

# XPT weighs in on California's attempt to overhaul insurance in the face of rising wildfire risks



As wildfire risks cause insurers to flee, legislators are taking action. What is the impact on the insurance marketplace?



Since 2017, wildfires in the U.S. have accounted for an estimated \$80 billion in damage<sup>1</sup> with \$4.4 billion of that being caused between 2022 and 2023 alone.<sup>2</sup> While wildfire instances have increased throughout the United States, western states like California, Oregon, Idaho, Washington, and Montana have seen some of the biggest increases. In fact, California alone has experienced 11 of their largest 20 wildfires on record in the past five years.<sup>1</sup>

We've all seen the impact this has had on the insurance world: Rising premiums, non-renewed policies, complete denial of coverage – the list goes on. While in some cases, we've seen E&S carriers rise to help fill gaps in coverage,<sup>12</sup> significant voids have continued to impact both personal and commercial spaces.

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In California, many of these voids have been filled through the California FAIR plan, whose need has grown exponentially in recent years, reaching from 126,709 policies in 2018 to over 350,000 today.<sup>3</sup> This has been mostly due to California's largest major carriers like Allstate, State Farm, and Farmers either pulling out of the state completely or introducing major caps.<sup>9</sup> So now, what was supposed to be a temporary solution and last resort has become the only option for many. A fact that has California worried.

In an effort to stabilize the market, California has decided to take drastic measures, with Governor Gavin Newsom and Insurance Commissioner Ricardo Lara announcing executive order N-13-23. Taking effect in December of 2024, the goal of the new measure is to get Californians off the FAIR plan and bring major carriers back into the state. The new measure introduces several changes, including:

- Insurers can now use comprehensive models to assess fire danger for each property.
- Individual property may now be assessed, allowing insurers to consider fire mitigation efforts on an individual basis (a practice not previously allowed).
- As part of this agreement, insurance companies must also help return homeowners to the regular insurance market using the California FAIR plan.
- Insurance companies also gain the ability to pass reinsurance costs on to consumers.

Opinions are mixed, with critics worrying about potential consequences. From XPT, “There are many unknown effects of the upcoming executive order. Some of the challenges retailers can expect to confront include: Expense-related pressures (including on commissions), difficulty with carrier access, carriers with limited capacity, and a growing call for retailers to remain up-to-date on the latest regulations as changes continuously emerge. There will also be opportunities for new solutions and partners to present themselves.” – **Glen Pomeroy, XPT Executive Vice President, Personal Lines.**

This isn't the first time California has made the news for taking measures to improve the state of insurance against a changing climate. Most notable being:

- In October of 2022, California introduced the nation's first wildfire safety regulation. With it, California instated new rules requiring insurers to provide insurance discounts to those with safer properties.<sup>7</sup>
- In the 1980s, Prop 103 was introduced. This active legislation requires companies who want to raise insurance rates by more than 7% to undergo board

approval and review by the insurance commissioner. Critics today say this is still a huge obstacle for insurers, as it restricts the ability to adequately including climate change risk into forecasting.<sup>8</sup> It is also thought to be one of the reasons carriers are leaving the state in droves.

Though few states have taken measures as drastic as California, other states are also acting:

In Washington state, legislators are attempting to pass HB 2330<sup>6</sup>, which just passed the House and is awaiting vote in the Senate. This new bill would establish a wildfire risk mitigation grant program and introduce insurer disclosure and transparency requirements.<sup>13</sup>

**From XPT's own Senior Commercial Lines Broker and Underwriter Thomas Walsh, CRIS,** "In years past, Washington state was viewed as a separate entity than California from the carrier's perspective regarding property/wildfire prone areas. That has seemed to change as carriers typically view it with more of a broad brush that is the west coast. I do think overtime similar legislation may come to WA like HB 2330 and spinoffs relating to the personal and commercial world."

Oregon just passed Senate Bill 82, which, in short, requires insurers to tell homeowners if they pull back coverage or raise prices for wildfire-related reasons.<sup>10</sup>

Leaders in Montana are also acting, proposing the adoption of WUI (wildland-urban interface - or people who live at the intersection or development and wild land) zoning codes and ordinances to combat their own difficulties with insurers declining coverage.<sup>11</sup>

That's just a small sample of the changes being considered as western states and the nation continue to suffer from more extreme wildfires.

With the biggest changes coming to California, and only months to prepare XPT is doing our own part to get ready.

Currently, our team is working with carrier partners to improve California capacity and opportunities. We are also listening to our clients and agents and trying to find solutions for the issues they face while keeping a close eye on upcoming legislation as wildfire and additional environmental impacts continue to change the state of insurance.

Noting the impact on agents, we put together a few tips from our team:

**1** "Keep insureds apprised of the situation by speaking frankly and honestly about the anticipated affects. At a time when carriers are limiting appointments and access, try and develop good relationships with underwriters and brokers. There are a lot of pressures on retail agents in California - work with good partners." - **Glen Pomeroy, XPT Executive Vice President, Personal Lines**

**2** "Prepare your agents for the worst but work toward and hope for the best. Speak to local groups and politicians. Come up with plans or practices to get properties into the best shape possible to fight any type of fire or event they may be faced with. Until there is common ground in this tug of war between government and consumer, we can surely expect less carriers with higher burdens on premiums but maybe we can work together to find easy solutions that benefit many." - **M'Lissa Rutherford, XPT Vice President & Senior Broker**

**3** "Agents need to stay informed and adapt to new models of property assessment and risk evaluation. States neighboring California should also observe this legislation closely as their states consider similar measures to address their own challenges." - **Eli Chlomovitz, AU, XPT Vice President, Commercial Underwriter/Broker**

**4** "We typically warn agents of upcoming increased rates and a smaller carrier pool for the market overall and this is no different. Agents need to prepare insureds for upcoming cost and mitigation." - **Thomas Walsh, CRIS, XPT Senior Commercial Lines Broker/Underwriter**

The true impact of the coming California legislation and any measures brought forth by other state and federal legislative bodies in both personal and commercial spaces is yet to be seen. XPT is staying proactive and informed, keeping on top of any potential changes, and helping our agents in any way we can.

**For more information on the impact of wildfire on the state of insurance and any other concerns, please reach out to your XPT representative or visit [www.xptspecialty.com](http://www.xptspecialty.com).**

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