# State Farm Requests Major Rate Increases Amid Escalating California Insurance Crisis

Flip the Media

Mere months after its last rate increases went into effect, California's largest insurance provider is asking for another huge hike. Earlier this week, State Farm's California subsidiary submitted a request to the Department of Insurance to raise its rates by an average of 30% for homeowners, 52% for renters, and 36% for condo owners. This marks the latest escalation of California's home insurance crisis, which has seen a slew of insurance providers issuing dramatic rate increases, halting new policies, or leaving the state entirely.

Insurance industry experts have described the state of California's insurance industry as a "ticking time bomb," with a mass exodus of carriers severely straining the state's "insurer of last resort," which only provides bare-bones coverage. State Farm itself stopped issuing new homeowner policies last year and left people scrambling when it announced in March that it would not renew roughly 70,000 existing policies, citing inflation and increased disaster risks. Shortly afterward, a credit-rating agency for insurance companies, AM Best, downgraded State Farm's financial outlook to "negative."

The proposed new increase amounts to "another seismic-level rate premium shock," said Joel Laucher, program specialist at United Policyholders, an SF-based nonprofit that advocates for insurance consumers. If granted, State Farm's latest rate hike request would take effect when people renew their policies in 2025 and represent its largest increase in at least seven years, according to the SF Chronicle, which first reported the news. Meanwhile, the provider recently increased its home insurance rates by 20% in March, affecting more than 5 million Californians.

The fast-follow filing hinges on state legislation that allows insurers to request price increases more than normally permitted "in order to protect the insurer's solvency." The Department of Insurance, which is charged with evaluating rate increase requests, said in a statement that it has "serious questions" about the requests and plans to investigate State Farm's financial situation using all of its "investigatory tools." State Farm had a loss ratio of nearly 90% in California last year (meaning it paid out about $90 of every $100 it collected in premiums). The overall market in California had a loss ratio of 68%.

With this rate request, the company is "working toward its long-term sustainability in California," said spokesperson Gina Morss-Fischer. "Rate changes are driven by increased costs and risk," she said, and are necessary "to deliver on the promises the company makes every day to its customers." The insurer's proposed rate increases "raise serious questions about its financial condition," Insurance Commissioner Ricardo Lara said in a statement. "This has the potential to affect millions of California consumers and the integrity of our residential property insurance market."

The Department's review may take months and could include hearings and interventions from consumer advocacy groups. The company will essentially have to prove to the department that its rate hikes are financially necessary. The requested rate hike is "crazy high," according to Karl Susman, president of the Susman Insurance Agency in Los Angeles and an industry pundit. But the Department will likely "have no choice but to approve it" if State Farm proves it needs this money to survive, he said. Meanwhile, consumers "are stuck," because they don't have good alternatives given the flight of other providers.

"It's a perfect storm because the timing of it couldn't be worse," Susman said. The state government needs to move faster to adjust its rules and processes to bring other carriers back, he added. For example, earlier this year, Gov. Gavin Newsom introduced a controversial bill that could speed up the state's review and approval process for rate hikes. "However this plays out, it makes clear that affordable homeowners insurance for California consumers may not be part of our future financial landscape," said United Policyholders' Laucher. "At least in the near future."

In the coming years, climate change could force Americans from their homes, not just by raising sea levels, worsening wildfires, and causing floods — but also by putting insurance coverage out of reach. In places including California, Florida, and Louisiana, some homeowners are finding it nearly impossible to find an insurance company that will cover their property. Others have seen their premiums climb so high that they can no longer pay. Experts say the trend is spreading throughout the country as natural disasters increase.

Most mortgage lenders require homeowners to maintain insurance. Without access to coverage, millions of Americans could find themselves forced to reconsider where they live. Consumer advocates say long-overdue conversations about development in areas prone to natural disasters are being driven by property insurers, not governments. “Insurance companies have basically become our land-use officials,” said Doug Heller, director of insurance with the Consumer Federation of America, a research and advocacy nonprofit. “In 2023, the industry suddenly seemed to wake up and say, ‘There’s climate change, forget all those times we’ve nodded our head yes and told you that you can live there.’”

As the crisis escalates, state leaders are desperately trying to convince insurance companies to stick around. States are offering them more flexibility to raise premiums or drop certain homes from coverage, fast-tracking rate revisions, and making it harder for residents to sue their insurance company. Meanwhile, a flood of new policyholders are joining state-backed insurance “plans of last resort,” leaving states to assume more of the risk on behalf of residents who can’t find coverage in the private sector.

Industry leaders note that insurance companies have been hammered by heavy payouts — last year, 28 separate U.S. natural disasters caused at least $1 billion each in damage, according to federal figures — and say they simply can’t afford to provide coverage in the areas that face the highest risk. Disaster costs are soaring. In the last five years, there have been 102 disaster events in the United States that caused at least $1 billion in damage. In the entire decade of the 1990s, there were 57 billion-dollar events (adjusted for inflation), and in the 1980s there were 33.

Natural disasters are increasing at the same time risk-prone areas are becoming ever more populated, and as property values are climbing. The price of repairs and replacement have skyrocketed due to inflation, workforce, and supply chain issues. Insurers say costs also have been driven by an uptick in litigation and fraud. “We’re experiencing record-breaking losses as it relates to natural disasters,” said Adam Shores, senior vice president for state government relations with the American Property Casualty Insurance Association, an industry group. “We want to be there, but when the math doesn’t work for a company, they have to make those decisions.”

While the insurance crisis is most acute in certain coastal states, climate experts say every region will face similar challenges, especially as severe storms batter the middle of the country. While some states have made marginal gains in stabilizing the insurance market, some experts say that progress may be short-lived. “Insurers are the climate change canary in the coal mine,” said Dave Jones, the former insurance commissioner in California and director of the Climate Risk Initiative at the University of


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California, Berkeley's Center for Law, Energy, & the Environment. "While these policy and regulatory interventions might help in the short run, they're likely to be overwhelmed by the increasing risk and loss."

In some hard-hit states, policymakers have focused on giving insurance companies more flexibility to adjust their rates and coverage options. Four hurricanes walloped Louisiana in 2020 and 2021, causing $23 billion in insured losses. Twelve insurance companies became insolvent and dozens left the state. Residents in southern Louisiana especially have struggled to find coverage, and some have moved elsewhere because they couldn't afford their premiums. "It's the perfect storm," said Louisiana state Rep. Gabe Firment, a Republican. "We just do not have companies willing to write business in Louisiana right now, and you can't blame them."

Firment sponsored a measure, enacted this year, repealing a state rule that had blocked companies from dropping long-standing customers. Those dropped can join a state-run plan. Lawmakers hope that — given the ability to cancel the highest-risk policies — insurance companies will remain in the state and avoid massive rate hikes on their remaining customers. Legislators passed a suite of other laws aimed at the crisis, speeding up the process for insurers to adjust their rates, extending a grant program to help residents fortify their homes, and giving companies more time to pay out claims. Firment said the changes are designed to attract more companies back to the state, "but if we get two or three hurricanes this year, all bets are off."

In California, many major insurers have canceled policies or stopped accepting new applications due to wildfire risk. Regulators there have proposed a rule that would allow companies to incorporate climate change projections into the models they use to set their rates. "Insurers are not going to continue to write in every market if they can't price accurately," said Mark Friedlander, director of corporate communications with the Insurance Information Institute, an industry-backed research group.

Meanwhile, Democratic Gov. Gavin Newsom has put forth a measure that would speed up regulators' approval of the rate revisions proposed by insurance companies. While seeking to give insurers more flexibility on rates, California leaders also have sought to protect residents by establishing a one-year moratorium on policy cancellations in disaster areas following a wildfire. Officials at the state Department of Insurance did not respond to Stateline interview requests.

Homeowners’ insurance rates in Texas spiked 23% last year, twice the national average. The state has endured a myriad of disasters in recent years, but consumer advocates fear insurers are weaponizing climate change to jack up rates and demand looser regulations. “[Insurance companies] are putting a gun to our heads, telling us, ‘Do it our way or we’ll pull up stakes,’” said Ware Wendell, executive director of Texas Watch, a nonprofit advocacy group. “They’re going to cherry-pick the country and only insure parts of the country that have less climate risk.” The Texas Department of Insurance did not grant a Stateline interview request.

In several states, homeowners who can’t find private coverage are joining state-run plans. Originally intended to be a last-ditch option, because they generally offer limited coverage, these plans are seeing more and more residents signing up. Florida has seen more than 1 million residents join the plan offered by the state-run Citizens Property Insurance Corporation. The plan, which is meant to be a “last resort” option, now stands as the largest in the state. Insurance rates in Florida have climbed to four times the national average, following hurricanes Ian and Nicole in 2022. The state also has seen an uptick in claims lawsuits that insurance companies characterize as legal abuse.

Legislators changed state law in 2022 to disincentivize such lawsuits, ending homeowners’ ability to collect attorneys fees from insurers in claims disputes. State regulators say insurance rates have stabilized in 2024, and new companies are joining the market. The Florida Office of Insurance Regulation did not grant an interview request. But some lawmakers say state leaders are eager to help insurance companies while ignoring the underlying issue of climate change. “Stabilization is important, but [premiums] have stabilized at high rates,” said state Rep. Anna Eskamani, a Democrat. “Floridians can’t afford Florida anymore, and if we’re not taking climate change seriously, then we’re missing the point.” Eskamani called for leaders to change land-use policies to limit development in high-risk areas.

Even as some Florida homeowners are now shifting from the state-run plan back to the private market, industry experts say the nationwide surge in state-backed policies is troubling. If such plans exhaust their reserves, states impose an assessment on either all insurance companies or all individual policyholders — known in Florida as the “hurricane tax.” Jones, the former California insurance commissioner, noted that insurers there are worried that growing wildfire risk could force them to bail out the state plan. Nearly 400,000 Californians rely on the state plan for insurance, and state officials have warned that a catastrophic event could wipe out its reserves.


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While Californians struggle to find insurance on the private market, Jones called out the insurers that are dropping policies even as they retain financial ties to fossil fuel companies. “Why are insurers investing in and writing insurance for the very industry that’s making it increasingly challenging for them to write insurance in certain parts of the country?” he said.

In Colorado, lawmakers voted last year to create a state-backed insurance plan like those in more than 30 other states. State Sen. Dylan Roberts, the Democrat who sponsored the bill, said he heard from constituents who were getting dropped by their insurers following the Marshall Fire that swept through Boulder County in 2021. “We’re going to have more and more Coloradoans every year who are unable to find insurance for their property on the private market,” he said. “To have an insurer of last resort is something we hope isn’t used widely, but it’s something we need to have.”

Some consumer advocates believe states will have to get more involved. Amy Bach, executive director of United Policyholders, a nonprofit that advocates for insurance customers, said governments face the same difficult risk calculations as private companies but are tax-exempt and don’t face the same pressures to return high profit margins to shareholders. “Publicly supported insurance programs are here to stay,” she said. “It behooves us to build them as smart as we can.”

In Washington state, regulators say they have only a few hundred policies on the state-backed plan, a sign that residents can still access coverage on the private market. David Forte, senior property and casualty policy adviser with the Office of the Insurance Commissioner, said the agency has added actuarial staff to speed up insurers’ rate revision approvals. He also credited the work of state leaders who have invested millions to reduce wildfire risk. But he cited a 2022 wildfire that nearly swept through the town of Index, before shifting winds changed its direction. “If that had happened, I think our property market would be different,” he said. “Are we just one bad event away? Probably.”


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