

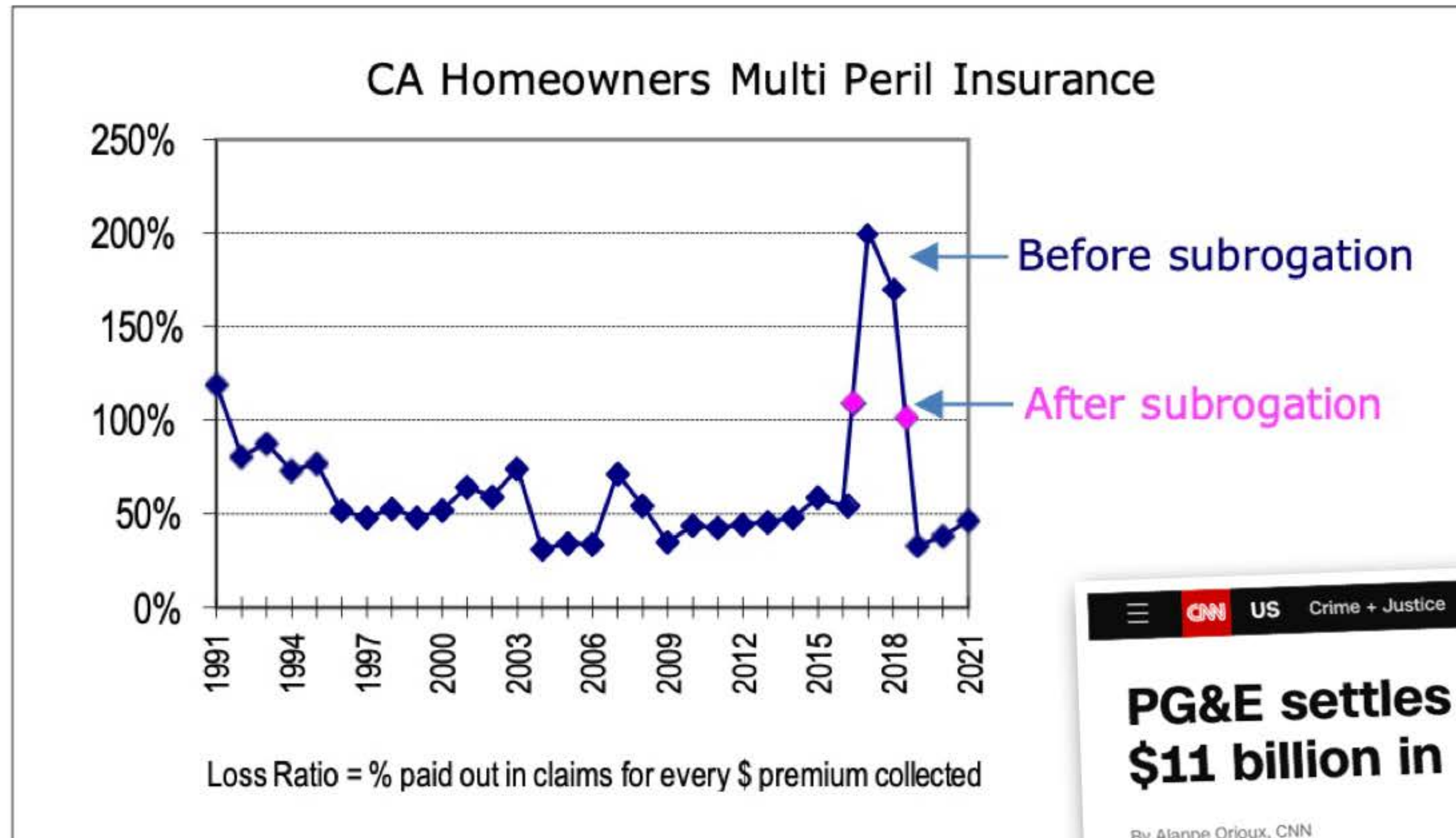
California's Home Insurance Market and Solutions to Protect Consumers

Little Hoover Commission

March 28, 2024



Insurers receive billions in repayment from utilities.



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PG&E settles with insurance companies for \$11 billion in California wildfires, utility says

By Alanne Orjoux, CNN
© 2 minute read · Updated 7:00 PM EDT, Fri September 13, 2019

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Over the past 20 years, home insurers have done as well as or better in California than nationwide.

	NATIONAL	CALIFORNIA
Direct Incurred Loss Ratio	61.4%	60.8%
Direct Underwriting Profit	1.2%	0.9%
Direct Profit on Homeowners Insurance Transaction	2.9%	3.1%
Direct Return on Net Worth	6.2%	8.8%

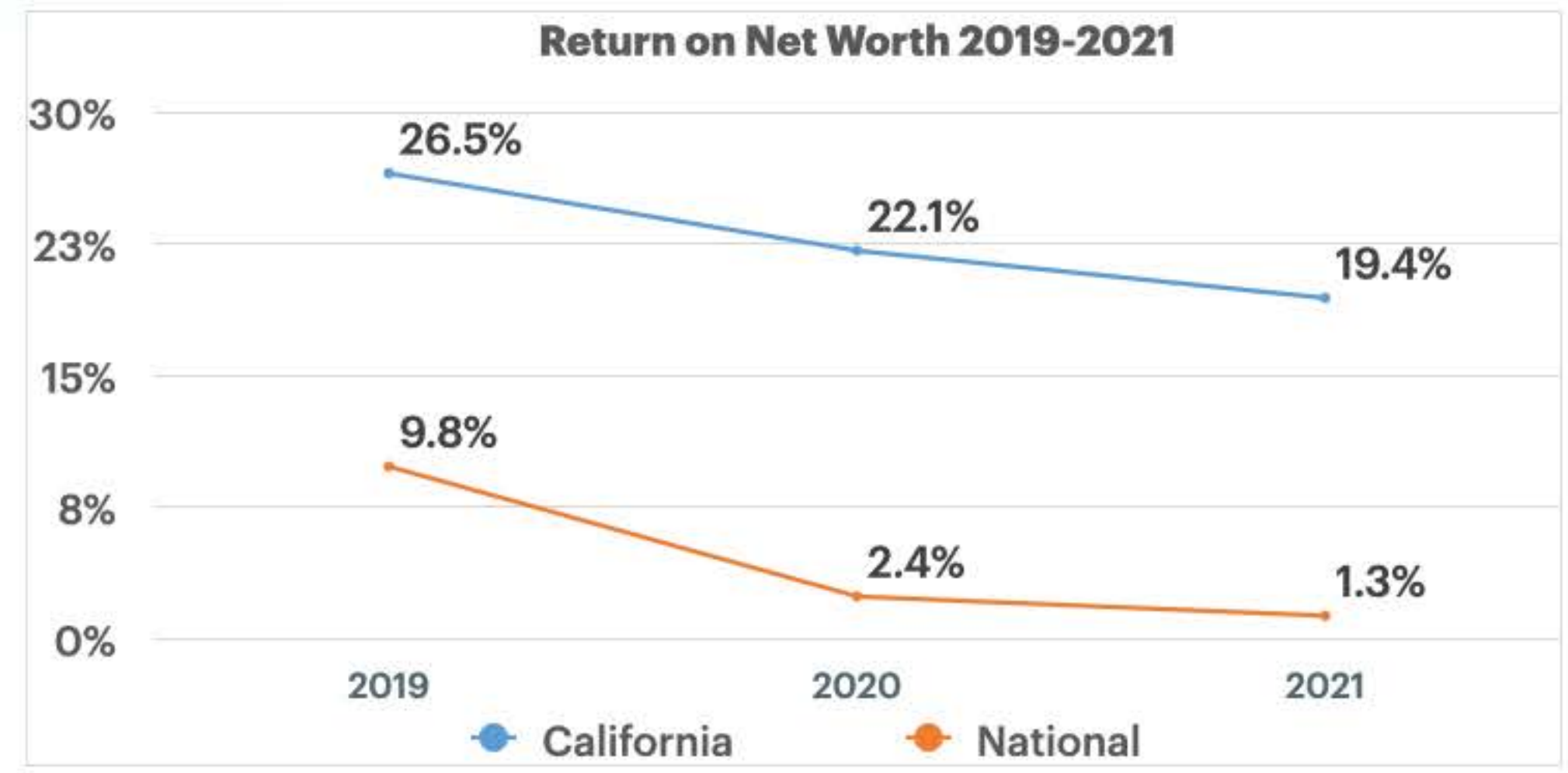
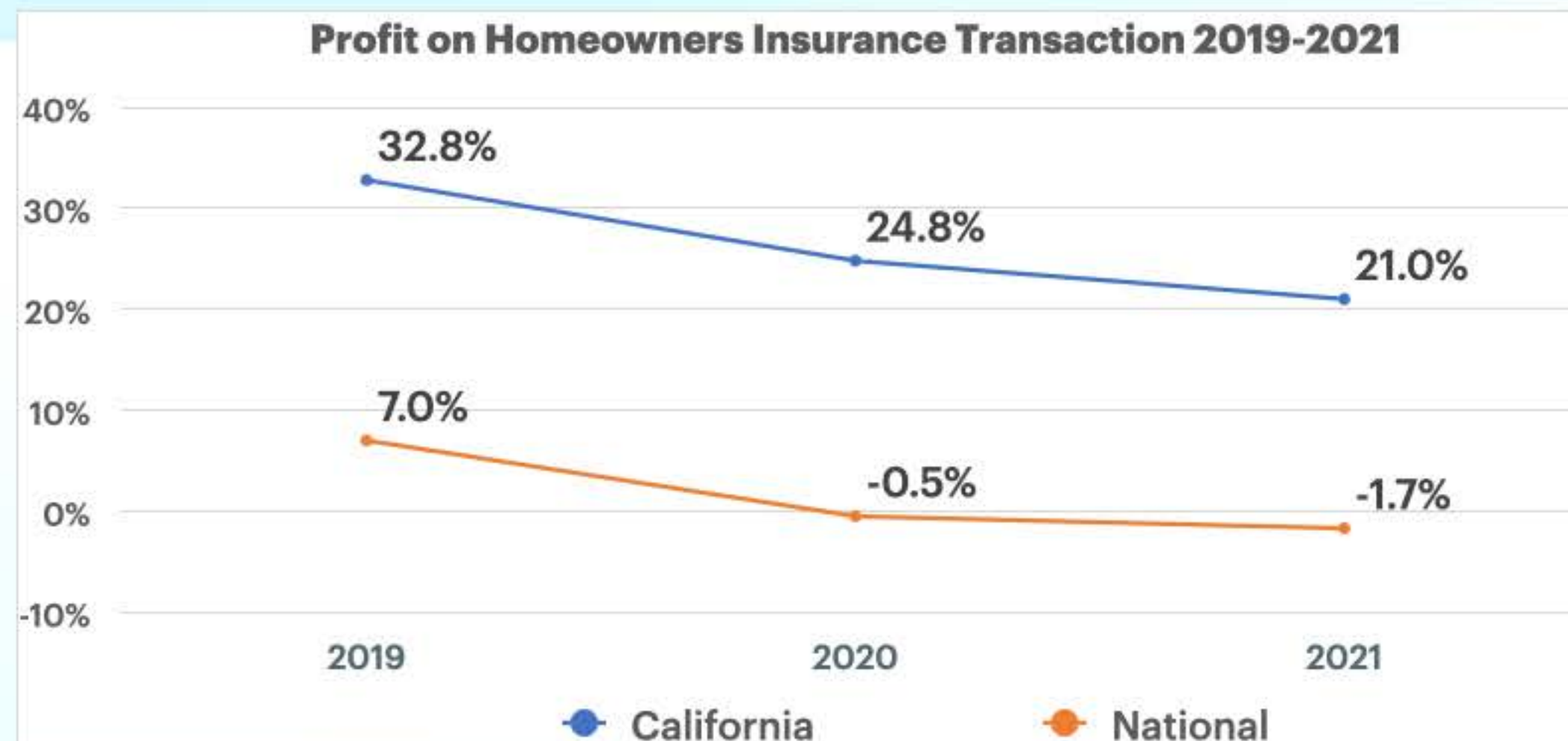
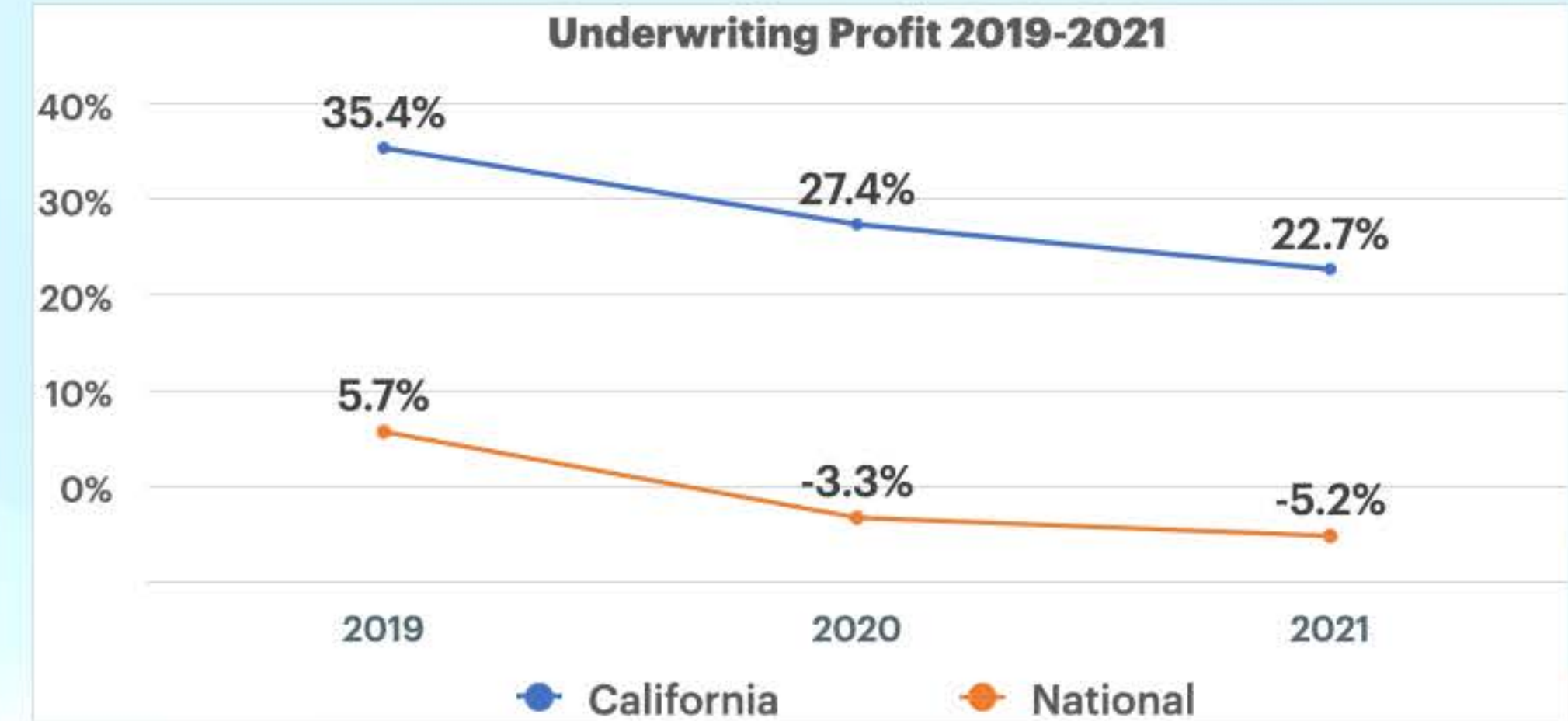
Loss ratio: Amount paid to consumers for claims per premium dollar.

Underwriting profit: Premium less the sum of claims losses, expenses, taxes, and policyholder dividends.

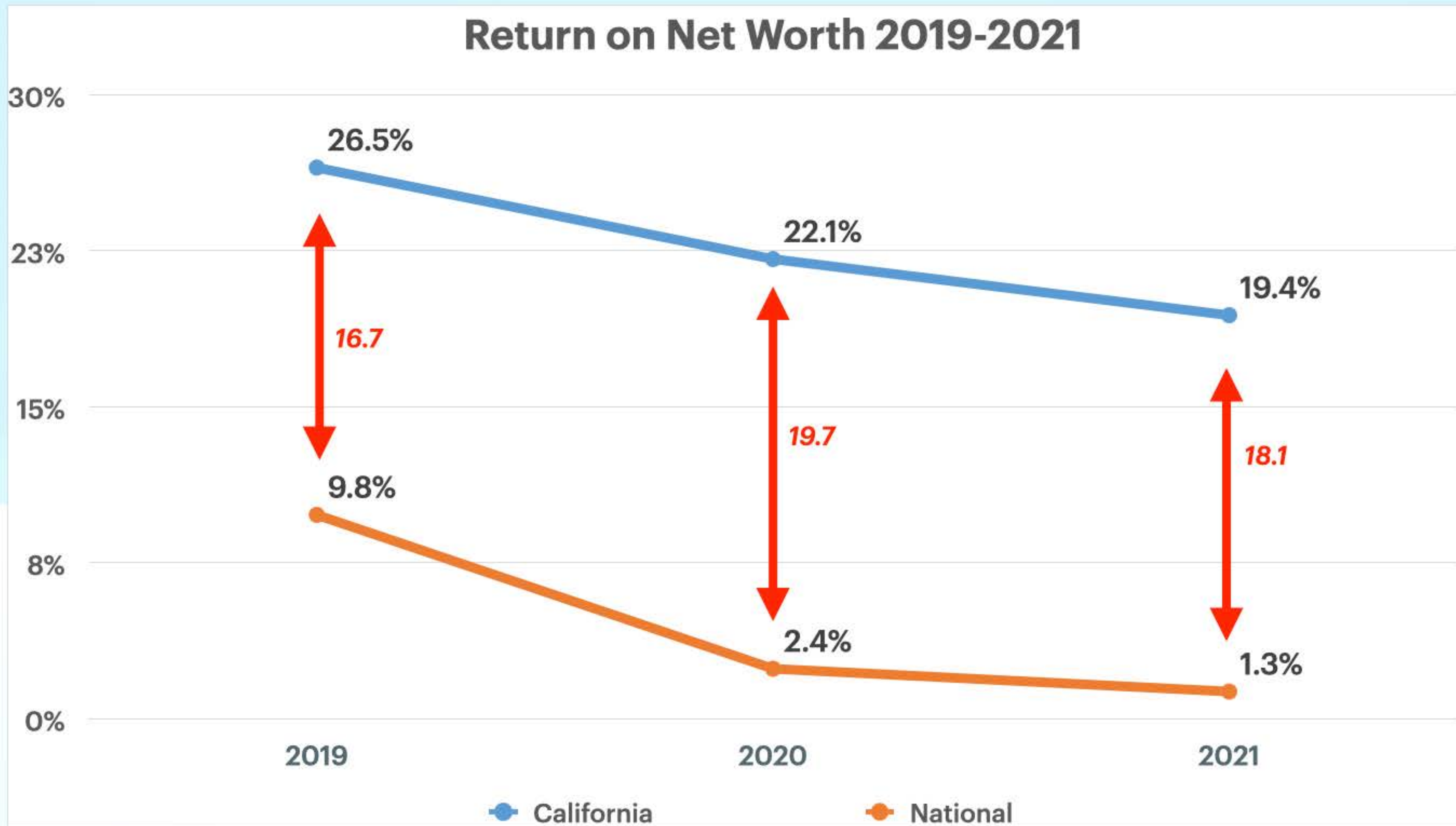
Profit on HO insurance transaction: Underwriting profit plus investment gains on reserves.

Return on net worth: Profit on insurance transaction plus investment gains on surplus.

In the last four years, California home insurers' profits have far exceeded insurers' nationally.

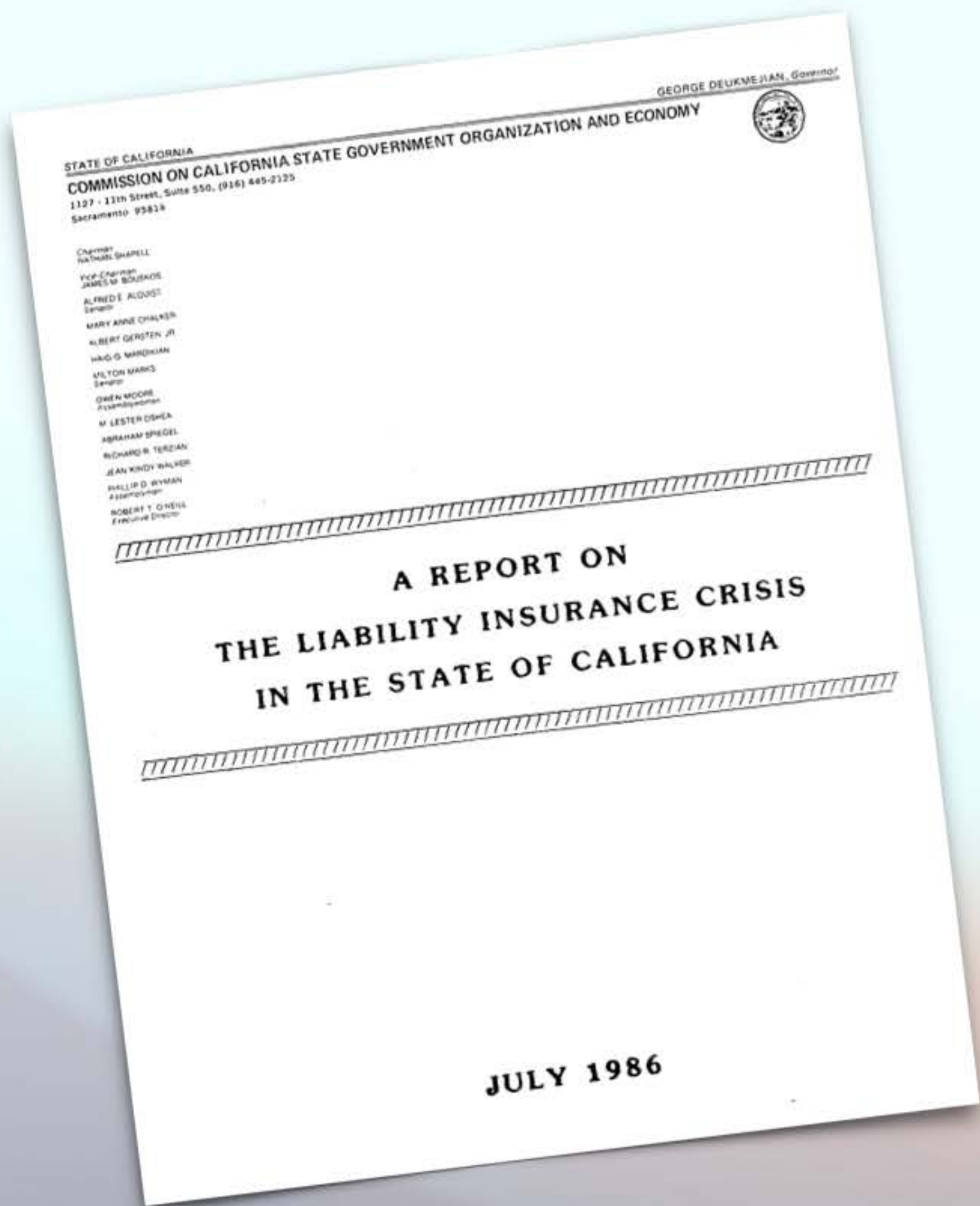


Source: National Association of Insurance Commissioners: 2022 Property & Casualty Market Share Report & Report on Profitability by Line by State in 2021; and California Department of Insurance 2022 Property & Casualty Market Share Report.



Source: National Association of Insurance Commissioners Report on Profitability by Line by State in 2021

1986 Little Hoover Commission called out failure of state insurance oversight.



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Insurance companies seek to overturn the consumer protections of Proposition 103.

- ✓ Open books
- ✓ Justify rates
- ✓ Get approval before raising rates
- ✓ Full transparency
- ✓ Funded public participation

Home insurance companies received 92% of the premium increases they requested.

Of 153 requested rate increases
Jan 2021-Feb 2023...

92 insurance companies approved for full rate increase they requested

34 approved at a lower level than requested

0 were required to lower their rates

27 withdrawn

Average rate increase approved:

13%

Average requested:

14.2%

Highest increase approved:

65%

(Based on approved filings.)

The insurance industry's solutions...

- Limit rate review
- Reinsurance pass-through
- Unverifiable black box models to set rates
- Consumers, not insurers, bail out state insurer of last resort

The insurance industry's solutions were tried in Florida and failed to stabilize the market.

Florida has...

- Limited rate review
- Reinsurance pass-through
- Unverifiable black box models to set rates
- Consumers, not insurers, bail out state insurer of last resort

...it hasn't worked.

INSURER OF LAST RESORT MARKET SHARE

California	Florida
FAIR Plan - 4%	Citizens - 19%



Rates are **2½ times** as high in Florida

Average premium for home valued >\$500,000

Ca: **\$1960** Fl: **\$4704**

Public records reveal Commissioner Lara's plan has two huge loopholes.

- ➔ Insurance Commissioner may waive 85% sales commitment
- ➔ Insurers may meet 85% sales commitment by selling bare-bones FAIR Plan-equivalent policies

SOLUTIONS

- ☑ Require insurers to cover homeowners who reduce risk
- ☑ 5-year ban from home & auto market if insurers refuse
- ☑ Increase state and insurer investment in mitigation
- ☑ Build public, transparent catastrophe model
- ☑ Heightened building standards for riskiest areas