[Commissioner Lara unveils next steps in his strategy to expand coverage options for Californians in areas of high wildfire risk](https://uphelp.org/commissioner-lara-unveils-next-steps-in-his-strategy-to-expand-coverage-options-for-californians-in-areas-of-high-wildfire-risk/)

California Dept of Insurance

Commissioner Lara unveils next steps in his strategy to expand coverage options for Californians in areas of high wildfire risk
First-ever wildfire risk map showing where insurance companies need to write more coverage
LOS ANGELES — Insurance Commissioner Ricardo Lara today released further details of his transformative plan to increase the writing of homeowners and commercial insurance policies in areas of the state with high wildfire risk. This action is the next step of his Sustainable Insurance Strategy that will help restore coverage options for Californians across the state while safeguarding the integrity of the state's insurance market. Commissioner Lara is keeping California on course for the most significant insurance reform in 30 years by releasing regulatory text outlining the commitments that insurance companies must make in order to use forward-looking catastrophe models for ratemaking. The release of this regulatory text and announcement of a June 26 public workshop is part of the package of regulatory language designed to incorporate the use of catastrophe models in California ratemaking.

"Californians in every corner of our state are frustrated with outdated regulations and desperate for change," said Commissioner Lara. "Whether you live in the Sierra or the foothills, along the coast or in a city, California is not a 'one-size-fits-all' place, and we need to be inclusive. We are enacting a major reform that will result in insurance companies writing more policies, so if you are stuck on the FAIR Plan because of your unique wildfire risk, there will be help for you."

Under Proposition 103 enacted by voters in 1988, insurance companies are legally free to choose where they will write policies in California. As a result, insurance companies are writing more and more in areas of the state deemed less risky, especially with the continued threat of climate change. This most affects residents and business owners in areas with wildfire risk where the California FAIR Plan has become the only option for insurance, not the last resort as it was intended. Under Commissioner Lara's strategy, insurance companies will be allowed to use forward-looking catastrophe models if — and only if — they increase writing of policies in these wildfire distressed areas, helping fix a fundamental shortcoming of Prop. 103.

"We are addressing this crisis of insurance availability head-on. For the many Californians who live anywhere where wildfires are a threat, my Strategy will increase their options while requiring insurance companies to take their wildfire safety actions seriously," continued Commissioner Lara. "This builds on my first-in-the-nation Safer from Wildfires regulation by requiring insurance companies take into account wildfire mitigation efforts at the individual property, community, and regional level."

Under this regulatory package, insurance companies must detail where they are writing policies in submitted rate filings and the Department will use its existing enforcement authority to hold them accountable. Insurance companies using catastrophe models also will be required to take into account the steps taken by policyholders to mitigate wildfire risk.

"Technology is harming consumers not helping them when it comes to making insurance more available and affordable. I commend the Department for insisting that there be a tangible benefit for consumers," said Amy Bach, Executive Director of United Policyholders, a non-profit 501(c)(3) organization founded in 1991 that informs and advocates for insurance consumers across the country. "The Department is intent on this being a two-way street where consumers are better served. We need a public model as a benchmark and strong regulations to prevent overcharges and unfair underwriting practices."

First-ever insurance map shows where increased coverage is needed

As part of today's announcement, the Department released a statewide map that it developed showing areas where wildfire risk and FAIR Plan policies are concentrated. With this map, insurance companies will have direct knowledge of where they need to write more policies in the state in order to utilize catastrophe modeling in their rates that are subject to Department approval. The Department took a hybrid approach due to the state's large population and complex geography.

Source:
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The Department used insurance data first to identify ZIP Codes in areas of wildfire hazard where more than 15% of policies are written by the California FAIR Plan, the state's insurer of last resort, as well as ZIP Codes where incomes are low and insurance premiums are high, namely above $4 per $1,000 of coverage. To be more inclusive, the Department also identified counties where greater than 20% of homes are considered high risk by a review of that county's aggregate fire risk scores. Finally, as part of new growth benchmarks, insurance companies must take FAIR Plan policies facing wildfire risk from more urban areas.

The map aligns with recent work by CAL FIRE identifying fire hazard zones where mitigation resources are targeted, thus amplifying those efforts. The Department will update this information from time to time but no less than once every year.

"This type of coordination and alignment between state agencies is a critical part of our success in preparing communities for wildfire," said State Fire Marshal Daniel Berlant. "Commissioner Lara's work aligns with CAL FIRE's wildfire mitigation efforts and builds on major investments the state is making to protect residents."

Insurance companies must write more policies

This hybrid approach enacts an agreement that Commissioner Lara reached with insurance companies last year to cover at least 85% of properties in distressed areas. The new regulatory text also recognizes the complexity of California's insurance marketplace which is made up of large and small companies, including some serving geographical regions with fewer homes at risk of wildfires.

Larger insurance companies with a major presence in distressed areas will need to write no less than 85% of properties within two years of a rate filing being adopted and report their progress to the Department. Companies already meeting the threshold will be required to maintain those policies in force for three years. Smaller companies, new entrants, and companies that largely write outside of wildfire risk areas and cannot meet the 85% requirement will need to expand their writings by at least 5%. Companies will be able to craft plans subject to the Department's review and approval that expand policy writing in areas of wildfire risk anywhere in the state, helping all parts of California benefit from greater insurance options. Commercial insurance companies will need to increase coverage by 5% in wildfire

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distressed ZIP Codes statewide, which will increase coverage options for farms and wineries, homeowners and condo associations, and other businesses.

"California Farm Bureau members applaud Commissioner Lara's continued commitment to restore competition to the insurance market by bringing insurers back to write residential and commercial policies in our state," said Shannon Douglass, President of the California Farm Bureau."Competition is the first step to guide the market to a place where pricing reflects ongoing wildfire mitigation efforts undertaken by Californians, including by our farmers and ranchers who work to remove fuels and safeguard properties. Our productive agricultural lands provide important buffers that can reduce the risk of catastrophic fire events. We hope our members can obtain comprehensive, affordable coverage through improved insurance offerings that recognize their contributions to protecting California from wildfires."

Continued progress toward enacting transformative insurance reforms

The regulatory text that Commissioner Lara announced today is part of his Strategy enabling insurance companies to use "forward-looking" catastrophe modeling in rate making when they commit to writing and maintaining more policies. This is a companion to draft text that he released in March before receiving public input at an April workshop. Following the public workshop on June 26, the Department will review public input before issuing the full catastrophe modeling regulation for adoption by year end.

Commissioner Lara detailed another part of his Strategy in February when he published a "complete rate application" regulation that creates clarity in the rate review process for all participants. This regulation is a critical part of reducing unnecessary delays that can cause rate filings to take more than a year. This regulation holds insurance companies accountable for providing the complete information that the Department needs to make informed and timely decisions on these filings, and also helps prevent delays caused by intervenors raising issues not relevant to the rate review process.

The Department plans to introduce another major part of the Strategy with proposed regulation text in July to allow insurance companies that take on greater risks in California to incorporate a reinsurance cost component in their rate filings to cover those risks. That same month, Commissioner Lara also plans to require the FAIR Plan to increase coverage to $20 million per structure for larger homeowners' associations, condo associations, farms, and other businesses. He also will require the FAIR Plan to have a sounder financial sustainability structure.

"We have been surviving with 20th century regulations for 21st century problems. We are compressing decades of deferral and delay into a one-year timeline of action," Commissioner Lara told the Assembly Insurance Committee on May 15. "We have to remain flexible. We have to be responsive. The lesson of the past is that we cannot be locked into another 30 years of stagnant regulations."

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