California plans big insurance shifts as climate change hits home

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The actions of the nation's biggest insurance market could have implications for U.S. consumers, as more carriers leave disaster-prone states

California top leaders announced Thursday that they are making reforms to the state's insurance system to stabilize the market, a big shift in one of the nation's most disaster-prone states with one of the world's largest insurance markets.

The state's action, using executive decrees, came after seven out of the state's top 12 carriers, including giants Allstate and State Farm, have pulled back coverage in the last year due to wildfires and the rising costs of such risks. They have claimed that homeowners' premiums do not match the risk they face.

California's move could have national implications, as insurance companies grapple nationwide with the latest threats from climate change.

In what California Insurance Commissioner Ricardo Lara called a "historic agreement" between regulators and the industry, his department is working more closely with insurers to better assess and expedite their rate-increase requests, which now take six months.

His agency also wants to more accurately price at-risk homes and encourage residents to better harden and protect them from wildfires, and squelch the rapid growth of California's FAIR plan, an insurance program for high-risk properties that's supposed to be a temporary safety net. But, as the insurance commissioner said Thursday, it's become the "first resort, not last resort" for many residents, not just those in desperate situations because of the dwindling lack of private policy options.

In a big win for the industry, California reversed its position on barring insurance companies from using forward-looking catastrophe models, which is standard in most other states, to more accurately price rates. Until now, the state only let carriers use historical, 20-year data when pricing policies.

The reason, explained Amy Bach, executive director for United Policyholders, a consumer group, is that regulators were afraid that insurance companies could use the sophisticated catastrophe models to inflate and overstate how risky an area truly was to charge more.

Lara said insurers need to be transparent with how they are using this data to ensure they are not inflating risk and charging people more. If they are not the department has full authority to “claw back” their rate increases.

“This is a real crisis that we are in,” Lara said at a news conference Thursday, acknowledging that the state’s current regulatory framework does not meet its current needs, and has actually been hurting consumers and putting them in danger.

California has been struggling to get ahead of a quickly evolving climate emergency: How do homeowners afford to insure their homes when it’s becoming more expensive for carriers to do so and they want to pass more of that cost onto consumers? Places like Louisiana and Florida are facing similar issues.

With these actions, California is trying not to become Florida, which has seen its premiums rapidly skyrocket as a result of recent legislation and rate hikes. Residents there pay $6,000 a year on average while Californians pay about $1,300. But industry groups say that Californians should be paying much more given their exposure to major disasters, plus their homes usually cost a lot more.

For years, California lawmakers have had a push-pull relationship with the industry.

Regulators have not wanted to jack up rates and let carriers fold in complex modeling data into their policy decisions, but with more devastating and expensive disasters and the rising cost of insuring themselves with reinsurance, carriers have said they no longer want to take on more risk unless the state enables them to charge more and bring in private companies to make those decisions.

Lara’s step to fix the market, the most substantive since 1988, comes after lawmakers failed to come up with a solution this session to loosen regulations and raise rates to try to keep insurance companies operating at full capacity while not upsetting and drastically upcharging the consumer.

This ripple effect squeezes the market and inevitably forces more residents to get policies from the state's insurer, the California FAIR Plan. This is also happening in Florida, Louisiana, and other states.

As part of their reform package, California will now require insurance companies to write no less "than 85% of their statewide market share in distressed areas," which Lara will identify; lessen the amount of policyholders in the FAIR Plan and get them back under private carriers; and enable commercial and HOA developments to have $20 million worth of coverage from the FAIR Plan.

Gov. Gavin Newsom (D) issued an executive order Thursday that essentially greenlit Lara's plans, authorizing the commissioner to take "emergency regulatory action" to expand coverage choices for consumers, particularly in underserved areas, tailor rates to keep the market competitive, improve and expedite the department's rate approval process, and get more people out of the FAIR Plan to keep it solvent.

Newsom cited some of the industry's concerns in his order, particularly carriers' exposure to more billion-dollar extreme weather events, higher construction repair costs, global inflation and greater reinsurance premiums.

While the state has approved rate hikes, they have not matched what the industry feels is necessary to do business in the disaster-prone state. Over the last 10 years, homeowner insurance companies have done "far worse in California than nationally," Lara said in his Thursday presentation.

Industry groups applauded California's actions.

"California's 35-year-old regulatory system is outdated, cumbersome and fails to reflect the increasing catastrophic losses consumers and businesses are facing from inflation, climate change, extreme weather and more residents living in wildfire prone areas," Denni Ritter, APCIA department vice president for state government relations, said in a statement.

"The actions announced today by the Commissioner are the first steps of many needed to address the deterioration of the insurance market."

While the insurance commissioner’s package is an important step, experts say it’s still missing some key elements. For one, the FAIR Plan “is in big trouble,” said Michael Wara, a wildfire and insurance expert at the Stanford Woods Institute for the Environment, and more needs to be done to lessen the amount of coverage the state insurer is doing. There also needs to be swift action on requiring homeowners to create defensible spaces to thwart fire space, a plan which the state is behind on.

There are also questions about how quickly Lara and the department can act. The commissioner said the executive action enables his department to “move quickly and set regulations with a sense of urgency.”

He wants all these reforms in place by December 2024, he said. But as Wara pointed out, homeowners are in the thick of fire season and need sweeping action now.

“This is an emergency,” he said. “By what process will Lara get this in place? How fast can he do this? Time is of essence in all of this.”

Source: https://uphelp.org/california-plans-big-insurance-shifts-as-climate-change-hits-home/ Date: July 18, 2024