Insurance commissioner candidates float bigger California role

Cal Matters

A few of the candidates vying to be California's next insurance commissioner want to address the insurance crisis by having the state take a bigger financial role.

Some of the problems they're trying to solve include:

Not all insurance companies will write new policies in areas at high risk for wildfires, driving many homeowners to the FAIR Plan, the fire insurer of last resort.
Policyholders' rates are rising because Insurance Commissioner Ricardo Lara has addressed insurance availability issues by implementing new regulations that allow insurers to use new additional factors when setting premiums.
Many of those who are insured and have submitted claims after a disaster — such as last year's deadly Los Angeles County fires — have been frustrated by delays, denials and dissatisfaction with insurers' handling of their claims. The Insurance Department recently took legal action against State Farm over such issues.
Their proposals run the gamut: Create a public insurer and do away with private insurers altogether. Implement a state-run natural disaster insurance system that would complement the private market. Provide a state backstop for insurance for insurance companies, also known as reinsurance. Form public-private partnerships that would theoretically give insurers confidence to keep doing business in California.

State coverage for major fires
More state involvement might help, said David Russell, a professor of insurance and finance at Cal State Northridge who co-authored a report for the National Association of Insurance Commissioners published last December. The report recommends creating a public-private partnership called the California Wildfire Authority, which would leave most coverage to private insurers and shift coverage of major wildfires to

the state, including by providing additional reinsurance.

“It’s an amalgamation of compromises,” Russell told CalMatters. “The government will end up bailing people out anyway. Why not plan it in advance? Give everybody the playbook now and fund it properly.”

The idea sounds a little bit like what commissioner candidate Jane Kim, a Democrat, is proposing: a state-run authority for wildfire and flood funded by a portion of policyholders’ premiums.

Similarly, Republican candidate Merrit Farren has proposed a state-run reinsurance authority funded by a fee insurers charged their customers. Kim and State Sen. Ben Allen, a Democrat, have told CalMatters they are also interested in state reinsurance but have not included it in their platforms like Farren. Steven Bradford, a former Democratic state lawmaker, wants to explore a public-private partnership that he said could help insurance companies with liquidity.

California has tried this before — sort of
In April, the California Earthquake Authority released a report analyzing different levels of state involvement in catastrophic risk. One option: a state backstop that would provide reinsurance for catastrophe, which Allen said could “help to absorb wildfire loss… an analogy, I suppose, is the (Federal Deposit Insurance Corporation) — they stabilize the banking system when it’s under major stress.”

The earthquake authority itself may offer some clues for California moving forward.

Created by the Legislature in 1996 after insurers retreated from California in the wake of the 1994 Northridge quake, the authority is a public-private partnership that critics say does not cover enough of the residential market. Moreover, the critics continue, the authority’s approximately $20 billion in claims-paying capacity is inadequate.

“It was a terrible deal,” said Jamie Court, president of consumer advocacy group Consumer Watchdog. He said coverage through the authority is thin, deductibles are high and premiums are expensive. Court said that because quake insurance was carved out of homeowners insurance, the premiums policyholders have paid over the past three decades have mostly gone to reinsurance and bureaucracy as opposed to building up enough reserves.

On the other hand, Russell said, the authority has yet to be tested by a major earthquake, and “what (its creation) shows is that in California, we can do this because we’ve done it before.”

California and reinsurance
Some insurance industry representatives questioned why the commissioner candidates think California would want to take on financial risk now largely borne by the FAIR Plan, which is required by law to offer policies to property owners who can’t get them from private insurers and is run by an industry alliance.

“It’s easy for people to propose solutions for government involvement that no one wants to fund down the road with taxpayer dollars,” said Rex Frazier, president of the Personal Insurance Federation of California. “We’re not asking for that, by the way.”

But Farren said he developed his plan with the help of the insurance industry, including executives at Acrisure, a big insurance broker and financial services company based in Grand Rapids, Mich. If disaster strikes and funds in the proposed state reinsurance authority are insufficient to pay claims, it could raise funds by issuing bonds, which would have the same status as municipal bonds, Farren said. His idea was inspired by public reinsurance programs in Florida for hurricanes, the United Kingdom for floods and the U.S. federal government for terrorism risk.

A couple of consumer advocacy groups are more receptive to the reinsurance concept. Court said it might be a good idea if the state or U.S. government provided some sort of backstop for insurance companies. (U.S. Sen. Adam Schiff, the Democrat from California, has proposed federal legislation to establish a federal reinsurance fund for insurance companies, which the insurance industry opposes.) Amy Bach, executive director of United Policyholders, told the state Senate Insurance Committee this week that she was in favor of “some kind of a backstop like Florida’s hurricane catastrophe fund.” Bach told CalMatters later that she thinks the state helping “take a bite” out of what’s driving higher premiums could help.

Florida is different from California, though, said Carolyn Kousky, an economist who studies climate risk and disaster finance. Kousky said that Florida’s insurance market is dominated by small players that need help with reinsurance, while “big national players are still writing quite a bit in (California).” Those national companies are diversifying their risk and can buy reinsurance based on their national portfolio, so those insurers have less need for a state backstop, she said. She questioned whether establishing a state reinsurer would make a significant difference in consumers’ insurance premium rates.

Kim said critics of her proposal to create a public disaster insurance fund that would split off wildfire and flood coverage from homeowners insurance — inspired by New Zealand's program — ignore that California's "current system doesn't work, it's too expensive and doesn't cover enough." She pointed to Los Angeles fire victims who have found that they are underinsured and don't have enough coverage to rebuild their homes. She has not provided specific numbers for how much capitalization her proposed system would need; it's something that would need to be studied, she said. She envisions that her plan would create a revenue stream that the state could invest into reducing fire risk.

"At least some of our dollars will be stewarded by the public," Kim said.

Another candidate, Lalo Vargas of the socialist Peace & Freedom Party, wants to go further: He is calling for investigating the 10 largest insurance companies in California and eventually replacing them with a public insurer run by the state.

"Insurance works better when everyone is in the same pot," Vargas said. That pot, he said, could be filled by taxing utilities and fossil fuel companies, "so billionaires could pay for the costs associated with the climate crisis."