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States Capitulate To Home Insurers' Demands

BY JEAN EAGLESHAM

Home insurers are pushing for big rate increases and weakened consumer protections— and increasingly getting what they ask for.

State regulators across the U.S. appear to be buckling to industry demands for fear that insurers will pack up and exit their regions, leaving residents with few coverage options.

In the past 12 months alone, one state decided its regulator can no longer veto rate requests and another made it easier for insurers to reduce storm coverage. A third agreed to expand the types of costs companies can take into account when setting rates.

States are giving home insurers almost everything they ask for on rates, an analysis conducted for The Wall Street Journal suggests. The average state-approved increase since

the start of last year is just 0.2 percentage point below the increase requested by the industry, according to the analysis by S& P Global Market Intelligence.

Ten states where regulators can reject requests upfront have all greenlighted doubledigit increases since the start of last year, with half those increases close to or above the 20% national average, the S& P data show. California, which for decades kept a tight lid on home-insurance rates, approved an average 21% rate increase over the period, according to the S& P data.

Consumer advocates accuse insurers of using threats to harm state economies as a way of extracting concessions on prices or policies. California shows the damage the industry can inflict: A mass pullback by companies left many homeowners struggling to get private coverage.

“Insurers are exporting their bullying tactics from California to other states,” said Douglas Heller, director of insurance at the Consumer Federation of America. “The companies are saying to state regulators and lawmakers, ‘We can wreak havoc on your economy if you don’t play ball with us.’” State Farm asked California regulators last month for a 30% rate increase for homeowners, barely three months after a 21% increase came into effect. State Farm General, its subsidiary in the state, requested a rate-control exemption reserved for insurers in financial trouble. The unit racked up an underwriting loss of \$2 billion and almost halved its capital in the five years through last year, according to ratings firm AM Best. A State Farm spokeswoman said the unit is “working toward its long-term sustainability in California.”

The concern that State Farm could close its Californian home-insurance operation ratchets up the pressure on Californian Insurance Commissioner Ricardo Lara. “This has the potential to affect millions of California consumers and the integrity of our residential property insurance market,” he said.

The industry denies using threats to get its way. “Claims of ‘bullying’ grossly distort insurers’ commitment to working constructively with regulators,” said Justin Hakes, a spokesman for the National Association of Mutual Insurance Cos. “If doing business in certain markets becomes unsustainable, everyone loses.”

Home insurers racked up a \$16 billion underwriting loss last year, the biggest amount since at least 2000, according to AM Best. It expects losses to continue. The industry is grappling with “extreme upward pressure on” costs, due to factors including high inflation, a climate-change-fueled rise in natural disasters and

population shifts to high-risk areas, according to Karen Collins, a vice president at industry group the American Property Casualty Insurance Association.

Insurers appear to have turned a corner more recently and reported healthy quarterly profits, boosted partly by recent policy rate increases. But they aren't letting up. *

"The industry is definitely playing hardball at the moment," Colorado Insurance Commissioner Michael Conway said. "They're doing that because they're scared" of forecast extreme-weather losses. *

Many state regulators are in a weak position to push back on industry demands. In Louisiana, where back-to-back hurricanes sent insurers rushing to the exits, lawmakers this spring axed a rule making it hard for companies to drop customers of three or more years standing. They also ended the insurance commissioner's right to veto rate requests upfront.

The changes are designed to create "an attractive environment for insurance companies to do business," said Gabe Firment, a Republican lawmaker behind one of the bills. The state last year was the second most expensive in the nation for home insurance, according to the Insurance Information Institute, an industry group.

In Arkansas, insurers are being allowed to reduce hail and wind coverage after storms caused big losses, regulator Alan McClain told legislators earlier this year. You want to make sure insurers "remain in our market in order to be available for consumers," Mc-Clain said in an interview. "Often that means there are rate increases to keep these [companies] solvent."

That doesn't mean insurers are getting everything they want. Regulators can give insurers informal feedback on their rate requests, which might prompt them to lower what they ask for.

Some states are trying to get something back from insurers in return for their concessions. Californian regulator Lara unveiled plans last month to require insurers to sell more policies in wildfireprone areas. The proposal is a trade-off to allowing insurers to boost rates to reflect reinsurance costs and anticipated losses from future disasters.

Florida addressed one of the biggest complaints from insurers by making it harder for consumers to sue the companies. The market is showing improvement, industry groups said.

The state remains the most expensive in the nation for home insurance. The average premium there last year was \$3,340—about double the national average, according to the Insurance Information Institute.

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