AGENT & BROKER ALERT

California Insurance Commissioner Ricardo Lara

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Commissioner Lara unveils next steps in his strategy to expand coverage options for Californians in areas of high wildfire risk

First-ever wildfire risk map showing where insurance companies need to write more coverage

June 13, 2024 — Insurance Commissioner Ricardo Lara released further details of his transformative plan to increase the writing of homeowners and commercial insurance policies in areas of the state with high wildfire risk.

Commissioner Lara announced regulatory text outlining the commitments that insurance companies must make in order to use forward-looking catastrophe models for ratemaking and encouraged the public to learn more at the Department's June 26 public workshop.

Under Proposition 103 enacted by voters in 1988, insurance companies are legally free to choose where they will write policies in California. As a result, insurance companies are writing more and more in areas of the state deemed less risky, especially with the continued threat of climate change. This most affects residents and business owners in areas with wildfire risk where the California FAIR Plan has become the only option for insurance, not the last resort as it was intended. Under Commissioner Lara's strategy, insurance companies will be allowed to use forward-looking catastrophe models if -- and only if -- they increase writing of policies in these wildfire distressed areas, thus helping fix a fundamental shortcoming of Prop. 103.

"Whether you live in the Sierra or the foothills, along the coast or in a city, California is not a 'one-size-fits-all' place, and we can't have a one-size-fits-all solution. We are enacting a major reform that will result in insurance companies writing more policies, so if you are stuck on the FAIR Plan because of your unique wildfire risk, there will be help for you."

- **Insurance Commissioner Ricardo Lara**

How this regulation will help consumers

Under this regulatory package, insurance companies must detail their commitments to writing more policies in the wildfire distressed areas when they submit their rate filings and the Department will use its existing enforcement authority to hold them accountable. Insurance companies using catastrophe models also will be required to take into account the steps taken by policyholders to mitigate wildfire risk.

First-ever insurance map shows where increased coverage is needed

As part of the announcement, the Department released a statewide map that it developed showing areas where wildfire risk and FAIR Plan policies are concentrated. The Department took a hybrid approach to take into account the state's large population and complex geography. The map aligns with recent work by CAL FIRE identifying fire hazard zones where mitigation resources are targeted, thus amplifying those efforts. The hybrid approach includes:

- Using insurance data first to identify ZIP Codes in areas of wildfire hazard where more than 15% of policies are written by the California FAIR Plan, the state's insurer of last resort, as well as ZIP Codes where incomes are low and insurance premiums are high, namely above $4 per $1,000 of coverage.
- The Department also identified counties where greater than 20% of policies are considered high risk by a review of that county's aggregate fire risk scores.
- As part of new growth benchmarks, if a policyholder is in the FAIR Plan because of wildfire risk, the policyholder would be eligible to be part of an insurance company commitment. .

Insurance companies must write more policies

This hybrid approach would enact an agreement that Commissioner Lara reached with insurance companies last year to cover at least 85% of homeowner and commercial properties in distressed areas. The new regulatory text also recognizes the complexity of California's insurance marketplace which is made up of large and small companies, including some serving geographical regions with fewer homes at risk of wildfires.

- For residential insurance companies, insurance companies will commit to either writing at least 85% of their statewide market share in the distressed areas, or expanding their writings by at least 5% in wildfire distressed areas. This will provide paths for large insurance companies with an existing footprint in the wildfire distressed areas and those smaller and regional insurance companies that may have fewer existing policies in wildfire distressed areas.
- For commercial insurance, insurance companies will commit to expanding their writing by 5% in distressed areas, which will apply to policyholders like farms, condominium associations, and businesses.
- Companies already meeting the threshold will be required to maintain that threshold for three years.

Continued progress toward enacting transformative insurance reforms

The regulatory text that Commissioner Lara unveiled is part of his Strategy enabling insurance companies to use "forward-looking" catastrophe modeling in rate making when they commit to writing and maintaining more insurance policies. This is a companion to draft text that he released in March receiving public input at an April workshop. Following the public workshop on June 26, the Department will review public input before issuing the full catastrophe modeling regulation for adoption by year end.

The Strategy includes:

- Complete Rate Application Regulation released in February – Creates clarity in the rate review process for all participants. This regulation is a critical part of reducing unnecessary delays that can cause rate filings to take more than a year. This regulation holds insurance companies accountable for providing the complete information that the Department needs to make informed and timely decisions on these filings, and also helps prevent delays caused by intervenors raising issues not relevant to the rate review process.

- Reinsurance Cost Regulation to be released in July – Allows insurance companies taking on greater risks in California to incorporate a reinsurance cost component in their rate filings to cover those risks.

- FAIR Plan Modernization Efforts to be released in July – Increases coverage to $20 million per structure for larger homeowners' associations, condo associations, farms, and other businesses and ensures FAIR Plan will have a sounder financial sustainability structure.

- View the workshop invitation
- View the draft regulatory text
- View the map and presentation

- List of Counties - Residential
- List of ZIP Codes - Residential
- List of ZIP Codes - Commercial