

CENTER FOR CALIFORNIA REAL ESTATE PRESENTS...

07.24.24

**CALIFORNIA'S
INSURANCE
LANDSCAPE:
FROM RISK
TO RESILIENCE**



**CENTER FOR
CALIFORNIA
REAL ESTATE**



BACKGROUND

The Center for California Real Estate (CCRE), an institute of the CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.), is dedicated to intellectual engagement in the field of real estate. Its mission is to advance industry knowledge and innovation with an emphasis on convening key experts and decisionmakers. CCRE reflects C.A.R.'s increasing role in shaping the future of the industry by advancing innovative policy solutions and active dialogue with experts and industry stakeholders. Additional information about CCRE and C.A.R. can be found online at [CCRE.us](https://ccre.us).

EXECUTIVE SUMMARY

The Center for California Real Estate (CCRE) hosted a panel discussion focused on the ongoing homeowners insurance crisis in California, assembling a panel of industry experts to address the unprecedented challenges currently facing California's insurance landscape and the strategies required to navigate it effectively.

The panel discussion, moderated by C.A.R. President Melanie Barker, brought together key figures from the insurance sector, including California Insurance Commissioner Ricardo Lara; Amy Bach, executive director of United Policyholders; Rex Frazier, president of the Personal Insurance Federation of California; and Nancy E. Wallace, professor and co-chair of the UC Berkeley Fisher Center for Real Estate and Urban Economics. The event centered on the critical issues that have exacerbated the homeowners insurance crisis in California, including rising premiums, non-renewals, and the withdrawal of major insurers from the market.

One of the central themes of the panel was the need to overhaul California's insurance regulations to reflect the current realities of climate change and the increased frequency of natural disasters. California's insurance crisis is deeply intertwined with the state's exposure to climate-related risks, particularly wildfires. Current insurance regulations stem from Proposition 103, a voter initiative that passed in 1988. Commissioner Lara outlined the steps his department is taking to modernize the regulatory framework, with a focus on ensuring that insurance remains accessible and affordable for homeowners across the state.

Panelists focused on the challenges stemming from outdated regulations while also highlighting solutions that aim to enhance the resilience and adaptability of the insurance market. They emphasized the necessity of regulatory reforms that allow insurers to use advanced risk assessment technologies, alongside measures that demand greater accountability and transparency in rate adjustments and policy renewals.

Furthermore, they stressed the importance of empowering consumers through education on risk mitigation strategies and updating home safety features to meet modern standards. This dual approach of industry and consumer-focused measures is essential for ensuring that insurance remains accessible and affordable for homeowners across the state.

KEY TAKEAWAYS

1

Pending Regulatory Changes to Enhance Market Flexibility:

Significant regulatory updates, planned for implementation by the end of the year, are poised to be the most substantial homeowners insurance reforms in California in over three decades. These changes are designed to facilitate more modern risk assessments for insurers and expand insurance options for consumers.

2

Homeowners Urged to Take Proactive Steps:

With advancements in technology affecting home assessments, homeowners are encouraged to enhance the resilience of their properties against wildfires and climate impacts. Doing so will position them advantageously for future insurance opportunities and potential discounts.

3

Innovative Solutions and Community Efforts Drive Progress:

Collaborative efforts are fostering innovative solutions, such as new apps and predictive models, to assist homeowners and communities in mitigating wildfire risks. However, securing funding for these large-scale mitigation efforts remains a significant challenge.

MODERNIZING THE INSURANCE REGULATORY FRAMEWORK

The scarcity of insurance options for Californians has significantly impacted the real estate market. A survey by C.A.R. revealed that approximately 7 percent of home sales have fallen out of escrow due to insurance issues. Recognizing the urgency of reform, Insurance Commissioner Ricardo Lara stated, “No home sale should fall through because of [lack of] insurance.”

Commissioner Lara emphasized that the existing regulatory framework, established under Proposition 103, is insufficient for addressing the complexities of today’s market. This regulation requires insurers to base their rates on historical data, which does not adequately reflect the growing risks associated with climate change.

Lara announced that his department plans to implement a series of reforms by December 2024, marking the most substantial overhaul of California’s insurance regulations in over 30 years. These reforms aim to provide insurance companies with the flexibility needed to set rates based on modern risk modeling techniques, while also mandating that they write more policies in high-risk areas. Lara expressed optimism about these changes, stating, “We’re going to get this fixed, and we’re going to make the tough decisions.” He hopes that these reforms will stabilize the market and encourage insurers to return to California.

**“No home sale should
fall through because of
[lack of] insurance.”**

- Ricardo Lara



The proposed reforms will address several critical issues in the insurance market. By loosening rate increase caps that have been in place for decades, insurers will be better positioned to align their rates with actual risks, especially in wildfire-prone areas. Moreover, the introduction of forward-looking catastrophe models will allow insurers to incorporate recent advances in climate science and risk assessment.

To implement these reforms, insurance companies will be required to make concessions and distribute risk more broadly. Under the new regulations, Lara stated that insurers must write 85 percent of their statewide market share in high-risk, distressed areas.

In the interim, Lara advises those seeking insurance to start their research process early, to upgrade and harden their homes, and to avoid settling for the FAIR Plan, the state’s insurer of last resort. For the latest information on insurance reforms, visit the California Department of Insurance website at insurance.ca.gov.

THE ECONOMIC IMPACT OF THE INSURANCE CRISIS

Rex Frazier, president of the Personal Insurance Federation of California, provided insights into the broader economic implications of the insurance crisis, particularly the strain it places on

California's real estate market. He discussed the financial challenges faced by insurers, which have led some to stop writing new policies in the state. This withdrawal has turned what was once a regional issue into a statewide problem, exacerbating the scarcity of insurance options for homeowners.

Amy Bach, executive director of United Policyholders, provided a different slant to the economic discussion, highlighting the challenges facing consumers navigating the insurance market. Due to the lack of insurance options, consumers face risks by trying to self-shop for insurance. Her message was simple, "Find a professional agent. In this market, trying to shop on your own is really hard." However, she offered some hope to consumers that the abatement of insurers is subsiding and added that due to the pending regulatory changes, "we are seeing a little bit of a blue sky."

"Find a professional agent. In this market, trying to shop on your own is really hard."
- Amy Bach

Nancy Wallace, professor and co-chair of the UC Berkeley Fisher Center for Real Estate and Urban Economics, brought an academic perspective to the discussion, emphasizing the need for interdisciplinary collaboration in addressing the insurance crisis to ensure the economic viability of the market. She highlighted the importance of integrating climate science, urban planning, and economic modeling to develop comprehensive solutions that address both the supply and demand sides of the insurance market.

Frazier emphasized that the sustainability of California's insurance market depends on the ability to balance risk with financial solvency. The proposed regulatory changes, which include allowing insurers to use modern risk models and adjusting rate caps, are seen as crucial steps in this direction. However, he also cautioned that the path to recovery will require sustained collaboration between regulators, insurers, and consumers.

The panelists highlighted the need for targeted interventions to ensure that all homeowners have access to affordable insurance coverage. They discussed the need for a comprehensive approach that includes both short-term measures to stabilize the market and long-term strategies to build resilience against future risks.



DECREASING APPROVAL TIME FOR PROPOSED RATE INCREASES

Currently, the California Department of Insurance operates under a rate approval process with a 60-day default approval timeline for insurer filings. However, in practice, insurers often face an extended period of review beyond 60 days due to regulatory requests to waive the right to a timely review, leading to potential trials and lengthy delays.

Frazier emphasized the need for changes to ensure the long-term viability of the insurance market. He stated, "The way the market is going to be sustainable is to have a pricing formula that actually allows companies to price to risk and to have an approval mechanism that operates within a reasonable timeframe." He advocated for a structured review protocol requiring the Department of Insurance to update progress every 30 days.

Bach acknowledged the existing delays in the regulatory process, emphasizing the necessity for a quicker, yet rigorous, review mechanism. She supported enhancing the efficiency of the review process, noting that an updated system should maintain stringent oversight to safeguard consumers against potential insurer exploitation.

THE FAIR PLAN AND ITS ROLE IN THE INSURANCE MARKET

The panel also addressed the role of the California FAIR Plan, the state's insurer of last resort, which has seen a significant increase in enrollments as private insurers withdraw from the

market. Originally designed as a temporary safety net, the FAIR Plan has become the primary source of insurance for many homeowners in high-risk areas. This shift has placed enormous strain on the FAIR Plan's resources, raising concerns about its long-term viability.

Commissioner Lara announced his department's intent to implement reforms to strengthen the financial stability of the FAIR Plan, ensuring it can continue to provide coverage while reducing its market share to more sustainable levels. He emphasized that additional reforms his department is implementing will help alleviate some of this pressure by encouraging private insurers to re-enter the market and offer more competitive rates.

Panelists also acknowledged the challenges of reducing reliance on the FAIR Plan. Given the increasing frequency and severity of wildfires, many private insurers remain hesitant to write new policies in high-risk areas. Frazier summarized the need to move away from overreliance on the FAIR Plan by stating, "If we allow the FAIR Plan to grow indefinitely, we're just going to have a big event that bankrupts the insurance industry."

While overreliance on the FAIR Plan poses risks, Bach cautioned against a complete overhaul. She encouraged taking steps to evolve the current model incrementally, as the existing structure allows participating insurers to provide backing to the system. The panelists discussed the need for additional incentives, such as tax breaks or subsidies, to encourage insurers to expand their coverage options and reduce the burden on the FAIR Plan.

"If we allow the FAIR Plan to grow indefinitely, we're just going to have a big event that bankrupts the insurance industry"

- Rex Frazier

THE ROLE OF WILD-FIRE MITIGATION IN INSURANCE ACCESSIBILITY

A key focus of the discussion was the importance of wildfire mitigation in maintaining and improving insurance accessibility. Commissioner Lara and Amy Bach both stressed the need for homeowners to engage in proactive risk mitigation, especially in wildfire-prone areas. The Safer from Wildfires program, developed by the Department of Insurance, was highlighted as a critical tool in this effort. This program provides a set of guidelines for homeowners to follow, including creating defensible space, upgrading roofing materials, and clearing brush, all of which can significantly reduce the risk of fire damage.

Bach noted that insurers are increasingly relying on technology, such as aerial imaging and AI, to assess the condition of homes. Homes that are well-maintained and have implemented wildfire mitigation measures are more likely to secure insurance coverage and qualify for discounts. She urged homeowners to take advantage of the resources available through organizations like United Policyholders to better understand and implement these measures.

Wallace emphasized that mitigation is crucial given the aging housing stock in California, with the average age of homes around 45 years. She noted, "There's a lot of potential mitigation that is possible with the hope of reducing premiums." She highlighted the financial challenges homeowners face due to the high cost of such upgrades and suggested the potential use of Property Assessed Clean Energy (PACE) financing to cover these improvements. PACE programs could make it feasible for homeowners to undertake necessary mitigations by spreading the cost over time through property tax assess-

ments, a proposal that C.A.R. President Melanie Barker acknowledged would raise concerns among many REALTORS®.

In contrast, Frazier criticized the current regulatory approach to mitigation, arguing that the regulations do not reflect the comprehensive suite of improvements needed to truly reduce risk. He pointed out that a piecemeal approach, which the regulations currently encourage, is insufficient because even a single unmitigated vulnerability can lead to significant damage. He called for regulations that require a holistic approach to home hardening and emphasized the importance of community-wide hazard mitigation over individual actions.

**"There's a lot of potential mitigation that is possible with the hope of reducing premiums."
- Nancy Wallace**

COMMUNITY-LEVEL SOLUTIONS AND THE IMPORTANCE OF COLLABORATION

Building on the multipronged solutions, Wallace highlighted the potential for community-level initiatives, such as the National Fire Protection Association's Firewise USA® communities, to play a significant role in reducing risk and improving insurability. By working together, homeowners, local governments, and insurers can create safer environments that are less prone to catastrophic losses, thereby making insurance more accessible and affordable.

The panelists concurred that collaboration between the public and private sectors is crucial in addressing the challenges facing California's insurance market. They advocated for enhanced coordination between state and local governments, insurers, and community organizations to develop and implement effective risk mitigation strategies. Wallace stressed that without such collaboration, achieving the scale of change needed to stabilize the insurance market and protect homeowners from the growing risks associated with climate change would be challenging.

CONCLUSION

The panel discussion shed light on the multifaceted challenges and potential solutions within California's homeowners insurance landscape amidst climate change and regulatory inadequacies. Emphasizing the urgent need for regulatory overhaul, panelists discussed measures to modernize the insurance framework to accommodate the realities of heightened climate risks, particularly wildfires.

The discourse underscored the necessity for comprehensive reforms to ensure insurance accessibility and affordability, advocating for both innovative technological applications and enhanced community-wide mitigation efforts. This holistic approach, coupled with concerted public-private collaborations, was recognized as essential for stabilizing the insurance market and safeguarding homeowners against escalating natural disaster risks.

MODERATOR:



Melanie Barker

President, CALIFORNIA ASSOCIATION OF REALTORS®

A licensed REALTOR® since 2004, Barker, along with her mother, Jan Ramos, is co-owner of Summit Real Estate, a sales and property management company in Oakhurst, Calif. As a U.S. Navy veteran where she served as a quartermaster handling the ship's navigation duties, service is something that comes naturally to Barker. At the national level, Barker has been active with the National Association of REALTORS®' Board of Directors since 2012. Involved in her community, she is also passionate about serving the Mountain Area Youth Organization in Oakhurst, where she has been active on its Board of Directors. She was 2020 Oakhurst Area Chamber of Commerce Woman of the Year and the Chamber's 2018 president.

PANELISTS:



Ricardo Lara

Commissioner, California Department of Insurance

Commissioner Lara oversees the work of the nation's largest state consumer protection agency. Since taking office in January 2019, he has acted to protect California consumers and small businesses, getting billions in auto insurance premiums refunds for drivers, protecting coverage for wildfire survivors and homeowners, tackling the root causes of climate change-intensified natural disasters, and expanding access to health care for all while preserving a competitive insurance market. He has given consumers a seat at the table — having led the department to host more than 1,000 meetings, town halls and forums throughout California since taking office — making the most of their input to change policies and practices to better protect people across the state.



Amy Bach

Executive Director, United Policyholders

Bach co-founded United Policyholders in 1991 and serves as the organization's primary spokesperson, shaping and overseeing the Roadmap to Recovery™; Roadmap to Preparedness; and Advocacy and Action programs. A nationally recognized consumer advocate and an expert on insurance trends, claims, coverage, law and public policy matters, Bach is in her second term as an appointed member of the Federal Advisory Committee on Insurance and has been an official Consumer Representative with the National Association of Insurance Commissioners since 2009. Bach is the author of numerous publications including "The Disaster Recovery Handbook," "WISE UP: The Savvy Consumer's Guide to Buying Insurance" and a contributor to several editions of "Buying Your First Home" (Nolo Press).

**Rex Frazier**

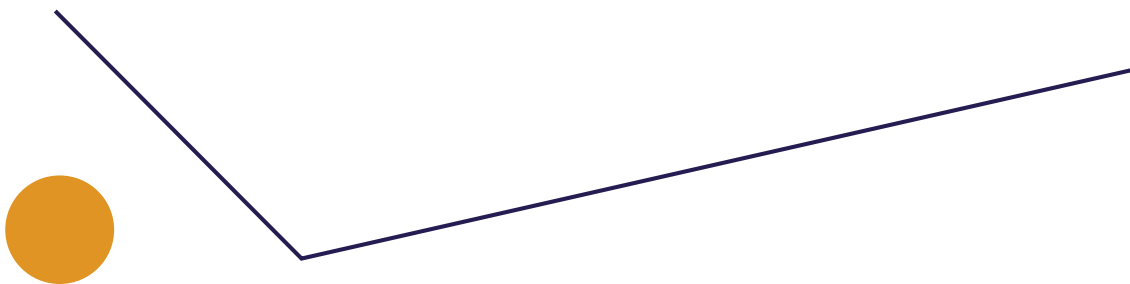
President, Personal Insurance Federation of California

Frazier represents PIFC's member companies before the California state government and provides advice on legislative, regulatory, litigation and political matters. He previously held the position of vice president & general counsel of PIFC. Prior to joining PIFC, Frazier was an attorney in Los Angeles with the law firm of Pillsbury Madison & Sutro, focusing on insurance and banking issues. Frazier previously served as Deputy Insurance Commissioner with the California Department of Insurance as well as legislative staff in the California State Assembly. Frazier has additionally served in various California political campaigns, including as campaign manager of a successful statewide ballot measure, Proposition 213, in 1996.

**Nancy E. Wallace**

Professor & Co-Chair, UC Berkeley Fisher Center for Real Estate and Urban Economics

Wallace is a professor of Finance and Real Estate and holds the Lisle and Roslyn Payne Chair in Real Estate and Capital Markets at the Haas School of Business, the University of California, Berkeley. She is chair of the Real Estate Group, co-chair of the Fisher Center for Real Estate and Urban Economics, and directs the Real Estate and Financial Markets Laboratory. She teaches asset-backed securitization, real estate investment analysis, real estate strategy, and real estate finance at Haas. Her research focus includes residential house price dynamics, mortgage contract design and pricing, securitization and asset backed security pricing and hedging, lease contract design and pricing, methods to underwrite energy efficiency in commercial mortgages, and valuation models for executive stock options.





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