

# 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 more than 4% 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 help 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.



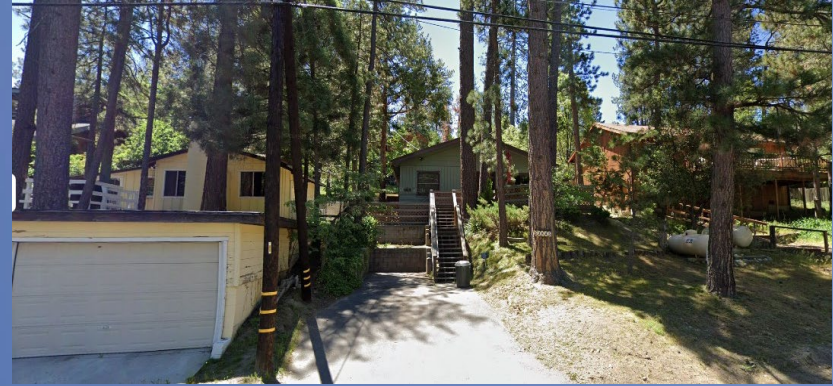
# Guiding principles

- ▶ 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.



# What this means for Californians:

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

## 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.





# 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



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