

California's next insurance commissioner will have 'brutal' balancing act

CalMatters

In November, Californians will vote for “the second-hardest job in the state behind the governor.”

That’s according to someone who has held the job twice: John Garamendi, who was the state’s first elected insurance commissioner in the 1990s and served again in the early 2000s. Garamendi, now a U.S. congressman, said the commissioner job is “complex, hard, detailed work.”

“There is no other task in any office in the state of California, except the governor, that has such significant power and the necessity to use the power to regulate the industry,” Garamendi said.

Insurance Commissioner Ricardo Lara is nearing the end of his second four-year term. In the past seven years, California experienced the biggest and most destructive wildfires in its history, which were a factor in insurance companies canceling homeowner policies or refusing to write new ones. With the insurance market out of whack, Lara last year put in place new regulations that include provisions insurers have long sought. Availability in the state is beginning to improve, though the commissioner said recently that he expects the recovery to take a few years.

The next insurance commissioner will have to balance availability with affordability. Premiums are rising. Many survivors of last year’s Los Angeles County fires are struggling to rebuild; they have sued insurance companies; and they have called for Lara to step down because they don’t think he has done enough to hold insurers accountable for delaying or denying their claims. Some insurers are still canceling policies. Many homeowners are continuing to turn to the last-resort FAIR Plan, which has seen a 146% increase in the number of policies since 2022.

“Affordability is only one piece of the very complicated puzzle,” said Amy Bach, executive director of United Policyholders, a nonprofit consumer advocacy group. She said the insurance business is more

complicated today partly because of new technology and participants in the market, such as third-party administrators for insurers and non-admitted carriers, which among other things are not subject to rate reviews by the Insurance Department.

If all that doesn't sound like enough responsibility, California's insurance commissioner also regulates auto, health, pet, ride-hailing and life insurance, as well as workers' compensation.

Among the candidates who have thrown their hats into the ring are state Sen. Ben Allen and former state Sen. Steven Bradford, former San Francisco Board of Supervisors member Jane Kim and Patrick Wolff, a financial analyst with experience in the insurance industry.

New rules and fire aftermath

Lara recently told the state Assembly Insurance Committee that the new regulations he put in place last year are showing signs of working — that insurers are writing policies in California again.

Those regulations include speeding up reviews and approvals of insurers' requests to raise rates, and allowing them to factor in reinsurance costs and catastrophe models when setting rates in exchange for writing a certain percentage of policies in areas with high wildfire risk. Insurance companies including Mercury, CSAA and USAA have requested higher rates under the new rules and have received them, Lara told the committee.

He credited the rules with the availability improvements the department has seen so far, despite the deadly, multibillion-dollar disasters that were the L.A.-area fires.

"The market stabilized at a moment when it could have collapsed," he told the committee last month, referring to the fires as the "event that reshaped everything."

Lara told the committee that he expects his so-called sustainable insurance strategy — and the recovery from the fires — to take three to five years, and that California is already a year into that timeline.

Policyholders have also complained about delays and denials of claims with their insurers, prompting the insurance department to investigate market leader State Farm, as well as the FAIR Plan, over their handling of claims. Lara has backed new legislation and policies to address some of the problems fire

survivors have experienced, including lack of smoke-damage standards and underinsurance.

So the next commissioner will have to handle the continuing aftermath of the fires, and either work with or modify the regulations Lara put into place.

‘Brutal’ balancing act

That will require engaging with competing interests: insurance companies, lawmakers, consumers and consumer groups.

Early in his tenure, the San Diego Union-Tribune reported that Lara accepted donations from the insurance industry despite promising not to; he apologized and returned those donations. Since then, he has been accused of continued coziness with the industry and criticized for his overseas travel.

Former insurance commissioner Dave Jones, a Lara critic, said the next insurance commissioner needs to have “integrity” and “a seriousness of purpose.” Both Jones and Garamendi told CalMatters the commissioner must protect consumers while ensuring a viable insurance market, which almost everybody needs – whether they’re current homeowners, renters, business owners or property owners, as well as those who need insurance to buy a property.

Lara has often defended himself by saying he needs to communicate with the insurance industry that he regulates, and has criticized his predecessors as “armchair insurance commissioners.” He was not available for an interview, according to department spokesperson Gabriel Sanchez, who did not want to respond to the commissioner’s critics for this story.

Joel Laucher worked for the insurance department for more than three decades, focusing on insurers’ conduct — including briefly under Lara. He said the incoming commissioner will have to be diplomatic but firm with the industry.

“Even if you’ve had a nice conversation with them, that shouldn’t hold you back from enforcing consumer protection laws, including levying fines or taking them to hearings,” said Laucher, who is now a program specialist at United Policyholders.

Robert Herrell worked at the insurance department for several years. He is now executive director of the

Consumer Federation of California, another nonprofit consumer advocacy group.

His group and others have asked Lara to withdraw regulations that make it harder for intervenors — any members of the public who under California law can challenge insurers' requests to raise premiums — to have an impact on the insurance department's rate reviews. The commissioner has said the new rules, which the industry supports, are meant to improve efficiency and speed up rate reviews; the consumer groups say the rules are "designed to impede effective consumer participation."

"It's exactly the opposite direction of the way you ought to be going," Herrell said.

Bach, of United Policyholders, signed onto those joint comments submitted in November by consumer groups, unions and others. But she said some of Lara's critics are a bit too tough on him.

She said the commissioner has to be the "bad guy" on rate increases; hold insurers accountable while encouraging them to keep writing policies in the state; and communicate to consumers that the insurance department can be helpful but doesn't have the capacity to give them individualized legal aid.

"We've never seen a market like this," Bach said. "The balancing act is so brutal."