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California Won’t Let Homeowners Insurance Companies Raise Rates, so They’re Leaving the State Instead

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Reading insurance trade magazines isn’t everyone’s idea of a great time, but every Californian should pay attention to the latest news in that arcane world. “State Farm to pull out of 72,000 California insurance policies,” blared a Reinsurance News headline. State Farm provides nearly 21 percent of state homeowner policies, so this is big news. Last year, it stopped writing new homeowner policies. Now it’s “non-renewing” existing ones and getting out of apartment policies entirely.

Stories about the state’s crisis du jour have seeped into the mainstream media too. “The ongoing home insurance crisis in California is about to deepen as yet another company has announced its withdrawal from the state over profitability concerns,” explained Newsweek earlier this month, reporting on the exit of Texas-based American National.

However, the California Department of Insurance website’s top item boasts that Insurance Commissioner Ricardo Lara “protects policy holders affected by wildfires from non-renewals.” How’s that working out for us? The state’s insurance problems have plagued wildfire-adjacent homeowners for a few years, but it’s rapidly spreading to homeowners in non-wildfire-adjacent areas. The state’s “protections” are window dressing.

I don’t live anywhere near a forest, yet my latest renewal showed a near-doubling of rates. After talking to my insurance agent, I decided to just pay the higher premium and be thankful I received a renewal. Increasing numbers of Californians must now rely on the so-called FAIR Plan (Fair Access to Insurance Requirements), the state-created, industry-funded insurer of last resort—one that provides only barebones coverage.

The burdens on the FAIR Plan have become so severe—it has three times more insureds than it was designed to cover—that there's open talk about what happens if it fails. Insurance may be boring, but it's a necessity for just about everyone. Without a functioning insurance market, California's economy is in peril. Yet the state's response has been as useful as its response to most other crises.

Instead of focusing on critical insurance, Gov. Gavin Newsom has invested his political energy into securing passage of a $6.4-billion mental-health measure (Proposition 1) and burnishing his reputation on the national stage. Lara announced some reforms, but they are just proposals (and one imposes new burdens on insurers)—and they avoid the root of the insurance problem including the bureaucratic hurdles that distort the marketplace and reduce competition. They won't do what's necessary—speeding up the rate-review process.

The state's leaders are acting like this is some unexpected perfect storm, but it's one that's been on the horizon for several years. "California's one-two punch—forcing companies to write risky policies while also limiting their ability to charge market rates—would leave insurers with little choice but stop writing new policies," I wrote in 2021. Last March, I warned insurance companies are "quietly fleeing" the state. Two months later, they stopped being quiet about it. In May, State Farm announced its freeze on writing new homeowner policies.

Last September, CalMatters reported on the state reaction. Legislators, ever concerned about criticisms from consumer groups, attorneys, and the anti-business crowd, failed to pass a rescue plan. But Lara announced a reform that makes it easier for insurers to increase rates to meet market conditions in exchange for offering policies in wildfire areas but never implemented anything. "Can this plan fix California's insurance crisis?" the headline asked. I think we know the answer.

In its latest rate filing available on the Department of Insurance website, State Farm General Insurance Co. (the insurer's California homeowners' company) explained that, despite being granted a recent rate hike, its surplus is low—leaving an unacceptable level of exposure. Obviously, insurance companies are in the business of writing insurance policies, but they can't entertain a level of risk that could obliterate their ability to pay out claims. They can't put the business at risk of insolvency.

Basically, state regulations haven't enabled insurers to adjust pricing to reflect inflation and market conditions over time. Sure they obviously get occasional rate bumps as we now see, but state control has turned pricing into a Byzantine regulatory process rather than a simple business decision. The problem is tied to Proposition 103, the 1988 ballot measure that gave the insurance commissioner the power to approve and roll back rates.

Elected commissioners have little incentive to approve rate hikes. Consumer groups are paid essentially to oppose rate hikes, which creates a long, complex, and antagonistic process. In most industries, companies set prices as they see fit and competition tempers the prices. Imagine if in your field you had to petition the government every time you want to adjust prices.

Even with Prop. 103, the state can enact reforms that will help the market function at a tolerable level. State Farm argued its capital depletion "is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings." Will Lara and Newsom listen? They haven't after years of dire warnings, so temper your expectations.