[What to know about California’s plan to fix its insurance crisis](https://uphelp.org/what-to-know-about-californias-plan-to-fix-its-insurance-crisis/)

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Gov. Gavin Newsom’s announcement last month of a major home insurance overhaul is being met with skepticism in some corners over fears the deal will cause rates to rise for the average homeowner, even as Sacramento seeks to safeguard the marketplace for millions of landowners.

Newsom’s executive order calls for “prompt regulatory action” by Insurance Commissioner Ricardo Lara to stabilize and strengthen the state’s home insurance network after a multiyear exodus of top insurers rattled by the soaring costs of disaster claims.

“This is yet another example of how climate change is directly threatening our communities and livelihoods,” Newsom said. “It is critical that California’s insurance market works to protect homes and businesses in every corner of our state. A balanced approach that will help maintain fair prices and protection for Californians is essential.”

But Harvey Rosenfield, Consumer Watchdog founder and author of Proposition 103, the landmark 1988 ballot measure tightening insurance oversight, said complete details of the agreement and subsequent deal made with insurance companies have not been revealed since the Sept. 21 announcement.

“This is a highly inflationary move and a capitulation to insurance company demands. Insurers are using their economic power to create shortages for the purpose of pressuring elected officials to change rules that have kept insurance premiums in California stable, affordable and available for decades,” Rosenfield said. “Lara’s announcement will dramatically increase homeowner and renter insurance bills by hundreds or even thousands of dollars.”

Lara said the changes are ”aimed at modernizing the insurance market and protecting consumers.” He called it the state’s biggest insurance regulation reform since voters approved Proposition 103, requiring state approval of rate hikes. It may take 15 months to have new rules in place, he said.

Lara said his office reached an agreement with homeowner and commercial property insurance companies that would require them to take more customers in areas with high fire risk, in exchange for allowing them to use catastrophe modeling to set premiums.

That predictive modeling can factor in the future risk of wildfires stoked by climate change and other disasters. Unlike the rest of the nation, California until now has prohibited predictive modeling for rate setting, instead relying on past experience.

Under the proposed plan, the Department of Insurance proposes to require insurance companies by December 2024 to write policies for no less than 85% of their statewide market share in wildfire risk areas.

The new plan's primary consumer benefit is to preserve and even expand insurance availability in marketplace winnowed by the planned pullout of giants Allstate, State Farm, Farmers, USAA and AIG among other firms.

In exchange for commitments by insurers to stem that exodus and take on policies with higher risks, Lara has signaled the state will look more favorable on passing reinsurance costs on to consumers.

But while more Californians will regain access to the that marketplace, costs are likely to rise for the average ratepayer.

The executive order contained a number of broad goals:

- Expand insurance coverage choices for consumers, particularly in underserved areas.
- Improve the efficiency, speed and transparency of the Department of Insurance rate approval process.
- Maintain the long-term availability of homeowners and commercial property insurance coverage.
- Sustain the solvency of the California FAIR Plan to protect its policyholders and identify ways to reduce its share of the overall market in underserved areas and move its customers into the regular insurance market.

In some fire-ravaged rural parts of the state, such as Lake and Mendocino coutnies, as well as suburban fringes of Sonoma of Napa counties, homeowners can only obtain insurance through the FAIR Plan, the state-chartered “insurer of last resort” for those who cannot get coverage. It seen underwriting more than double in the past five years, rising from 126,709 policies in 2018 to 272,846 in 2022, KQED reported.

Newsom’s executive order and Lara’s announcement on action steps came less than two weeks after Lara and lawmakers were unable to broker a last-minute deal to stem further pullout by the insurance before the Legislature’s final day in the 2023 session.

In a statement, Sen. Bill Dodd, a Napa Democrat involved in the unsuccessful Sacramento negotiations, cheered Lara’s announcement.

“Given that the Legislature is not in session, utilizing the commissioner’s regulatory authority makes good sense,” Dodd told the nonprofit news site CalMatters. “I know there is work that still needs to be done and I’ll be supporting these efforts any way I can.”

Lara said some of the key points in the announced agreement came out of those legislative discussions.

The American Property Casualty Insurance Association, a trade group for home, auto and business insurers, said the state’s market for property coverage is in “a spiraling crisis that requires immediate policy solutions” to protect consumer access to policies.

“California’s 35-year-old regulatory system is outdated, cumbersome and fails to reflect the increasing catastrophic losses consumers and businesses are facing from inflation, climate change, extreme weather and more residents living in wildfire prone areas,” Denni Ritter, vice president for state government relations, said in the association statement.

Ritter said Sacramento’s recent actions are “the first steps of many needed to address the deterioration of the insurance market.”

Amy Bach, executive director of insurance customer advocacy group United Policyholders, said, “Lara did not sell out to the industry in California, in my opinion, he struck a deal. Whether it’s going to manifest positively overall … the proof will be in the premiums. The proof of success will be seen when insurance competition comes back in California."