

California Department of Insurance



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The Insurance Market

- 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	Major Actions in Homeowner Policies 2023
1. State Farm	21.22%	Paused new policies and initiated non-renewal of 72,000 policies by 2025
2. Farmers (10 companies)	14.9%	Writing new policies with 7,000 monthly limit
3. CSAA (2 companies)	6.9%	Writing new policies with no change
4. Liberty Mutual (6 companies)	6.6%	Writing new policies with no change
5. Mercury	6%	Writing new policies with no change
6. Allstate (5 companies)	6%	Paused new policies. Rate increase application (pending)
7. USAA (4 companies)	5.7%	Restricted underwriting to low-risk only
8. Auto Club	5.1%	Writing new policies with no change
9. Travelers	4.2%	Limited new policies. Rate increase application (pending)
10. American Family (3 companies)	2.8%	Writing new policies with no change
11. Nationwide (2 companies)	2.5%	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



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.



Safer From Wildfires

Protect your home or business

+

Protect the immediate surroundings

+

Protect the whole community



CA FAIR Plan & Wildfire Risk Score

- Since August 2023, the CA FAIR Plan began offering insurance discounts
- The CA FAIR Plan is offering 20 million dollar coverage per location for commercial policies, including HOAs
- The Wildfire Risk Score regulations allows consumers to request and appeal your property risk score



Sustainable Insurance Strategy

A comprehensive plan to solve the California insurance crisis

- ▶ Informed by community input and data
- ▶ Insurers are committing to write and expand in high wildfire risk areas across the state — in a rate filing reviewed by the Department

▶ Depopulate the FAIR Plan



Catastrophe models lead to greater safety and better risk assessment

- ▶ Account for individual, community, and statewide mitigation.
- ▶ Recognize changing conditions such as climate and real estate development in high risk wildfire areas.
- ▶ Better management of catastrophic risk and premium accuracy.



Guiding principles

- ▶ Maximize geographic relief to insurance consumers.
- ▶ Define distressed areas of the state in a way that is clear, understandable, and addresses FAIR Plan growth.
- ▶ Monitor distressed areas annually and focus on expanding insurance access for distressed properties.



Hybrid approach to help consumers

- ▶ California's complex geography and insurance market require taking multiple approaches to help the most people.



ZIP Codes

- ▶ **"High" and "Very High" fire hazard categories based on most recent CAL FIRE maps**
- ▶ **FAIR Plan concentration rate of 15% or higher**
- ▶ **Affordability index for income-eligible in high and very high fire hazard area categories — based on the cost of coverage**



Counties

- ▶ **Wildfire Risk Scores: If 20% or more of properties in a county are in a high risk area (i.e. 1 out of 5 structures)**
- ▶ **20% threshold helps prevent “cherry picking” in low risk urban areas**



FAIR Plan policies facing wildfire risk

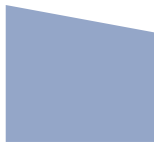
- ▶ Pockets of FAIR Plan policies exist in nearly every county.
- ▶ As part of new growth benchmarks, insurance companies will take FAIR Plan policies in Northern, Central, and Southern California.



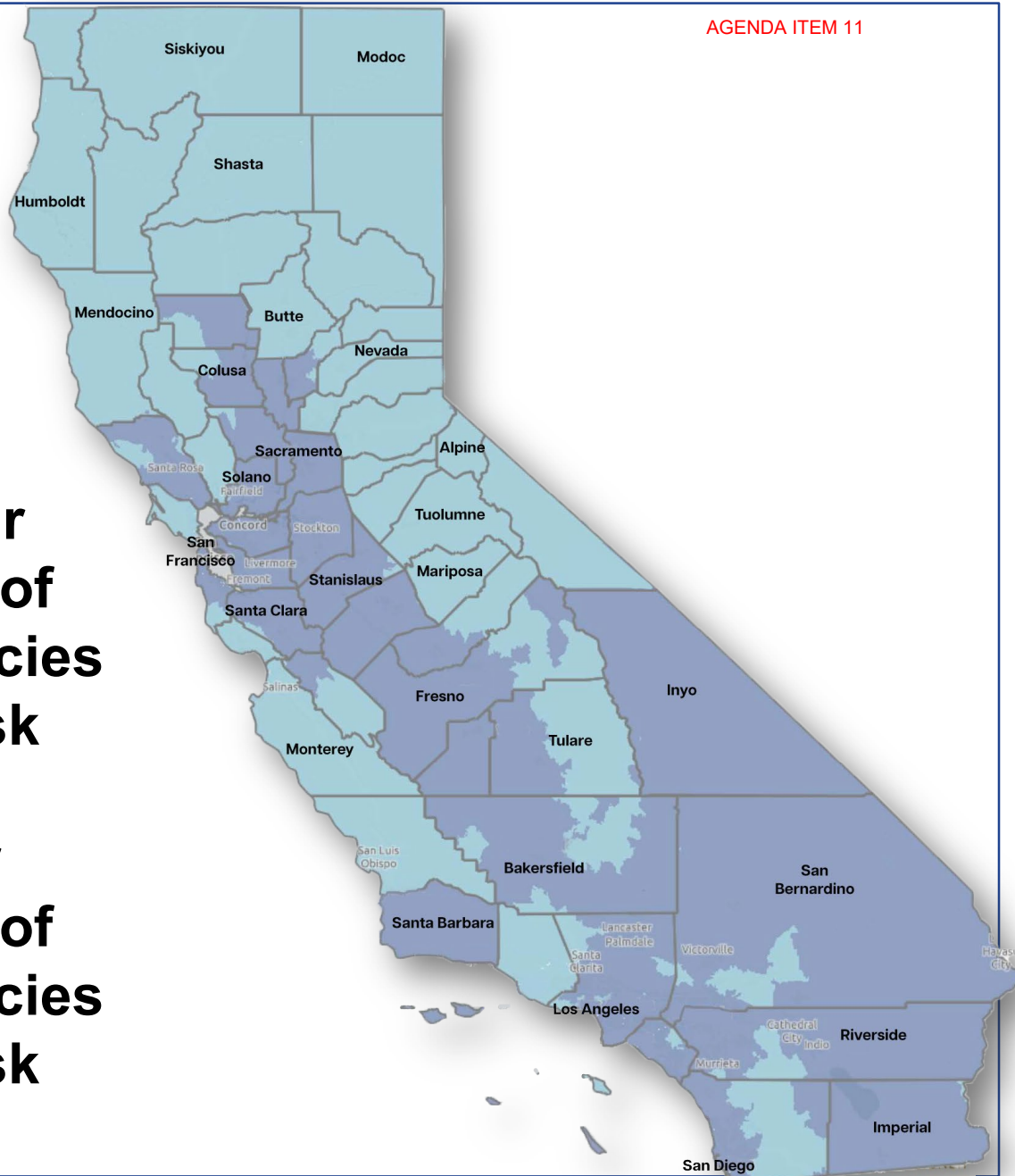
Concentration of FAIR Plan policies and wildfire risk



Areas of higher concentration of FAIR Plan policies and wildfire risk



Areas of lower concentration of FAIR Plan policies and wildfire risk



Companies will be driven to write new policies

Residential
85% minimum
in wildfire distressed areas

5% growth
for small or regional
insurance companies

Commercial: **5% growth** for
all companies



What this means for Californians:

First Approach	Second Approach	Third Approach
<p>ZIP Codes with greater than 15% FAIR Plan policies or affordability index</p> <p>Minimum 85% policies written in traditional market</p> <p>5% growth of writing</p>	<p>Counties with greater than 20% of properties at risk</p> <p>Minimum 85% policies written in traditional market</p> <p>5% growth of writing</p>	<p>FAIR Plan policies statewide in wildfire risk areas</p> <p>5% growth of writing to take policies out of FAIR Plan</p>

More coverage options and fewer FAIR Plan policies in areas of higher risk



The Department of Insurance's enforcement authority

- ▶ Under existing law, the Department can do a market conduct exam and audit insurance companies if they fail to meet the requirement.
- ▶ Conduct rate hearing, which can lead to a rate adjustment or refunds.
- ▶ Prevent insurance companies from using catastrophe models.



Questions? File a Complaint

1-800-927-4357

insurance.ca.gov

Consumer Alerts

