

California announces changes to home insurance market to address wildfire coverage

The Real Deal

Wildfires have prompted some insurance companies to cease writing new policies

In a bid to bolster wildfire coverage in the face of increasing natural disasters, California is set to revamp its home insurance market with a series of new regulations, announced last week.

In recent years, devastating wildfires and other catastrophes have prompted some insurance companies to cease writing new policies, non-renew existing ones, and hike premiums, prompting more Californians to resort to the government-established FAIR Plan, considered a last-resort insurance option, the San Francisco Chronicle reported.

Under the new rules, slated for implementation by December 2024, insurance firms must write an average of 85 percent of their market share in high wildfire-risk communities, Insurance Commissioner Ricardo Lara said. However, the move may come at a cost, potentially leading to higher premiums. Insurers will now have the green light to use models reflecting future higher risks, and they may be allowed to include the cost of reinsurance, previously prohibited in California.

Consumer Watchdog, an advocacy group, has voiced concerns about potential premium hikes resulting from these changes. Jamie Court, president of Consumer Watchdog, pointed out that similar modeling and reinsurance practices have led to premiums in Florida rising two to three times higher than those in California.

Consumer advocacy groups, including United Policyholders, are also worried that the new modeling techniques could exaggerate the risk for insurance companies, resulting in unnecessarily high rates. They are pushing for transparency, urging that the modeling methods be made public.

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Lara's primary objective is to encourage a shift away from the FAIR Plan and back to the traditional insurance market, with priority given to properties that have robust fire mitigation measures in place, potentially making them eligible for discounts.

While these reforms aim to make insurance more accessible, they are not without critics. Amy Bach, executive director of United Policyholders, said she believes insurance rates will continue to rise due to increased risks. The hope is that with these changes, insurance options will return, fostering competition that typically benefits consumers.

Lara's plan also seeks to increase commercial coverage under the FAIR Plan to \$20 million per building, closing gaps for homeowners associations and condominium developments. This comprehensive strategy, named the Sustainable Insurance Strategy, is California's most significant insurance reform since the passage of Proposition 103, which required insurers to obtain authorization for rate increases from the Department of Insurance. Critics like Harvey Rosenfield, the founder of Consumer Watchdog and the author of Proposition 103, express concerns that these changes may ultimately cost California consumers and small businesses more in the long run.

Gov. Gavin Newsom had previously issued an executive order urging swift action to stabilize the state's homeowner and commercial property insurance market.