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***Florida fixed its market with reforms. California didn't. See the results.***

## A Tale of Two State Insurance Markets

REVIEW & OUTLOOK

Hard to believe, but the Los Angeles wildfires have Republicans in Congress talking about federalizing home insurance. Why should all Americans be on the hook for insurance liabilities of states like California that have mismanaged their markets?

Louisiana Sen. John Kennedy told The Hill this week that Republicans may extend the National Flood Insurance Program to other natural disasters. Mr. Kennedy has resisted past GOP attempts to reform the taxpayer-subsidized flood program. Is he trying to increase its beneficiaries to make it harder to reform?

The 1945 McCarran-Ferguson Act enshrines state regulatory authority over insurance. This system has worked relatively well over 80 years. But some states have done a better job of managing their markets than others. California and Florida provide an illustrative contrast.

Democratic insurance commissioners in the Golden State have for years suppressed rates. Until recently, California was the only state that prohibited carriers from using catastrophe models to project disaster risk and pricing reinsurance costs into their premiums.

Wildfires—exacerbated by the state's poor land mismanagement—have swelled insurer claims and liabilities. Insurers are paying out $1.09 in expenses and claims for every $1 they collect in premiums. They've curbed their exposure in part by dropping policy holders in highrisk areas and leaving the market.

The liabilities of the state's insurer of last resort, FAIR, have exploded to $458 billion from $153 billion in 2020, with $5.9 billion in exposure in the Pacific Palisades. Yet Insurance Commissioner Ricardo Lara rejected FAIR's proposed rate increases while requiring it to cover homes worth up to $3 million.

FAIR President Victoria Roach told the state Assembly last year that the insurer in 2021 requested a 48.8% rate increase —less than the 70% it needed—but was approved for 15.7%. FAIR is under-capitalized and had only $700 million in cash on hand as of last year to pay claims.

To prevent more insurers from leaving the state, Mr. Lara last month finally let carriers price in their reinsurance costs and use catastrophe models. But he also capped the reinsurance costs that carriers can pass along. Rates are set to rise 20% to 40% this year, though this still may not be enough to cover insurer liabilities.

Unable to raise rates, many insurers have increased deductibles and capped maximum payments. That means insurers might not cover all of the fire damage, and some homeowners will face hefty rebuilding costs. Lucky for them the Federal Emergency Management Agency covers losses if homeowners are "under-insured."

This means taxpayers in Houston and Little Rock may pay for rebuilding multi-million-dollar homes in California. If FAIR becomes insolvent, all insurers in California—meaning their customers—are on the hook for its claims. Homeowners could see rates rise by thousands of dollars a year.

In Florida, in striking contrast, Republicans headed off an insurance market death spiral caused by litigation abuse. State law had allowed policy holders to assign their claim benefits to contractors working with trial lawyers. Contractors would inflate charges and then sue insurers if they rejected them, setting up a costly claim-by-claim battle.

Insurers lost hundreds of millions of dollars a year, and more than a dozen failed between 2020 and 2022. Others left the market because litigation costs made it difficult to obtain reinsurance. Florida's insurer of last resort, Citizens Property Insurance Corp., became the state's biggest carrier and was in danger of collapsing.

Enter Gov. Ron DeSantis, who championed tort reforms in 2022 and 2023 that have stanched the flood of frivolous lawsuits, stabilized the market and reduced Citizens' exposure. According to the Florida Office of Insurance Regulation, nine insurers have since entered the market.

Sixty percent of Florida's top 10 carriers have expanded their business in the state, and 40% have filed for rate decreases. The average monthly request for rate increases is now 1.2%, compared to 14% a few years ago. If not for Mr. DeSantis's reforms, last year's hurricanes might have toppled Citizens.

Federalizing the U.S. insurance market would create a moral hazard and discourage state reforms. Rather than protecting California's Democrats from the costs of their blunders, Republicans should point to Florida.



 