California property owners paying more as state works to keep insurers from leaving

North Bay Business Journal

California plans to close the door on insurance carriers leaving the state by granting many of their rate hike requests, some into the double digits.

That's the plan state officials are banking on to stabilize the California insurance market in an environment where surveys indicate people are willing to pay more for policies, while investing more in their properties to at least maintain exiting insurance coverage. There are always exceptions, but much of that lies with whether the property owner holds a mortgage. Mortgage companies require insurance as a prerequisite to purchasing property.

All this is happening while a consumer advocacy survey indicates property owners are getting less for their money in terms of replacement costs to rebuild.

State insurance commissioner Ricardo Lara emphasized to lawmakers in a mid-May hearing that insurance access is the priority. But rate hikes, some double-digit, are part of the deal referred to as the state's Sustainable Insurance Strategy.

"My staff just approved CSAA Insurance Exchange's homeowners insurance rate filing last Friday. This ensures that CSAA can continue to write homeowners policies under the AAA Northern California brand," Lara said in testimony.

Gov. Gavin Newsom has punctuated that point with support for the strategy that involves streamlining the process for rate increases.

Of 20 rate increase requests made with the California Department of Insurance in the last six months, 10 have been approved so far.

The largest request for rates — up to 26.9% higher — was granted in March to the General Insurance Company, which ranks 10th in California market share.

It was followed by State Farm and the Interinsurance Exchange of the Automobile Club, whose rate hike requests of up to 20% each were approved.

A subsidiary of Travelers, Standard Fire Insurance Co., asked for a hike in rates of up to 21.7% and received approval on a maximum 15.3%.

Four of the 10 requests were approved at up to 6.99%. Anything higher triggers a state-imposed insurance hearing.

The insurance industry says the increases are a matter of survival — that for every $1 received in policy premiums, $1.09 is paid out in expenses and claims. That's up a penny in the last year.

Of the 10 requests and approvals issued on insurance rate increases with the state, only two were made by publicly traded companies that disclose their earnings and other financials.

"The industry is losing money. That's the reason why so many companies are asking for increases. They need to break even, and they're supposed to be able to make a small profit," said Janet Ruiz, western chapter director of the Insurance Information Institute. "The cost to rebuild has outpaced inflation. There, all prices have gone up."

She continued: "Insurers respond, they don't drive the market. Inflation has gone down, but prices are not decreasing. We have to replace those costs with rate increases."

Jeff Okrepkie has noticed the increasing amount of rate hikes, accompanied by insurers pulling out of the state. He answers to the industry as a George Petersen Insurance Agency broker and to his constituency as a Santa Rosa city councilman.

"Yes, they're getting less for more money," Okrepkie said. "It's (set at) what the market dictates," he said, admitting his job has become "tougher" at best.

“We’re working harder (on accounts) than we’ve ever worked,” he said. “In the time we’re usually getting new business, we’re trying to keep the clients insured.”

Okrepkie broke it down hourly. About five years ago, the Santa Rosa firm’s brokers would spend about 40 minutes in an hour on developing new business accounts and the remaining 20 on retaining existing customers.

“Now, it’s flipped,” he said.

The industry turmoil has extended from commercial and consumer clients to the carriers to the brokers.

According to a 2023 consumer survey called Homeowners Perception of Weather Risks provided by the Insurance Information Institute, 32% of homeowners reported being impacted by weather in the last five years.

The survey also showed 40% of homeowners saying they’ve taken steps to better protect their properties. In the West, the statistic rises to 47%.

Amy Bach, executive director of United Policyholders, a San Francisco-based consumer advocacy organization, discovered in its recent survey that two-thirds of those affected by natural disasters did not have the insurance to rebuild.

Bach blames insurers and cautions the insureds.

“Everything costs more now. But insurers continue to use flawed replacement cost software,” she said, calling the costs imposed on policies as “erroneous.”

Bach insists the limits on policies don’t meet the demand, especially with changes in building codes. On top of that, most insureds stash away their policies and don’t revisit the type of coverage they need or discover they’re underinsured.

State lawmakers have gotten involved in trying to find a solution. The Senate passed a bill (SB 1060) earlier in May from Sen. Josh Becker, D-Menlo Park, that urges property insurers to consider home hardening measures in reducing wildfire risks when underwriting policies.

Source: https://uphelp.org/california-property-owners-paying-more-as-state-works-to-keep-insurers-from-leaving-2/ Date: October 14, 2024