PROPERTY INSURANCE REPORT
The Authority on Insuring Homes and Commercial Property

Dec. 4, 2023 Vol. 30#13/709

INSIDE

Rate Increases Pushing Consumers to Shop More

Higher rates for homeowners and personal auto insurance pushed shopping volumes higher in both lines of business for the third quarter compared to the same quarter last year, according to the most recent **TransUnion** report.

Homeowners insurance shopping volume in the third quarter increased 2% over the third quarter 2022. It was a smaller increase than in the second quarter because second quarter volumes in 2022 were comparatively much lower.

Increases in homeowners shopping volume are expected to moderate in the fourth quarter from the third quarter, as is typical during the holiday season, but it is expect to remain elevated year-over-year, said **Stothard Deal**, TransUnion vice president of in-

See SHOPPING on Page 12

An Immodest Proposal: How to Fix California

The **California** homeowners insurance market is on the brink of disaster. Due to a sharp rise in catastrophe risk and a sharp decrease in regulatory common sense, insurers that underwrite more than half of statewide homeowners premium have stopped accepting new business. Almost every other insurer is restricting its California writing in some way. (PIR 10/9/23) Once among the nation's more profitable and stable property insurance markets, the rise of wildfire and other risks has changed everything. California is now second only to **Florida** in proximity to insurance market collapse.

It doesn't have to be this way. After dozens of interviews with insurers, regulators, consumer groups and others, the solutions turn out to be very clear and surprisingly easy to enact from a technical standpoint, if challenging politically.

The only thing standing in the way of success is the one person empowered to fix virtually everything with the stroke of a pen: California Insurance Commissioner **Ricardo Lara**. The commissioner is not entirely responsible for the current market woes – his predecessors carry much of that burden – but he is the only one who can fix it.

An elected official, Lara is faced with a terrible choice. If he takes no action, he risks insurance market collapse, which would create chaos in California's cherished real estate market and ultimately its economy. That would halt the progress of Lara's political career. But the appropriate reforms will inevitably result in higher property insurance prices for people living in higher risk parts of the state. That would upend those municipalities and could also close the door on Lara's political future.

Lara's current effort to solve this conundrum was limited to announcing reforms, with few details, that he hopes will stave off collapse while delaying inevitable rate increases. Among his plans: expanding the **California FAIR Plan** to create a safety valve for the lack of private market

Please see FIX CALIFORNIA on Page 2

RISK INFORMATION
33765 Magellan Isle • Dana Point, CA • 92629 • (949) 443-0330 • www.riskinformation.com

FIX CALIFORNIA *Continued from Page 1*

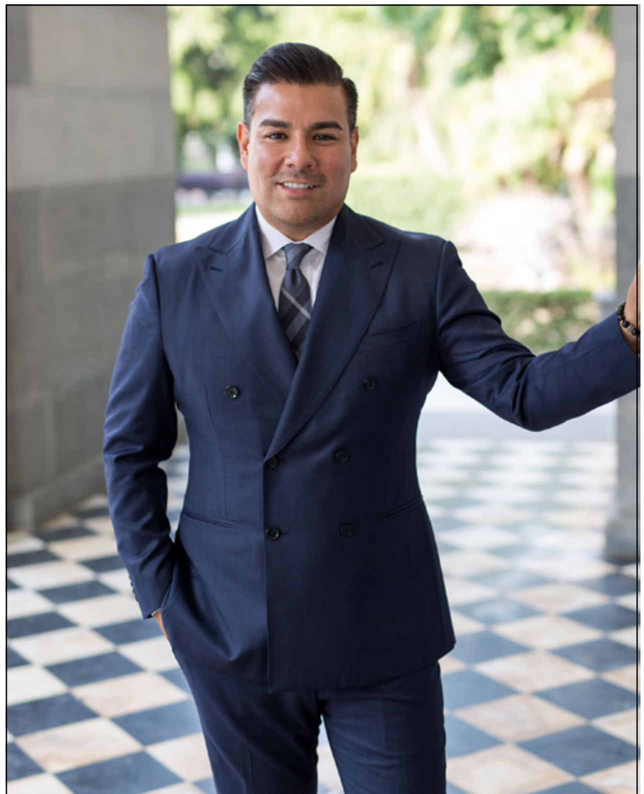
options and "studying" and/or holding hearings on allowing insurers to modernize their rates by including reinsurance and using catastrophe models.

His proposed timeline gives the **California Department of Insurance** (CDI) all of 2024 to devise these reforms. It could be two years before an insurer could have a program in market that takes advantage of any reforms. If Lara is lucky, there won't be any big fires, insurers will forget the pain of their losses, and the market will hobble along for the remaining three years of his term as commissioner. It's possible this could work for Lara – many Florida politicians have successfully avoided making hard choices this way – but it is highly unlikely it will work for California in the long term.

At the Property Insurance Report National Conference last month, **Patrick Sullivan** and **Brian Sullivan**, editors of *Property Insurance Report* and conference co-chairs, offered an immodest proposal for how to fix the California market based on extensive interviews and research. Solutions are far easier to implement than it would appear, if only Lara has the willingness to act.

A few things that are *not* barriers to success might surprise insurers. Despite 35 years of insurer complaints, Proposition 103, the 1988 ballot initiative that created the current insurance regulatory structure, presents no barriers to reform. And the involvement of third parties intervening in the rate process – another frustration for insurers – is also not a structural barrier to future progress.

The problem is not the law, but rather the enabling regulations promulgated by various insurance commissioners in the decades since. The primary interpreter of Prop. 103 was **John Garamendi**, the state's first elected insurance commissioner. Garamendi served from 1991 to 1995 and then again from 2003 to 2007 before heading off to Congress as a Democratic member of the California delegation. He toils there today, issuing broadsides that criticize Lara for daring to question his decades-old decisions. Numerous other commissioners – Republicans and Democrats, liberals, conservatives and technocrats – have contributed to the current structure either by commission or omission. Today's problems are a complex stew of many past decisions.



Ricardo Lara
California Insurance Commissioner

Insurers that do not operate in California should pay close attention, as California and Florida reveal what happens when a changing climate overwhelms a regulatory structure. (PIR 6/5/23) Both states have proven unable to deal with profound changes in risk, and by burying their heads in the sand, policymakers have ruined their insurance markets. Florida's may be beyond repair: its market of last resort – the largest property insurer in the state – is effectively insolvent. But there is hope for California.

•

Please see FIX CALIFORNIA on Page 3

FIX CALIFORNIA *Continued from Page 2*

Here Are the Reforms California Needs:

• Far above all other things, speed up action on rate filings. California is by far the slowest state in the nation in reviewing rate filings, and that pace is entirely due to choices made by the CDI. When asked for the top 10 things needed to fix the market, a senior insurance executive said one through nine on his list would be faster rate action, and many others agreed. The insurance commissioner could make this happen tomorrow without any rule or staffing changes.

• Allow catastrophe modeling for property insurance so the state can enter the modern age and account for a changing world. This would take a few months for administrative processing, but the insurance commissioner has the power to make the change and a template from which to work.

• Allow insurers to include catastrophe reinsurance costs in property insurance rates. The administrative process need not take long, and like modeling, there is a template from which to work.

• Allow insurers to recoup future FAIR Plan losses, similar to the way residual markets work in most other states. This would likely require a few months of both administrative and legislative processes.

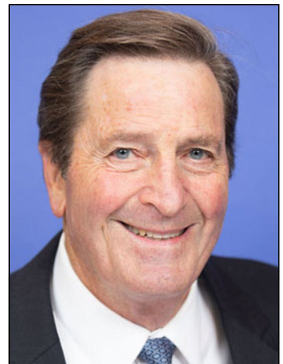
• Create a pathway for a measured return to the market for insurers. This would require thoughtful negotiations between the CDI and insurers.

Let's take them one at a time.

•

Speed Up Rate Review

Insurers report that California is by far the slowest state in the nation for rate reviews. As of October, California's average time to approve rates this year is 366 days for homeowners and 267 days for personal auto, according to **Sheri Scott**, principal at **Milliman**. Looking at comparable markets puts these wait times into stark relief: the **Florida Office of Insurance Regulation** took an average 136 days to approve a homeowners rate filing and 79 days to approve a personal auto rate filing. The **Texas Department of Insurance** took an average 89 days to approve a homeowners filing and 108 days to approve a personal auto filing, according to the Milliman analysis.



Congressman John Garamendi

Why is CDI so slow? There are three reasons.

• The insurance department does not have enough staff.

• The staff asks many more questions compared to other states.

• The insurance commissioner fails to manage third-party requests to intervene in the rate process.

> ***CDI asks more questions about rate filings than other states, slowing down the approval process.***

The shortage of staff is almost entirely self-imposed. Senior CDI staff members have said they lost employees during the pandemic, and hiring replacements has been hard. That is true. But there is scant evidence CDI is trying hard enough to overcome that challenge.

Importantly, CDI funding is not dependent on the state budget cycle; insurance companies are billed for the cost of their regulation, and the industry has been on the record for decades requesting that the department hire more staff. Consumer advocates have also asked the department to move faster and hire more staff.

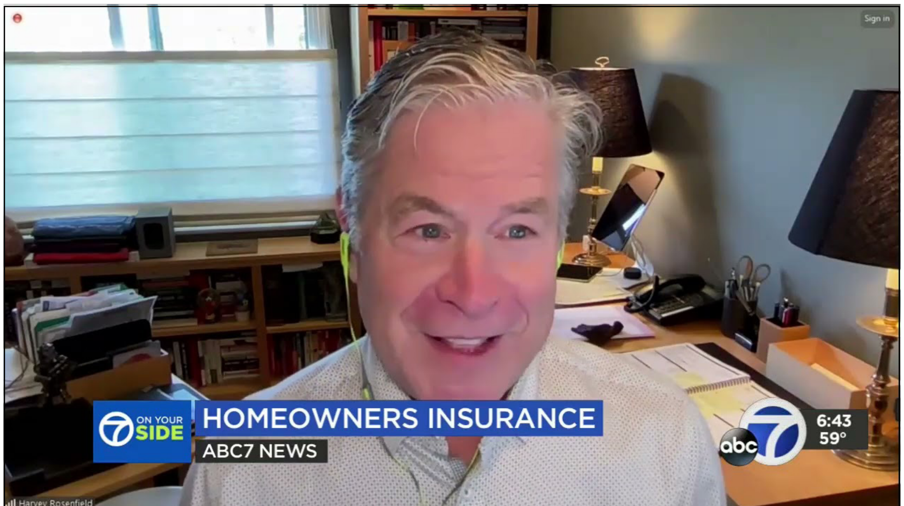
The only reason CDI does not have enough staff is because the insurance department has not

See FIX CALIFORNIA on Page 4

FIX CALIFORNIA from Page 3

made staffing, or speed, a top priority.

One insurance executive told us that even more important than fast rate approvals are fast rejections – especially when they come with specific reasons. That way an insurer knows how to amend the filing to earn approval.



Harvey Rosenfield, author of Prop. 103 and founder of Consumer Watchdog, has been an indefatigable defender of California's insurance market structure.

A firm refusal also allows the insurer to know that the department has no intention of allowing it to charge the rate it considers necessary, enabling the company to adjust its behavior accordingly, possibly choosing to leave the market.

No business can operate effectively with 12 or more months of pricing limbo, which has been the case.

To his credit, Lara, in his September announcement, acknowledged the problem, saying CDI will hire additional staff to review rate applications. A CDI presentation highlighted "updated rate review timelines" and "improved rate filing procedures" as key reforms. Yet Lara also put some of the blame for long approval times at the feet of insurance companies.

"Rate filings have gotten more complex and can take longer than six months to approve," he said. He did not mention that other states with equally diligent regulatory review manage to get through the same filings in far less time.

Lara also cited incomplete rate filings as an issue. "We will enforce the requirement for insurance companies to submit a complete rate filing application with all the information needed by the department analysts."

To do so, he intends to release to insurers the internal data reconciliation tool long used by the CDI. Insurers concede that sharing the tool has been technically challenging for CDI, but they say if the department wants "complete" filings, regulators must be clear with insurers what constitutes complete.

Lara did not elaborate further on how he will make things go faster, and insurers are skeptical of the pace of change. It will take a change of behavior, not just more staff, to speed up the process.

Prop. 103 author **Harvey Rosenfield**, the head of **Consumer Watchdog** and *bête noire* of California insurance companies, believed so firmly in the need for speed that he included in Prop. 103 a requirement that the insurance department act within 60 days on rate requests that are not challenged and 180 days on rate requests requiring a hearing. (It can be found in Section 1861.05c.)

In a recent interview, Rosenfield affirmed a desire to see those goals fulfilled, but argued that insurers contribute to the problem by resisting requests for additional information. Nevertheless, he is just as frustrated as insurers when the CDI takes weeks, or even months, to respond to requests from Consumer Watchdog.

CDI gets around Prop. 103's deadlines by insisting that insurers "voluntarily" waive the law's time limits or face certain rejection. This

See FIX CALIFORNIA on Page 5

FIX CALIFORNIA *Continued from Page 4*

Hobson's choice has ruled the market for years.

CDI is so determined to slow down the process that it was willing to chase an insurer from the market for challenging the regulators' right to move at their own pace.

In 2021 and most of 2022, regulators refused to approve auto insurance rate increases. The CDI argued that insurers had not given enough money back during the pandemic, but in reality, rates were on hold because Lara was running for re-election and wanted to avoid increases. Proof of this is found in the sudden approval of rate requests once Lara's re-election was in hand. Insurers were frustrated by the moratorium, but there was little they could do but wait.

Canada's **Wawanesa Insurance**, which operated in California since 1975, decided it could not wait, and refused to waive its right to a 60-day action in a 2021 rate filing. The CEO of a small California auto insurer called us in shock, saying Wawanesa would either break the department's stranglehold on the market, or be strangled itself. The result was strangulation by regulation: the insurance department stalled Wawanesa's request through other means until it had approved just about all the requests that had "voluntarily" waived the time limit.

Regulators succeeded in teaching the uncharacteristically bold Canadians a lesson. Deciding it had enough of this foolishness, Wawanesa sold its California operations to the **Southern California Auto Club** and retreated north of the border. (AIR 8/14/23) What did Californians lose in Wawanesa? Only the insurance company that won the **J.D. Power** award for highest customer satisfaction in the state from 2020 to 2023.

Insurers complain that in addition to a lack of responsiveness, California insurance regulators question details in rate filings that concern regulators in few, if any, other states. Having seen how the department treated the Wawanesa challenge, carriers are loath to go on the record about how this slowdown by constant inquisition works. But numerous carriers explain that if the department restricted itself to the most important issues in rate filings – the ones that truly impact the rate level – everything could go faster.

Filings in California are no more complex than those filed in other states. It is possible for the CDI to diligently review rate filings in a timely manner, as occurs in other states.

Consumer groups are not at all supportive of less diligent reviews, they but agree that if CDI wants to study every little detail of a filing, it will need a bigger, better trained and most likely more highly paid staff.

No one can force faster action. Not lawsuits, the governor nor the Legislature. Even voters cannot act promptly, as it will be three more years before the next insurance commissioner election. Only Lara can make this happen, and it

> ***The law – Prop. 103 – is not a barrier to change. Regulations enacted over the years have created the market problems.***

is entirely within his power to do so.

As for third-parties slowing things down, many insurers have argued that Prop. 103's allowance for intervenors is a structural impediment to fast action. But in truth, even for rate changes above 6.9%, which automatically allow third parties to participate, the insurance commissioner has wide latitude on what kind of questions can be asked and what delays will be tolerated.

Consumer Watchdog is indeed deeply involved in the current ratemaking process. But the current structure of that involvement is not enshrined in law and could be easily changed.

For example, on Oct. 3, the department rejected two requests for intervention for the first time in decades. (Select the "Intervenor Petitions" button.) Reading through the rejections shows the authority the insurance commissioner

See FIX CALIFORNIA on Page 6

FIX CALIFORNIA Continued from Page 5

could bring to bear, if only he chose to do so. Alas, revised petitions to intervene were later submitted and accepted by the department.

The industry has been hard at work demonizing Consumer Watchdog. The trade group **American Property and Casualty Insurance Association** (APCIA) even went to the trouble to create a website smearing the organization. One of the key criticisms is that the group has no "members," which is true but not particularly relevant since it does not solicit memberships. The second is that the group has "raked in" millions of dollars in fees from its interventions. This is also true, but the costs are so small as to be inconsequential to insurance consumers and insurance company operations.

Consumer Watchdog has been paid little more than $11 million in the past 20 years, and about $2 million in the past two years. The group has been involved in hundreds of rate filings, and an average of $500,000 a year hardly suggests anyone is in this for the money.

> ***California allows insurers to use catastrophe modeling and recoup reinsurance costs in other lines of business.***

Consumer Watchdog is not slowing down the rate-review process on its own; the CDI's failure to regulate Consumer Watchdog's engagement deserves much of the blame. Market participants find the CDI's inaction confusing. Over the past three decades, there have been many times when regulators welcomed Consumer Watchdog's involvement. But today the department is openly hostile to the group, creating the unusual situation where both insurers and Consumer Watchdog are saying the insurance commissioner is in the pocket of the other side.

To have both parties angry at once is quite an accomplishment.

•

Allow Catastrophe Modeling

Current California insurance regulation requires insurers to base rates on a 20-year lookback at claims experience. The insurance department does not allow insurers to use modern, forward-looking catastrophe modeling, although some wildfire models have been approved if they project risk based solely on past claims, as in the **ZestyAI** model approved by the department in 2021. (PIR 3/15/2021)

The restriction on forward-looking models is not part of California insurance law. The word "modeling" does not appear in Prop. 103, largely because modeling did not exist at the time. Current regulations are merely the product of their time and concerns about rising auto insurance prices in 1988.

CDI has not been idle on this subject, having hosted public workshops on the issue throughout this year. These workshops have featured testimony from consumer groups, modeling companies, insurance trade groups, insurers, as well as the public and other interested parties.

The workshops, which often last four hours, provide a window into the public's thinking. Representatives from towns that have received a Firewise designation from the **National Fire Protection Administration** express frustration that insurers haven't rewarded their mitigation efforts. Under the state's current regulations, it is hard for insurers to take such mitigation efforts into account in pricing. Many community representatives testified in favor of the use of wildfire modeling as way for Firewise communities to receive credit for their efforts.

"I will introduce regulation to utilize forward-looking catastrophic models, prioritizing wildfire safety, mitigation and transparency," Lara said at his press conference. Further details are scarce. Lara did offer his view that models must recognize the benefits of mitigation investments, and declared his "Safer from Wildfire" regulation as the template.

See FIX CALIFORNIA on Page 7

FIX CALIFORNIA *Continued from Page 6*

It would not be hard to allow forward-looking models for homeowners insurance. In fact, California regulators currently allow such models for earthquake insurance and fire-following earthquake coverage. The CDI has a process in place to review these models.

One of the challenges in the use of models is a state law that makes information submitted to the CDI a matter of public record. If the CDI requests certain information about a model, that could expose a modeler's intellectual property to competitors. Exposing that type of information would violate terms of service agreements that carriers sign with modeling firms.

Until recently, CDI has reviewed models for earthquake and fire following earthquake effectively without asking the questions that violate modelers' intellectual property. The CDI can simply add property insurance generally or homeowners specifically to existing regulations. This could be done quickly through a standard administrative review of regulations.

There are reasons to doubt the sincerity of the CDI's talk about allowing models. In an ongoing battle between the CDI and the FAIR Plan, CDI has now made it impossible for the FAIR Plan to use forward-looking modeling, as allowed by law.

The FAIR Plan is not subject to Prop. 103, and it has long used modeling in setting rates. The new CDI stratagem is the exact one that would block modeling in the private market, by demanding underlying model data. As a result, the FAIR Plan has been forced to use the same outdated 20-year lookback structure that has resulted in inadequate and inaccurate pricing in the voluntary market. (A previously unreleased FAIR Plan memo describes this and other issues. The recently approved FAIR Plan rate filing for dwelling coverage included the ZestyAI Z-Fire product, but the model is not forward-looking.)

If CDI decided to enable use of forward-looking models, would consumer groups – Consumer Watchdog specifically – sue to block such a change? Probably. But when many of the enabling regulations of Prop. 103 were first enacted, the insurance industry went to court to challenge them. Time and again they learned a hard lesson: the courts ruled that the insurance commissioner has the authority to make the rules as long as the administrative process is followed. Consumer Watchdog could sue all it likes, but if Lara chose to change the rules, any challenge would likely be rejected for the same reason. Commissioner Lara holds all the cards.

•

Allow Catastrophe Reinsurance Costs in Rates

At present, insurance companies are not allowed to include their reinsurance costs in rates. For a state market with a benign risk profile, this isn't a terrible burden because reinsurance is not a central part of the business. But once a market turns into a giant catastrophe risk, reinsurance becomes essential to the health of the market. Prudent insurers of all sizes must lay off some of their risk to avoid too much geographic concentration of exposure. Prop. 103 does not limit the recovery of reinsurance costs. As with "modeling," the language of Prop. 103 does not include the word "reinsurance."

> ***When California was considered a benign property market, reinsurance was not as essential as today.***

This peculiar omission was not intentional. When the rules were being formed for Prop. 103, the focus was on auto insurance. More specifically, the focus was on calculating how much insurers needed to rebate their customers for alleged excess profits. Since auto insurance faced few catastrophic risks requiring reinsurance, it simply wasn't part of the discussion. The omission of reinsurance was not much of a problem

See FIX CALIFORNIA on Page 8

FIX CALIFORNIA *Continued from Page 7*

until the wildfires, so insurers did not feel the need to expend political capital to push for change. So here the industry finds itself, 35 years later, with a rule adopted out of indifference that makes no sense.

California was traditionally a profitable and stable homeowners insurance market before the world changed. For the 30 years from 1987 to 2016 – almost all of it under Prop. 103 – the average after-tax profit margin for homeowners multiperil was 9.4%, according to our analysis of data from the **National Association of Insurance Commissioners** (NAIC). The U.S. average for that period was just 3.4%. California ranked 14th in profitability over that time. Then came the wildfires of 2017 and 2018, which created annual after-tax losses of 93.1% and 88.4%,

> ***The California FAIR Plan is not yet on the scale of Florida's Citizens, but its fast growth is stressing voluntary insurers.***

respectively. It wasn't just the size of the fires – which were often enormous – it was their location far outside expected wildfire zones. Everyone knew Paradise – located atop a mountain surrounded by dense forest – could burn. But no one expected suburban homes in the Napa Valley to turn to ash. Overnight, the earlier predictions of some fire experts and climatologists about growing wildfire risk became very real to insurers and their reinsurers. There would be no turning back. Henceforth, it was not reasonable to predict future California losses based on the experience of prior decades.

There was one problem: insurance regulations – not Prop. 103 or any other state law – said rates needed to be set based on 20 years of historical experience, which reflected a benign climate and less densely built environment, rather than forward-looking models that take those changes into account. In the 20 years ended 2021 (the most recent profit data we have), California's homeowners profit margin averaged 6.6%, better than the 6.1% national average. But given the wildfire risk, no one – not insurers, regulators or even most consumer groups – thinks rates based on a 6.6% historical profit margin are sufficient for the present realities.

Here is the good news: Since the limitation on including reinsurance costs is found in regulation, not statute, the insurance regulator has the power to make changes. However, rather than taking urgent action, Lara's plan is to hold "public meetings exploring incorporating California-only reinsurance costs into rate filings."

There is a precedent for allowing reinsurance. The CDI currently allows the pass-through of reinsurance costs for earthquake, fire following earthquake and medical malpractice. Singling out California-specific wildfire reinsurance costs within a broader reinsurance contract is possible. As is the case with modeling, the CDI does not need to invent new regulations. It can add wildfire reinsurance costs to those already allowed and follow its existing standards and practices in reviewing filings that include a reinsurance pass-through.

One final thought: insurers would love to see California allow recoupment of all reinsurance costs, not just catastrophe reinsurance. But for starters, we're advocating only catastrophe reinsurance just to get things going.

•

Allow Recoupment of FAIR Plan Losses

If the California FAIR Plan suffers a loss – which is increasingly likely given its growth in high-risk areas, inadequate rates and insufficient reserves – insurers are on the hook for every dime with no clear path for recovering that money, and no way to account for it in current ratemaking.

The California FAIR Plan is not yet in the class of Florida's **Citizens Insurance**, which dominates its home market. But the FAIR Plan is

See FIX CALIFORNIA on Page 9

FIX CALIFORNIA *Continued from Page 8*

growing quickly, and it is adding to the pressure on insurers.

According to the FAIR Plan, it had 341,245 policies in force at the end of October, up from 272,846 at the end of 2022, and 126,709 at the end of 2018, when Lara took office. The FAIR Plan's risk exposure was $278 billion at the end of August, up from $50 billion in 2018.

According to Milliman, the problem is even worse than those numbers indicate, because in addition to the policy growth, the exposure in wildfire areas is even greater. Today, 65% of FAIR Plan policies are in wildfire risk areas, up from roughly 25% in 2014, according to Milliman. Compounding this risk is the fact that, despite its own regulations allowing it, CDI will not permit the FAIR Plan to include the cost of capital or reinsurance costs in rates in the current filings, resulting in rates becoming inadequate relative to the private market, according to Milliman, which consults in FAIR Plan pricing.

The FAIR Plan is like residual markets in other states in providing coverage for property owners unable to find it in the voluntary market. Voluntary insurers in the state shoulder the losses based on their market share. But the FAIR Plan structure in California has two interconnected problems.

The first is the lack of a pathway for insurers to recoup these losses. In many states, insurers are allowed to surcharge policies for FAIR Plan losses separately from their base rates. In theory, California FAIR Plan losses would become part of other claims costs and incorporated into ratemaking. In practice, insurers are not confident regulators would allow this.

California does not have to follow Florida, which is the most onerous for consumers. In Florida, the losses from both the market of last resort – Citizens – and the state guaranty fund are borne directly by consumers through surcharges. California only needs to align with the rest of the nation – and with its own guarantee fund – in allowing insurers to recoup losses.

The related problem is that a growing FAIR Plan means every voluntary insurer is seeing its share of the state's risk increase every day.

State Farm, for example, is the state's largest insurer, writing a fifth of California homeowners premium. The company has stopped selling new policies, but its exposure keeps growing, because it is responsible for a fifth of FAIR Plan losses. A fifth of 126,709 policies in 2018 was 25,342 policies. At the end of October, that burden for State Farm was 68,249 policies.

Lara has made the situation worse for insurers trying to limit their exposure by expanding the coverage included in a FAIR Plan policy and raising limits on personal and commercial structures. Lara recently won a court case over a directive to further expand coverage, with the court, once again, affirming the commissioner's broad authority.

> ***The way CDI is dealing with the FAIR Plan makes insurers wonder about its sincerity over structural reforms.***

Though the courts may back a unilateral action by the all-powerful commissioner to change the FAIR Plan, enabling insurers to recoup losses through surcharges or rates would likely require a change to the state law.

There is little doubt that any move to shift this cost to consumers would face strong opposition from lawmakers and consumer advocates. But the FAIR Plan's growing risk to insurers is already causing carriers to sharply limit or stop writing new business and to consider leaving the state. As insurers cut back, it only sends more business to the FAIR Plan, putting more pressure on private insurers that remain, a death spiral that will not end well.

This fix might be among the hardest of those we propose – and it is the only one that may not

See FIX CALIFORNIA on Page 10

FIX CALIFORNIA *Continued from Page 9*

be in the commissioner's direct control – but it is well worth the fight.

•

A Planned Market Return

If the CDI does enact reforms to pricing, modeling, reinsurance and the FAIR Plan, there awaits one final challenge to a stable market. Any single insurer that returns to the market will be flooded with more new business than it can handle. Any planned return to the market plan will need to be measured and thoughtful.

Insurers and consumer groups already consider Lara's proposal as unworkable, and even regulators admit it would require multiple exceptions. Lara promises to introduce reforms if carriers commit to "write no less then 85% of their statewide market share in distressed areas." Lara also wants insurers to depopulate the FAIR Plan.

> ***California need not turn into Florida, but to stave that off will require fast action.***

Sources report that the CDI has made defining "distressed areas" a top priority. Regulators are also confronting challenges to the 85% rule as numerous companies simply could not fulfill the requirement. For example, the state's two auto clubs only operate in their designated geographies. Some insurers are focused on demographic groups – such as **Horace Mann** (teachers) or **USAA** (military) – that are not evenly divided across the state. Insurers writing expensive homes, such as **Chubb**, may not safely write as much business in a high-risk area as an insurer writing more modest homes.

As long as everyone is OK with regulators cutting individual deals with insurers, then an 85% target as a fig leaf is fine. The most workable outcome is likely to require each insurer to submit its plan for writing in high-risk areas. CDI would then go to work squeezing as much as it can from each insurer individually.

•

What Comes Next

There is one undeniable fact for homeowners in California: many will face higher prices for property insurance. Not only will rates need to rise to match the current risks, but more accurate pricing will shift the burden more directly on properties in high-risk areas.

In theory, there is room for higher prices. As of 2020, the state's average premium was the 24th highest in the nation, at $1,241 a year. California insurance is also relatively affordable. On our HURT Index, which measures affordability by looking at insurance costs relative to income, California ranked 35th due in part to the nation's sixth-highest average household income.

The burden of change falls almost entirely on one person: Commissioner Lara. No matter how the crisis turns out, Lara and his department will be responsible for the resulting market. Lara is a politician in a challenging position, and his personal stake in all this must be recognized and addressed. No one should expect him to commit political *seppuku*.

Lara may hold all the cards, but a few other forces in state government can exert influence. Toward the end of the last legislative session, discussions between insurers, lawmakers and regulators over a bill to address the market crisis broke down when legislators, realizing that Lara could make the necessary reforms without their intervention, grew reluctant to give him political cover. The bill currently sits in the back pocket for legislators to bring out if they need to press Lara to take action.

Though it will be challenging, it is possible for Lara to successfully reform the California property insurance market. Lara's current strategy is light on details, and CDI's actions show no sign of urgency or speed. Given that fast movement is the single most important factor needed to keep California from descending into a Florida-style market catastrophe, one can only hope that will change. PIR

SHOPPING *Continued from Page 1*

surance solutions.

High shopping rates continued even as carriers strengthened underwriting guidelines and slowed growth in an effort to improve results in many states.

"It's easier than ever to shop for insurance with the various digital avenues, different distribution channels, and price comparison websites," Deal said. "There's a natural tendency among consumers when they get a price increase on what's perceived as sort of a utility, they're going to seek out a better deal."

Higher shopping this year follows a drop in 2022 when high interest rates slowed house sales and refinancing, which are typical triggers for consumers to shop their homeowners insurance, according to the TransUnion report.

Stothard Deal
TransUnion

Those housing market conditions persist in 2023, but higher premiums and an greater carrier focus on multiline bundling has caused shopping to increase this year. High premiums and healthy new car sales have led to increased auto shopping.

"Carriers are driving auto insurance shoppers to consider homeowners insurance at the same time, even if they are otherwise satisfied with their policy," according to the report.

Continuing an unusual recent trend, the lowest risk homeowners and drivers with the best credit-based insurance scores led shopping volumes in the third quarter for both lines of business, the opposite of typical shopping behavior in previous years. Base rate increases have hit all policyholders regardless of risk, encouraging even those with good scores to seek better deals.

The volume of shoppers for renters insurance declined year-over-year, likely as a function of rent increases and broader inflation, according to TransUnion.

"From an affordability perspective, consumers probably have just back-burnered renter's insurance," Deal said, noting that carriers could use rising auto insurance sales as an opportunity to tempt drivers back into the renters insurance market with bundled savings. PIR

PROPERTY INSURANCE REPORT
Established 1994
Brian Sullivan, Editor
(949) 443-0330
bpsullivan@riskinformation.com
Leslie Werstein Hann, Managing Editor
(908) 310-7129
leslie@hannwriting.com
Patrick Sullivan, Senior Editor
(949) 412-5851
patsullivan@riskinformation.com
Ed McMenamin, Senior Editor
(217) 201-3956
edm@riskinformation.com
Contributing Writers: Hal Conick, Michael Ruscoe
Dana Horst Sullivan, Subscription Director
dana@riskinformation.com
www.riskinformation.com
Click Here for Index of Back Issues