

California Insurance Commissioner says ‘real change’ coming to homeowners insurance crisis

abc10

In the last few years, most of California’s major homeowners insurance companies have paused or limited business in the state, citing the rising risk of wildfire, the cost of rebuilding homes and what they consider burdensome state regulations.

As a result, hundreds of thousands of homeowners across the state have seen their insurance get much more expensive — or canceled altogether.

ABC10 sat down for a 1-on-1 interview with California Insurance Commissioner Ricardo Lara to ask what he’s doing to solve this problem.

“With the reforms that we’re proposing, I’m very confident that we’re going to see some real change coming mid-2025,” Lara told ABC10’s Alex Bell, of To the Point. “We’re going to see that California is back open for business. We’re going to see insurers coming back to California.”

In Sept. 2023, Lara announced his Sustainable Insurance Strategy, the biggest overhaul of the state’s insurance policy in more than 30 years. Lara promises everything will be in effect by the end of 2024, though he acknowledged it will take awhile for those changes to stabilize the market.

His strategy aims to entice insurance companies to return to writing fully in California once again by giving them several things they’ve wanted for years.

Those include a faster rate approval process. In California, insurance companies are required to get

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approval from the state before raising rates. Companies say it often takes the department more than a year to approve a rate hike, which in recent years hasn't allowed them to keep up with inflation and rising risks.

Lara's Sustainable Insurance Strategy also includes allowing insurers to use forward-looking 'catastrophe modeling' when justifying their requested rate hikes, which factor in current and near-future climate models to judge wildfire risk and more accurately price products.

He is also promising FAIR Plan reform, modernizing the state's bare-bones, high-costs 'insurer of last resort,' which has become many Californians' only resort, as companies pull out of the regular market.

A fourth major pillar of Lara's plan is offering insurers the ability to factor 'reinsurance' — basically, insurance for insurers — into rate hike requests.

"California is the only state that doesn't allow for some sort of pass-through in the rates to cover a part of the reinsurance, which is also a big component of why insurance companies have to retreat from California: because they're making sure that they're not overexposed and that they're able to afford the reinsurance," Lara said.

Details about Lara's plan for reinsurance are due out later this fall. The language of all other proposed reforms has already been published.

Critics argue Lara is giving insurance companies too much power and that prices will go up for consumers.

"After two years of talk, we've given the insurance companies what they want: the right to raise rates based on secret algorithms and the right to raise rates based on reinsurance — coming next — with no guarantee that people are going to be covered," said Jamie Court, president of Consumer Watchdog.

Lara said he's making long-overdue changes.

"What I'm doing is playing catch-up for years of other insurance commissioners not having the courage to make these reforms that should have been done a long time ago," he said.

Lara promises these reforms will be in place by the end of this year. As to whether and when these changes will actually begin to stabilize California's insurance market is something ABC10 will be watching in 2025.

ABC10's To the Point team attended a homeowners insurance panel event Tuesday, held by the Sacramento Press Club.

ABC10 got to hear from experts and advocates representing various viewpoints, including an insurance industry lobbyist, Denni Ritter, vice president of the Western region for the American Property Casualty Insurance Association, and a consumer advocate, Amy Bach, president and co-founder of United Policyholders.

Ritter told ABC10, of all the reforms Lara has promised, expedited rate approvals are the most important to insurance companies.

Meanwhile, Bach said she worries the forward-looking catastrophe modeling will lead to insurers over-estimating risk and therefore overpricing their policies.

There's a lot to unpack, which is why ABC10 is devoting an entire show to California's homeowners crisis: how we got here, who it's affecting and what solutions are in the works on the state and federal level.

That's coming up on Thursday, Oct. 10, at 6:30 p.m.