

Imagining a post-insurance world

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THE END OF THE WORLD AS WE KNOW IT: California's leaders are determined to save a private property insurance market roiled by climate change. But others are — somewhat begrudgingly — starting to imagine a world without insurance (as we usually think of it) at all.

The drumbeat of potential reforms by state lawmakers, Gov. Gavin Newsom and Insurance Commissioner Ricardo Lara — including a briefing tomorrow explaining how regulators will hold insurers to a commitment to write more policies in disaster-prone areas — has done little so far to slow insurers' shedding of California customers.

"We are marching steadily towards an uninsurable future," said former Insurance Commissioner Dave Jones, who's currently serving as the director of the Climate Risk Initiative at the University of California, Berkeley's Center for Law, Energy and the Environment.

Ideas for other ways to spread the risk are starting to take root.

One example is community insurance, where an intermediary like a nonprofit purchases a group policy. The California Office of Emergency Services is funding a pilot program in Isleton, a Delta community prone to flooding.

Just last week, Cal OES and the Insurance Department also gave Imperial Beach, in San Diego County, a grant to study the risk of sea-level rise and explore "innovative insurance options." Those could include "parametric insurance" (which is so nontraditional that some people refuse to call it insurance), which bases its reimbursement payments on the magnitude of the disaster, instead of the losses.

Wealthier communities — and industries — are taking matters into their own hands. Some wine-grape growers, with properties too valuable to be fully covered by the state-mandated insurer of last resort's \$20 million cap, have resorted to hiring private firefighters.

“There are some growers that are looking at it from their individual circumstances, and they really don’t have a product available to them,” said Michael Müller, director of government relations at the California Association of Winegrape Growers. “That’s really scary.”

Martis Camp, a private golf and ski club near Lake Tahoe, tried to pool its risk and self-insure, with the backing of a reinsurer. But according to Amy Bach, the executive director of United Policyholders, a consumer advocacy group, the community hasn’t been successful so far because its pool includes only high-risk properties.

She said there’s more recognition of the need for new and different programs because private insurers have fled the state.

“There’s a lot of innovation happening,” Bach said. “But I don’t know that they’re anywhere close to being fully baked.”

Another long-debated option is some sort of government backing. But that approach hasn’t really worked with flood and earthquake insurance.

Only about 14 percent of Californians have earthquake insurance under the state-affiliated California Earthquake Authority, created after the 1994 Northridge earthquake’s estimated \$26.4 billion in insured losses and insurers’ subsequent exodus from the state.

And less than 2 percent of Californians have flood insurance, which the federal government provides through the National Flood Insurance Program.

“We should learn from that lesson and not stand up some national taxpayer-subsidized, all-risk insurance program,” said Jones, the former insurance commissioner.

Instead, he’s in favor of taxpayer-subsidized reinsurance, which is currently unregulated. The idea is shared by Rep. Adam Schiff, who earlier this year proposed creating a federal catastrophic reinsurance program to give insurers who cover the costliest climate risks a taxpayer-funded safety net.

Jones wants a narrower federal approach: providing reinsurance for insurers of last resort like California’s FAIR Plan and Florida’s Citizens, which he argues would “maintain the viability of the private market”

while propping up the riskiest end of it.

This is all a long-winded way of expanding on a too-real joke longtime Californians will recognize: If an earthquake damages your house, and you want an insurance payout, light a match.

If you have fire coverage, that is.