

California overhauls home insurance market after wildfire coverage losses. Here's what that means

San Francisco Chronicle

California will overhaul its home insurance market in an effort to shore up wildfire coverage under new regulations announced Thursday.

In recent years as natural disasters have torn through the state, some insurance companies have stopped writing new policies, non-renewed customers and increased rates — which has pushed more Californians to opt for the insurance option of last resort, the government-created FAIR Plan.

Under the new rules, which will be implemented by December 2024, Insurance Commissioner Ricardo Lara said insurance companies must write at least an average of 85% of their California market share in high wildfire risk communities.

But the trade-off is likely higher rates, as insurers will now be allowed to use modeling that reflects higher risks in the future, and may be able to incorporate the cost of reinsurance (insurance for insurance companies) into rates — a practice that to date has been barred in California.

Advocacy group Consumer Watchdog warned that higher premiums could result.

“The use of catastrophic modeling and adding of reinsurance costs to premiums has pushed Florida premiums up two to three times higher than California’s,” Jamie Court, president of Consumer Watchdog, said in a news release.

Amy Bach, executive director of the consumer advocacy group United Policyholders, worried that the new modeling methods will overstate the risk for insurance companies, leading to unnecessarily high

rates.

Consumer advocacy groups fear the rate-setting methodology will be hidden and want the modeling be public.

“I do think that overall that the homeowner’s insurance rates are going to continue to increase and for the foreseeable future for the simple reason that the risk has increased,” Bach said.

Lara said a key goal is to transition people out of the FAIR Plan and back to the traditional insurance market, with first priority given to homes and businesses that make strong fire mitigation efforts. Such efforts can also make homes eligible for discounts.

“The FAIR Plan has doubled to 3% of the market, becoming the insurer of first resort for many Californians and not the last resort as it is intended to be,” Lara said in a news conference.

Bach said the program should make it easier for people to get out of the FAIR Plan or avoid needing it in the first place. She said the expectation is that insurance options will come back, meaning there will be competition, which typically benefits consumers.

Ultimately, “We’re not jumping up and down here with excitement because, this is a compromise deal,” Bach said.

Lara’s plan will increase commercial coverage under the FAIR Plan to \$20 million per building, closing insurance gaps for homeowners associations and condominium developments, according to the Department of Insurance.

“This is a comprehensive strategy to modernize our insurance market with three interlocking goals — making insurance available for Californians, creating a resilient insurance market, protecting communities from climate change,” Lara said.

Before Lara’s announcement Thursday, Gov. Gavin Newsom issued an executive order requesting Lara promptly take action to stabilize the state’s homeowner and commercial property insurance markets.

Lara’s plan, called the Sustainable Insurance Strategy, is set to be California’s largest insurance reform

since Proposition 103 was passed 35 years ago, according to the Department of Insurance. The proposition required insurers to get authorization from the Department of Insurance before any rate increases.

“I think ultimately, if he gets away with it, this it’s going to end up costing California consumers and small businesses vastly more money,” said Harvey Rosenfield, the author of Proposition 103 and founder of Consumer Watchdog.