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Statement
of the
National Association of Mutual Insurance Companies
to the
United States House
Committee on the Judiciary
Subcommittee on the Administrative State, Regulatory Reform, and Antitrust
Hearing on California Fires and the Consequences of Overregulation

February 6, 2025

Introduction

The National Association of Mutual Insurance Companies (NAMIC) is pleased to provide comments to the U.S. House Judiciary Committee Subcommittee on the Administrative State, Regulatory Reform, and Antitrust for its February 6 hearing entitled, "California Fires and the Consequences of Overregulation."

NAMIC is the largest property/casualty insurance trade association with a diverse membership of over 1,300 local, regional, and national member companies, including six of the top 10 property/casualty insurers in the United States. NAMIC member companies represent a cross-section of the property/casualty insurance industry ranging in size from a one-person farm mutual operating in a single county to local and regional insurers on main streets across America to national insurers operating throughout the country and around the globe.

NAMIC members lead the personal lines sector, writing $383 billion in annual premiums and representing 61 percent of the national homeowner's insurance market and 61.9% of the California market. Our members' primary mission is helping policyholders during some of life's toughest moments.

As California continues its long road to recovery, NAMIC and its members continue to act as economic first responders by keeping their promises to policyholders and supporting individuals and communities as they recover. We stand ready to work with policymakers and interested parties in California, Washington, and around the country as they help victims respond to such horrific destruction.

The Southern California Wildfires Illustrate Real Challenges of Underlying Risks

The devastating recent disasters in California illustrate the risk to consumers and insurers from extreme wildfires that can spread fast, endangering lives and destroying tens of thousands of homes. As of Jan 30, preliminary data from the California Department of Insurance indicates that insurers have already paid out more than $4.2 billion in losses related to these fires while promptly processing more than 31,000 claims.[1] Moody's RMS projects total insured property losses will eventually fall in the $20 billion - $30 billion range.[2]

While this is not an entirely new phenomenon – seven of California's ten most destructive wildfires have occurred in the last decade – extreme weather is but one of several major cost drivers for insurers and policyholders as they reckon with increasingly difficult marketplaces, alongside inflationary pressures, rampant legal system abuse, and regulatory overreach, the subject of today's hearing.

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[1] https://www.insurancejournal.com/news/national/2025/01/30/810252.htm

[2] https://www.insurancejournal.com/news/national/2025/01/20/808843.htm

NAMIC members believe that competitive, well-regulated markets make for well-protected consumers. Nearly four decades into the experiment that was Proposition 103, we can say that its aim of keeping prices down has carried with it the unintended consequences of distorting the marketplace, disguising risk, and leaving consumers more vulnerable.

The Cure that Wasn't: Proposition 103 Manufactures Regulatory Risk

In 1988, California voters passed Proposition 103, the "Insurance Rate Reduction and Reform Act." This was largely in response to insurance availability and affordability challenges arising from a litigation boom in California courts that saw auto liability claim filings increase 82 percent and average claim severity quadruple in seven years.[3] Among the changes Proposition 103 brought about were:

- Turning the state insurance commissioner into an elected position;
- Establishing a prior approval regime that requires regulatory approval before implementing any rating plan or amendments;
- Mandating public hearings for any requested increase greater than 7% for personal lines or 15% for commercial lines;
- Creating a role for "public intervenors" at rate hearings – self-styled "consumer advocates" who stand to profit if the regulator agrees with their objections to a rate filing; and
- Severely limiting insurers' ability to use certain actuarially sound rating factors for both auto and homeowners' insurance.

Recent Market Challenges and Heavy-Handed Interventions

California has been plagued by wildfires, storms, and other extreme weather events over the last decade. The inflexibility of Proposition 103 as climate science and actuarial underwriting have developed has contributed to a deterioration of the market rather than improved it. While home insurance carriers continue to post huge underwriting losses, rate approvals continued to slow down – from about 150 days in 2018 to a full year in 2023.[4] While the situation has improved somewhat more recently, this is not merely an operational or staffing issue – it is a reflection of the fact that filing for rates in California is an extremely complex and expensive proposition for carriers. It also reflects carriers' well-founded concerns about regulatory risks like the issuance of moratoria on specified practices that no insurer can truly plan for.

[3] https://www.namic.org/wp-content/uploads/legacy/040921AppelFinalRpt.pdf

[4] https://www.insurancebusinessmag.com/us/news/environmental/lara-struggles-to-reform-california-insurance-market-482596.aspx

Price Control Regimes Do Not Serve Consumers

There is a well-established consensus among scholars of insurance regulation that government suppression of the prices of insurance products reduces consumer welfare and stability in the insurance marketplace. Excessive rate regulation manifests in market participants simply choosing to exit the market through a combination of non-renewals and declining or limiting new business. A 2023 analysis by the International Center for Law and Economics ranked California last among states in the differential between actuarially indicated rate supported by the analysis in the filing and the rate ultimately approved.[5] This, in turn, means that rates are not accurately reflecting risks, creating severe and dangerous disconnects in the homeowners insurance market and leading carriers to reconsider their appetite for business in California.

Solutions Exist for Both Underlying Risks and Regulatory Reform

To prevent these tragedies from repeating, homeowners need to adapt their properties to be resilient against increased risks like wildfires and other extreme weather at both the individual and community levels. This means applying lessons learned from past disasters in a forward-looking manner to fundamentally reduce wildfire risk and ultimately avoid loss of life and property.

On Capitol Hill, in response to the catastrophic California wildfires, NAMIC was pleased to see the recent reintroduction and swift House passage of comprehensive wildfire risk legislation, the Fix Our Forests Act (H.R. 471), introduced by Natural Resources Committee Chair Bruce Westerman (R-AR) and Rep. Scott Peters (D-CA). This package, which NAMIC endorsed along with fellow trade associations representing a majority of the property/casualty insurance industry, including primary writers, reinsurers, agents, and brokers, contains numerous provisions seeking to increase the nation's resiliency to catastrophic wildfires, improve land use planning and forest management, and better protect communities in wildfire prone regions. NAMIC is urging Senate counterparts to act and quickly take up this critical legislation that meaningfully considers both the natural and built environments. We also continue to promote a number of key policy recommendations outlined in the September 2023 report from the Wildland Fire Mitigation and Management Commission, a product of the 2021 Infrastructure Investment and Jobs Act, centered around the crucial role of proactive pre-disaster mitigation and implementation of preparedness measures as well as community-wide preventative efforts.

In Sacramento, to its credit, the California Department of Insurance, working with the governor's office, has started taking steps within its authority to address some of its outdated rules. Commissioner Lara's "Sustainable Insurance Strategy" and recent proposed regulations to allow the use of modern, forward looking catastrophe

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[5] https://laweconcenter.org/wp-content/uploads/2023/09/Prop-103-paper-final.pdf

models, modernize rate review, and allow for the consideration of reinsurance are promising developments.[6] True successful reform will require sustained commitment on the part of regulators and policymakers to the core insurance principle of matching rate to risk.

Conclusion

Consumers, policymakers, and insurers share the common goal of a healthy, competitive property insurance market in California. This depends on protecting people and property by making homes and communities better able to withstand the rising risks they face through resilience and mitigation, as well as on creating a business and legal environment where insurers are able to provide their products without overwhelming regulatory burdens that render their continued existence untenable.

Insurance rates are a function of insurance costs. If doing business in a market becomes unsustainable, everyone loses and consumers are left with limited options. Insurers must maintain a level of solvency compliant with state requirements to protect their existing policyholders, otherwise there will be no one there to mitigate the financial burdens caused by the next natural disaster.

As Congress and California contemplate the path forward and potential solutions, NAMIC encourages federal policymakers and state officials to work together, focusing efforts on ways to reduce risks and encourage competitive, actuarially sound markets rather than exacerbating existing problems. Commonsense and bipartisan concepts to advance meaningful solutions and sound forest management principles already exist and could help avoid consequences of the next California wildfire. We remain committed to working with policymakers to strengthen California's insurance marketplace and fulfill our duties on the long road to recovery.

[6] https://www.insurance.ca.gov/01-consumers/180-climate-change/Sustainable-Insurance-Strategy-Updates.cfm