

CALIFORNIA'S SUSTAINABLE INSURANCE STRATEGY



What is the Sustainable Insurance Strategy?

California Insurance Commissioner Ricardo Lara's Sustainable Insurance Strategy is a comprehensive initiative aimed at modernizing the state's insurance market to ensure accessible insurance for all Californians, create a resilient insurance marketplace, and protect consumers and communities from the adverse impacts of climate change. It addresses the challenges posed by rising global inflation, increased insurance costs for rebuilding, and the growing risk of natural disasters.

Why is it Important?

The Sustainable Insurance Strategy is crucial because it addresses the pressing issues faced by both the insurance market and consumers in California. It responds to the changing landscape of insurance by enhancing market stability, improving consumer access to coverage, and safeguarding against the escalating financial burden of climate change-intensified catastrophes and global inflation.

How Will it Benefit the Market and Consumers?

This strategy enhances insurance access, fairness, and resilience for both the market and consumers.

- **Increasing Insurance Availability and Access:** The strategy seeks a commitment from insurance companies to write a minimum of 85% of their statewide market share in wildfire distressed areas identified by the Insurance Commissioner. This ensures that insurance remains available, especially for homeowners in high wildfire-risk regions.
- **Decreasing FAIR Plan Policyholders:** Priority is given to homes and businesses that mitigate wildfire risk by following the Insurance Commissioner's "Safer from Wildfires" regulation, facilitating a return to the open market and increasing options for consumers.
- **Allowing Catastrophe Models and Mitigation:** The strategy incorporates new catastrophe models that consider mitigation and hardening requirements, leading to more accurate risk pricing and offering discounts to consumers. This means more accurate rates for all Californians so they don't pay more than they should.
- **Modernizing the FAIR Plan:** By expanding commercial coverage limits to \$20 million per structure, the strategy addresses coverage gaps, benefiting homeowner associations (HOAs), affordable housing, and infill developments.

The Most Comprehensive Insurance Regulatory Reform in Decades

This strategy represents the most significant insurance reform since Proposition 103 was passed in 1988. It is informed by the voices of thousands of consumers from every county in California, demonstrating a commitment to addressing the real-world challenges faced by Californians.

Market Benefits

Market benefits include improved stability, transparency, sustainability, and broader participation.

- **Rate Review Timelines:** Improved to provide market certainty, supporting the long-term stability of insurance rates.
- **Rate Filing Procedures:** Enhanced to maintain intervenor transparency, fostering confidence in the insurance market.
- **Risk Assessment Tools:** Introduction of catastrophe modeling regulations ensures the sustainability of coverage and rates, and exploration of California-only net costs of reinsurance protects consumers from the costs of global catastrophes.
- **Increased Transparency:** Making intervenor filings more publicly accessible and encourage broader participation and understanding of the rate-setting process.



California Department of Insurance Enforcement and Resources

The Department of Insurance (CDI) will continue to ensure public input, insurance company commitments, rate approval process efficiency, additional staff resources, and reporting on progress.

- **Regulatory Process Control:** CDI maintains control over the rate review and catastrophe modeling processes, guaranteeing public input and transparency compliance.
- **Binding Agreements:** Insurance companies must increase writing and set clear targets to reduce reliance on the FAIR Plan.
- **Rate Filing Control:** Updates to rate filing processes enhance efficiency and accessibility.
- **Additional Department Staffing:** To implement major regulatory changes by December 2024 and improve rate filing processes.
- **CDI Reporting:** Periodic progress reports on insurance availability, rulemakings, and FAIR Plan depopulation efforts.

Major Actions Taken to Date

Major actions include regulations for wildfire mitigation, insurance discounts, expanded FAIR Plan coverage, and modernization efforts, as well as partnerships for climate sustainability.

- **Implemented Major FAIR Plan Reforms:** Including expansion to help HOAs, builders, farmers, and businesses access insurance coverage and expanded transparency for the FAIR Plan requiring policy counts, financial data, and other information to be publicly posted on the FAIR Plan website and shared with policymakers.
- **Modernizing the Insurance market:** Reviewed and approved three forward-looking wildfire catastrophe models.
- **Expanding Availability and Affordability:** Introduced historic Net Cost of Reinsurance in Ratemaking Regulation, requiring insurers to write policies in high-risk areas; Mercury, CSAA, USAA, Pacific Specialty and California Casualty have filed early plans to expand access. Increasing access gives consumers more coverage options, and rates that better reflect homeowner mitigation efforts, helping lower costs over time. The Department has also brought the average time to review rate filings down.
- **Improved Rate Review Timelines:** Hired additional Department staff, upgraded systems to review and complete rate filings in shorter time, and made the information available on Department website, increasing transparency and accountability.
- **Rate Filing Procedures:** Proposed regulations to reform the intervenor process to enhance transparency, fairness and accountability in the rate review process.

Wildfire Response

- "Safer From Wildfires" Regulation: Sets community-wide mitigation standards and rewards consumers and businesses for property hardening with first-in-the-nation mandatory discounts.
- Expanded FAIR Plan Coverage: Includes agrobusiness, outdoor, and recreation businesses.
- Continued Modernization of the FAIR Plan: Provides consumers with more options.

Climate Response

- "Climate and Sustainability Branch": The first in the country at any state insurance department.
- "Climate Insurance Working Group": Generated California's first-ever Climate Insurance Report.
- United Nations Partnership: Launched "California's Sustainable Insurance Roadmap."

Commissioner Lara's Sustainable Insurance Strategy is a visionary approach to address the evolving insurance landscape, benefiting both the insurance market and consumers alike by ensuring access, affordability, and resilience in the face of changing climate change-intensified catastrophic risks.