

Rates fall in the Sunshine State, soar on the left coast.

Florida vs. California Insurance, Round 2

REVIEW & OUTLOOK

California insurance commissioner Ricardo Lara last week announced a \$1 billion surcharge on private insurers and their policy holders to prop up the state's wobbling insurer of last resort. Meantime, State Farm General is asking regulators for an emergency 22% rate increase to avoid a "dire situation." But the situation is sunnier in Florida, where Gov. Ron DeSantis has announced lower rates thanks to his legal reforms.

Democratic insurance regulators in the Golden State for years have suppressed rates even as home values have ballooned. State Farm, California's largest fire insurer, earlier this month said that it has paid \$1.26 in claims for every \$1 it has collected in premiums over the last nine years, resulting in \$5 billion in underwriting losses.

Progressives blame poor underwriting, but California until recently was the only state to prohibit insurers from pricing re-insurance costs into premiums and using catastrophe models to adjust rates. The state also bars insurers from dropping policies in areas affected by fires for a year thereafter, which has made it hard to limit exposure.

Regulators typically take more than a year to approve rate increases—and usually for less than insurers request—because they first solicit feedback from "consumer advocates"—i.e., liberal outfits. State Farm still hasn't received approval for a 30% rate increase that it asked for last June and says that it isn't meeting capital requirements.

The insurer says it needs to raise rates sharply and pronto to avoid a credit rating downgrade, which could cause mortgage lenders to require policyholders to obtain alternative coverage. Some might have no option besides the state insurer of last resort, FAIR, which is in danger of becoming insolvent. Hence the \$1 billion surcharge.

After protests from liberal groups, Mr. Lara on Friday rejected State Farm's request. If State Farm or FAIR collapses, other insurers and their policyholders are on the hook for their claims. That means rates would rise even more for everyone—all because of government price controls and other policies that Democrats refused to reform until recently. By contrast, Mr. DeSantis spearheaded a series of litigation reforms in 2022 and 2023 that have headed off an insurance disaster. Insurers had been raising rates by double digits annually and fleeing the market because of rampant lawsuit abuse, which ballooned the liabilities at the Florida insurer of last resort, Citizens Property.

Mr. DeSantis this month said 11 new insurers have entered the market over the last two years as a result of tort reforms. Since 2022 more than 477,000 policies have shifted from Citizens Property back to the private market, which will reduce the risk of a taxpayer bailout if there's a bad storm.

Some criticized our January editorial on Florida's reforms because home insurance rates rose 102% between 2020 and 2023. But that was before most reforms took effect and was the reason lawmakers undertook them. Now rates are coming down as litigation abuse abates.

Citizens now plans to cut rates on average by 5.6% for 20% of policyholders. Four of the state's top 10 carriers have filed for rate decreases. The Governor said Florida had the lowest average homeowners' premium increases in the nation this past year—just 1%. Homeowners in many other states have experienced increases of 20% or more.

Auto premiums are also falling with major companies, including GEICO (-10.5%), Progressive (-8.1%), and State Farm (-6%), filing for rate reductions. Litigation over auto glass repairs plunged by 90% between the second quarters of 2023 and 2024. Florida's success may have inspired Georgia Gov. Brian Kemp to introduce a package of tort reforms last month.

States are laboratories for policy experimentation, and California's insurance price regulations are blowing up in a big way. But Florida is showing that political leaders can head off a market disaster and lower costs if they have the courage to reform.

Copyright (c)2025 Dow Jones & Company, Inc. All Rights Reserved. 2/19/2025
Powered by TECNAVIA

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

For personal, non-commercial use only.