

# California Insurance Commissioner Threatens Homeowners in These New Rules

Ricardo Lara aims to allow insurers to increase their rates in response to wildfires



By Bruna Guedes

In a bold attempt to address California's insurance crisis, Commissioner Ricardo Lara has dubbed his package of new proposed regulations “the largest insurance reform” since 1988.

Lara’s goal is to deter insurers from leaving California due to concerns of natural disasters. Over the last year and a half, seven out of the state’s top 12 carriers have either paused or restricted their coverage due to wildfires.

Under proposed regulations, major insurers will be required to cover a certain share of homeowners in the state’s most wildfire-prone areas. In exchange, the Department of Insurance will allow companies to factor in climate change when determining their prices.

Homeowners can expect higher insurance rates.

Harvey Rosenfield, author of a 1988 ballot proposition that regulates insurance rates and founder of the advocacy group Consumer Watchdog, said Lara's new rules "will dramatically increase homeowner and renter insurance bills by hundreds or even thousands of dollars."

Unlike most states, California currently requires insurance companies to obtain approval from the state Department of Insurance before they can increase their rates.

Insurers are restricted to using historical, 20-year data alone and are unable to factor in current or future property risks. They allege that these restrictions challenge their ability to provide accurate pricing for at-risk properties.

### **Disaster-prone State**

California, with one of the world's most volatile climates, has long been susceptible to droughts, wildfires, and extreme weather events.

These challenges have intensified in recent years, as the state is currently grappling with the consequences of a changing climate. These shifts include more frequent and severe heat waves, wildfires, variable precipitation patterns, and a recurring series of droughts — all of which have been exacerbated by rising temperatures.

The majority of California has already experienced temperature increases exceeding 1°F, and in some regions, temperatures have risen by more than 2°F, according to the California Natural Resources Agency.

The year 2020 marked a significant turning point, as it witnessed the largest wildfire season ever recorded in California's modern history. Residents saw nearly 10,000 fires scorching over four million acres of land.

### **California's Insurance Commissioner Plan**

Lara's agency intends to curtail the rapid expansion of California's FAIR plan. The insurance program is designed as a short-term safety net for high-risk properties.

California's Commissioner outlined his strategy, which entails compelling insurance companies to issue policies covering a minimum of 85% of their statewide market share within "distressed areas." In practical terms, if a company provides insurance for 20 homes, it must extend coverage to an additional 17 households in areas vulnerable to wildfires.

This approach aims to move those people off of the FAIR Plan and back onto private coverage.

Commissioner Lara alleges that the new regulations could have advantages for homeowners. As he encourages residents to enhance their houses to protect them from wildfires, Ricardo Lara explained that insurance companies may take it into account when determining the rates.

Ricardo Lara believes in a self-regulating market. He pointed out that if more insurers decide to remain in California's insurance market, it could lead to heightened competition among carriers. This might help to constrain rate increases, ultimately benefiting customers.

State regulators will need time to write the rules and gather input from insurance companies and consumer groups. Commissioner Lara has set a deadline of December 2024 for the department to finalize these new regulations.

But industry players believe the reforms likely will not be fully implemented until 2026, which happens to be the year Lara terms out of office. He is rumored to run for Los Angeles County supervisor. This situation leaves the next insurance commissioner to face an escalating crisis, with most of the proposed solutions expected to burden consumers with additional costs.

There is also the potential for a voter backlash, considering that California residents have enjoyed some of the nation's most affordable property insurance rates for many years.