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Assembly Insurance Committee
Oversight Hearing

California Department of Insurance: Sustainable Insurance Strategy (SIS): Moving Forward

Wednesday, July 2, 2025

I. *Introduction*:

Where are we now? Why are my rates going up? Why was I non-renewed? Why can't I find insurance? What is the FAIR Plan? What does the FAIR Plan cover? Why is the FAIR Plan so expensive? Why was my smoke damage claim denied? When will the insurance market stabilize? How do I get an insurance discount? How do I reduce my risk? How much more will rates go up? What if I can't afford insurance? Why are insurers leaving California? Why do rate filings take so long to approve or deny? What are intervenors? When will we know if the SIS is working? How do I file an insurance claim? Where do I go to find insurance? What if I'm underinsured? How do I shop for insurance? How do we prevent the insurers from leaving the state? Why don't we mandate insurance? Why am I being penalized for living in a high fire risk area? What is safer from wildfires? How can I budget for rate increases? Why doesn't my insurer want to renew me? Why don't insurers want to be in California?

This is just a snap shot of the many questions the Assembly Insurance Committee receives on a daily basis. A true snap shot of a crisis that this state is still unfortunately in the middle of. Homeowners insurance provides a sense of security that many are struggling to find or maintain. It's also a requirement for a majority of those who purchase a home. While many may be frustrated by this requirement; it's actually in the consumer's best interest to carry insurance on their most valuable asset. It's a product most don't ever want to use but when needed, it's expected that the insurer saves the day. Insurers play a necessary and needed role in the financial strength of California. The SIS plays a necessary and needed role in the recovery of California's insurance market. Expediency was desired but patience continues to be needed by all parties. We continue to wait for the results of the SIS.

II. ***Background***:

On September 21, 2023, Governor Newsom issued an Executive Order that requested the Insurance Commissioner take the following actions:

> "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 SIS. The Insurance Commissioner has the authority to complete such administrative actions (with transparency) and make such decisions outside the Legislature.

These announcements came after a historically tumultuous year in the California insurance market.

III. *What is the SIS?*

According to the California Department of Insurance (CDI) the three main goals of the SIS 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 SIS to include the following:

1) 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 (***details are public***) ;

2) Giving FAIR Plan policyholders who comply with the new Safer from Wildfires regulation first priority for transition to the normal market (***details are public***);

3) Expediting CDI'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 (***details are public***);

4) 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 (***details are public***);

5) Holding public meetings exploring incorporating California-only reinsurance costs into rate filings (***details are public***);

6) Improving rate filing procedures and timelines by enforcing the requirement for insurance companies to submit a complete rate filing, hiring additional CDI staff to review rate applications and inform regulatory changes, and enacting intervenor reform to increase transparency and public participation in the process (***details are public***);

7) Increasing data reporting by the FAIR Plan to CDI, the Legislature, and the Governor to monitor progress toward reducing its policyholders (***details are public***) ; and

8) 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 ***(details are public***).

IV. ***Why the SIS*?**

California continues to run into the "perfect storm," so to speak. Wildfires are no longer a rare occurrence. Palisades, Eaton, Camp, Tubbs, Woolsey, Tunnel, Atlas, Glass, and CZU Lightning Complex. Names of the top ten wildfires in the nation. That is why the SIS. California suffers, as far as insurance is concerned, large wildfire losses, inadequate rates, and a lack of innovation, which leads many insurers to withdraw or pause from doing business in California. Seven of the top twelve insurance companies (representing 85% of the homeowners' insurance market) at some point paused or restricted new business in California.

V. SIS Reforms address the following in the insurance market:

Rate Approval Process

On February 9, 2024, the Insurance Commissioner announced the first of many regulatory reforms of the SIS. The first proposal addressed CDI's rate application approval process. CDI held the public comment hearing on March 26, 2024.

At the oversight hearing of the Assembly Insurance Committee in December 2023, the Insurance Commissioner highlighted issues regarding CDI receiving "incomplete" rate applications, which, therefore, caused delayed approvals of rate filing applications. The first announced regulatory reform of the SIS is in response to this concern with the intent of clarifying exactly what information is necessary to evaluate a rate application. That being said, this reform received an immense amount of scrutiny and negative feedback by various stakeholders who participated in the public hearing.

The reform applied to auto, home, business, and other property and casualty insurance rate applications. According to CDI, the intent of the rate application reforms is to eliminate confusion, reduce delays, and enhance public participation in the ratemaking process. According to CDI, key components of the regulations include:

- *Clarity in Submission Requirements*: Insurance companies will have clearer instructions about what must be submitted with a complete rate application, with necessary materials and information clearly specified by regulations. This clarity will provide insurance companies with certainty regarding the documentation required for initial rate submissions.

- *Front-Loading the Delivery of Key Information*: The proposed regulation will eliminate lengthy exchanges between CDI and insurers about incomplete applications before the rate review process may actually begin. This proposal will also provide consumer representatives more opportunity to review insurer rate applications in order to decide whether to intervene in the rate review process.

- *Inclusion of Criteria and Guidelines*: The proposed amendments mandate what insurers must provide so the Insurance Commissioner may assess whether requested rates are appropriate and not excessive, inadequate, or unfairly discriminatory. This includes any and all criteria, guidelines, systems, manuals, models, and algorithms used to assess risks or modify coverage options, as set forth in California Insurance Code section 1861.05.

On Friday, May 10, 2024, the Governor, as part of the May Revision announced a legislative proposal that would have expedited the insurance rate filing process. The proposal could be viewed by the public under the California Department of Finance's website. Once public, the proposal was met with accolades and criticism, and did not move forward due to various reasons during the legislative cycle.

Instead, on August 9, 2024, the Insurance Commissioner and the Governor announced moving forward with the rate review reforms through administrative action. To summarize again, the rate review reforms are intended to expedite the rate approval process. Under the existing Proposition 103 framework, rate applications should be approved or denied within a 60-day timeline but this timeline can be drawn out for many reasons including whether the rate application is intervened or whether the application is deemed "incomplete." The reform also includes the creation of a data reconciliation tool which will provide more transparency regarding information still needed and the status of the application.

<u>Catastrophe-Modeling: Incentive to Write Policies</u>

On March 14, 2024, the Insurance Commissioner announced the next phase of the SIS, which included releasing regulations on the use of catastrophe modeling. Previously, CDI did not allow admitted insurers to use wildfire catastrophe models for ratemaking. California required (under CA Code of Regulations 2644.5) that insurers use a minimum 20-year average of historical catastrophe losses to calculate catastrophe loads for the CDI ratemaking process. Catastrophe models simulate real world events using data such as topography, vegetation type, and the wind conditions of a certain area. Having this information gives insurers a better picture when they are setting rates for their customers, allowing them to use a more precise approach when determining how much risk they are willing to take on.

Catastrophe modeling allows insurers and reinsurers, financial institutions, corporations, and public agencies to evaluate and manage natural and man-made catastrophe risk from perils ranging from earthquakes and hurricanes to floods and wildfires.

The regulations create a new process for review of models by a panel of experts, overseen by CDI, before insurance companies can use them in a rate filing. The panel would evaluate the appropriateness and soundness of each model, and a CDI official would determine what information about the model must be included in rate applications.

According to CDI, the catastrophe-modeling regulations will:

- Allow policyholders to have more stable costs than under current regulations, which have resulted in sudden and steep increases for those at higher risk of wildfire.

- Incentivize insurance companies to increase their policy writing because they can better anticipate future losses, rather than making abrupt decisions to non-renew higher-risk policyholders, pause writing, or rapidly increase rates.

- Allow CDI to have public oversight of modeling, which is already being widely used by insurance companies outside of rate-making and across the nation. CDI will have access to models and build expertise, so California can continue to lead on consumer protection.

CDI held a public workshop on the regulations on April 23, 2024. Similar to the public hearing on the rate approval process, this hearing also received scrutiny from a number of stakeholders with concerns about transparency and utilization of the catastrophe models.

On June 12, 2024, CDI announced an important piece of the SIS: distressed areas. CDI created a statewide map showing distressed areas, which are areas where wildfire risk is high and FAIR Plan policies are overly concentrated. As part of the SIS, insurers commit to write in high wildfire risk areas (distressed areas) in order to be permitted to use catastrophe modeling in the rate filings. The regulation requires insurers to detail in the rate filing what distressed areas they will write at least 85% of their policies in. The regulation is customized to each type of insurer, whether a large corporation or a mom-and-pop insurer. This customization allows all insurers the ability to use catastrophe modeling if they meet the threshold of writing in distressed areas. CDI announced another public workshop on June 26 to receive public feedback on the regulation.

On August 16, 2024, the Insurance Commissioner announced the final phase of the catastrophe modeling regulation. The Office of Administrative Law (OAL) published the regulation online. A hearing on September 17, 2024 was held with public comment due by October 17, 2024. On November 14, 2024, the Insurance Commissioner submitted the final regulation on wildfire catastrophe modeling to the OAL for approval. The regulation appears to meet and address the feedback from all stakeholders. It is important to note that the regulations provide an opportunity for public review of models which was a key point made throughout the public workshops.

The OAL filed the catastrophe-modeling regulations with the Secretary of State on December 12, 2024, which then became final. Therefore, this portion of the SIS is complete.

The Insurance Commissioner also announced on September 17, 2024 a partnership with Cal Poly Humboldt to create a public wildfire catastrophe model. Recommendations from this partnership came out on May 6, 2025. This report can found here Public-Wildfire-Model-Strategy-Group-Chaired-by-Cal-Poly-Humboldt-Future-Directions-and-Considerations-05-16-2025.pdf .

(To learn more about catastrophe modeling, please use the committee's background from a previous informational hearing. The background can be found here Microsoft Word - 6.14.23 Joint Informational Hearing background (ca.gov).)

Net-Costs of Reinsurance: Incentive to Write Policies

On November 21, 2024, the Insurance Commissioner announced another milestone in the SIS. CDI sought public input on the new regulation for incorporating net-costs of reinsurance in the ratemaking process. (Simply stated, reinsurance is insurance for insurers. It allows insurers to expand and write more policies.) The public meeting took place on December 5, 2024. The Insurance Commissioner hopes this regulation, in addition to the use of catastrophe modeling, will increase the availability of insurance in the near future. To utilize both tools, insurers must commit to write in distressed areas (discussed above). This regulation moved on to the next step on December 27, 2024.

FAIR Plan Modernization

On July 26, 2024, the Insurance Commissioner announced the FAIR Plan modernization reforms. One focus of these reforms was to address the lack of insurance availability for homeowner and condominium associations by increasing FAIR Plan limits. The Insurance Commissioner and the FAIR Plan came to an agreement. According to CDI, the stipulation requires the following for homeowners and business owners:

- Expanded coverage: Establishing a new “high-value” commercial coverage option with limits up to $20 million per building, with a total aggregate of $100 million per location.

    - CDI anticipates this new limit to be active in July 2025 after the FAIR Plan submits a new rate filing and the CDI has time to review.
    - New high-value policy may sunset on December 31, 2028 but policies entered into by the sunset may continue for one additional year, roughly until December 31, 2029.

- Financial stability: Creating a sound financial formula to protect policyholders in extreme loss scenarios.

- Create a financial formula in case the FAIR Plan needs to assess. Under the agreement, when all FAIR Plan reserve funds are exhausted and reinsurance and catastrophic bonds have been triggered, insurance companies will be required to pay half the cost of losses up to $2 billion in total FAIR Plan claims — $1 billion for residential claims and $1 billion for commercial claims. The other half could be recouped from policyholders — only with the prior approval of the Insurance Commissioner.

    Unfortunately, worst case scenario took place for the FAIR Plan (Southern California Wildfires) due to over-exposure. Therefore, the FAIR Plan received approval from the Insurance Commissioner to assess their member insurers for $1 billion. Under the FAIR Plan Modernization, member insurers can attempt to recoup 50% of $1 billion from policyholders with Insurance Commissioner approval.

- Improved Transparency: Requiring increased public reporting on FAIR Plan activity and customer service metrics which includes posting data on the number of residential and commercial policies written in high-wildfire risk areas and progress reports on claims-handling practices and customer service. The data must be shared with the Insurance Commissioner, the Governor, and State Legislature as well as publicly posted on its Internet website.

CDI finalized the expanded commercial filing on March 28, 2025.

(To learn more about the FAIR Plan, please use the committee’s background from a previous oversight hearing. The background can be found here 5.28-fair-plan-hearing-background.pdf.)

VI. Conclusion

By the questions we continue to receive from frustrated and upset constituents, the impacts of the SIS on California's insurance remains unclear. This statement is not to undermine the fact the Insurance Commissioner took on unprecedented and historic reforms but more progress is needed and quickly.