California Wildfires

‘Market is in chaos’: California lawmakers, commissioner spar over home insurance reforms

The Smith River Complex fire burned in Del Norte County in August. California’s sweeping insurance market reforms, aimed in part to ensure homeowners in wildfire-prone areas can get coverage, have stirred angst among federal lawmakers.

Provided by Bill Steven

The race to prevent more insurance companies from fleeing wildfire-prone California is creating political tensions between the state’s congressional delegation and Insurance Commissioner Ricardo Lara.

On Monday, 32 federal lawmakers from California led by Rep. John Garamendi, D-Walnut Grove (Sacramento County) and Rep. Zoe Lofgren, D- San Jose, sent a letter to Lara, urging him to use his authority "to require that the insurance industry provides adequate, affordable coverage in every part of the state."

"California's present insurance market is in chaos," they wrote.

Lara fired back Tuesday, asserting that he "will always use the law and my regulatory authority to protect consumers" and would do so "free of political grandstanding."

"Consumers do not benefit from entrenched interests defending a system that works for them alone," Lara wrote in the Nov. 6 letter sent to Lofgren, chair of the California Democratic congressional delegation.

The exchange centers on sweeping changes to the state's insurance market regulations that Lara announced in September. Lara said the changes will create a more sustainable long-term insurance market in a state where climate threats like wildfires and flooding are predicted to become more frequent. Critics have taken aim at the reforms for what they say is a lack of specifics, and because the changes are not set to be fully implemented until 2026 when Lara terms out of office.

The announcement came as a growing number of insurers including major firms State Farm and Allstate have announced they would stop issuing new homeowner policies in California. All told, seven of the top 12 insurance companies have paused or restricted new business.

The new rules will require insurance companies to write policies in distressed areas, including areas with high wildfire risk, and to cover at least 85% of the market share in those areas — allowing them to reject no more than 15% of homeowner policies there. The plan doesn't yet define what a distressed area is.

The trade-off will most likely be higher rates based on models predicting greater risks in the future.

Lara also plans to allow insurance companies to start charging policy holders for what's called reinsurance (insurance for insurance companies), a practice that is currently banned in California.

The goal is to shift property owners out of the government-created FAIR Plan — an insurance option of last resort — and back to the traditional market.

But the policy shift raised alarms among lawmakers, concerned that Lara was undermining his authority to regulate rising rates.

Garamendi told the Chronicle that he and other lawmakers are concerned Lara isn't fully using his authority to vet rate increases at a time when Californians are finding fewer affordable options to insure their homes.

“I believe he’s not using the power given to him to protect consumers,” Garamendi said in an interview.

However, Lara responded in his letter that he’s using the law “to the utmost extent to protect consumers.”

He also leveled criticism directly at Garamendi, who served as insurance commissioner from 1991 to 1995, and again from 2003 to 2006, writing that the new policies are meant to avoid problems in the past, including “the wholesale pullback of 93% of the residential market in 1994 under then-Commissioner Garamendi.”

Lara asked the members of Congress to work on legislation at the federal level, including funding boosts for home hardening and forest management.