Will this plan solve California’s insurance crisis? This is what you need to know

Nation World News

A week after negotiations to save California’s faltering home insurance market stalled in the Legislature, the state’s top insurance regulator unveiled its own plan to save the effective value of a swap for the first. which is the state insurer.

Under the proposed regulations announced by Insurance Commissioner Ricardo Lara, major insurers must cover a certain proportion of homeowners in fire-prone areas of the state. In exchange, the Insurance Department will allow companies to charge more to cover the rising costs of doing business in a state hit by wildfires.

Lara called the package of proposed new regulations “the biggest insurance reform” since 1988, the year California voters approved a proposal requiring insurance companies to obtain first approval before raising premiums.

The plan aims to reverse what has been a slow exodus of private home insurers from the State. In the past year and a half, seven of the 12 major property insurers operating in California have imposed new restrictions on where they do business or stopped selling new policies here entirely.

The biggest player of all, State Farm, announced a freeze on new policies in May, starting a new round of panic among homeowners struggling to find affordable insurance policies and policymakers eager to address the crisis.

For years, insurance companies have complained that current rates and the existing regulatory process don’t allow them to recoup the cost of doing business in the state’s highest-risk regions. By easing some of those restrictions while requiring companies to expand their coverage, “this is the department that’s undercutting insurers," said Rex Frazier, president of the Personal Insurance Federation of California, a group of trade.

In principle, this is a trade-off that insurers are willing to make, he added, although it will ultimately depend on how specific regulations are developed in the coming months.

Amy Bach, executive director of the consumer group United Policyholders, expressed a similar opinion.

Lara "is not selling the industry here, in my opinion, he is negotiating," he said. "Even if it works positively overall … the proof is in the premiums."

But Consumer Watchdog, an advocacy group that Lara almost called by name during her presentation as "good" and a group that "materially benefits" from the current regulatory system, has reached a difficult conclusion.

"She has basically capitulated to the industry," said Jamie Court, the group's president, about Lara. "There's not much return for the consumer here."

Pick up where the lawmakers left off
Despite growing public outrage and calls for action from top lawmakers, the politics of resolving the issue in the Legislature have proven thorny this year.

In the final weeks of the legislative session that ended a week ago, lawmakers rushed to put together the demands of insurers (who are asking for higher premiums to cover more of their costs and a easier rate-setting process) and by consumer groups, who have resisted calls to increase the financial burden on homeowners. After negotiations broke down, Gov. Gavin Newsom has announced that his administration and the Lara Insurance Department may be willing to quit on their own.

In a statement, Sen. Bill Dodd, a Napa Democrat involved in the failed negotiations, applauded Lara's announcement. "Since the Legislature is not in session today, the use of the commissioner's regulatory authority is reasonable," he said. "I know more needs to be done and I will support these efforts in any way I can."

Insurance companies point to three main reasons why doing business in California is increasingly a losing proposition: the growing risk of wildfires, ever-increasing construction costs, and the global reinsurance price – insurance policies contracted by insurance companies themselves.

While costs are rising, the amount that companies can charge homeowners is strictly limited and regulated in California, making home insurance policies relatively affordable by national standards. To increase rates, major insurers need approval from the Department of Insurance.

Currently, insurance companies cannot include the cost of reinsurance in applications. They are also prohibited from using forward-looking models to predict future costs, something insurers say they desperately need, as a warming climate and the -development of habitats that encroach on fire-prone areas will result in fire seasons that are longer and more catastrophic than the last.

Lara suggested giving companies both tools, though only allowing them to itemize the amount of reinsurance as part of California. It is unclear how this is calculated.

Bach of the United Policyholders said that allowing companies to use predictive models is not inherently a bad idea: “Are these models bad tools of Satan? No,” he said, but he hopes with transparency about which models are used and how they work.

In exchange for these new devices, companies must cover homeowners in fire-prone parts of the state in 85% of their state coverage. For example, if a company offers 10% of homeowner’s policies in California, it must provide 8.5% of coverage in areas considered “at risk.”

The Court, along with Consumer Watchdog, said that 85% is far less than 15%. “It’s a bad deal,” he said.

California homeowners who currently cannot obtain insurance on the private market can turn to the FAIR Plan, a last-resort fire coverage issuer that is tax-supported by regulated insurers. Between 2018 and 2022, the number of homeowners covered by the FAIR Plan will more than double to approximately 3% of all homeowners.

But FAIR Plan policies are expensive and limited. And if the FAIR Plan runs out of money, it is legally obligated to fill its coffers by imposing a surcharge on major insurers. The prospect of the FAIR Plan running out of money and hitting the industry with the bill also encouraged insurance companies to reduce their coverage.

Consumer Watchdog has repeatedly challenged insurance companies' requests for higher premiums from the state, an intervention allowed under a 1988 ballot measure. Now, Lara also says she wants to quickly The public can see who intervened and how much you were paid. doing so.

"One entity participates in almost 75% of all rate approval interventions, materially benefiting from a process intended for wider public participation," he said, referring to the nonprofit that organization.

Lara also stated that "it is easy to throw bombs and making bombastic statements from entrenched interest groups does no one any good."

The court said his organization will continue to fight while the department drafts detailed regulations. "We will be fighting this issue for months," he said.

Source: https://uphelp.org/will-this-plan-solve-californias-insurance-crisis-this-is-what-you-need-to-know/ Date: November 22, 2024