



MEMORANDUM

TO Legislative and Policy Stakeholders

FROM Pacific Association of Domestic Insurance Companies (PADIC)

DATE October 26, 2026

RE Preserving Subrogation Rights for Small and Mid-Sized California Insurers

Overview

Small and mid-sized domestic insurers play a critical role in California's insurance market. Unlike national carriers with broader geographic priorities and greater capacity to absorb large losses, these insurers are deeply rooted in California communities. They employ Californians, support local economies, and tailor underwriting and coverage solutions to regional needs. Their local focus enables them to respond to emerging risks and the unique needs of California policyholders.

Importance of Subrogation to Domestic Insurers

Following catastrophic events, small and mid-sized insurers must promptly pay claims, restore capacity, and, in many cases, replenish reinsurance layers. Their ability to pursue subrogation against responsible third parties is particularly important because they generally operate with more limited capital reserves than national carriers. Subrogation recoveries help protect solvency, support compliance with California Department of Insurance solvency and surplus requirements, reimburse policyholder deductibles, and preserve capacity to write insurance in the state. Restricting these rights could adversely affect insurers' financial ratings and market capacity.

Need for Flexibility in Subrogation Recoveries

Even under existing law, subrogation proceedings can be lengthy, delaying recoveries and complicating capital and capacity management. Some insurers therefore sell or transfer subrogation rights to third-party purchasers to accelerate recovery and improve liquidity. Maintaining this option is an important element of operational flexibility for smaller carriers.

SB 254 Exemption and Legislative Request

In 2025, small and mid-sized insurers sought and obtained an exemption from the right-of-first-refusal provisions in SB 254. The exemption recognized that smaller regional carriers lack the economies of scale available to national insurers and could be disproportionately harmed by restrictions on subrogation and transfers of those rights.

PADIC respectfully requests that policymakers preserve both insurers' ability to pursue subrogation against responsible third parties and the SB 254 exemption allowing eligible insurers to transfer subrogation rights. Maintaining these protections will support domestic insurer solvency, market competition, continued insurance availability, and California consumers.