

Can a Bernie-Backed Populist Fix California's Home Insurance Crisis?

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In the spring of 2023, insurance giants State Farm and Allstate announced they would no longer write new home insurance policies in California, citing intolerable exposure to the devastating wildfires that have become routine in the state. Farmers, USAA, and several smaller insurers quickly followed suit, either restricting coverage in high-risk areas, pausing new policies, or pulling out of the state entirely. And who could blame them? As newspaper headlines explained, climate change was making California “uninsurable.”

The consequences for California homeowners have been severe. As regulators have approved steep rate hikes to halt insurer attrition, households have seen average premiums increase by 84 percent since 2020. And these are the lucky ones: Since September 2022, more than 300,000 households have lost private market coverage altogether and been forced onto the Fair Access to Insurance Requirements (FAIR) Plan, a state-mandated “insurer of last resort” that provides punishingly expensive, bare-bones policies. All of this has exacerbated the state’s housing crisis. Real estate agents report that deals are falling out of escrow because homebuyers cannot find affordable insurance. Renters have been hurt too, as landlords pass along rising insurance costs.

Jane Kim, a leading candidate for the powerful office of state insurance commissioner, has a bold proposal to fix this mess. She calls it “Natural Disaster Insurance for All”: a public insurer that would provide basic catastrophe coverage to every Californian. Beyond solving the availability problem, Kim argues that her proposal—which would require the support of the state legislature—would bring down premiums, since insurance companies still make healthy profits in California despite their claims of poverty. Most importantly, Kim, a former Green Party member and executive director of the California Working Families Party, now running as a Democrat, says a public insurer could align the massive firepower of insurance capital with risk reduction. Whereas private insurers invest hundreds of billions in fossil fuel companies driving climate change, a public insurer could invest its surplus in mitigation

measures. Studies have shown that strategies to fireproof homes and create vegetation-free buffer zones around communities can reduce wildfire damage by up to 50 percent.

While conservative and mainstream liberal critics have warned that the 49-year-old's proposal would "destroy" and "eviscerate" California's insurance market, it has clearly resonated with voters: In the nonpartisan "jungle" primary held in June, the Bernie Sanders-endorsed former San Francisco city supervisor cleared the field by 8 points. She was the top vote-getter in several rural counties in the state's north and east as well as in San Francisco and Los Angeles—the latter being the home of second-place finisher Ben Allen, the Democratic state senator whom Kim will face in November. (No Republicans made the general election cut.) "Voters understand the current system is too expensive and that it doesn't work," Kim told me. "That's why there was such an openness from voters across the state, whether they were in rural Republican counties or in cities like L.A, to these ideas that are new."

As climate change causes premiums to soar and coverage to disappear not only in California but across the country, Kim won't be the last candidate to run on public disaster insurance. Indeed, she's not even the only candidate touting it this cycle. Public disaster insurance is the top campaign pledge of David Jolly, the Democratic nominee for Florida governor, who is no progressive firebrand but a former Republican U.S. House member. But the feasibility of Natural Disaster Insurance for All hinges on questions that Kim has yet to address, even after providing new details on her thinking in our interview. California's insurance industry watchdogs and consumer advocates worry that if she triumphs in November, she won't be able to deliver the goods—and will distract from reforms that could actually address the crisis.

"Conceptually, we don't disagree with her, but what's missing from her concept is pragmatism and a reality check," said Amy Bach, the executive director of United Policyholders, a consumer group. "It feels like she's making a campaign promise she won't be able to back up."

Kim's biggest inspiration for Natural Disaster Insurance for All is New Zealand's natural hazards cover program, or NHCover, which has been around in some form since the mid-20th century. Under this model, homeowners still purchase a multiperil home insurance policy from a private insurer and receive private coverage for losses from theft, vandalism, falling objects, and the like. The only difference is that policies contain a mandatory, basic layer of public coverage for natural disasters. Kim has not put a specific number on how comprehensive her coverage would be, but the Stanford undergrad and UC Berkeley Law School grad told me that "ideally, we would meet the median home value in California,"

which is about \$775,000, according to Zillow. Owners of homes with replacement costs above that amount would have to purchase supplemental coverage on the private market.

Kim's proposal is more restrained than fearmongering newspaper editorials have made it out to be. A New Zealand-style program would leave most risks in the hands of private insurers and preserve a robust marketplace for supplemental disaster coverage. And even within its limited scope, such a program would rely on private insurers to handle direct interactions with policyholders—to market policies and assess and pay out claims—thus acting more like a financial backstop than a state-run enterprise with substantial operational costs. "From the perspective of the consumer, there's no change," Kim told me.

Big questions remain. First and foremost, how would California determine the price of disaster coverage? Kim has not committed to premiums reflecting the risk profiles of properties. While her campaign website suggests that premiums be set "based on factors like property value or risk" (emphasis added), she told me that "I imagine we would look at both value and risk, but one of the goals is to make sure that [coverage] is affordable."

For insurance wonks, this hedging raises red flags. When public insurers don't resolutely commit to setting premiums that accurately reflect risk, they end up without sufficient reserves to cover losses from big disasters, and encourage the construction and rebuilding of homes in high-risk areas. The result is costly taxpayer bailouts. The notorious example is the federal National Flood Insurance Program, which provides coverage to roughly 5 million homes in America's floodplains. For decades, Congress succumbed to political pressure to keep premiums lower than expected losses, leading to tens of billions of dollars in debt, \$16 billion of which had to be forgiven in 2017 (Reforms initiated during Barack Obama's administration have gradually pushed the flood insurance program towards risk-based pricing, but these reforms remain under threat from lawsuits and congressional Republicans representing high-risk states.) If Natural Disaster Insurance for All falls into the same trap, "it would be regressive," says Dave Jones, California's insurance commissioner from 2011 to 2019 and now the director of the Climate Risk Initiative at UC Berkeley. "To the extent that taxpayers are subsidizing this because it's not risk-rated, the benefit is flowing mainly to homeowners, and especially homeowners in certain high-risk areas, from taxpayers who are also renters."

On the other hand, if the state does price premiums according to risk, it's unclear how much the program would affect affordability. After factoring in investment returns, insurers have enjoyed average annual profits of about 10 percent on their California multiperil home insurance books over the 20 years ending

in 2023, according to data from the National Association of Insurance Commissioners. But underwriting profits—the difference between what insurers collect in premiums and what they pay out in claims, operating expenses, taxes, and policyholder dividends—have averaged only 2.7 percent annually, largely due to massive losses sustained during the historic 2017 and 2018 wildfire seasons. So, while eliminating corporate profits on (one segment of) the home insurance market may yield marginal savings for policyholders, “in the grand scheme of things, it’s not a big number,” Jones said.

Then there is the question of how to fund the program. While risk-priced premiums can help public insurers become fiscally self-sustaining over the long run, they must be injected with an upfront sum of capital in case they suffer large losses while still building up reserves. Kim has not estimated a price tag for Natural Disaster Insurance for All, saying it would need to be studied. But Jamie Court, president of the Consumer Watchdog advocacy group, told me the cost would be “tens of billions any way you count it.” (For reference, the 2025 Los Angeles wildfires caused \$40 billion in insured damages.) Another option would be for Sacramento to cover losses by borrowing. But without reserve capital, there would be no possibility of a surplus to invest in mitigation measures—a centerpiece of Kim’s pitch.

In a state facing a looming budget crunch, where would this money come from? Kim doesn’t have a concrete answer. She told me she envisions an “all-of-the-above” approach to raising revenues, including a possible “exit fee” levied on insurers. But the latter suggestion underscores perhaps the strongest criticism of Natural Disaster Insurance for All. Every advocate I spoke with pointed out that private insurers already have ample capital to cover major disasters like the L.A. fires—a record \$1.27 trillion in surplus as of 2025—which they have built over decades of collecting premiums. Enlisting Californians to help capitalize a public fund from scratch would effectively force taxpayers to redouble an investment they made as policyholders, while allowing the industry to reap windfall profits. This would amount to “a big cross-subsidy where obligations that really ought to be covered by the insurance industry wind up getting shifted over to the general public,” Robert Herrell, executive director of the Consumer Federation of California, says. “It would let insurers off the hook.”

If a public insurer isn’t practical, how can California solve its insurance crisis? The industry’s preferred solution, touted by credulous commentators on both the right and center-left, is to let it charge much higher rates. But this has been tried. In panic mode as insurers pulled out of the state in 2023, Governor Gavin Newsom’s administration handed over a sweeping deregulatory goodie basket allowing them to hike premiums if they committed to maintaining a certain level of coverage in “fire zones.” But Newsom’s

insurance commissioner, Ricardo Lara, defined these zones so broadly that insurers could meet the coverage requirement while skirting truly distressed areas; other loopholes allowed some insurers to charge higher rates without increasing fire-zone coverage at all. (Lara is infamous for accepting campaign contributions from the insurance industry, in violation of longstanding norms for his office.) As a result, FAIR Plan enrollment has more than doubled since the reforms were enacted in September 2023, even as premiums have skyrocketed across the state.

Another idea with momentum—both in California and at the federal level—is public reinsurance, or insurance for insurers. Proponents argue that a public reinsurer could assume liability for the most severe disasters at a lower cost than private reinsurers do currently, giving primary insurers flexibility to lower premiums and expand coverage; according to one study, Australia’s public cyclone reinsurer produced such results. But public reinsurance raises the same fiscal questions as public primary insurance—how will the state pay for it, and what will the distributional effects be?—albeit on a more limited scale. There is also the possibility that private insurers will simply use lower reinsurance costs to improve their margins, rather than passing the benefit to policyholders.

In short, carrots alone won’t keep coverage in California—or any state. Florida is struggling to retain private insurers despite allowing them to charge the highest premiums in the country, and providing public reinsurance for hurricanes. To stop insurers from cherry-picking risks, you need a stick.

A sensible option would require insurers to offer coverage for any home that complies with stringent fireproofing standards—or else lose access to California’s massive insurance market altogether, including its \$30 billion-plus per year auto insurance market. Like Natural Disaster Insurance for All, this approach prioritizes mitigation, but it would leverage private dollars to advance this goal. (It could be paired with a more targeted public expenditure to subsidize home-hardening improvements for low-income residents, something the state already does on a small scale.) At the same time, it would ensure that well-capitalized private insurers don’t abandon households who have done what they can to de-risk their homes.

This idea is also more realistic than Kim’s proposed public disaster insurance. Obamacare, which prohibits health insurance companies from denying coverage based on preexisting conditions, provides a high-profile precedent for compelling insurers to serve riskier customers within broadly profitable markets. And since 2020, multiple proposals to force insurers to cover fireproofed homes have been introduced by the California state legislature. The latest attempt failed narrowly in a Senate committee in

April amid fierce industry opposition, but Consumer Watchdog's Court believes a similar measure could pass with the backing of the next governor and insurance commissioner. The sheer size of California's home and auto markets gives the government "a lot of leverage," Court told me. "There's no insurance company worth its salt that's going to leave the state of California."

In the long run, the only way to preserve home insurance in California-or anywhere-is to tackle climate change itself. In the medium term, policies to expand housing supply in urban cores and curb development in fire-prone exurbs are essential to keeping expected losses at manageable levels. But at present, with private insurers profitable and well-capitalized, California is far from "uninsurable." The state's next insurance commissioner must use their leverage to make these companies uphold their bargain with policyholders.

This is where Kim's aggressive posture could be an asset, even if her ideal policy solution lacks legs. Made to answer for the failure of his industry-friendly reform package, Ricardo Lara protested that the state had been "bullied" during negotiations with insurers. Californians need a tough regulator who will flip the script.