United Policyholders
Empowering the Insured

Another insurer is leaving California. Here's what the troubling trend could mean to North Bay homeowners

Press Democrat

A subsidiary of Farmers Insurance has become the latest in a long string of companies to leave or limit coverage in the state since May, including Allstate, State Farm, Farmers and USAA.

Yet another insurer is leaving the California market, affecting tens of thousands of home, auto and renter policies.

The company, Farmers Direct Property and Casualty Insurance Company, is part of the Farmers Insurance Group, one of California's largest providers. The vast majority of customers will be offered alternative policies through other Farmers subsidiaries, but because each company sets its own rates, people could be facing different premium costs.

Since May, several large and small property insurance providers, including Allstate, State Farm, Farmers and USAA, have decided to limit business or leave California altogether.

Massive wildfires sparked by utilities and exacerbated by climate change recent years have wiped out decades of underwriting profits, which along with inflation and rising reconstruction costs, have destabilized the insurance industry, according to Rex Frazier, president of the Personal Insurance Federation of California, an insurer trade association. That's led to companies pulling back or raising premium costs for homeowners to limit risk.

"There's just currently not a system in place that allows companies to responsibly stay where they've been for many years," said Frazier, who emphasized the necessary ratio a company needs of uncommitted capital to policies written. “They’ve been drained for a very significant number of years now, and they’re struggling to figure out what they’re going to do.”

As a result, especially in areas with a history of wildfire like the North Bay, homeowners have increasingly faced sudden policy cancellation, coverage refusal or exorbitant premium costs. More and more, people are being driven to the FAIR Plan, Californians’ property insurer of last resort, which comes with restrictive coverage limits, a high price tag and is itself at risk of becoming unsustainable as its forced to cover more people.

The situation has triggered well-founded alarm for Californians and concern from lawmakers, advocates and regulators about an impending insurance crisis in the state.

“People with extreme wildfire risk are having a difficult time, and it’s challenging even down into areas close to suburbia,” said Joel Laucher, former deputy commissioner for the California Department of Insurance and current program specialist for United Policyholders, a nonprofit that informs and advocates for insurance consumers. “It’s something that touches probably every county in California and probably most every city.”

The latest insurer pullback seems to be more about restructuring and streamlining within the larger corporate entity, according to Laucher. But still, the subsidiary was created in an era where insurers were looking to expand, and “this change is a sign that at least for the meantime, those days are over of companies seeking to write more business. At the moment, they are seeking to write less.”

The California Department of Insurance has taken recent steps to try to ease the burden on customers, ensuring discounts, for instance, for those who reduce fire risk on their properties.

Further regulatory moves to more broadly stabilize the market and expand coverage options are still being hashed out. Proposals so far have drawn mixed reactions.

Critics argue that what’s been put forward lacks specifics, fails to include urgent enough timelines and could lead to unmanageable higher rates.

On Monday, more than 30 U.S. lawmakers from California signed on to a letter imploring California

Insurance Commissioner Ricardo Lara do more to ensure insurance companies provide affordable widespread coverage.

The insurance industry has especially pushed to base premium costs on risk modeling that incorporates climate change projections rather than the current process that relies on average past loss payouts. Another main ask is to allow companies to pass through some of the rising costs of reinsurance where an insurer transfers assumed risk by selling a portion of its liability to other insurers around the world.

Consumer advocates have worried that with reinsurance rates and third-party modeling technology beyond California’s regulatory reach, these concessions could erode Proposition 103, California’s landmark rate-making transparency law, and lead to unchecked price hikes. Some opponents have also argued that in states like Florida where these allowances have been made, policyholders haven’t, in fact, been insulated from cost increases or refusals.

Ultimately, Frazier said that something has got to give: If the state wants more widespread coverage in riskier areas, then there have to be more avenues for companies to cover those potential costs.

“It’s all but certain in the short-term that rates are going to need to be higher,” he said. Still, he noted, “that can’t be our long-term strategy,” which must involve understanding and adopting the science and technology to make communities best able to weather a new climate reality.

In drawing back from California, insurers are “taking a breath” after a few big loss years to reevaluate their books and risk in light of some justified concerns, Laucher said. At the same time it could also “be a strategic move to see if some of the restrictions on rates would be relaxed.”

There is a potential middle ground where just a small capped percentage of reinsurance could be passed through, or where transparency in modeling is required, Laucher said. But, he cautioned, there’s no guarantee that, even with those concessions, companies would start writing new business.

“There’s a lot of considerations of whether any compromises are going to lead to a better market or not,” Laucher said. “The rate regulation process has been a great protection. Hopefully, we won’t see too much in the way of compromise to the current structure but maybe some reasonable amount of change.”

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