

Q&A

Year-round wildfires are the 'new normal': California insurance regulator

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By David Hood *Market Intelligence*

- Wildfires will continue to plague the state if climate change is not brought under control.
- Health insurance markets 'in turmoil' as a result of Trump administration actions.
- Monitoring impact on California insurer of last resort in the wake of the latest devastating wildfires.

California Insurance Commissioner Dave Jones has less than two months before his tenure comes to a close. Jones is hopeful that the Golden State's next top insurance regulator, as yet undetermined following a tight election, will continue some of his policy initiatives, such as climate risk insurance and cannabis insurance.

S&P Global Market Intelligence caught up with Jones at the National Association of Insurance Commissioners' fall meeting in San Francisco to talk about his time in office and what's next for the state and for himself. The following is an edited transcript of that conversation.

S&P Global Market Intelligence: Is there a fear that insurers might leave California because the risk is too high or jack up the rates? What does the future landscape look like?

Dave Jones: So just to put it all in perspective, we have about 8 million single-family properties in California [and] about 3 million are in the so-called Wildland Urban Interface Counties. Those are counties which are heavily forested or have a lot of brush or grasslands. Of the 3 million ... about a million have already been rated by the insurers as "higher" or "very high" risk. For those that can't find [insurance] because the insurers have concluded their home is too risky to write, we have an insurer of last resort called the FAIR plan, which was set up by the legislature some 50 years ago to write fire insurance anywhere in California regardless of the risk.

There are roughly 38,000 FAIR plan policies in the Wildland Urban Interface versus 3 million homes in that area. So I'm watching closely the FAIR plan policy prescription levels to make sure that if we see some dramatic increase in take-up of those policies that we understand what's going on. What that would tell us if that were to happen is that people are having an even greater challenge finding admitted or surplus lines insurers. Right now there's no question that some people in some of these areas are facing a challenge.

What have you done to ensure those homeowners can overcome those challenges?

Jones: We did a wildfire insurance availability report that we released earlier this year that lays out the best available information about the acuity of that challenge. We saw a 15.3% increase in nonrenewals between 2015 and 2016 in the Wildland Urban Interface areas. That doesn't mean that 15.3% of the people living in those areas didn't get insurance; it just means they weren't renewed by their existing carrier and then had to go somewhere else. Most of them did go somewhere else and found either admitted or surplus lines insurance, but so far we've only seen an increase in the FAIR plan policies year to year of a couple thousand.

Are wildfires the new normal in California?



Dave Jones,
California insurance
commissioner
Source: California
Department of
Insurance



A firefighter battles flames along the Ronald Reagan Freeway in Simi Valley, Calif.

Source: Associated Press

which are driven or contributed to by climate change become so severe that insurers conclude they can't afford to write insurance for it.

Now that hasn't happened yet in California, but you can see the trend moving in that direction based on what we know to be the case, which is the federal government or the Trump administration is not only not fighting climate change but it's reversed a bunch of policies of the prior administration. So the temperature is going to continue to rise and we're going to continue to see more of these catastrophic weather events and then that has an impact on pricing and availability.

You have a couple more months on the job. What's next?

Jones: I'm beginning to explore a variety of different opportunities. My hope would be that I can bring my background and experience that I have as a regulator, as a lawyer, as someone that has worked in a very complex and complicated regulatory environment, and bring that to bear in some way, shape or form. Whether that means the private sector or public sector, I think that's yet to be seen, but I'm confident there'll be plenty of opportunities out there.

What about some of your signature policy initiatives?

Jones: I think it's fairly widely known that ... the initiatives that have been important to me include our climate risk initiative, where we've done some path breaking work around getting insurers to recognize climate risk not only in their underwriting but also in their reserving. I'm the founding chair of the Sustainable Insurance Forum, which is an international working group of insurance supervisors from around the globe that is developing common supervisory approaches to dealing with climate risk. We're the first financial regulator in the United States to undertake climate risk transitions.

Switching gears to short-term plans and association health plans, are these products good for Californians and how would you hope the next commissioner regulates them?

Jones: The unfortunate efforts of the Trump administration to undermine the Affordable Care Act, simply put, are hurting Americans. We've seen now as a result of a series of actions the president has taken that it's thrown health insurance markets in turmoil, it's led to insurers raising rates, it's resulted in some insurers leaving some markets because of the uncertainty associated with actions like cutting the cost-sharing reduction payments or the introduction of short-term plans or association health plans or any of the other things the president has done or sought to do to undermine the act.

In California, notwithstanding the president's actions to undermine the ACA, we've done everything we can to defend

Jones: It's getting worse. We're not in a crisis yet, but all of the trends are in a bad direction. And what the climate scientists tell us is that the federal government of the United States is not doing enough, fast enough, to reduce greenhouse gas emissions. And greenhouse gas emissions aren't being reduced globally fast enough. So as a consequence we're going to continue to see increases in global temperature and that means increases in temperature in California. That means reduced snow and precipitation. That means drier conditions, longer droughts, and that contributes then to wildfire, along with other impacts as well, sea level rise and hurricanes.

So what we anticipate here in California is that this is the new normal — that we no longer have a fire season, we have a year-round fire season.

I don't think there will be some tipping point, but I think things will continue to get worse. It's going to be like a frog in the pot as the temperature gets turned up and we boil. A world in which the temperature goes up an additional 3 degrees or 4 degrees Celsius is likely an uninsurable world, and ... the biggest threat that climate change [presents] to insurance markets and consumers is that at some point the risk of these catastrophes

healthcare implementation of the act because we think it's worked well for California. It's not perfect, it doesn't mean that there aren't things that ought to be change. But given the unwillingness by the Trump administration to do anything but sabotage the act, we've been trying everything we can to protect its benefits in California. That includes passing legislation which prohibits short-term plans and prohibits or places strong restrictions on the association health plans.

In one word, how would you describe your eight years at the helm of the department?

Jones: Action. When I was sworn in in 2011, in my inaugural address, I said explicitly that what I wanted to do and what I wanted to accomplish was action that would benefit consumers and make our market a better marketplace. If you look at the history of my administration, it's been an administration that's not just talk, it's not just rhetoric, it's not just policy proposals, it's taking actions time and time again to try to make sure we fulfill the mission of insurance protection for all.

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