

In a California “first,” Commissioner Lara announces enforcement of regulation to expand insurance coverage across state

California Department of Insurance

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In a California “first,” Commissioner Lara announces enforcement of regulation to expand insurance coverage across state

Homeowners and businesses will see greater availability, market stability, and recognition for wildfire safety through use of catastrophe modeling

SACRAMENTO, Calif. — Today Insurance Commissioner Ricardo Lara enforced his “first of its kind” catastrophe modeling and ratemaking regulation, a central part of his Sustainable Insurance Strategy to increase coverage in wildfire-distressed areas of the state. The Department of Insurance posted the final regulation after the Office of Administrative Law filed it with the Secretary of State, officially concluding a rulemaking process that saw strong public support over the past year.

“Giving people more choices to protect themselves is how we will solve California’s insurance crisis,” said Commissioner Lara. “For the first time in history we are requiring insurance companies to expand where people need help the most. With our changing climate we can no longer look to the past. We are being innovative and forward-looking to protect Californians’ access to insurance.”

What it means: Expanding coverage for Californians in wildfire-distressed areas

Major insurance companies must increase the writing of comprehensive policies in wildfire distressed

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areas equivalent to no less than 85% of their statewide market share, whereas there is no current legal requirement today for insurers to commit to providing any coverage in high-risk areas. Smaller and regional insurance companies must also increase their writing.

Result of expanded public engagement: The new regulation is the result of expanded public engagement. The Department of Insurance held three workshops and hearings in 2024, which were attended by more than 1,000 interested parties, gathering input and receiving hundreds of public comments which helped shape this regulation. Commissioner Lara has met with tens of thousands of Californians since taking office as well as testifying at four legislative briefings about his Sustainable Insurance Strategy over the past year.

Incorporation of wildfire mitigation efforts: Building on Commissioner Lara’s “Safer from Wildfires” initiative — the nation’s first wildfire safety discount program — the regulation requires catastrophe models to account for mitigation efforts by homeowners, businesses, and communities, something not currently possible under existing outdated regulations today.

Ensuring the integrity of models: As part of implementing the new regulation, Commissioner Lara announced the hiring of Kara Voss as model advisor — a newly created position at the Department — to oversee the process of examining model integrity and ensuring public review in accordance with the newly established regulation. Voss has expertise in catastrophe modeling for wildfire and flooding events as a member of the Climate and Sustainability Branch. Under the regulation, once a model has undergone a pre-application required information determination (PRID), insurance companies can utilize that model in a rate filing listing their commitments to write more policies. The Department will accept PRID petitions starting January 2, 2025 and expects the process to be complete within months.

Supporting a public model: The regulation supports the development of a public catastrophe model, currently being considered by a strategy group of researchers and education leaders led by Cal Poly Humboldt. Recommendations on how to create a public catastrophe model are due from the strategy group to Commissioner Lara by April 2025.

Fixing outdated rules that contribute to higher costs, fewer policies

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For the past 30 years, California regulations have required insurance companies to apply a catastrophe factor to insurance rates based on historical wildfire losses. These outdated rules have contributed to rate spikes and balloon premiums following major wildfire disasters without fully accounting for the growing risk caused by climate change or risk mitigation measures taken by communities or regionally, as a result of local, state, and federal investments.

Commissioner Lara’s strategy addresses major limitations of Proposition 103, passed by voters in 1988. Under that law, insurance companies are free to propose rates at any level needed to cover future losses but, unlike public utilities, are not required to cover all residents. Major companies have increased rates while pulling back from higher-risk properties, resulting in areas where the FAIR Plan is now the only option for many consumers.

In June, the Department released a first-ever map showing where FAIR Plan policies have grown and the traditional insurance market has retreated. This regulation focuses on reversing FAIR Plan growth as a result of insurance companies committing to write more in high risk areas through the use of wildfire catastrophe models in ratemaking.

“Solving our wildfire crisis requires bold action to protect our communities,” added Commissioner Lara. “Insurance rates now must account for the billions spent on wildfire mitigation, including community efforts and home hardening. This all-hands effort by my Department has achieved decades-overdue reforms in just one year, ensuring consumers benefit from more accurate rates and better risk assessment.”

What others are saying:

Local leaders: “Moving toward a catastrophe model makes so much sense in this age of climate change. We need to be looking forward,” said Napa County Supervisor Anne Cottrell. “We need to ask the insurers to include consideration of community and large-scale wildfire risk mitigation, because that’s the right thing for communities to do to make their communities safer and their properties safer. And, we need to see that value reflected in the insurance industry.”

Consumer advocates: “Formal adoption of the Department’s regulation to allow Catastrophe Models to be

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used in setting property insurance rates in California means insurers have gotten one of the highest priority wish list items they've said they need in order to open back up for business in our state. That news, combined with the announcement by Farmers Insurance, should give consumers hope that competition and options will be returning," said Amy Bach on behalf of the non-profit United Policyholders whose team is fanned out across the state helping people deal with home insurance non renewals and tough choices.

Environmental groups: "Catastrophe models are essential for modeling perils like flood and wildfire that are now worsening as the planet warms. I am especially pleased to see the Department of Insurance requiring that these models incorporate the best scientific information on risk reduction from a property to landscape scale," said Carolyn Kousky, Associate Vice President for Economics and Policy, Environmental Defense Fund. "Lowering risks is essential and models must reflect those investments so insurers can incorporate them into pricing and underwriting — and in a timely way."

Farm groups: "Commissioner Lara's regulation recognizes the important role Farm Bureau members have in protecting our communities from wildfire," said Peter Ansel, Senior Policy Advocate, California Farm Bureau. "Agricultural properties feature attributes like defensible space, fire-resistant materials, and compliance with local fire codes but also irrigation ditches, roads, and plowed and irrigated fields that will decrease risk. Sophisticated wildfire risk models help insurers and reinsurers quantify risks more precisely, and agricultural properties that demonstrate minimal exposure should result in increased insurance access and reduced premiums."

Fire chiefs: "The parcel- and community-level mitigations included in CDI's Safer from Wildfire Framework, and the very similar parcel level mitigations included in the IBHS Wildfire Prepared Home, represent a science-based approach to creating fire-adapted communities that can be in or adjacent to the inevitable wildfire perimeters without experiencing catastrophic loss," said Dave Winnacker, Fire Chief, Moraga-Orinda Fire Protection District. "The science is crystal-clear, that at the community level we have agency to reduce wildfire risk using CDI's recommendations."

Homeowner groups: "We are excited to see the CA Department of Insurance allowing carriers to use catastrophe modeling in order to have more accurate rates moving forward," said Stacie Donnelly, Community Associations Institute - California Legislative Action Committee Chair. "This will help the

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entire state plan and prepare for loss more effectively.”

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Media Notes:

Catastrophe Modeling and Ratemaking – Final Statement of Reasons

Catastrophe Modeling and Ratemaking – Final Text of Regulation

Catastrophe models are computerized processes that simulate potential catastrophic events. Catastrophe models have been rapidly evolving since their introduction in the 1980s, incorporating historical data, technology, scientific research, engineering methods, and statistical analysis to model complex scenarios and events. These highly sophisticated models are used in virtually all other states today, except California.

Led by Insurance Commissioner Ricardo Lara, the California Department of Insurance is the consumer protection agency for the nation’s largest insurance marketplace and safeguards all of the state’s consumers by fairly regulating the insurance industry. Under the Commissioner’s direction, the Department uses its authority to protect Californians from insurance rates that are excessive, inadequate, or unfairly discriminatory, oversee insurer solvency to pay claims, set standards for agents and broker licensing, perform market conduct reviews of insurance companies, resolve consumer complaints, and investigate and prosecute insurance fraud. Consumers are urged to call 1-800-927-4357 with any questions or contact us at www.insurance.ca.gov via webform or online chat. Non-media inquiries should be directed to the Consumer Hotline at 800-927-4357. Teletypewriter (TTY), please dial 800-482-4833.

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