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.

RICARDO LARA
INSURANCE COMMISSIONER
California 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	2.2%		Ceased writing 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".