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.
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.

Top 12 Companies = 85% of State’s Homeowners Market

California Context
## California Context

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

Protect your home or business
+
Protect the immediate surroundings
+
Protect the whole community
Protect your home or business

- Class A fire-rated roof
- 5-foot ember-resistant zone around the structure
- Noncombustible 6 inches at the bottom of walls
- Ember- and fire-resistant vents
- Double pane windows or added shutters
- Enclosed eaves
Protect the immediate surroundings

- Cleared vegetation and debris from under decks
- Move sheds and outbuildings at least 30 feet away
- Trim trees and remove brush in compliance with state and local defensible space laws
Protect the whole community

- Neighborhoods can form a Firewise USA community
- Cities, counties, and local districts can become certified as a Fire Risk Reduction Community
CA FAIR Plan & Wildfire Risk Score

• CA FAIR Plan offering insurance discounts in compliance with Safer from Wildfires Regulation

• CA FAIR Plan offering $20 million coverage per location for commercial policies, including HOAs

• The Wildfire Risk Score regulations allow consumers to request and appeal your property risk score
Major Actions to Tackle Climate Change

• 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”.
Modernizing Our Insurance Market:

Accessible Insurance for Californians

Create a Resilient Insurance Market

Protect Communities from Climate Change
California Sustainable Insurance Strategy

- **Insurance Availability in At-Risk Areas** — Requiring insurance companies to write no less than 85% of homes and businesses 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.

- **California-only reinsurance costs** — Protecting consumers from paying for other global catastrophes.

- **Modernizing 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 2000 meetings, town halls, and events in all 58 counties of the state.
Questions?
1-800-927-4357
insurance.ca.gov