR Plan can pay — and they can collect half of that from their policyholders.

For any funds needed above $1 billion, the FAIR Plan can seek approval to assess all policyholders in the state.

Any of those surcharges would be on top of premiums policyholders pay. However, there is talk that the California Legislature may come to the rescue with some sort of bailout.

One other issue: For commercial properties, the most the plan will insure on any given property is $20 million (for homeowner's insurance, it's $3 million). ❖

Don't Lose Hope

- New regulatory changes may bring more insurers back to the market.
- California's property rates are still lower than in many other states. Current changes may reflect a market correction rather than an outlier spike in costs.
- If you can't get coverage with a carrier that's licensed in the state, we can help find coverage in the non-admitted insurer market. These insurers are reliable even though they're not licensed in California, but that also gives them flexibility in how they write policies, which they can better tailor for your individual needs.
- The market is likely to stabilize as insurers adjust to the new risk environment, raise rates,change policy wording and regulatory changes are implemented. Those changes, along with efforts to mitigate risks (like improved fire safety measures) may restore balance.

Carriers That Have Left California or Curtailed Underwriting

Insurers that have pulled out, stopped taking on new clients, non-renewed policies or curtailed where they will cover business properties:

Allstate – Allstate paused issuing new commercial property policies in the state in 2022. However, in May 2024, it indicated that it would resume business once recently initiated regulatory changes took effect, which they did last month.

Farmers Insurance Group – After announcing a moratorium on new commercial policies, the company in July 2024 said that it would resume accepting new business commercial multi-peril applications for several sectors.

State Farm – In May 2023, State Farm announced that it would stop accepting new business property policies in the state. A year later it non-renewed more than 72,000 property and commercial apartment policies.

Liberty Mutual – In July 2023, the insurer said it would stop offering its business owner's policies in California.

AIG – AIG is selectively writing commercial property policies in the state.

Workplace Safety

Protect Outdoor Workers from Wildfire Smoke

THE MASSIVE destruction of the Los Angeles wildfires serves as a reminder that if you have outdoor workers that are affected by wildfire smoke, Cal/OSHA requires you to take steps to protect them against unhealthy air quality.

Wildfire smoke contains a number of harmful pollutants but the main danger to anyone outside in smoky conditions is particulate matter, which can lodge in the lungs. As well, with these fires, there are a lot of chemicals and other toxic fumes in the smoke from burning cars, tires, treated lumber, and more.

Under Cal/OSHA regulations, if the air quality index (AQI) reaches 150 or higher (for particulate matter known as PM2.5) employers have three options for protecting their workers.

Options for protecting workers

- Change the worksite to a safer location,
- Alter work duties or schedule to reduce time in unhealthy air, or
- Provide respirators like N95 masks and encourage their use.

If the AQI breaches 500, employees are required to wear respirators. To better understand how poor air quality affects health, you can get more details at the Environmental Protection Agency's AirNow website. There are a number of websites that track AQI, including AirNow and local air quality management district websites.

Training

The regulations also require employers to hold staff training on:

- How to properly use N95 masks,
- The health danger of wildfire smoke, and
- The steps you are taking to protect them from wildfire smoke.

The Cal/OSHA standard also requires employers to:

- Alert workers when the air quality is harmful and what protective measures are available to employees.
- Encourage employees to inform supervisors if they notice the air quality is getting worse, or if they are suffering from any symptoms due to the air quality, without fear of reprisal.

Exempt workplaces

- Buildings or structures in which the air is filtered and the employer ensures that windows, doors, bays and other openings are kept closed, except when entering or exiting.
- Enclosed vehicles in which the air is filtered and the employer ensures that windows, doors and other openings are kept closed, except entering or exiting the vehicle.
- Employers may also be exempt if they can prove that the AQI at their workplace is not 150 or above, or if it is only above 150 for less than an hour.

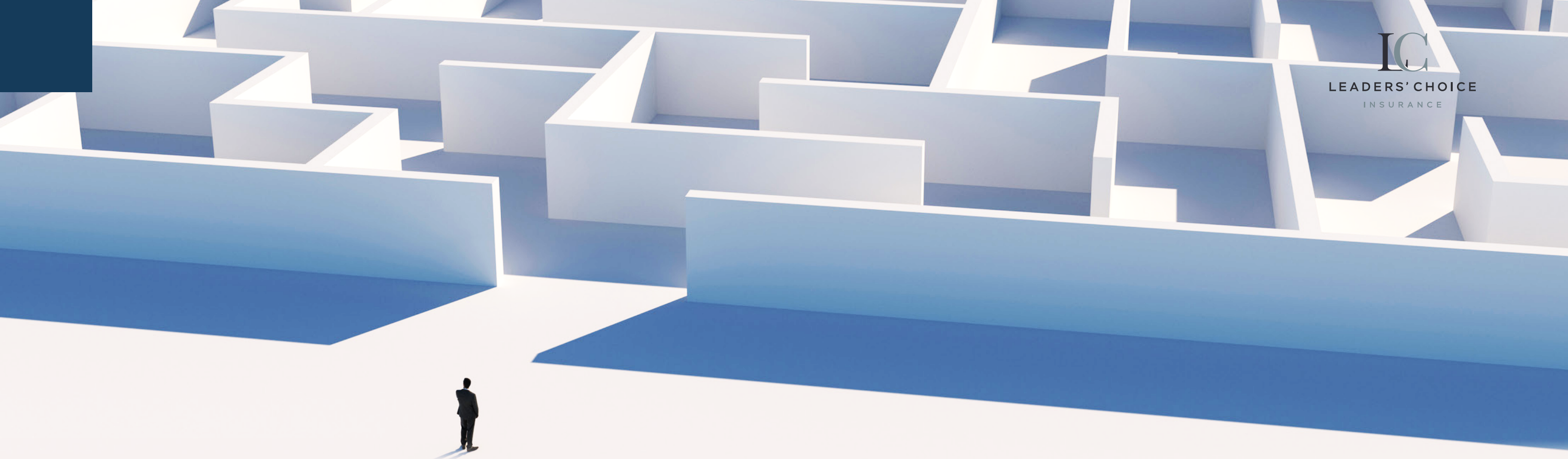
Steps to take during wildfires

Monitor the AQI in the area your employees are working. This can be from online sources or by using your own equipment. Search for AQI monitors online to find one that fits your needs and budget.

Communicate to workers the importance of taking precautions when the AQI hits 150 and what protective measures are available.

If you plan to encourage the use of N95 masks (that you provide), tell workers that surgical masks or items worn over the nose and mouth — such as scarves, T-shirts and bandannas — will not provide protection against wildfire smoke.

A final word about evacuation zones. It's illegal for employers to retaliate against workers who refuse to work in evacuation zones. ❖



Poll: Top Eight Risks Facing Businesses in 2025

ONE OF the keys to running a successful business is having in place a robust risk management system to ensure your company can guard against a growing number of threats that can derail operations or cause significant losses.

While each industry and company have different risks they face, a recent survey collected responses from risk managers around the world to identify the top risks facing businesses.

The "Allianz Risk Barometer 2025" highlights the key threats for organizations in an increasingly interconnected and volatile environment. Below are the top eight risks in 2025 and what you can do to protect against them.

1. Cyber incidents

Cyber risks — ransomware attacks, data breaches and IT outages — remain the top threat globally. With AI accelerating the sophistication of attacks, businesses have to double down on protection.

What you can do – Invest in robust cyber-security measures and train employees on how to detect threats. Regularly update systems and conduct penetration testing.

2. Business interruption

Supply chain disruptions, often triggered by cyberattacks or natural disasters, have consistently ranked high. If one of your suppliers suddenly can't provide you with goods your firm needs or a cyberattack affects your ability to function, you will lose money.

What you can do – Diversify suppliers, explore local sourcing and implement business continuity plans that include how to respond to each possible issue that could result in disruption to operations or sales.

3. Natural catastrophes

Events like hurricanes, wildfires, convective storms and flooding can cause physical damage and interrupt business operations.

What you can do – Put in place a disaster recovery plan that includes how members of your staff will communicate, possible alternative locations for operations, and how to protect your facilities.

4. Changes in laws, regulations

Regulatory shifts, especially around sustainability and emerging technologies like AI, are creating compliance challenges. Businesses will be faced with plenty of uncertainty under the new Trump presidency, considering his plans to pursue deregulation.

What you can do – It's important that you stay on top of regulatory and legal changes to avoid penalties or lawsuits.

5. Climate change

The physical and operational impacts of climate change, such as extreme weather and resource scarcity, are intensifying and businesses need to harden their operations to cope.

What you can do – How you harden your operations and facilities against climate change will depend on what natural catastrophes your firm may be exposed to. If you are in a wildfire area, that may include using fireproof siding and roofs and creating a defensible space around your facilities.

6. Fire and explosion

Fires remain a leading cause of business interruption, especially with the rise of lithium-ion battery incidents. It can take longer to recover from fires or explosions compared to many other perils.

What you can do – Ensure that you conduct regular fire safety audits and training to staff, particularly if you store flammable materials on-site. Regularly update your fire prevention protocols and provide emergency response training.

7. Macroeconomic developments

Economic uncertainties, including inflation and fluctuating monetary policies, pose challenges for budgeting and forecasting. This will be especially true under the Trump administration as he sets out to reverse Biden's policies and pursues tariffs that could lead to trade wars.

What you can do – Keep abreast of market trends and adapt to macroeconomic changes with flexible planning. Staying agile and diversifying revenue streams can mitigate risks.

8. Market developments

Many experts believe it is unlikely that there will be a major stock market slide in 2025. Recovering earnings and strong fundamentals should support continued growth.

What you can do – Strategic planning and market analysis are critical if your organization is reliant on stock market gains.

The takeaway

The above list of risks was gleaned from a survey of companies around the world, but most of the risks also apply to U.S. firms.

It's important that businesses take a structured approach to managing their risks and creating plans for all eventualities that may affect them. That requires buy-in from management and a focus on protecting the company's revenue stream, physical and digital assets, employees and supply chains. ❖