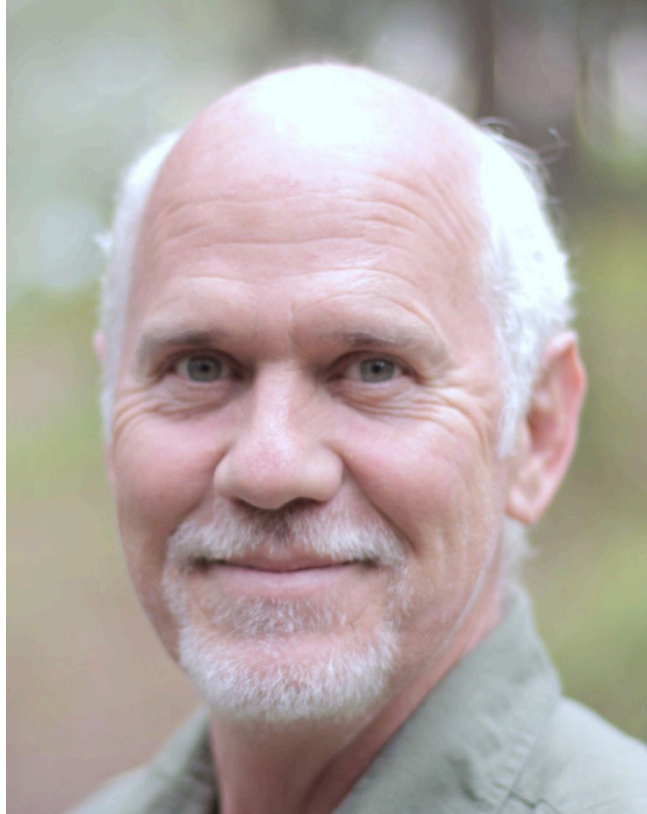


In My View: Fire insurance is complicated

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In a prior column, “Politics, Policy, and Progress” (8/15), I wrote about my appointment to the California Democratic Party (CDP) Platform Committee. Our platform is a statement of values and principles that represent a consensus of the members of the party. The Rural Plank of our platform focuses on rural issues. As Chair of the Rural Plank Committee, I am responsible for facilitating revisions to this rural policy document.

Rural Caucus

I shared a proposal submitted by the Rural Caucus for revisions to the Rural Plank regarding fire insurance.

California Democrats will: “Prevent insurance companies from cancelling or declining to offer homeowner, property and fire insurance policies, and bolster the state funded insurance of last resort to provide comprehensive coverage.”

When I first read this, I was unsure that this policy could be enforced. Can the state possibly “prevent” the insurance companies from cancelling or declining policies?

These private companies can simply decide not to do business in California. At least three insurance companies have announced over the past year that they will stop issuing new homeowners' policies in California. Insurance companies have suffered huge financial losses due to wildfires.

Insurance Answers

The Rural Caucus soon issued a factual correction. There is no "state funded insurance of last resort." There is a program called the FAIR plan funded by the pooled resources of California insurance companies.

This error was also addressed by an organized group of insurance professionals who responded to the Rural Caucus proposal. They wanted their perspective to be considered. Fourteen individuals submitted the same counter proposal for insertion into the rural plank.

California Democrats will: "Ensure a strong admitted homeowners and commercial market in all areas of California including those in designated wildfire zones and bolster the insurer backed insurance of last resort, California FAIR Plan, to provide accessible and adequate coverage for those who have no other option."

Policy Details

Many of these insurance professionals provided detailed policy suggestions. Following are excerpts:

"The California insurance market is currently in a difficult position, insurers want to write business in California, but current approved rates are not representative of the growing risk caused by climate change."

"There are solutions to help the market to return to stability, but mandating private companies do business at a loss will exacerbate the current problem. Clearly, the California insurance market is facing several challenges, but it can be fixed through structural and administrative changes that will align California closer to the rest of the US."

Modeling

"California currently requires insurers to base rates on 20 years of past losses. This is a poor system. Due to climate change, the weather clearly is not what it was 20 years ago. Every state but California uses scientifically based models to predict loss. Allowing the use of scientifically based models would increase insurance availability and reliability and could increase affordability over the long term."

Reinsurance

"All insurers use insurance, called reinsurance. California is the only state in the country that does not allow insurers' rate to be based on their actual reinsurance costs.

"After the 2017 and 2018 California wildfires, reinsurance costs increased as much as 50%. California insurers should be able to include their actual reinsurance costs as done in every other state."

FAIR Plan

“The California FAIR Plan is the insurer of last resort for anyone not able to get insurance on the admitted market. It provides limited coverage at high prices. However, the goal should be to reduce the number of policies in the FAIR Plan, not grow it. Admitted market insurers should not be the only financial backstop of the California FAIR Plan.”

Slow Rate Approval

“All insurance rate increases and well as decreases must be approved by the California Department of Insurance (CDI). This process takes on average six months. It is difficult to operate a business as underlying costs are rising significantly, and approved rates do not reflect those costs. Timely approval is necessary to ensure that the rate is adequate for the current market.”

Insurance Commissioner

It is challenging to boil down a very complicated subject into one policy statement, but that is what I had to do. I asked the Chair of the Rural Caucus for advice and she paraphrased the comments made by Insurance Commissioner Ricardo Lara at a recent Rural Caucus meeting.

Commissioner Lara explained we must stabilize the California insurance market, modernize predictive models, and make them fully transparent.

We should also create innovative insurance products specifically designed for climate change and continue improving disaster prevention and preparedness to bring down risks.

He wants insurance companies to make firm commitments to expand coverage, especially in high-risk areas, and ensure consumers get discounts on insurance rates for home hardening.

Compromise Wording

After considering all this information, I proposed a hybrid policy statement that balances the varied perspectives on this complicated issue.

California Democrats will: “Advocate for a stable, sustainable insurance market, modernized to adapt to climate change, that will offer affordable homeowner, commercial property and fire insurance policies, in all areas of California, including designated wildfire zones and bolster the insurer backed insurance of last resort (FAIR Plan) to provide accessible, adequate coverage for those who have no other option.”

I know that this is only a policy statement, but the high level of attention that is being given to this issue by elected officials, businesses and advocates, gives me hope that an equitable solution might be found.

The proposed California Democratic Party Platform will be available for review and comment on September 20. <https://cadem.org/our-platform/>

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