



## SPECIAL REPORT: COMMERCIAL PROPERTY

# How the L.A. Fires May Affect Your Coverage

**T**HE 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.

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

See 'FAIR Plan' on page 2



## 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.

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## FAIR Plan Takes on More Than It Can Handle

have raised rates and increased the thresholds for when they'll start paying claims due to the increased risk in California.

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.



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## BUILDERS' RISK INSURANCE

# More Contractors Hike Deductibles to Cut Costs

**A**S CONSTRUCTION projects become larger and more complicated, contractors are taking on more of the risk by increasing their builder's risk insurance deductibles, according to a recent report.

Michael Cusack, executive vice president of insurance broker Alliant Specialty, told Insurance Business magazine that contractors are willing to take on more of the risk as those that have strong internal risk management regimens will be rewarded with lower premiums, particularly if they can stave off expensive claims.

There are a number of factors that are driving insurance rates, which are prompting construction firms to take on more risk.

## Insurance rate drivers

- Claims costs are skyrocketing as the cost of rebuilding and materials has continued rising.
- Increasing litigation.
- Larger and larger liability lawsuit settlements and jury awards, and an increase in "nuclear" verdicts of \$10 million and more.

"Contractors are taking on more deductible risk and manage that risk effectively using in-house protocols, and the ones that can do that will be the most successful," Cusack told the trade publication.

"Construction jobs are getting much bigger, and the risks are becoming more complicated. If contractors can develop the systems and the personnel to manage risk, they can do it more efficiently and therefore be rewarded for that," he explained.

## Considerations

Increasing a deductible obviously comes with risk, particularly if you end up having multiple claims.

Raising your deductible amounts can be a smart business move that saves you money on your monthly or yearly premium payments. The extra money can help you grow your business, invest in new equipment, and even increase your available cash flow.

But the best use of the extra cash is to create a contingency fund that you can draw on in case you incur a claim.

If you are comfortable assuming some additional risk yourself, and have resources you can draw on if they're needed, talk to us about the possibility of raising your deductible. If the savings are enough to cover the deductibles on one or two claims, it may be worth making the change.

To make taking on more risk financially viable, you'll have to prioritize risk management at your worksites. Emphasize the importance of safety to your supervisors, crew members and subcontractors.

By conducting regular safety training, providing personal protective equipment and strictly enforcing safe work practices, you can reduce the risk of on-site accidents and minimize damage and injury claims.

One other major risk to contractors is theft and vandalism. To lower this risk, builders have been erecting fences and walls around worksites since the dawn of construction. Today, there are cost-effective solutions to increase site security and reduce risks, such as:

- Online cameras and smart sensors on the job site can enable continuous monitoring for unauthorized access, unlawful activities, CO2 levels and real-time water leak detection systems like WINT's water intelligence platform.
- Adequate lighting is much cheaper to procure, and built-in motion sensors can help save energy (while deterring potential trespassers to the site).
- GPS tracking tags on vehicles, equipment and even valuable materials can make it easier to recover them if they are stolen.
- Mobile applications for your workforce management can be a helpful tool in creating ongoing and interactive safety training, and risk-reporting programs to reduce the risks of human error and negligence.

## Talk to us first

Taking step to increase your deductible has to be done with forethought and care.

Call us to review your policies before renewal and we can do a deep dive into your policy and risk management practices to see if increasing your deductible is a good move for you. ❖



## COMPLIANCE

## Have You Posted Your OSHA Form 300A?

**E**MLOYERS WITH 10 or more employees must post their completed OSHA Form 300A by Feb. 1 and keep it posted in their workplace until April 30.

The form must be posted where the company usually posts other employee notices, like minimum wage and workplace safety notices.

Form 300A summarizes the total number of fatalities, missed workdays, job transfers or restrictions, and injuries and illnesses as recorded on Form 300.

### Required information

Form 300A requires the following information from your Form 300 Log:

- The total number of non-first-aid occupational injury and illness cases.
- The total number of cases with days away from work and cases with job transfer or restriction, and total number of other recordable cases.
- The cumulative total number of days from all injuries or illnesses, including days away from work and job transfer restrictions.
- The number of occupational injury/illness cases, including skin disorders, respiratory conditions, poisoning and hearing loss.

### Common mistakes employers make

Despite the form being relatively simple, many employers make mistakes filling it out. Here are the most common errors:

**Keeping one log for multiple locations** – Employers are required to keep one OSHA 300 Log per location where they have employees and that is in operation for a year or longer. The corresponding 300A form must also be posted at each location.

**Improperly certifying the log** – Under regulations, a company executive must certify the 300 Log and the 300A Annual Summary Form.

**Listing all workers' comp cases** – Only the injuries listed under the regulations must be included in the log.

The regulations require that employers only record a work-related injury or illness if it results in one or more of the following:

- Death
- Days away from work
- Restricted work
- Transfer to another job
- Medical treatment beyond first aid
- Loss of consciousness
- A significant injury or illness diagnosis by a physician.

**Failing to record temp worker injuries** – Regulations require that contract labor or temp worker injuries be included in the OSHA 300 and OSHA 300A logs.

**Failing to post the form when there were no recordable injuries or illnesses** – This is one of the most common mistakes that employers make. Many business owners think since they had no workplace injuries, the form does not need to be posted. That would be incorrect. ❖

## RISK MANAGEMENT

# Don't Let a Subcontractor Derail Your Safety Efforts

**O**NE OF the biggest challenges construction businesses face is preventing subcontractors' and suppliers' poor or non-existent safety practices from denting their own safety program.

While you may consider a number of factors when vetting a new subcontractor or vendor, one area that is often overlooked is their workplace safety practices.

This mistake can cost you dearly if one of their workers causes an incident at your worksite. In addition to an injury to one of your own employees, you could get a visit from an Occupational Safety and Health Administration inspector.

The National Safety Council's Campbell Institute recently conducted a study of organizations with excellent safety records to identify the best practices for subcontractor and vendor safety.

As part of the study it identified five steps during a subcontractor or vendor relationship when it's incumbent on a hiring company to evaluate the workplace safety habits of their business partners.

## Prequalification

The institute recommends looking at more than just a company's experience modification rate. It says safety-minded firms assess subcontractors in multiple areas, such as their total recordable incident rate, fatality rate, days away from work for injured workers, restricted or transferred rate, and other OSHA recordables for the last three years.

Many firms also ask for environmental reports, written safety programs, permits, licenses and continuous improvement programs.

## Pre-job task and risk assessment

Before a subcontractor begins work, institute members recommend having a method for evaluating the risk of the work

that is to be performed. Doing this can help you understand the scope of the work and give you a chance to put into place a new written safety program if the risk is deemed high.

Most importantly, subcontractors should be required to adhere to the same safety standards as your company.

## Training and orientation

You should require safety orientation and skills training for subcontractors before they step onto your jobsite. Also, if they are doing highly specific work, you should ensure they have any required permits or special training.

Some of the jobs that fit into that category are confined-space entry, electrical work, hot work, energy control, forklifts and elevated work.

## Job monitoring

Many safety-minded companies monitor work with daily checklists, pre-shift tailgate or safety meetings and weekly walk-through inspections. Some of the companies surveyed for the study also require contract employees to submit a certain amount of safety observations and utilize mobile applications to report non-compliance or unsafe conditions.

Also, you need to keep up-to-date incident logs, as this is crucial to monitoring subcontractor safety during a project.

## Post-job evaluation

Conduct a post-job evaluation. During this phase look at safety, customer service and the quality of the finished work, and use those factors in determining the subcontractor's eligibility for future contracts. ❖

