The Man at the Center of America's Biggest Insurance Crisis

Ricardo Lara said climate change was a threat in California, then insurers fled the state

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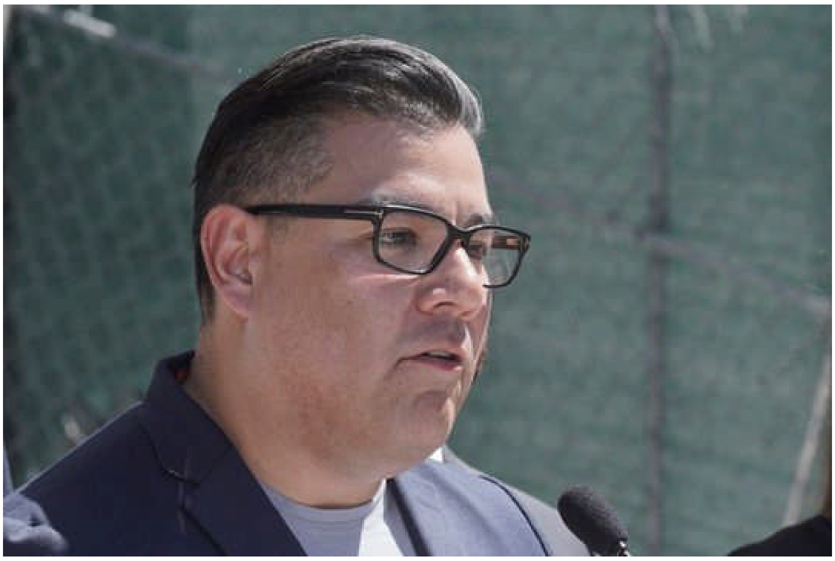

California Insurance Commissioner Ricardo Lara faces a make-or-break year as he races to woo back insurers. PHOTO: ASSOCIATED PRESS

When he campaigned to be California's insurance commissioner, Ricardo Lara warned about the risk of climate change. Insurers agreed, so they tried to jack up rates and cut back on coverage.

When Lara blocked their rate increases, insurers, including

Allstate ALL 0.02% ▼ , State Farm and Farmers Insurance, stopped or restricted new home-insurance business. That put Lara in the middle of the biggest insurance crisis in the country.

"For many Californians, this is an insurance emergency," Lara told state legislators this week.

Insurers have lost billions in California because of wildfires and other climate-related disasters. The state also has some of the strongest rules in the country that protect customers from big rate increases. The two have come into conflict, leaving homeowners in some parts of the state unable to get affordable coverage.

With his pledge to "defend all Californians from the threat of climate change" seemingly in tatters, the 49-year-old regulator is trying to make deals to bring insurers back to the state.

"This is a no-win situation—it's a question of what Lara is willing to settle for," said Ellen Carney, an insurance analyst at research firm Forrester Research. "I would hate to be a state regulator."

"Making insurance more available is becoming critical for our entire economy," Lara said at a fall press conference. He declined to comment for this article.

Lara faces a make-or-break year as he races to woo back the insurers. His approach could influence other state regulators wrestling with their own insurance no-go areas.

The number of policies issued by California's Fair Plan insurer of last resort

[redacted]

Note: 2023 number is for October.
Source: California Fair Plan Association

His plan would require insurers to write a number of policies in "distressed" fire-prone areas. In return, insurers would get much of their wish list, including a promise of faster decisions on rate requests.

Lara's fight with insurers was driven in part by the Golden State's tough consumer-protection laws. Insurers need state approval for rate increases, and increases of 7% or more can require a public hearing. That can add delays and costs for insurers.

Many are now seeking far bigger increases to home-insurance rates. Allstate, for example, is asking for a 40% hike. State Farm has requested a 28% increase.

Another reason insurers have left is that California is the only state that doesn't allow them to use catastrophe models that predict future losses in setting home-insurance rates. And it doesn't let them pass through the cost of reinsurance, which is insurance bought by insurers to limit their risks. Premiums have been surging amid climate-related losses.

Under Lara's plan, insurers will be able to base their rates on predicted future losses, rather than only relying on the past. Lara said his officials are also looking at how to allow insurance companies to pass the cost of buying reinsurance through to policyholders. Lara said he had changed his mind on wildfire forecasts because "we can no longer rely on historical data."

Consumer advocates are worried. They fear insurers will use a "black box" of opaque algorithms, forecasting future fire losses, to send rates skyrocketing. "Lara [has] pretty much decided to coddle the insurance industry at the expense of the public," said Harvey Rosenfield, the founder of Consumer Watchdog.

The insurance commissioner has hit back at Rosenfield's group, saying it makes millions of dollars in fees from the current rates-approval system. The state's rules allow consumer representatives to intervene in rate decisions, and to be compensated for the cost of this advocacy. "Throwing bombs is easy," Lara said at the fall press conference. "Bombastic statements from entrenched interest groups [do] not benefit anyone."

Lara this week warned rates are set to rise. "Will Californians see increased insurance costs in the future? The only realistic answer is yes," he said. "Increasing availability of insurance is how we will protect affordability."

The lack of insurance in some areas has led homeowners to buy bare-bones policies from the California Fair Plan, the state's insurer of last resort. The number of policies in the plan has more than doubled since 2018.

Insurers have been noncommittal on Lara's plan. "I really don't think there are enough details available to evaluate…whether it's a net positive or not and what actions to take as a result," Michael Klein, head of personal insurance at Travelers, said on an earnings call in the fall.

Many in the industry privately blame Lara for keeping rates too low, for too long, saying the crisis illustrates the downside of having a regulator beholden to voters. California is one of 12 states where the insurance commissioner is elected, rather than appointed.

"[Lara's] political calculus was that people want insurance rates to be low…the reality is, what consumers really want is insurance to be available to them," said Neil Alldredge, chief executive of industry body the National Association of Mutual Insurance Companies.

Lara was seen as a rising political star when he campaigned to be insurance commissioner after serving in the state legislature. The son of undocumented Mexican immigrants, Lara became California's first openly gay statewide elected official when he took office in January 2019. He called his 1,400-strong insurance agency "the Department of the Sun Will Come Out Tomorrow."

That sunny outlook clouded rapidly. Early in his tenure, it emerged Lara had accepted donations from insurance executives, breaking a campaign vow. He also accepted free tickets to a Beyoncé concert from a fossil-fuel company. Lara apologized and pledged in future to meet the "highest ethical standards." The bumpy first term led to a tight re-election race in 2022.

Now Lara needs to win over voters anew if he is to gain another office when his current job terms out in 2026. The commissioner is considering a run for lieutenant governor of the state, along with many fellow Californian Democrats.

His successor might find life even harder. The proposed new rules, allowing insurers to set prices according to predicted future catastrophes, will likely take years to translate fully into rates charged to consumers. The plan is “not going to be in full effect until after Lara has termed out,” said David McCuan, a political-science professor at Sonoma State University. He added that the commissioner was following a “long California tradition of hitting the next person up.”

Christine Mai-Duc contributed to this article.

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