



INSURANCE COMMISSIONER RICARDO LARA
Testimony Before Assembly Committee on Insurance
Oversight Hearing on California's Sustainable Insurance Strategy
Wednesday, May 15, 2024 at 1PM

Good afternoon. Thank you, Chair Calderon, for giving me the opportunity to testify and to provide an update on my Sustainable Insurance Strategy. I appreciate the continued involvement from you and the members here today to help solve the insurance crisis. Your partnership has been invaluable.

Since last September, my Department has been working diligently on ambitious reforms designed to stabilize our state's insurance marketplace. I am thankful for my staff and their incredible commitment to this bold, comprehensive strategy that will modernize our state's insurance market, especially with the growing threat of climate change.

I want to address the questions everyone always asks up front: When will our work be complete? And when will Californians start to see the benefits?

My answer is: We will finish our regulatory work this year, and Californians are already seeing benefits.

We need to be thorough, thoughtful, and deliberate. I do not want another insurance commissioner to be back in front of you in 5 or 10 years because these regulations could not be implemented -- and do not meet the mandate of Proposition 103.

The purpose of Prop. 103 is four-fold: to protect consumers from arbitrary insurance rates and practices, to encourage a competitive insurance marketplace, to provide for an accountable Insurance Commissioner, and to keep insurance fair, available, and affordable for all Californians.

Under Prop. 103, insurance companies are not required to write policies. That was upheld in the Garamendi precedent. Underwriting mandates will not prevent insurance companies from further retreating.

Let me put our work into perspective: We are creating entirely new laws and new procedures from the ground up, and we need to make sure we have all those in place. Our entire team has been continuously engaged and working hard throughout this insurance crisis -- and Californians are already seeing results. Here are some notable updates since we last met:

- Just yesterday, Farmers announced that it will reopen several of its commercial coverage lines, including for homeowners associations, apartments, and condominiums. Farmers is California's largest domiciled insurance company and second largest homeowners writer.



- This decision is a direct result of my Department's approval of its commercial rate filing. My Department has also approved three of Farmers' homeowners rate filings in the last year as the company continues to write homeowners policies across the state.
- Last week, we heard that Mercury Insurance Company is working with Tokio Marine to pick up the bulk of its personal homeowners insurance business. Mercury is another California-based company that has not stopped writing new homeowners policies. And Tokio Marine continues to write commercial coverage.
- My staff just approved CSAA Insurance Exchange's homeowners insurance rate filing last Friday. This ensures that CSAA can continue to write homeowners policies under the Triple-A Northern California brand. Earlier this year, my Department approved a significant homeowners rate filing for Triple-A South, so it can continue to write homeowners policies throughout Southern California.
- And during my Department's catastrophe modeling workshop last month, an Allstate executive testified that it will end its pause on new homeowners business in California and begin writing in virtually every corner of the state when our strategy is implemented.
- In fact, every Top 10 homeowners insurance company in California has had a justified rate increase in the past five months according to the rules under Prop. 103. This underscores the tremendous urgency that my Department is showing during this crisis.

These are signs of progress. However, we are not going to declare success prematurely, or be reactive to every insurance announcement or headline. We all are living in a time of uncertainty. I know that this is frustrating for anyone who is trying to buy or sell a home, or worried about whether they can even afford the insurance coverage they need as we face another fire season. We are already monitoring the current fire in San Bernardino County. That is the reality of our situation.

You've heard this before but it bears repeating: We are on our way to enacting the state's largest insurance reform in 30 years since the passage of Prop. 103 in 1988. Prop. 103 was less than two pages of text. It took years of regulatory work, dozens of rulemakings, and even scores of litigation to make that landmark initiative a reality.

Now we are facing the accumulated stress of decades of long-needed reforms and neglected decisions. For years, insurance companies submitted rate requests less than what they need largely because of the stagnant intervenor process. We are compressing decades of this deferral and delay into a one-year timeline of action. We have been surviving with 20th century regulations for 21st century problems. That cannot continue.



There are others who are still trying to figure out if there is even an insurance crisis or just denying that there is an emergency to begin with. News flash: This is what an insurance crisis looks like.

I stand with our Governor's remarks at his news conference — that time is of the essence. I appreciate his strong support of my strategy and his continued commitment to ensure my Department has the support and resources we need to implement a strong, lasting reform.

Everything that we are doing now is with one central fact in mind: the clock is ticking and we need our reforms to work on Day One. We are going to do this right by engaging with you, the Governor's Administration, and constructive stakeholders. We will continue to be innovative and bold. That's how we solve this insurance crisis and stabilize our state's insurance marketplace in order to benefit and protect consumers.

I said last September that I plan to complete all of the regulatory elements of my strategy by the end of the year. I know some may not appreciate this aggressive timeline, but I have to get this right without undue political or reactive pressure. And I recognize that this strategy may end up being the most important work that I get done during my entire tenure as Commissioner, so I take this very personally and seriously. We have taken significant steps forward and are on our way to meeting our deadline.

I want to give you a comprehensive update on the various components of my strategy.

[The first component is incorporating catastrophe modeling into rate making.](#)

As you know, California is the only state requiring the use of historical wildfire data in rate making. In March, my Department introduced new proposed regulations to allow insurance companies to utilize "forward-looking" catastrophe modeling. Insurance companies that commit to increasing their writings of wildfire distressed properties across the state while removing policies from the FAIR Plan will be able to use modeling in rate filings. This will increase insurance availability for those currently unable to get coverage except from the FAIR Plan. This will also result in policies removed from the FAIR Plan into the regular marketplace.

There continues to be intense stakeholder interest in our pending catastrophe modeling regulation. I want to go into a bit of detail on this topic.

Last year, my Department hosted two workshops focused on answering two critical questions:



- First, how can we meet Prop. 103's mandate for public review and transparency while recognizing private modelers' proprietary material contained in a model?
- Second, how can we develop the process for incorporating modeling into California's rate making process?

Last month, my Department invited the public to comment on draft regulation language that would address these two critical questions. The public input process is important, because we need to get this right.

I also want to be very clear about one matter that continues to come up in my Department's regulatory workshops – which is the question of public models. There is currently no existing option that we can use today, and I support the creation of a public wildfire model. Developing a public model would indeed make California a national leader – especially if we utilize the power of our state's public higher education system in helping create it, which we intend to do.

But again, this is not a quick and simple solution. For a public model to be usable, it takes time and commitment. Let me give you an example: Florida created a public model for hurricanes, which took five years and millions of dollars. We will start laying the groundwork for a public model, and that is what my regulations will allow.

Meanwhile, private models are widely used today in the insurance industry and across the nation in both ratemaking and underwriting. It is critical for the speed of our reforms that we move forward in utilizing private models, and our regulatory draft lays out a thorough process for model review.

Currently, Californians' efforts at mitigation are not fully recognized in overall insurance rates because we require insurance companies to use past loss experience. Moving forward, allowing modeling will update my Department's ratemaking process to include recognition of mitigation efforts at the parcel level and community-wide level. Recognizing mitigation will make people safer and help keep insurance fair and available for all Californians.

My Department plans to host a public workshop in June, setting out the commitments that homeowners and commercial insurance companies must meet in order to use catastrophe models in their rate applications. As I stated when I announced my strategy, insurance companies must increase or maintain their market share of wildfire distressed properties. For homeowners insurance coverage, they must meet a threshold of no less than 85% of their statewide numbers. If an insurance company fails to follow through on its commitment, my Department will use its enforcement authority to review the rate filing and re-assess the rate.

Also, as part of my June workshop, we are going to be identifying wildfire distressed areas where we expect insurance companies to write more policies. This is going to be



part of our modeling regulation. We will release maps of these wildfire distressed areas in advance so everyone can see them. We all know that urban areas and rural areas have different characteristics. We are looking hard at where the FAIR Plan has grown and become a large percentage of policies.

Here are some things you are going to see in the maps: In some cases, it will be a whole county. In other cases, it will be an individual ZIP Code. A hybrid approach is best so that is you are stuck on the FAIR Plan because of your unique wildfire risk, there will be help for you.

The second component of my strategy involves incorporating reinsurance into ratemaking.

My Department plans to introduce proposed regulation text in July to allow insurance companies that take on greater risks in California to incorporate the cost of reinsurance in their rate filings to cover those risks. To make sure this is being done right, we are hiring an outside expert to provide technical and actuarial feedback on the drafting of this regulation. This is part of the ongoing budget support that the Governor talked about last week, and was included in the appropriation that the Governor and Legislature made last year.

Reinsurance is important for insurance companies to help manage their risk. It enables them to write policies and cover losses despite growing threats from climate change. California is one of a few states that does not allow insurance companies to recover this expense in their rates. This contributes to insurance companies' decisions to reduce new policies or to restrict writing to just the lowest-risk policies in California – that's if they are even writing new policies at all.

The third component of my strategy involves modernizing the FAIR Plan.

I continue to improve the FAIR Plan which has been neglected for many years under multiple insurance commissioners. The FAIR Plan needs changes to fulfill its statutory role of providing coverage to all when they cannot find coverage in the regular market. My staff has worked on reports and audits to make the FAIR Plan more responsive to consumers.

After being subject to Department operational and financial surveillance exams, the FAIR Plan is focused on improvements such as the following:

- Strengthening control over its informational systems,
- Making appropriate changes to operational processes,



- Improving customer service and response times by hiring more staff, and
- Implementing more reasonable and clearer eligibility guidelines for residential dwelling policies.

I ask any consumer or insurance broker who is having an issue with the FAIR Plan to call our Consumer Services hotline. We will resolve your issue as quickly as possible.

By July, I plan to require the FAIR Plan to increase coverage to \$20 million per structure for our larger homeowners associations, condo associations, farms, and other businesses. I will also require the FAIR Plan to have a sounder financial sustainability structure. My staff has had constructive meetings with the FAIR Plan's Governing Board, executive management, and admitted insurance companies in order to ensure as smooth a process as possible and that they have a work plan that helps meet the needs of consumers in this crisis.

The fourth component of my strategy is improving rate filing efficiency.

In February, my Department published a "complete rate application" regulation that creates clarity in the rate review process for all participants. This is a critical part of reducing unnecessary delays that can cause rate filings to take more than a year. A more complete rate application upfront ensures my rate regulation experts have the necessary, comprehensive information that they need to make quicker decisions on pending rate filings.

Last Friday, the Governor announced a new legislative proposal that would help expedite my Department's insurance rate filing process. This proposal could be done more quickly *via* statute than a regulation. I look forward to partnering with you all and thank the administration for working with me on this important accountability element of my strategy.

This proposal is similar to a concept discussed last summer between my Department, Senate and Assembly legislative leadership, and the Governor's Office. Under this proposal, my Department will have the resources to thoroughly review a rate filing within the current 60-day timeline prescribed under Prop. 103. The proposal also allows for 30-day extensions when needed. My Department will provide information to insurance companies and the public on resolved and unresolved issues that will help get filings reviewed more quickly.

This proposal holds insurance companies accountable for providing the complete information my Department needs to make informed and timely decisions on these filings. I was in support of this proposal last year and remain committed to it today. Consumers benefit with more insurance products and greater availability of coverage.



Insurance companies should have more certainty on their pending filings so we have a competitive insurance marketplace.

Above all, my Department's rate review is always the public's check on rates. We will continue to thoroughly review each and every rate application filed to make sure they are compliant with our laws and justified under Prop. 103, and that consumers are protected.

The fifth component is transparency and accountability for intervenors.

Last September, I initiated administrative reforms to increase transparency, ensure accountability, and to increase public participation in California's Prop. 103 intervenor process. Under Prop. 103, California is the only state that requires all homeowners, commercial, and auto insurance rate filings be open for intervenors. Ultimately, this is another cost that is passed on to consumers in their rates.

My Department launched a new webpage to increase public transparency regarding this intervenor process. This webpage explains how the process works, and has links which allow the public to access the petitions filed by intervenors to participate and recover compensation. We are being transparent with the public about who is intervening and how much they are paid. You can also access the Department's response to intervenor petitions. You can review the Department's new orders and see that we now only allow intervenors to raise concerns that are relevant to the pending rate application. This is a new accountability action that my Department has implemented since last September.

In closing, we have been meeting across the state with fire chiefs, REALTORS, the insurance industry, consumers, agriculture groups, HOAs, community associations, and local elected leaders, among many others. We are moving at the speed of transparency and good decisions. California's history is littered with "too fast" remedies that have not stood the test of time.

Prop. 103 requires all information provided to the Department be subject to public inspection. We cannot sidestep this requirement because we do not want this much-needed reform to be tied up in avoidable litigation. That is true even under the Governor's executive order from last September. If we lose in court over process and not substance, that would be a failure.

Insurance companies and insurance consumers have had strong feedback to everything that we have publicly released to date. We recognize there are continuing concerns and we will not satisfy everyone. Even if the Legislature were to introduce and pass legislation with an urgency clause this year, it would still have to go through the regulatory public process at my Department. My regulatory actions will be in place this year, much faster than implementing any new legislation.



Doing something for the sake of expediency will not help get rate filings approved any faster and just further complicate the work we are doing. My Department, especially my Rate Regulation Branch, needs to be supported, staffed, and equipped to fully and successfully implement this groundbreaking strategy. Major reforms require whole new implementation processes. These include:

- Hiring the right people with the right competencies;
- Supplementing our workforce with consulting services;
- Restructuring our Rate Regulation Branch so staff can review evolving insurance products made available to consumers in the 21st century;
- Hiring staff who previously worked at the Department and have specific rate filing expertise as retired annuitants, as well as paying staff to work overtime;
- Continuing to support our existing staff with real-time training and investing in and developing our workforce; and
- Ensuring we are using all our resources – including the NAIC’s Center for Excellence in Modeling.

In addition, with entirely new procedures being developed from the ground up, insurance companies will need to know what to file and how to file it when the time is right. I thank the Legislature and Governor for the continued budget authority to hire consulting services. I cannot emphasize how important it is that we, as a very large regulatory department, think about effective implementation so that we all succeed.

We have to remain flexible. We have to be responsive. The lesson of the past is that we cannot be locked into another 30 years of stagnant regulations. These must be “living” reforms that can adjust to California’s changing risk profile. My Department is working under an ambitious timeline, which allows for necessary public input and transparency required by law, and provides little room for error.

I respectfully ask that you continue giving me and my Department the support and the space to do our jobs and get this all done right by the end of this year.

Thank you.