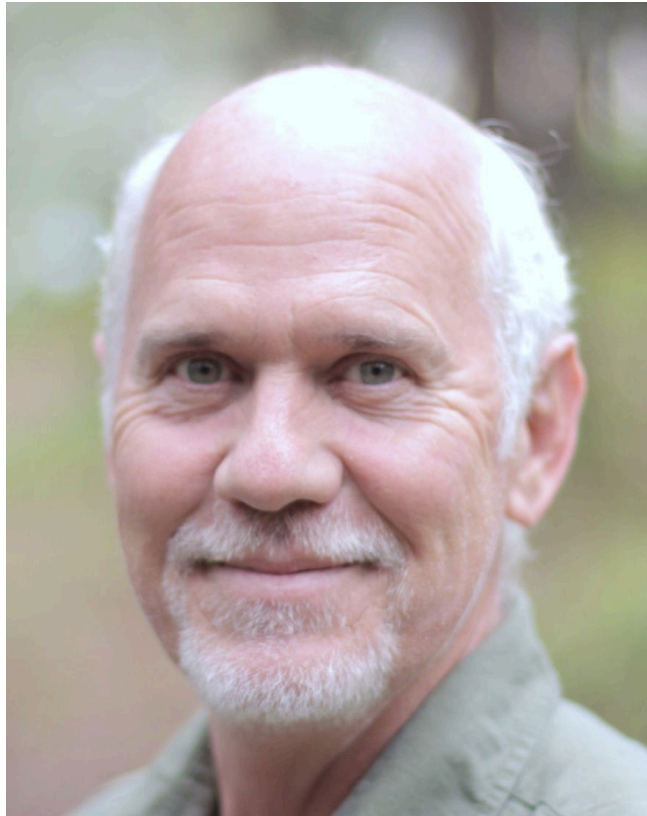


In My View: Insurance meets artificial intelligence

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Last month I wrote a column about fire insurance and a separate one about artificial intelligence (AI). I got a priceless email from a faithful reader in response to my column on AI. She sent me a message which just said, “Huh?” Artificial intelligence is complicated, but I can provide an example of how AI is relevant to us all.

Fire insurance is still a hot topic as insurance companies are cutting back on new or extended policies in California. I will update you on what is happening to address this problem.

Computer Models

In the past, insurance rates were calculated based on past incidents and pay outs. However, with the increasing frequency of natural disasters (floods, heat waves, fires, hurricanes etc.) this modeling does not work anymore.

Insurance companies are seeking approval to use predictive computer modeling to calculate the risk and cost of providing insurance in today's environment. Using artificial intelligence, computers can develop risk predictions for a specific area. Insurance rates can then be proposed based on these calculations.

This is where insurance meets artificial intelligence.

Not so Fast

Consumer advocacy groups are skeptical about using computer modeling for justifying insurance rate increases. They are concerned that there will be a lack of transparency on how these calculations are used. This concern is understandable since computer generated models will not be easily analyzed.

Fortunately, in California we have a dedicated agency and Insurance Commissioner whose job is to watchdog insurance companies to ensure that rates are fair to the consumers. Insurance companies must seek rate approval from the California Department of Insurance

The California Department of Insurance (CDI), established in 1868, is the agency charged with overseeing insurance regulations, enforcing statutes mandating consumer protections, educating consumers, and fostering the stability of insurance markets in California.

The CDI has authority over how the insurance industry conducts business within California and licenses and regulates the rates and practices of insurance companies, agents, and brokers in the state.

Misguided Blame

A recent Triplicate article (9/27/23) reporting on a Board of Supervisors meeting had a misguided headline, "Insurance crisis threatens California economy." While it is true that rising insurance costs are affecting the economy, this headline ignores the root cause of rising insurance rates.

Rates are rising as a result of a relentless string of natural disasters including hurricanes, floods and wildfires that are destroying properties across the country. Insurance companies have paid out increasingly large amounts on policies. These disasters are the threat to our economy, not the insurance companies.

This story stated that, "The crisis centers around the citizen passed initiative Prop 103. Insurance carriers must apply for rate increases through the California Department of Insurance." A legislative advisor was quoted saying, "The crisis has to worsen before people have the political will to take on Prop 103."

What's the Beef?

When I read this story I couldn't find any specific reason why these people believe that Prop 103 is a problem. What do they think needs to change? There was no explanation of what Prop 103 does, so I looked it up.

According to the California Department of Insurance website, "Proposition 103, passed by California voters in November 1988, was intended to protect consumers from arbitrary insurance rates and practices, to encourage a competitive marketplace and to ensure that insurance is fair, available, and affordable for all

Californians. Insurance carriers must apply to the California Department of Insurance for rate increases.”
How is this bad?

Prop 103 also made the Insurance Commissioner an elected position rather than a appointment by the Governor. What is the problem with having an elected Insurance Commissioner? How would it be better to have no control over the increases that insurance companies can charge?

New Rules Proposed

According to an article published (9/29/23) by the Rural County Representatives of California (RCRC), “On September 21, Governor Gavin Newsom issued an Executive Order designed to strengthen California’s property insurance market, as the largest policy providers continue to cease writing new policies in the state.”

“The strategy was accompanied by an announcement from California Insurance Commissioner Ricardo Lara, who introduced the Sustainable Insurance Strategy to improve market conditions for property owners throughout the state.”

“The Strategy, touted by the Commissioner’s office as the largest insurance reform since Proposition 103, is poised to be a multi-part regulatory plan designed to modernize California’s insurance market by depopulating the California Fair Access to Insurance Requirements (FAIR) Plan and improving how rates are established for insurance providers.”

The Commissioner and the Department of Insurance expect to have the regulatory package completed by December 2024, after a thorough public review process. This is our chance to weigh in.

Who Can We Blame?

It’s human nature to want to blame someone for an intractable problem. Insurance companies are an obvious target, but they must make business decisions based on the current reality of global warming. Some people reflexively want to blame the government. Others want to blame corporate greed.

One thing that seems clear to me is that insurance rates will continue to increase no matter what we do. According to the President of Consumer Watchdog, “The use of catastrophic modeling and adding reinsurance costs to premiums has pushed Florida premiums up to two to three times higher than California’s.”

The inconvenient truth is that the increase in destructive natural disasters is a direct result of climate change. This is a much bigger problem to address, but in the long run this is what we must do. If we fail, then these catastrophic events will continue with increased frequency. This is the real threat to our economy.

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