

**LEGISLATIVE OFFICE BUILDING**  
1020 N STREET, ROOM 369  
SACRAMENTO, CA 95814  
(916) 319-2086  
FAX (916) 319-2186  
**CHIEF CONSULTANT**  
KATHLEEN O'MALLEY  
**PRINCIPAL CONSULTANT**  
CLAIRE WENDT  
**COMMITTEE SECRETARY**  
TIFFANY MORRISON



**VICE CHAIR**  
BILL ESSAYLI  
**MEMBERS**  
MARC BERMAN  
SABRINA CERVANTES  
PHILLIP CHEN  
VINCE FONG  
MIKE A. GIPSON  
TIMOTHY S. GRAYSON  
REGINALD BYRON  
JONES-SAWYER  
LIZ ORTEGA  
FREDDIE RODRIGUEZ  
ESMERALDA SORIA  
AVELINO VALENCIA  
JIM WOOD

## **Assembly Insurance Committee Oversight Hearing**

### **California Department of Insurance: Sustainable Insurance Strategy**

**Wednesday, December 13, 2023**

I. *Background:*

On September 21, 2023, Governor Newsom issued an Executive Order that “ordered” the Insurance Commissioner to:

“Take prompt regulatory action to strengthen and stabilize California’s marketplace for homeowners insurance and commercial property insurance, and to consider whether the recent sudden deterioration of the private insurance market presents facts that support emergency regulatory action. The Commissioner is requested to consider the following goals in crafting an appropriate regulatory response:

- a. Expand coverage choices for consumers, particularly in the underserved areas of the state.
- b. Improve the efficiency, speed, and transparency of the Department’s rate approval process.
- c. Tailor the rate approval process to account for all factors necessary to promote a robust, competitive insurance marketplace, including through potential revisions to the way catastrophe risks and insurer costs are accounted for.

- d. Maintain the long-term availability of homeowners and commercial property insurance coverage.
- e. Maintain the solvency of the FAIR Plan to protect its policyholders and promote long-term resiliency in the face of climate change, including identifying mechanisms to reduce its share of the overall market in underserved areas and move its customers into the admitted insurance market.”

Following this Executive Order, on the same day, the Insurance Commissioner held a press conference announcing the Sustainable Insurance Strategy. The very important topic of discussion today.

Keep in mind, these announcements came after a historically tumultuous year in the California insurance market. It’s fair to say, inaction by the Insurance Commissioner wasn’t an option. It’s also fair to say, the Insurance Commissioner has the authority to complete such administrative actions (with transparency) and make such decisions outside the Legislature in the role.

## II. *What is known about the Sustainable Insurance Strategy?*

According to the California Department of Insurance (CDI) the three main goals of the Sustainable Insurance Strategy are:

- 1) Accessible Insurance for Californians
- 2) Create a Resilient Insurance Market
- 3) Protect Communities from Climate Change

In order to achieve these goals CDI framed the Sustainable Insurance Strategy to include the following:

- Executive action by the Commissioner to transition homeowners and business from the FAIR Plan back into the normal insurance market with commitments from insurance companies to cover all parts of California by writing no less than 85% of their statewide market share in high wildfire risk communities;
- Giving FAIR Plan policyholders who comply with the new Safer from Wildfires regulation first priority for transition to the normal market;
- Expediting the Department’s introduction of new rules for the review of climate catastrophe models that recognize the benefits of wildfire safety and mitigation actions at the state, local, and parcel levels;

- Directing the FAIR Plan to further expand commercial coverage to \$20 million per building to close insurance gaps for homeowners associations and condominium developments to help meet the state’s housing goals and to provide required coverage to other large businesses in the state;
- Holding public meetings exploring incorporating California-only reinsurance costs into rate filings;
- Improving rate filing procedures and timeline by enforcing the requirement for insurance companies to submit a complete rate filing, hiring additional Department staff to review rate applications and inform regulatory changes, and enacting intervenor reform to increase transparency and public participating in the process;
- Increasing data reporting by the FAIR Plan to the Department, Legislature, and Governor to monitor progress toward reducing its policyholders; and,
- Ordering changes to the FAIR Plan to prevent it from going bankrupt in the case of an extraordinary catastrophic event, including building its reserves and financial safeguards.

*III. What is known about the Sustainable Insurance Strategy timeline?*

CDI stated that the timeline is immediate and urgent, with the aim of completing all necessary changes by December 2024. Additionally, CDI stated some elements will be executed even sooner to address pressing consumer and market issues. Timeliness, execution, and implementation of the Sustainable Insurance Strategy is vital to the insurance market recovering.

*IV. Transparency*

It should be noted and emphasized, as this is an important piece to the Sustainable Insurance Strategy, that the Insurance Commissioner publicly stated that he encourages (as does the Legislature) active involvement from stakeholders, lawmakers, and the public in shaping and supporting the Sustainable Insurance Strategy. This hearing is also a key component to ensuring transparency.

*V. What led to the Sustainable Insurance Strategy?*

The year 2023 will go down in history as a perfect storm, so to speak, building over many years (wildfire losses, inadequate rates, lack of innovation) which led many insurers to withdraw or pause from doing business in California. Seven of the top 12 insurance companies (representing 85% of the homeowners’ insurance market)

paused or restricted new business. These companies included: State Farm, Farmers, Allstate, USAA, Travelers, Nationwide, and Chubb. Most notably, many won't forget Memorial Day weekend, 2023 when State Farm hit the pause button.

As stated earlier in this background paper, inaction by the Insurance Commissioner isn't an option.

## *VI. Conclusion*

This hearing is intended to publicly bring forward more details about the Sustainable Insurance Strategy, especially on the timeline for implementing the strategy, because it will serve Californians most if the insurance market recovers sooner rather than later. California needs those notable insurance companies (mentioned above) to press the start button. Businesses (small and large), home buyers and sellers, homeowners, those living in the wildland urban interface, HOAs, builders, plus many more need access to affordable and reliable insurance. California's economy depends on the availability of insurance. Here's to the Insurance Commissioner for putting all the eggs in one basket- California's Sustainable Insurance Strategy.