

R6 Take the following actions in support of strengthening and stabilizing California's insurance market: (1) Approve a letter to Governor Newsom requesting action; and (2) adopt a resolution which requests the declaration of a state of emergency and immediate action (Sponsored by Supervisor Garman).

STAFF REPORT

BOARD MEETING DATE: July 23, 2024

CATEGORY: Regular Calendar 6

SUBJECT: Take the following actions in support of strengthening and stabilizing California’s insurance market: (1) Approve a letter to Governor Newsom requesting action; and (2) adopt a resolution which requests the declaration of a state of emergency and immediate action (Sponsored by Supervisor Garman).

DEPARTMENT: Board of Supervisors

SUPERVISORIAL DISTRICT #: All

DEPARTMENT CONTACT: Tim Garman, District 2 Supervisor, (530) 225-5557

STAFF REPORT APPROVED BY: Stefany Blankenship, Chief Deputy Clerk of the Board

<u>Vote Required?</u> Simple Majority Vote	<u>General Fund Impact?</u> No Additional General Fund Impact
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RECOMMENDATION

Take the following actions: (1) Approve a letter which requests that the Governor declare a state of emergency and take action to strengthen and stabilize California’s marketplace for homeowners’ insurance and commercial property insurance; and (2) adopt a resolution which requests that the Insurance Commissioner, State Legislature, and Governor declare a statewide state of emergency and take immediate emergency action to strengthen and stabilize California’s marketplace for homeowners’ insurance and commercial property insurance.

DISCUSSION

In 1988, California voters enacted Proposition 103, which established a robust set of consumer protections designed to keep insurance rates fair and affordable in a competitive marketplace.

Last year, two of the State’s largest insurance carriers, representing over 27% of the admitted insurance market in California, announced they would stop issuing new homeowners and commercial property insurance policies in California. Several other insurance carriers, representing most than 36% of the market, announced plans to limit new policy origination, especially in high fire severity zones, such as much of Shasta County.

The reduction of insurance options in the State has a direct negative effect on consumer access to coverage in all parts of the State, impacting homeowners, business owners, and farmers. Access to insurance allows existing property owners to protect what is for many their largest and most important asset and empowers homebuyers to secure a mortgage for a home that can build generational wealth. A scarcity of options may freeze real estate transactions and slow or stop the rate of new housing development, including attached dwelling units, exacerbating the already critical housing shortage.

Residents in Shasta County who cannot obtain coverage from the competitive insurance market are forced to apply for protection through the California Fair Access to Insurance Requirements (FAIR) Plan, a state-established risk pool intended to operate as California’s insurer of last resort providing temporary coverage as consumers pursue insurance in the traditional market. The collapsing admitted-provided market has caused steadily increasing enrollment in the FAIR Plan over the past five years, threatening the ongoing stability of the plan, putting even this safety net at risk.

Policy decisions have placed Californians' homes and businesses at risk of catastrophic loss that can only be prevented by stabilizing the homeowner’s insurance and commercial property insurance markets, while providing rates that remain fair and affordable to

consumers, and maintaining the ongoing viability of the FAIR Plan, which provides a vital safety net to Californians whose policies are nonrenewed and to homebuyers who cannot secure a mortgage without insurance.

The California Insurance Commissioner has released draft regulations to address this immediate crisis but the Little Hoover Commission hearing on March 28, 2024, reports that reforms “will not go into effect until at least 2026, and it may take a few years after that for the market to react... this timeline, of course could be delayed further if lawsuits by any party, including insurers or consumers, were to occur.”

The California Insurance Commissioner has broad authority under the Insurance Code to adopt emergency regulations to promote the public welfare, including under sections 1861.01, 1861.05, and 1861.055, to adopt emergency regulations governing the prior approval process for insurance rate change applications, and to adopt emergency regulations under section 11346.1 of Government Code and section 12921.7 of the Insurance Code.

The recommended letter and resolution request that the Insurance Commissioner, State Legislature, and the Governor declare a state of emergency and take immediate emergency regulatory and legislative action to strengthen and stabilize California’s marketplace for homeowners’ insurance and commercial property insurance.

ALTERNATIVES

The Board could amend the proposed letter and/or resolution, defer consideration to a later meeting, decline to approve the letter, or decline to adopt the proposed resolution.

OTHER AGENCY INVOLVEMENT

The resolution has been reviewed by County Counsel and approved as to form. The letter and the recommendation have been reviewed by the County Administrative Office.

FISCAL IMPACT

Costs associated with drafting this letter and resolution have been included in the Clerk of the Board’s Fiscal Year 2024-25 Adopted Budget.

ATTACHMENTS:

- 1: Draft Letter
- 2: Draft Resolution

BOARD OF SUPERVISORS

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KEVIN W. CRYE, DISTRICT 1
TIM GARMAN, DISTRICT 2
MARY RICKERT, DISTRICT 3
PATRICK JONES, DISTRICT 4
CHRIS KELSTROM, DISTRICT 5

July 23, 2024

Governor Gavin Newsom
1021 O Street, Suite 9000
Sacramento, CA 95814

Re: Homeowner and Commercial Property Insurance

Dear Governor Newsom,

On behalf of the residents of Shasta County, we are asking that you declare a statewide state of emergency and take immediate emergency action to strengthen and stabilize California's marketplace for homeowners and commercial property insurance.

The continued cancellations of insurance policies are causing a detriment to our economy. With the sluggish economy we need to do everything we can to avoid a further collapse.

Those of us who reside in the underserved areas of the state are really suffering and we are asking that you please expand coverage choices for all consumers. We need to improve the efficiency, speed, and transparency of the California Department of Insurance's rate approval process. The process must be tailored to account for all factors necessary to promote a robust, competitive insurance marketplace, including through potential revisions to the way catastrophe risks, reinsurance costs, and other legitimate insurer costs are accounted for. It is imperative that we maintain the long term availability of homeowners and commercial property insurance coverage. We need to maintain the solvency of the FAIR Plan to protect its policyholders and promote long term resiliency in the face of extreme weather events, including by identifying mechanisms to reduce its share of the overall market in underserved areas and move its customers into the admitted insurance market.

Sincerely,

Kevin W. Crye, Chair
Board of Supervisors
County of Shasta

cc: Insurance Commissioner Ricardo Lara

RESOLUTION NO. 2024-XXX

**A RESOLUTION OF THE BOARD OF SUPERVISORS
OF THE COUNTY OF SHASTA
REQUESTING THAT A STATE OF EMERGENCY BE DECLARED
AND IMMEDIATE ACTION TAKEN
REGARDING CALIFORNIA'S MARKETPLACE
FOR HOMEOWNERS INSURANCE AND COMMERCIAL PROPERTY INSURANCE**

WHEREAS, in 1988, California voters enacted Proposition 103, which established a robust set of consumer protections designed to keep insurance rates fair and affordable and to ensure a competitive marketplace; and

WHEREAS, last year, two of the State's largest insurance carriers, representing over 27 percent of the admitted insurance market in California, announced they would stop issuing new homeowners and commercial property insurance policies in California; several others, representing more than another 36 percent of the market, announced plans to limit new policy origination; and

WHEREAS, the reduction of insurance options in the State has a direct negative effect on consumer access to coverage: in all parts of the State, homeowners, business owners, and farmers are now unable to obtain new insurance policies from the admitted insurance market; and

WHEREAS, access to insurance allows existing homeowners to protect what is for many their largest and most important asset, and empowers homebuyers to secure a mortgage for a home that can build generational wealth, but a scarcity of options may freeze real estate transactions and slow or stop the rate of new housing development, including attached dwelling units like affordable housing projects, apartments, and condominiums, exacerbating the State's critical housing shortage; and

WHEREAS, Californians who cannot obtain coverage from the admitted market are forced to apply for protection through the California Fair Access to Insurance Requirements (FAIR) Plan, a state-established risk pool intended to operate as California's insurer of last resort providing temporary coverage as consumers pursue insurance in the traditional market; and

WHEREAS, the collapsing admitted-provider market has caused steadily increasing enrollment in the FAIR Plan over the past five years, threatening the ongoing stability of the plan, putting even this safety net at dire risk; and

WHEREAS, policy decisions have placed Californians' homes and businesses at risk of catastrophic loss that can only be prevented by stabilizing the homeowners insurance and commercial property insurance markets while providing rates that remain fair and affordable to consumers, and maintaining the ongoing viability of the FAIR Plan, which provides a vital safety net to Californians whose policies are nonrenewed and to homebuyers who cannot secure a mortgage without insurance; and

WHEREAS, the California Insurance Commissioner has released draft regulations to address this immediate crisis but the Little Hoover Commission hearing on March 28, 2024, reports that reforms “will not go into effect until at least 2026, and it may take a few years after that for the market to react...this timeline, of course could be delayed further if lawsuits by any party, including insurers or consumers, were to occur”; and

WHEREAS, the California Insurance Commissioner has broad authority under the Insurance Code to adopt emergency regulations to promote the public welfare, including under sections 1861.01, 1861.05, and 1861.055 to adopt emergency regulations governing the prior approval process for insurance rate change applications, and to adopt emergency regulations under section 11346.1 of Government Code and section 12921.7 of the Insurance Code.

NOW, THEREFORE, BE IT RESOLVED that the Board of Supervisors of the County of Shasta requests that the Insurance Commissioner, State Legislature, and the Governor declare a state of emergency and take immediate emergency regulatory and legislative action to strengthen and stabilize California’s marketplace for homeowners insurance and commercial property insurance. The Commissioner, Legislature, and Governor must consider the following goals in crafting an appropriate regulatory response:

1. Expand coverage choices for all consumers, particularly in underserved areas of the State.
2. Improve the efficiency, speed, and transparency of the California Department of Insurance’s rate approval process.
3. 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, reinsurance costs, and other legitimate insurer costs are accounted for.
4. Maintain the long-term availability of homeowners and commercial property insurance coverage.
5. Maintain the solvency of the FAIR Plan to protect its policyholders and promote long-term resiliency in the face of extreme weather events, including by identifying mechanisms to reduce its share of the overall market in underserved areas and move its customers into the admitted insurance market.

DULY PASSED AND ADOPTED this 23rd day of July, 2024, by the Board of Supervisors of the County of Shasta by the following vote:

AYES: X
NOES: X
ABSENT: X
ABSTAIN: X
RECUSE: X

KEVIN W. CRYE, CHAIR
Board of Supervisors
County of Shasta
State of California

ATTEST:

DAVID J. RICKERT
Clerk of the Board of Supervisors

APPROVED AS TO FORM:
JOSEPH LARMOUR
County Counsel

By: _____
Deputy

By: _____