

California Insurance Carriers Can Use Disaster Models for Pricing

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California has reached an “historic” agreement with insurance carriers to modernize the way pricing is related to the cost of disasters in order to stem an exodus of the largest carriers from the Golden State.

After seven of the top 12 insurance carriers in California pulled back coverage this year in response to increasing natural disasters due to climate change, state officials have made several major concessions to the industry in a new package of insurance regulations.

Ricardo Lara, the California Insurance Commissioner, called the package of regulatory reforms an “historic agreement” between regulators and the industry.

In what is being described as a big win for the insurance industry, California has reversed its position barring insurance companies from using forward-looking catastrophe models to more accurately price rates.

Forward-looking models—which understand that climate change rapidly is becoming an un-reversible feedback loop—have become an industry standard in most states, while California, with the most-stringent environmental standards in the nation, has held out for a standard based on 20-year historical models.

In addition to switching off the historical standard, the state also has agreed to work more closely with insurers to expedite rate-increase requests, a process that currently takes at least six months, according to a report in the Washington Post.

According to Amy Bach, executive director of United Policyholders, a consumers group, regulators in California were afraid that insurance companies could use the sophisticated catastrophe models to inflate the cost of risk.

Lara threatened to use the state’s “claw-back” authority if it determines that insurers—who he warned to

maintain “transparency”—are inflating risk and charging people more than they should be.

California is trying to quickly stop the rapid growth of its FAIR plan, a state-run insurance program for high-risk properties that is supposed to be a temporary safety-net, but has become, as the state is warning, the “first resort, not the last resort” for many residents.

Lara admitted at his news conference that the state’s regulatory framework has been fueling the crisis in California because it doesn’t meet current needs—but instead has been putting consumers in danger.

California is on the front lines of an insurance emergency tied to the climate emergency—which is introducing all of us to what may become a continuous disaster that is just clearing its throat.