

Insurance Crisis: Newsom Orders Action That Could Raise Rates

The San Francisco Standard

California has announced a new plan to shore up the state's tenuous home insurance market after multiple insurers cut business in the state and legislators failed to negotiate a solution.

On Thursday, Gov. Gavin Newsom ordered the state's insurance commissioner, Ricardo Lara, to take "prompt regulatory action" to stabilize the markets for homeowners and commercial property insurance and to keep the state's Fair Access to Insurance Requirements (FAIR) plan, an "insurer of last resort" for high-risk properties, solvent.

The order aims to improve the "speed, efficacy and transparency" of the state's rate approval process and to expand coverage choices, particularly in underserved areas.

At a Thursday news conference, Lara stressed that the new strategy represented a deal between insurers and the regulator: The state will write new rules to let insurers use forward-looking modeling when they set their rates. But companies will only be allowed to do this if they agree to write more policies for homeowners who live in areas with the most risk—including communities threatened by wildfires.

The rule change could mean higher rates for homeowners who are already seeing dramatic increases. But it also aims to tackle the other issue facing Californians: too little access to insurance as providers flee what they say are poor business conditions in the state.

"Everyone is harmed if an insurance company goes insolvent because it cannot pay its claims," Lara said.

Key Features

Beyond simply allowing forward-looking "catastrophe models," Lara said the plan would allow the models to take into account factors like whether a homeowner has made efforts to mitigate their property's

wildfire risk when setting rates. In the past, these considerations have not been included in rate calculations, he said.

In return for being allowed to use the models, insurers will be required to write no less than 85% of their market share in “wildfire-distressed areas,” Lara said during the press conference.

That will likely increase access to insurance for residents of rural areas, who have struggled especially hard to find coverage. It will also help unload the FAIR Plan.

As insurers have pulled out of high-risk areas of California, more homeowners have been forced to seek coverage from the industry-funded plan, which legally cannot turn anyone down. Today, 3% of Californians use it.

If the FAIR Plan becomes insolvent, insurance companies are on the hook for its unpaid losses, creating risks for the entire market, Lara said.

Lara’s strategy also opens the door to incorporating the cost of reinsurance—insurance for the insurance company—into rate filings. But policyholders would only be responsible for the cost of California risks, not those of other states or countries.

California regulators are aiming to have the new regulations drafted by December 2024.

Consumer Groups Concerned

So far, Newsom and Lara’s plan has received mixed assessments from consumer advocates.

“I think something had to give,” said Amy Bach, executive director of United Policyholders, a national insurance consumer organization. “We’ll have to see what happens to rates.”

But Consumer Watchdog, a Los Angeles-based advocacy organization, characterized the models as “secret algorithms” in a press release. It believes that, if insurers are to use these catastrophe models, they should be made public.

Other states have already let insurers use these risk models, most notably Florida, although that state does have restrictions on how much they can do it. States with less regulated insurance markets have

insurers who build current and future events into their models.

Struggle for a Solution

Newsom's executive order comes days after a bill intended to lure insurance firms back to the state died in the legislature. While never publicly disclosed, the bill reportedly sought to allow insurers to raise rates more easily but struggled to find a legislator willing to sponsor it, Politico reported last month.

Over the past several months, several insurance firms have either dropped policies or otherwise imposed new restrictions on business in California.

State Farm, Allstate, Farmers Insurance and United Services Automobile Association are among the companies that have limited home insurance policies in California. The increasing retreat of insurers from California have made it more difficult to find policies that don't break the bank, making homeownership even more expensive.

Escalating insurance costs are a "huge concern in a region in which affordability is already an enormous social and political issue," Patrick Carlisle, a chief market analyst at Compass, told The Standard last month.