



CALIFORNIA DEPARTMENT OF INSURANCE

CALIFORNIA'S SUSTAINABLE INSURANCE

STRATEGY: KEY TAKEAWAYS

The California Department of Insurance (CDI and Department), under the leadership of Insurance Commissioner Ricardo Lara, is working hard to protect homeowners, drivers, and businesses. This document is intended to help you answer questions about the work being done to get our state's homeowners and commercial insurance marketplace back on track, and the resources available to help Californians.

What is the Sustainable Insurance Strategy?

Insurance Commissioner Ricardo Lara's [Sustainable Insurance Strategy](#) is a comprehensive initiative aimed at modernizing the state's insurance market to make insurance more accessible for all Californians, creating a resilient insurance marketplace, and protecting consumers and communities from the adverse impacts of climate change. It addresses the challenges posed by rising homeowners insurance costs for rebuilding and the growing risk of natural disasters largely created by climate change.

Why are reforms to California's insurance regulations needed?

California is experiencing an insurance crisis under 30-year-old insurance regulations where many people cannot obtain insurance at any price, except from the FAIR Plan. Although the FAIR Plan represents approximately 4% of all personal dwelling policies in the state, its continued uptick is a leading indicator of the state's overall insurance market health and stability.

This strategy represents the most significant insurance reform since Proposition 103 was passed by voters 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 consumer protection initiative a reality. The Department is now in the process of drafting major regulations and implementing administrative actions from the ground up that address the accumulation of decades of long-needed reforms. The Sustainable Insurance Strategy 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.

The Sustainable Insurance Strategy is transformational because it addresses the pressing issues faced by both consumers and the insurance market 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 these changes benefit consumers?

The Sustainable Insurance Strategy addresses our state's insurance crisis by enhancing insurance access, fairness, and resilience for both consumers and the market namely:

- [Increasing Insurance Availability and Access](#): The strategy maximizes the impact of commitments from insurance companies to write more homeowners and commercial insurance policies in high wildfire risk regions of California. The strategy includes commitments from large companies to write a minimum of 85% of their statewide market share in wildfire distressed areas identified by the Insurance Commissioner, and includes commitments from smaller and regional insurance companies to increase policies in wildfire distressed areas.



- [Decreasing FAIR Plan Policyholders](#): Insurance company commitments will also provide the pathway for consumers currently in the FAIR Plan to get offered coverage in the traditional insurance market. Priority will be given to homes and businesses in the FAIR Plan that mitigate wildfire risk by following the Insurance Commissioner’s [“Safer from Wildfires” regulation](#).
- [Promoting Safer Communities and Ensuring More Accurate, Justified Rates](#): The Strategy incorporates new catastrophe models that capture updated efforts taken by federal, state, and local governments, property owners, communities, and utility companies to mitigate the exposure to wildfires – currently not available for consumers. This means more accurate, justified rates for all Californians so they don’t pay more than they should.
- [Modernizing the FAIR Plan](#): By expanding FAIR Plan commercial coverage limits to \$20 million per structure up to \$100 million per location, the Strategy addresses coverage gaps to help benefit homeowner associations (HOAs), condominium developments, affordable housing, housing developments, and infill developments as well as help meet the state’s housing goals.

How will changes increase availability of insurance?

Every Californian deserves options for insurance. Market benefits of the Strategy include improved stability, transparency, sustainability, and broader participation of stakeholders as a result of:

- [Tighter Rate Review Timelines](#): Strengthening enforcement of current rate filing approval timelines set under Prop. 103 to provide market certainty, supporting the long-term stability of insurance rates.
- [More Transparent Rate Filing Procedures](#): Enhancing transparency for all participants in the rate review process, including insurance companies, the Department, and groups who intervene under Prop. 103.
- [Increased Risk Assessment Tools](#): Introducing regulations that allow for incorporation of catastrophe modeling and California-only net costs of reinsurance in rate-making ensures the sustainability of coverage and rates as well as accuracy of home hardening and community mitigation efforts taken to homes, businesses, and neighborhoods to mitigate the exposure to wildfires, while protecting consumers from the costs of global catastrophes.

How will insurance companies be held accountable for writing more policies in higher risk areas?

Under Prop. 103, the Department has control over all aspects of the rate making prior approval process. Rate filings need to be approved first by the Department before insurers can move forward. The Department will hold insurance companies accountable with existing enforcement tools, public input, insurance company commitments, prior approval authority and rate process efficiencies, additional staff resources, and public reporting on progress. Specific actions include:

- [Stronger Regulatory Control](#): CDI maintains control over the rate review, catastrophe modeling, and reinsurance costs processes, guaranteeing public input and transparency compliance.
- [Enforcement of Binding Agreements](#): Insurance companies must increase writing in distressed areas of the state and set clear targets to reduce reliance on the FAIR Plan.
- [Additional Department Staffing](#): To get major regulatory changes across the finish line by December 31, 2024 so implementation of the Strategy can start soon thereafter in the new year.
- [Enhanced Transparency and Reporting](#): Periodic progress reports from the Department on insurance availability, rulemakings, and FAIR Plan depopulation efforts.



When will the situation get better for consumers?

Commissioner Lara has pledged to complete all major administrative reforms by December 31, 2024, and the Department is on track to meet this deadline. Once these changes are in place, it is up to insurance companies to make rate filings for review by the Department. Rate applications filed with the Department, including insurance company commitments to pick up FAIR Plan policies and write in distressed areas of the state, as well as public FAIR Plan data on any growth – and eventual depopulation – of its dwelling fire and commercial property policies will be helpful key indicators to determine success of the Strategy overall.

Some insurance companies have already responded positively to Commissioner Lara’s actions such as:

- 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. Farmers continues to write residential insurance statewide.
- 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.
- An Allstate executive testified in April 2024 that it will end its pause on new homeowners’ business in California and begin writing in virtually every corner of the state when Commissioner Lara’s strategy is implemented.
- A major national insurance trade association – the American Property Casualty Insurance Association –responded favorably to the Commissioner’s FAIR Plan Modernization Strategy, calling it “an important step toward restoring the FAIR Plan’s financial stability.” (APCIA, 2024)
- Another major insurance trade association – the Personal Insurance Federation of California – called the Commissioner’s FAIR Plan Modernization Strategy “encouraging” and “a concrete real proposal that will bring more stability to the marketplace” in a recent article in E&E News.

What is the Sustainable Insurance Strategy’s implementation timeline?

As of October 15, 2024, the Strategy’s major milestones include:

- Intervenor Transparency Reform – Major administrative actions completed by July 2024. Major elements completed to date.
- Catastrophe Modeling Regulation – Draft regulation currently under public review with final 15-Day Notice of Amended Text released on October 2nd. Final regulatory package to be submitted for approval to Office of Administrative Law (OAL) by December 31, 2024.
- Wildfire Distressed Area Definition and FAIR Plan Depopulation Mandate – Draft regulation currently under public review with final 15-Day Notice of Amended Text released on October 2nd. Final regulatory package to be submitted for approval to OAL by December 31, 2024.
- FAIR Plan Modernization Plan – Negotiated Final Stipulation and Order with Revised Plan of Operations executed on August 27th and long-term solvency Bulletin 2024-8 on Insurer Recoupment Procedures released on September 3rd. Major elements completed to date.
- Streamlined Rate Application Process and Efficiencies – Complete Rate Application Regulation completed on October 9th and Rate Review Accountability Bulletin 2024-7 released on August 9th. Major elements completed with Rate Reconciliation Tool efforts underway.
- CA-Only Net Cost of Reinsurance Regulation – Final regulatory package submitted for approval to OAL by December 31, 2024.



What other insurance initiatives to improve the state's insurance marketplace are being implemented?

Other major wildfire-related insurance initiatives that have been done and are underway include:

- Completion of "Safer From Wildfires" Regulation: Sets home hardening and community-wide mitigation standards and rewards consumers and businesses for property hardening with first-in-the-nation mandatory discounts.
- Expanded FAIR Plan Coverage: Higher limits for the residential policies to keep up with the rising home values (now \$3 million compared to \$1.5 million in 2019). The FAIR Plan also now covers agribusiness, farms, wineries, outdoor, and recreation businesses.
- Promoting Policyholder Security through Moratoriums on Non-renewals and Cancellations: Mandatory one-year moratoriums on insurance companies cancelling or non-renewing residential insurance policies in certain areas within or adjacent to a fire perimeter after a declared state of emergency is issued.
- Department-Sponsored New Insurance Protections: New laws provide quicker payouts for some consumer claims, less red tape from insurance companies, and more help for people under evacuation orders.
- Support of \$2.7 billion directed to Multi-year Funding for Wildfire Safety: Actions include wildfire resilience programs that fund fire prevention grants for local risk reduction projects, creating fire breaks that protect communities, expanding defensible space inspections, and increasing strategies like prescribed fire and fuels reduction projects.

More information about the Department's Sustainable Insurance Strategy can be read [here](#).

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