# Four myths about insurance in California

Lookout Santa Cruz

Many Californians have seen rising costs, less availability and are running into other issues with insurance — including delays and denials of their claims — in the past several years.
As climate change increases the risk of wildfires and other disasters, it's important to know how insurance plays a role. The health of the insurance market affects the ability of individuals and communities to replace, rebuild and recover after a catastrophe.
Disasters aside, property insurance affects where people live, how neighborhoods are formed, whether people can drive to work, and more.
As the state's residents prepare to vote for a new insurance commissioner in November, here's a look at a few common myths about insurance in California.

**MYTH: Only homeowners and wealthy people should care about the state's insurance issues.**

**FACT:** Almost everyone needs insurance, including landlords, renters and small business owners. Anyone who drives needs auto insurance.

About 44% of the state's residents do not own their homes, according to the U.S. Census Bureau. But their landlords have been dealing with increased insurance costs in the past several years, with some of them telling CalMatters that they have passed some of those costs along to renters.

The state does not require renters to buy their own insurance, although some landlords require tenants to get renters insurance. Consumer advocates recommend that renters have insurance in case they have to find an alternate place to live after a fire or other disaster.

Other providers of rental housing are also running into insurance-availability issues, which could affect housing supply.

A high-cost state like California needs all the affordable housing it can get. Affordable housing owners and operators say some insurance companies have moved away from offering insurance to commercial properties, including affordable housing units. Some of them have had to turn to “non-admitted” insurance companies, which are not licensed and regulated by the state — and not backed by the state if they go bankrupt. Some operators have had to tap their reserves to cover the increasing costs of insurance. They typically do not pass those costs along to renters because affordable-housing rules limit how much rent they can charge. Besides, they know their renters have limited incomes.

“If organizations have to come out of pocket to cover premiums, it’s just not sustainable,” said Erich Nakano, director of special projects for Little Tokyo Service Center, a Los Angeles community development group that owns more than 1,000 affordable housing units across different properties in the area.

Meanwhile, auto insurance premiums in California are among the highest in the nation. The insurance industry has said that’s due in part to growing disaster risks, as well as higher costs for replacing parts or repairing vehicles. Unlike housing or rentals — where people who don’t have a mortgage need not have insurance, and not all renters must buy coverage — everyone who wants to drive is legally required to have insurance.

**MYTH: California’s insurance issues are all state lawmakers and regulators’ fault.**

**FACT:** Many other states are dealing with higher insurance costs and availability problems. Climate change has sparked and worsened different kinds of natural disasters, such as hurricanes in Florida and tornadoes in Texas.

California’s voter-approved insurance law, Proposition 103 from 1988, is often a scapegoat for people frustrated by the state’s insurance market problems. Insurance is overregulated and the state should just let the free markets reign, the law’s critics say.

But low-regulation states like Florida continue to have issues with insurance affordability; its average home insurance premiums are the most expensive in the United States, according to the Insurance Information Institute, an industry group. Meanwhile, because of Prop 103 and its provision that the Insurance Department must approve rate increases, California’s home insurance premiums rank somewhere in the middle.

As for other problems, like glacial insurance-claim processing or claim denials, the state's elected insurance commissioner gets a lot of pressure to make those disappear. Some — such as survivors of the deadly Los Angeles County fires last year — have placed the blame squarely on Ricardo Lara, whose term is set to end this year. They called on him to resign.

A couple of insurance experts who are also consumer advocates said there is no "magic wand" that can make the insurance industry be as responsive as their customers want them to be, and no easy fixes for the other issues plaguing insurance markets everywhere.

"[Fire survivors] have the right to be angry about the impact of industry trends on them," said Amy Bach, executive director of consumer advocacy group United Policyholders. But the insurance department's authority over industry trends and practices — such as the number of adjusters that might be assigned to a claim — is limited, she said.

Lara's department eventually found that State Farm, the biggest insurer in California, violated laws in its handling of claims from the L.A.-area fires. A yet-to-be-scheduled hearing before an administrative law judge will determine whether to impose the penalties suggested by the department.

**MYTH: Insurance companies are struggling financially.**

**FACT:** Insurers have seen record profit, and their executives' pay isn't too bad, either.

As insurance companies began to cancel policies in California a few years ago, the industry said the state failed to approve their requested rate increases quickly enough. They said their premiums were not matching the increased risk they were facing, especially after several major fires in the state.

Lara adopted new regulations to speed up rate reviews and allow insurance companies to base their rate requests on two additional factors: catastrophe modeling and reinsurance costs. That has led to rising premiums in California, just as they are in other states.

Insurers had record U.S. profits last year as they collected $68.7 billion in premiums, up from the $25.3 billion in premiums they collected in 2024, data from the National Association of Insurance Commissioners, a group of state insurance regulators, shows. Additionally, insurance companies' financial cushion rose to an all-time high of $1.27 trillion last year, according to an analysis of the data by

Public Citizen, a left-leaning consumer advocacy group in Washington, D.C., founded by activist Ralph Nader.

Those numbers were made possible by lower insured losses from U.S. extreme weather disasters last year than the previous year, the analysis said. The L.A.-area fires were the exception: They resulted in about $37.5 billion in losses. The regulators' group called the fires some of "the costliest fires in world history."

In 2024, chief executives at the 10 largest insurers in the country were paid a combined $134 million, according to the analysis. And another look at insurance executive pay, by Consumer Federation of America, shows that as insurers raised auto and homeowners insurance premiums in 2024, their CEO compensation also rose.

**MYTH: The FAIR Plan is run by the state.**

**FACT:** The plan is run by an alliance of insurance companies that do business in the state.

The FAIR Plan is mandated by law to sell fire insurance to property owners who can't obtain insurance from anywhere else. All admitted carriers that sell insurance in the state are required to be in the plan, whose board is made up of industry insiders and whose operations are largely opaque. The state's insurance department has taken legal action against the FAIR Plan, most recently accusing it of denying smoke-damage claims from the L.A. fires.

As of March, the FAIR Plan had more than 684,000 policies — nearly 663,000 for residential properties and more than 21,000 for commercial properties — up more than 152% since 2023.

Although the rate of growth of policies in the plan has slowed since late last year, the sheer number of policies still reflects a not-quite healthy insurance market. Customers of the FAIR Plan pay more for less coverage: They get fire insurance from the plan and must also obtain separate coverage for everything else.

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