September 7, 2023

Governor Gavin Newsom
Senate Pro Tem Toni Atkins
Assembly Speaker Robert Rivas
Senate Pro Tem-elect Mike McGuire

Dear Governor Newsom, Pro Tem Atkins, Speaker Rivas and Pro Tem-elect McGuire:

We buy insurance to protect ourselves from catastrophes. Instead, too many Californians who have faithfully paid their insurance premiums for decades have been abandoned by the insurance industry in their hour of need. Home insurance companies have begun redlining whole communities, delaying and denying claims after a disaster, and pulling out of some markets entirely.

The latest outrage is the insurance industry's push for a multi-billion dollar bailout in the final days of the legislative session that would shift responsibility for covering wildfire claims under the California FAIR Plan away from insurers and onto the backs of policyholders.

Insurance companies blame climate change for this behavior, yet even as insurers force consumers to bear all the costs of climate change they are continuing to insure and invest in the fossil fuel companies whose activities cause it.

It is particularly offensive that this proposal is being rushed through in secrecy during the final weeks of the legislative session. A plan to bail out the insurance industry and make Californians pay demands a thorough public debate, but the details of this proposal have yet to be seen in public.

Still, news reports about what is under discussion make clear the plan would raise rates dramatically and devastate Californians already struggling to pay their insurance bills.

In addition to consumers bailing out insurers for their responsibilities to the FAIR Plan, we understand the proposal also would: give insurance companies, in violation of Proposition 103's strongest-in-the-nation rate regulation, rushed, unjustified rate hikes; pass through to policyholders the unregulated costs of reinsurance; and allow the use of black box algorithms to set insurance rates – pushing homeowners' rates ever higher.

Nothing in the plan would guarantee that any homeowner who wants to buy a policy from an insurance company will be able to do so.

This is a debate with state and national consequences because we have seen the same ideas fail policyholders in Florida. Florida's weak rate regulation has pushed homeowners' insurance premiums 2 to 3 times higher than they are in California, and Citizens Property Insurance – the state's insurer of last resort – covers 17% of the market, compared to 3% for the FAIR Plan in California. Florida law also surcharges policyholders, not insurance companies, if Citizens cannot pay claims – just as the industry proposal in California would do. Lax solvency oversight has contributed to Florida's insurance market instability, allowing insurers to fail. And Florida passes through exorbitant reinsurance premiums to policyholders and allows the use of black box catastrophe models to set rates. None of these policies kept insurance companies in Florida. Why would you expect them to work for California?

There are many, more comprehensive solutions that will embed climate resilience into the practices of regulators, insurance companies, and policyholders.

That starts with funding to assist home hardening and mitigation efforts by homeowners that are proven to reduce the risk of loss and offering tax credits for those efforts. Unfortunately, climate resilience measures like these that are critical to reduce the risk of wildfire loss statewide are reportedly absent from the bailout deal.

As federal regulators from the Financial Stability Oversight Council and Federal Insurance Office (FIO) have urged, considering climate risk as part of insurance financial supervision is necessary to bolster the long-term health of insurance markets and insulate the financial system from climate related threats. This is also not part of the discussion.

We must also include a recognition of insurance companies' own contributions to climate change by underwriting and investing in fossil fuel companies. Insurers should be required to transition away from supporting the oil and gas companies that are fueling climate change. These solutions are similarly ignored in the bailout plan.

Consumers must be at the table to make the case for these and other solutions in a thoughtful, public debate that this last-minute dealmaking is designed to avoid.

We urge you to reject an end of session deal that would gut consumer protections and put policyholders on the hook for a multi-billion-dollar bailout of the insurance industry.

Sincerely,

Carmen Balber
Consumer Watchdog

Rosemary Shahan
Californians for Auto Reliability and Safety

Birny Birnbaum
Center for Economic Justice

Joanne Doroshow
Center for Justice & Democracy

Kayla Karimi
Center on Race, Poverty, & the Environment

Doug Heller
Consumer Federation of America

Robert Herrell
Consumer Federation of California

Mary Gutierrez
Earth Ethics, Inc

Leah Redwood
Extinction Rebellion San Francisco Bay Area

Carly Fabian
Public Citizen

Mary Sweeters
Rainforest Action Network

Kevin Stein
Rise Economy

Nathan Taft
Stand.earth

Shoshana Wechsler
Sunflower Alliance