

# California's Sustainable Insurance Strategy



# Modernizing Our Insurance Market:

Accessible Insurance for Californians

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Create a Resilient Insurance Market

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Protect Communities from Climate Change



# Global Context

- Inflation is creating unprecedented financial stress to insurance markets.
- Increased costs of rebuilding, supplies, materials, auto parts along with labor shortages, among other costs, are affecting insurance markets.
- Reinsurance is harder to find and is costlier as catastrophes grow around the world.
- As risk grows, insurance markets are contracting to protect solvency, meet financial obligations and regulatory mandates.

**Natural disasters & global inflation have increased insured losses and costs worldwide like never before.**



# California Context

**Top 12 Companies =  
85% of State's Homeowners Market**

The property insurance market in the country (specifically in large states like California) is changing quickly.

Since 2022 alone — 7 of top 12 insurance companies have paused or restricted new business despite rate increases approved or pending with Department of Insurance.



# California Context

Insurance Group and Ranking (2022)	Market Share	2023 Rate Increases (Pending & Approved)	Major Action Since 2022
1. State Farm	21.22%	28.1%	Paused new policies
2. Farmers (10 companies)	14.9%	17.7%, 12.5%	Limited new policies to 7,000 per month
3. CSAA (2 companies)	6.9%	18.55% (approved 2021)	
4. Liberty Mutual (6 companies)	6.6%	29%, 10.6%	
5. Mercury	6%	12.6%, 7%	
6. Allstate (5 companies)	6%	39.6%	Paused new policies
7. USAA (4 companies)	5.7%	30.6%, 16.5%, 6.9%, 3%	Restricted underwriting to low-risk only
8. Auto Club	5.1%	20%	
9. Travelers	4.2%	21.7%	Limited new policies
10. American Family (3 companies)	2.8%	22.7%, 6.9%, 6.9%	
11. Nationwide (2 companies)	2.5%	19.9%, 24.5%	Limited new policies
12. Chubb (8 companies)	2.2%		Ceased writing high-value homes with higher wildfire risk, and non-renewed some high-value homes

# California Context

Over past 10 years, homeowners insurance companies have done far worse in California than nationally.

Direct incurred loss ratio (2012-2021)

Countrywide: 59.7%

California: **73.9%**

Direct underwriting profit

Countrywide: 3.6%

California: **-13.1%**

Direct profit on insurance transactions:

Countrywide: 4.2%

California: **-6.1%**

Direct return on net worth:

Countrywide: 7%

California: **0.8%**

*Source: NAIC Profitability Report (released January 2023)*



# How did we get here?

- FAIR Plan has increased to 3% of CA market – becoming the insurer of first resort, not last resort, for many.
- AM Best downgraded outlooks for Top-12 companies like State Farm, AAA, Mercury due to risk concentration in California.
  - Insurance companies will not write in high-risk areas, unless they can cover 100% of consumer claims, their expenses, and earn a fair return.
  - Rate filings are more complex and can take longer than 6 months to review.
  - One entity can unreasonably prolong rate filings – no other state has this.



# Insurance Consumer Benefits

- **Insurance Availability in At-Risk Areas** — Requiring insurance companies to write no less than 85% of their statewide market share in distressed areas identified by Insurance Commissioner.
- **Returning FAIR Plan Policyholders to Market** — With first priority given to homes and businesses following “Safer from Wildfires” regulation.
- **Cat Models/Mitigation** — New models will recognize mitigation and hardening requirements to appropriately price rates and discount benefits; presently not available in current rate making process today.
- **Modern FAIR Plan** — Expanding commercial coverage limits to \$20 million *per structure* closes coverage gaps for HOAs, affordable housing, and infill developments.





# The largest insurance reform since voters passed Proposition 103 in 1988 — informed by thousands of **CONSUMERS** in every county.

- Commissioner Lara and Department of Insurance Outreach Teams have met with more than **122,000 consumers** in person and virtually since 2019.
- More than **1,800 meetings, town halls, and events** in all **58 counties** of the state.



# Insurance Market Benefits

- **Updates Rate Review Timelines** — Improves market certainty for rate approvals.
- **Improves Rate Filing Procedures** — Increases stability while maintaining intervenor transparency.
- **Risk Assessment Tools** — Regulations on catastrophe modeling will allow for long-term sustainability of coverage and rates. Exploring California-only reinsurance regulation protects consumers from paying costs of other global catastrophes.
- **Increased transparency for intervenors** — Making prior filings of intervenors publicly available to encourage broader participation.



# CDI Enforcement/Resources

- **CDI Controls Regulatory Process** — On rate review and catastrophe modeling guaranteeing public input and compliance with transparency laws.
- **CDI Binding Agreements** — Companies can only utilize new tools if they increase writing and set clear targets to depopulate FAIR Plan.
- **CDI Retains Rate Filing Control** — Updates rate filing process to ensure more efficient and accessible rate approvals.
- **Additional Staffing** — To implement major regulatory changes by December 2024 and improve rate filing processes.
- **CDI Reporting** — Periodic progress reports on insurance availability, rulemakings, and FAIR Plan depopulation efforts.



# Major Actions Taken to Date

## Wildfire Response:

- First-in-the-nation “Safer From Wildfires” regulation creating community wide mitigation standards.
- First-in-the-nation “Insurance Discount” regulation for consumers and businesses who harden their properties.
- Expand FAIR Plan insurance coverage for agrobusiness, outdoor, and recreation businesses.
- Modernize FAIR Plan to provide consumers with more options.

## Climate Response:

- Created first “Climate and Sustainability Branch” in country.
- Established “Climate Insurance Working Group” generating CA’s first-ever Climate Insurance Report.
- Partnered with United Nations to launch “CA’s Sustainable Insurance Roadmap”.

