

# CALIFORNIA DEPARTMENT OF INSURANCE



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# Being Safer from Wildfires

## Can Help With Your Insurance



**RICARDO LARA**  
INSURANCE COMMISSIONER

California Department of Insurance





# 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

# Transparency on Risk Scores

- **Provides consumers with transparency about their wildfire risk score that insurance companies assign to properties**
- **Give consumers the right to appeal their risk determination**

# Homeowners' Associations and CA FAIR Plan

- **Regulation includes both residential and commercial insurance lines**
- **Property and buildings within an HOA will need to be recognized for the mandatory property-level mitigation factors in order to qualify for a discount**
- **HOAs may also qualify for other optional wildfire mitigation effort discounts**
- **CA FAIR Plan**

# Summary

- **Greater community resilience**
- **Reduced losses from wildfires**
- **More insurance coverage for mitigated properties**



# California's Sustainable Insurance Strategy



# Modernizing Our Insurance Market:

Accessible Insurance for Californians

+

Create a Resilient Insurance Market

+

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.





# 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 (8 companies)	2.2%		Ceased writing high-value homes with higher wildfire risk, and non-renewed some 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.



# 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.
- **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”.





# Support from consumers and businesses

**United Policyholders:** “Commissioner Lara has consistently acted in the best interests of consumers to address the growing challenges of insurance availability and affordability.”

**California Farm Bureau Federation:** “We support a competitive market that provides consumers and farmers access to comprehensive risk protection.”

**Supportive Housing Alliance:** “The proposal to make needed changes to the FAIR plan and the State’s insurance rate review process is an important first step to restore a competitive and resilient marketplace.”

**California Building Industry Association:** “CBIA applauds Governor Newsom and Commissioner Lara’s commitment to California consumers.”



# Online Tools

- **Top Ten Tips for Finding Residential Insurance**
- **Home Insurance Finder Tool**
- **File a Complaint**
- **Consumer Hotline: 1-800-927-4357  
or website at  
[www.insurance.ca.gov](http://www.insurance.ca.gov)**