United Policyholders
Empowering the Insured

Home insurance experts say changes coming for California's insurance crisis — with key tips for consumers

CCRC

Important regulatory updates, coming by end of year, plan to provide homeowners insurance options to consumers, according to a panel discussion this week hosted by the Center for California Real Estate. Panelists offered important tips on specific actions to take now to help better protect their homes and increase their chances of keeping their policies or to improve eligibility for coverage as the changes take effect.

Moderated by CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) President Melanie Barker, the forum *The Center for California Real Estate Presents: California's Insurance Landscape: From Risk to Resilience*, featured a progress update from Insurance Commissioner Ricardo Lara, and a panel discussion including Amy Bach, executive director of United Policyholders; Rex Frazier, president of Personal Insurance Federation of California; and Nancy E. Wallace, professor and co-chair of the UC Berkeley Fisher Center for Real Estate and Urban Economics.

Key takeaways

1. Regulatory changes by end of year plan to add insurance options, resiliency to the market.
Commissioner Lara shared proposed changes to Prop 103, on track for implementation by December 2024, that collectively represent California's largest insurance reform in 30 years.

They hold the potential to resolve key issues that have led to sky-high rate increases, non-renewal notices and some large carriers pulling out of the state altogether. The deal will:

- Loosen rate-increase caps that have been in place for decades, allowing insurance companies more freedom to set their own market-driven rates.
- Grant the ability to apply modern risk-modeling systems used across the nation, rather than relying solely on historical data that does not recognize modern wildfire mitigation.

In exchange, insurance companies must agree to write 85 percent of new business in wildfire prone areas and offer discounts for hardened homes that meet certain criteria in reducing wildfire risk. The new regulations also will require insurance companies to explain why a home is not being renewed.

“We’re hearing about some companies opening up again,” said Bach. “They’re obviously waiting for the regulations to take effect, but some of them are [getting ready to] turn the tap on and get those premiums flowing again. So, we are seeing a little bit of a blue sky.”

The return of insurers to the marketplace reduces strain on California’s state-run FAIR Plan home insurance provider, which holds the largest share of high-risk policies and has grown exponentially — and unsustainably — far beyond its intent. Because the FAIR Plan is collectively backed by the smaller insurance companies, the impact of a once-in-a-decade event could be catastrophic to the entire industry.

“The biggest surprise and disappointment was when State Farm stopped writing new business,” said Frazier. “That was not exclusively a fire-related issue. It was the sufficiency of their capital. This ceased being a regional problem and became a statewide problem. The real growth has to come from the companies that are in the 4 percent-6 percent of the market — Liberty Mutual, USAA, the Auto clubs (both northern and southern), Mercury, and Travelers. And all of the indications are extremely positive.”

2. <u>Consumers need to take action now.</u>
Lara advised homebuyers and sellers to start shopping early, as insurance needs to be in place for a home sale, just like financing. Assessing the home’s wildfire risk and potential upgrades to more firewise features will be important considerations on both the selling side and the buying side.

Lara also advised consumers to get their mitigations in place now so that when the new regulations go into effect, they can be at the front of the line to transition out of the FAIR Plan to one of the returning carrier policies. “Start hardening your home now. Because once the changes come in, the homes that are fully hardened are going to be the first to get off a FAIR Plan.”

Bach, of United Policyholders, advised homeowners it’s time to pay more attention to their home insurance to ensure they keep their policies. “The message to consumers is you’ve got to find a professional agent in this market; trying to shop on your own is really hard. And then the home hardening is pretty critical.” She said insurers know more about a home’s condition than ever, using new technologies like aerials and AI. Homeowners can access resources at uphelp.org/preparedness.

3. Interdisciplinary collaboration and new technology are advancing solutions.
Nancy Wallace, a survivor of the 1991 Oakland Hills fire, is spearheading collaborations to address the insurance crisis, working with her team at UC Berkeley’s Fisher Center, along with cross-sector academics and industry experts to build a comprehensive data store with climate, housing, topography and mortgage market data. The effort is helping develop better predictive modeling systems and generating ways to leverage data into new proactive tools for the marketplace. “We’re reopening this Pandora’s box of solving the problem of physical sciences, environmental sciences, economists and financial economists working together to develop both the modeling technology that’s suitable for this state, and also the capital market technology — especially the mortgage market — to think about solutions,” said Wallace.

One such solution being developed by one of Wallace’s master’s program students is a new app for homeowners, FireBreak, designed to compile their home mitigation efforts into a report that can be shared with insurance brokers and incorporated into the application process.

4. Community-wide hazard mitigation will be critical going forward, but funding remains a challenge.
Panelists advocated for a collective long-term solution in which not just individual homes but entire communities embrace wildfire mitigation practices. “The much bigger issue driving this is not individual home hardening, it’s community-level hazard,” said Frazier. “Community-level mitigation is what is going to dramatically change our situation.”

However, funding for these mitigations — both individual and community-wide — remains a challenge.

Source:
https://uphelp.org/home-insurance-experts-say-changes-coming-for-californias-insurance-crisis-with-key-tips-for-consumers-2/
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Frazier favors property tax assessments, which Barker and C.A.R. oppose. PACE loans, which helped restore Nancy Wallace's neighborhood, are widely used in commercial real estate, but are not without complications for the residential sector, especially for an individual homeowner, as improvement costs can be prohibitive. But the hardening efforts cannot be piecemeal, says Frazier. "The science says that when you make a suite of improvements, not just one à la carte, that's where the risk reduction comes. That ember is going to exploit every weakness. Once the regulations are changed to say 'if you want significant discounts, you have to do everything,' you'll see a difference in result."

A recording of the panel discussion can be found on the CCRE website.

The Center for California Real Estate will host its next expert forum on August 22, Navigating San Diego's Housing Opportunities: Collaborative Approaches, Practical Solutions.

About the Center for California Real Estate

The Center for California Real Estate (CCRE), an institute of the California Association of Realtors (C.A.R.), advances knowledge and research by collaborating with varied partners, spurs innovative thinking about key issues facing California and the real estate industry, and extends C.A.R.'s influence via intellectual engagement with different audiences, diverse stakeholders and new external partners.

CCRE serves as a nexus for multi-disciplinary thinking aimed at solving some of the state's most challenging issues. Bringing together key experts from a variety of fields — from academics and policymakers to industry leaders — CCRE produces new knowledge and serves as a key resource about housing issues for all C.A.R. members, external entities, the media and the public.

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