LAO

November 10, 2025

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative regarding insurance regulation (A.G. File No. 25-0020, Amendment #2).

BACKGROUND

The State Regulates Insurance Companies. The state has many laws that insurance companies must follow. These laws are there to protect consumers from things like discrimination, fraud, or unfair treatment. These laws also try to stop insurers from charging much higher prices than needed for them to stay in business. Several major parts of these laws were put in place by voters with the passage of Proposition 103 in 1988.

Insurers Must Get Rate Increases Approved. Most insurers in California, including those covering homes or automobiles, cannot increase their rates without getting approval from the California Department of Insurance (CDI). To do so, an insurer submits a request to CDI. The request includes information showing the insurer needs the rate increase to stay in business. CDI reviews this information and evaluates the request in a public process. Finally, CDI decides to approve, change, or deny the request. CDI often approves a smaller rate increase than requested by the insurer. This process typically takes six months or more.

Availability of Residential Home Insurance Is an Issue in California. Some California homeowners are having a harder time getting insurance from licensed insurance companies. These companies are worried about selling insurance in certain parts of the state because of wildfire risks. This has resulted in more homeowners obtaining insurance from the FAIR Plan, California's "insurer of last resort."

Existing Regulations Require Insurers to Provide Discounts for Some Mitigation Factors. CDI regulations require insurers to give discounts on home insurance where certain steps have been taken to reduce fire risks. These steps often are called "home hardening."

PROPOSAL

The measure makes many changes to the rules insurance companies must follow in California. The more significant changes are summarized below.

Restricts the Ability of Licensed Insurers to Deny Coverage to Homeowners. Insurers could not deny insurance on any home that meets certain home-hardening standards. The Insurance Commissioner would decide what home-hardening standards would need to be met. An insurer could ask the Insurance Commissioner to waive this requirement if the insurer already covers a lot of homes in places with high wildfire risk. Any insurer that repeatedly violates this requirement or stops selling new insurance policies in order to avoid it would be banned from selling property and automobile insurance in California for five years.

Adds New Requirements for Home Insurance Nonrenewal Decisions. Licensed Insurers that refuse to renew a home insurance policy or that reduce or eliminate coverage must provide the policyholder an explanation and any evidence used to make the decision. If there are changes that could be made to the home that would change the insurer's decision, the insurer must provide at least 90 days for the homeowner to make those changes. The homeowner could ask for up to 180 days if there are delays outside their control.

Increases Contents Coverage Payouts in the Event of Total Loss. If a homeowner experiences a "total loss," like their home burning down, an insurer must pay for the full amount for covered personal belongings without requiring a detailed list of the belongings.

Limits Ability of Insurers to Consider Claims History. Insurers would not be able to deny insurance to a homeowner because they filed certain types of claims in the past. This includes past claims that were not paid or claims that were not "the direct result of intentional conduct or gross negligence of the applicant."

Places Limits on Compensation Paid to Insurance Brokers. Disallows insurance brokers from receiving a fee from an insurance customer if they also receive commission from an insurer for the same transaction. The total compensation a broker can receive for a single transaction would be capped at 15 percent.

FISCAL EFFECTS

State Would Incur Additional Costs for Insurance Regulation This measure would increase the amount that the state spends on regulating insurance. For example, CDI would have one-time costs for rulemaking and ongoing costs to review waiver requests from insurers. These costs could be paid by CDI charging insurers additional fees.

Changes in Insurance Tax Revenues. The state taxes payments insurers receive from consumers for their insurance policies. This measure could significantly change the number of home insurance policies written in the state and the revenue collected from each policy. This would impact total revenue from the tax. However, the amount of the change is uncertain.

Summary of Fiscal Effects We estimate that the measure would have the following fiscal effect:

- Increase in state spending to regulate insurance companies. This cost would be small compared to the state's total budget and could be passed on to insurers.

Sincerely,

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for Gabriel Petek
Legislative Analyst

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for Joe Stephenshaw
Director of Finance