



COMMERCIAL PROPERTY INSURANCE

New Rules May Coax More Carriers Back into Market

IN AN effort to bring more insurers back into California’s homeowners and commercial property insurance market, the state Department of Insurance (DOI) has approved a system that will allow insurers to use forward-looking wildfire risk models to price policies in areas susceptible to wildfires.

The DOI hopes this and other measures it’s been taking, will provide some relief to businesses and homeowners in high-risk areas. Up until this point, insurers have been barred from using risk models that predict future wildfire claims costs and instead have been forced to use historical data.

Insurers have been pushing for this change for years, saying restrictive regulations have kept them from adequately factoring in wildfire risk.

What these models do

The DOI in August established the Pre-Applications Required Information Determination (PRID), a process that insurers can use to get their predictive models approved.

“The PRID process has introduced the potential for bringing relief to the many insurers who have struggled to provide coverage across California,” the DOI said in a press release. “With the ability to use more innovative risk forecasting model technologies, many carriers may return to provide coverage in the wildfire prone regions of California.”

Through PRID, the DOI has already approved prospective wildfire models, created by three companies, that insurers can use to price policies in the Golden State.

One such wildfire model was created by the risk-modeling company Verisk, which uses decades of wildfire science, engineering expertise and climate data to provide a forward-looking view of risk.

Another model approved through PRID is by Kimberly Clark & Co. That model, which has already been accepted in 24 other states, incorporates the impacts of climate change and accounts for mitigation efforts at property and community levels to encourage the reduction of wildfire risk.

What it means for the market

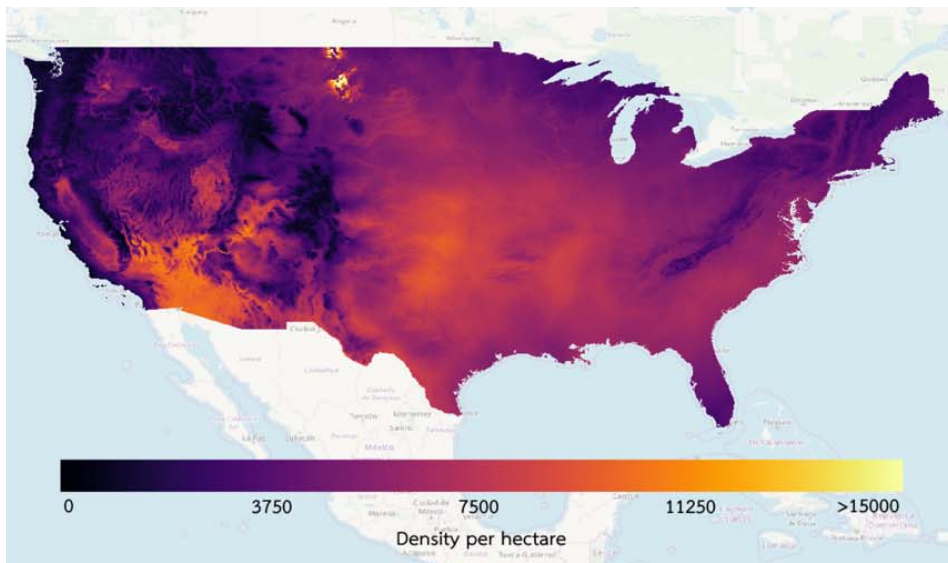
This could give homeowners and business owners more options in areas where it has been difficult or impossible to find coverage in the private market. The DOI is requiring insurers that use the new models to also commit to writing more policies in wildfire-prone regions.

With the new models in place, Mercury, Allstate and CSAA have announced plans to write more property insurance policies in California.

Rates are likely to shift as insurers adopt the models. Properties in areas shown to be at higher wildfire risk may see premium increases, while those in lower-risk areas or where fire-safety measures are in place may benefit from discounts.

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Image from Kathy Clark & Co.’s Wildfire Model



Climatological vapor pressure deficit (VPD) across the US. Brighter colors indicate higher VPD, which encourages larger, more frequent and more difficult to control wildfires.



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HOME IMPROVEMENT

How to Avoid Being Ripped Off by a Contractor

MANY AMERICANS opted to remodel their homes during the pandemic, which has created a supply crunch of contractors doing that kind of work.

And when things get busy, in the building industry, scammers get busy and it's not uncommon for homeowners to be ripped off by an unscrupulous contractor.

If you are planning a remodel, you should look out for these common scams.

Upfront payments

A typical job will require about 10% of the cost up front, just as a good faith payment that you are scheduling the contractor's time.

But the scammer will ask for 30-50% of the project price up front, saying that he has to order materials and/or rent machinery to get the job started. Then the scammer will disappear and not be seen from again, or they will start the project with shoddy workmanship.

It is possible the contractor is not financially stable and may plan to skimp on the work later.

Reneging on terms

When a homeowner and a contractor discuss a project, it's common for the contractor to suggest decorative details that will make the work stand out.

But if those details never make it into the final contract, they won't make it into the final project either. The contractor may then say that work will cost extra.

Being told no permit is needed

Most jurisdictions require that you get a work permit for large construction projects.

An unlicensed contractor may lie and say no permits are necessary or that you, the homeowner should pull the permits. That's incorrect because a permit must be obtained by the party doing the work.

What you can do

Angie's List and the National Association of Realtors recommend:

Doing your homework – Get at least three bids for the job and check Angie's List, industry associations and previous clients' references before hiring. Visit their completed projects during the bid review process.

Checking status and references – Check your state contractor's board to verify the contractor's status.

Ask for proof of liability and workers' compensation insurance and bonding (if applicable). Ask for and check references for past jobs, and also suppliers they use.

Negotiating a detailed contract – It should specify the responsibilities of both the contractor and the homeowner, start and completion dates, terms that tie payments to job progress and completion, details of the work, itemized materials and any warranty information, and whether subcontractors will be used.

The contractor should obtain all of the required building permits.

Asking for a detailed outline of costs – Never prepay more than \$1,000 or 10% of the job total, whichever is less. That's enough to establish that you're a serious customer so the contractor can work you into his schedule. ❖



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Prices Will Vary Depending on Location, Wildfire Readiness

Other changes in the works

The wildfire models are part of a larger effort to improve California's strained property insurance market. Other steps include:

- **Expanded discounts for mitigation:** Homeowners and businesses can qualify for premium reductions by taking specific wildfire safety steps.
- **Temporary FAIR Plan expansion:** The FAIR Plan has raised its commercial property coverage limits from \$10 million to \$20 million for single facility and up to \$100 million for a multi-unit property.

- **Reinsurance reforms:** Insurers will be able to better manage their exposure to catastrophic losses, which regulators say should help keep the market stable.

Takeaway

For homeowners and businesses, these changes mean more choices may soon return to the market.

Prices will likely vary more widely depending on location and wildfire readiness, but insurers may start competing again to write policies in parts of the state where coverage has been scarce. ❖

INSURANCE LAW

Proposed Ballot Initiative Seeks Repeal of Prop. 103

AN INSURANCE agent has filed papers with the state of California to qualify an initiative for the 2026 election that would repeal Proposition 103, a landmark insurance measure that has tightly regulated property and auto insurance rates since 1989.

Since 1989, Prop. 103 has required insurance companies to submit requests for rate changes to the California Department of Insurance (DOI). Under the law, the insurance commissioner is required to review those filings, decide whether they are justified, and can deny or limit increases. Consumers and advocacy groups are also allowed to intervene in the process, giving the public a voice in rate decisions.

The measure also made the post of insurance commissioner an elected position instead of one appointed by the governor.

Critics of Prop. 103 say the law slows down the rate approval process, which can drag out for months or even years due to bureaucratic obstacles. Proponents say it keeps insurance companies in check and that having an elected insurance commissioner allows them to act without political interference.

What the proposed initiative would do

The measure, dubbed the California Insurance Market Reform Act of 2026, was submitted by Elizabeth Hammack, an independent insurance agent, who argued that Prop. 103 has led to dysfunction and delays that have worsened California's insurance crisis.

Key elements of the measure

- Replace the elected insurance commissioner with an appointee chosen by the governor and confirmed by the state Senate.
- Establish stricter timelines for the DOI to act on rate filings, generally requiring decisions within 120 days.
- End the intervenor system that allows consumer advocates to challenge rate filings at insurers' expense.
- Require wildfire risk maps to be updated every three years and allow insurers to factor in reinsurance costs and wildfire mitigation activities when setting rates.

Supporters and critics weigh in

Some in the insurance industry say the lengthy approval process under Prop. 103 has made it difficult to adjust rates in line with rising risks, especially from wildfires.

Insurers also argue that delays and a provision requiring any rate hike request of 7% or more to trigger a DOI hearing have discouraged larger filings. As a result, most insurers have limited their requests to 6.9%, which they say has been inadequate in recent years due to rapidly rising claims costs for both property and auto insurance.

Combined with increasingly destructive wildfires, the difficult approval process and insurers' inability to use certain forecasting models have prompted many companies to restrict writing homes and commercial properties in the state.

Consumer groups oppose the new proposal. They say Prop. 103 has saved Californians billions of dollars on auto insurance and kept home insurance rates more affordable than in many other states. Critics warn that repealing it would open the door to steep premium hikes with less accountability.

Long odds ahead

For now, the initiative remains a long shot. To make the November 2026 ballot, supporters must gather more than 546,000 valid signatures by next spring, a tall order without major funding. Consumer Watchdog, the advocacy group founded by Prop. 103's author, has dismissed the campaign as unserious and underfunded.

If it does qualify, the proposal could set up a high-stakes battle between consumer advocates and insurers at a time when California residents are already frustrated with rising premiums and shrinking coverage options. ❖



CONTRACTOR RISKS

Why You Should Focus on Insurers' Financial Ratings

CONTRACTORS SHOULD be interested in the financial ratings and solvency measures of their insurance companies to protect themselves from breach of contracts if their insurer suddenly runs into financial problems.

For starters, contract owners often require contractors to purchase their insurance from companies that have a specific rating as a minimum standard. The owners want to ensure that the carrier its contractors use have the financial wherewithal to pay claims that may arise.

Bonding and insurance industries are regulated by individual states, and the state insurance commissioner monitors companies to ensure they are financially sound and properly licensed. The evaluation process is ongoing. It is in place for the protection of claimants and policyholders.

Insurance companies are usually classified as admitted (meaning licensed by the state to sell insurance) or non-admitted (not licensed by the state but still able to sell coverage there). The main difference between admitted or non-admitted companies is the amount of scrutiny of policy terms and the rating plans that determine premium amounts.

In some states, admitted companies pay into a state guaranty fund, which steps in to pay claims if the insurer cannot. Non-admitted companies do not pay into these funds and if they run into financial troubles, the state's guaranty fund will not pick up the claims.

Insurance companies' financial troubles can devastate policyholders. A fall from an A rating to a C rating with a rating

agency may result in a breach of contract for a construction operator.

However, insolvency can be far worse than a falling rating. In such a case, claimants and attorneys for the plaintiffs may target contractor's assets if it falls out of contract.

Financial information about insurance carriers can be obtained from four ratings agencies:

- A.M. Best Co.,
- Moody's,
- Fitch Ratings, and
- Standard and Poor's

These organizations are not owned by the government. Their job is to analyze insurers' financial statements that are filed with state regulators. They also review loss reserve reports, state examination reports, SEC financial reports and any reports filed regarding policyholders or stockholders.

After careful analysis of the data, these companies assess credit ratings, which are typically in the form of a letter "grade," with various A ratings like AAA or A++ applied to the most financially sound carriers. The ratings are available by subscription. However, we as your agent can provide these ratings.

Beyond ratings: insurance clauses

While on the subject of ratings, you should look at each contract's insurance clause.

Although many contracts allow for a downgrade and cancellation, policyholders should request the option to reject an insurer that shows unacceptable actions. This option gives the policyholder some control in the event of an insurer's declining financial situation.

Another option is to include language stating that insurance rating specifications must be met only on the policy's inception date. This would prevent a mid-term cancellation resulting from a financial downgrade.

Contractors should also know that their bonding companies are subject to evaluation at the federal level and the state level. For government projects, companies must limit single-project bond capacity to a specific amount, which is determined by the U.S. Treasury's Circular 570 publication.

Those who have contracts funded by federal sources should perform an annual verification of a bonding company's ability to meet government requirements. This item of discussion should be on the agenda during a meeting with a bonding agent and surety company.

As a contractor, if you enter into multiple new contracts often, you should make a habit of monitoring financial trends of insurers and bonding companies. The more information you have, the better. But if you are about to enter into a new contract, at a minimum you should research your insurer's financial ratings. ❖

