Crisis on the Availability and Affordability of Wildfire Insurance

Nevada County California

At the California State Association of Counties' (CSAC) annual meeting in November, where I serve as the County's representative, I moderated an informational panel titled "Fire Insurance Crisis: How We Got Here and Where We're Going." The panel included Deputy Commissioner of Community Relations and Outreach for the California Department of Insurance Julia Juarez, Amy Bach, Executive Director of United Policyholders, and Vice President of the Personal Insurance Federation of California, Seren Taylor.

It comes as no surprise to our community that California's home insurance market is seriously struggling. Insurance companies are leaving the state, homeowners are seeing increased rates and non-renewals, and the FAIR Plan – intended to be the state's insurer of last resort – is now covering more than double the number of properties compared to 2018. As you have probably heard, this year State Farm, which holds about 21% of California's home insurance market, announced that it would stop accepting new property insurance policy applications in the state. This followed a similar announcement by Allstate last year in 2022. To underscore the volatility of the market, the Department of Insurance reports that California saw a 63.28% loss ratio in premiums written versus premiums earned throughout the admitted insurance market. That is approximately a $55 billion loss in market throughout the state. Meanwhile, counties are in a tricky situation. We play no role in issuing insurance plans or regulating the market, but our communities are deeply affected. The inaccessibility and unaffordability of insurance plans leave our constituents to make impossible decisions.

At the forum, the panel acknowledged that California is not the only state facing crisis. As climate-change driven disasters continue to increase in frequency and severity, costs for homeowners and insurance companies are skyrocketing in Florida, Texas, Colorado, Louisiana, and New York. While California has some unique circumstances, there is a very real national crisis. For example, the National Flood Insurance Program (NFIP) continues to fulfill its obligations to the U.S. Treasury to satisfy debt obligations totaling $20.5 billion. Because the NFIP cannot fully pay back the debt it incurred paying claims for

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previous catastrophic flood disasters post Hurricane Katrina, it must be refinanced at current interest rates. This amounts to the program accruing $1.7 million in interest per day. While the program is bankrupt, still over 22,648 communities rely on the NFIP for financial protection against flooding which continues to rise, no pun intended.

There is no single or simple solution to this crisis, yet the problem is crushing communities throughout the state. In response to the crisis, Governor Newsom issued Executive Order N-13-23 requesting the Insurance Commissioner to take prompt regulatory action to strengthen and stabilize California's marketplace for homeowners insurance and commercial property insurance, and to consider whether the recent sudden deterioration of the private insurance market presents facts that support emergency regulatory action. At the federal level, the Senate Banking, Housing and Urban Affairs Committee held hearings on the issue in September and the House Financial Services Committee in November held hearings on the factors influencing the high costs for consumers. As we move into 2024, I anticipate this issue being a top priority for CSAC, the state, and other rural counties.

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