

WILDFIRE INSURANCE INFORMATIONAL HEARING

BOE MEMBER TED GAINES
FEBRUARY 22, 2024, 10:00 AM – 2:00 PM



Rex Frazier, President
Personal Insurance Federation of CA





AGENDA:

- 1) Background on PIFC
- 2) Key California Legal Provisions
- 3) Changing Understanding of HO Insurance
- 4) Premium Allocation & Average HO Premium
- 5) Key Issues
 - A. Rate Approval Times in High Inflation
 - B. Modern Rating Practices
 - C. CA FAIR Plan Growth
- 6) Rating Agency View of Nat'l HO Insurance
- 7) Mitigation: Parcel Level & Community wide



PIFC

74% of HO Insurance Market Share

Member Companies



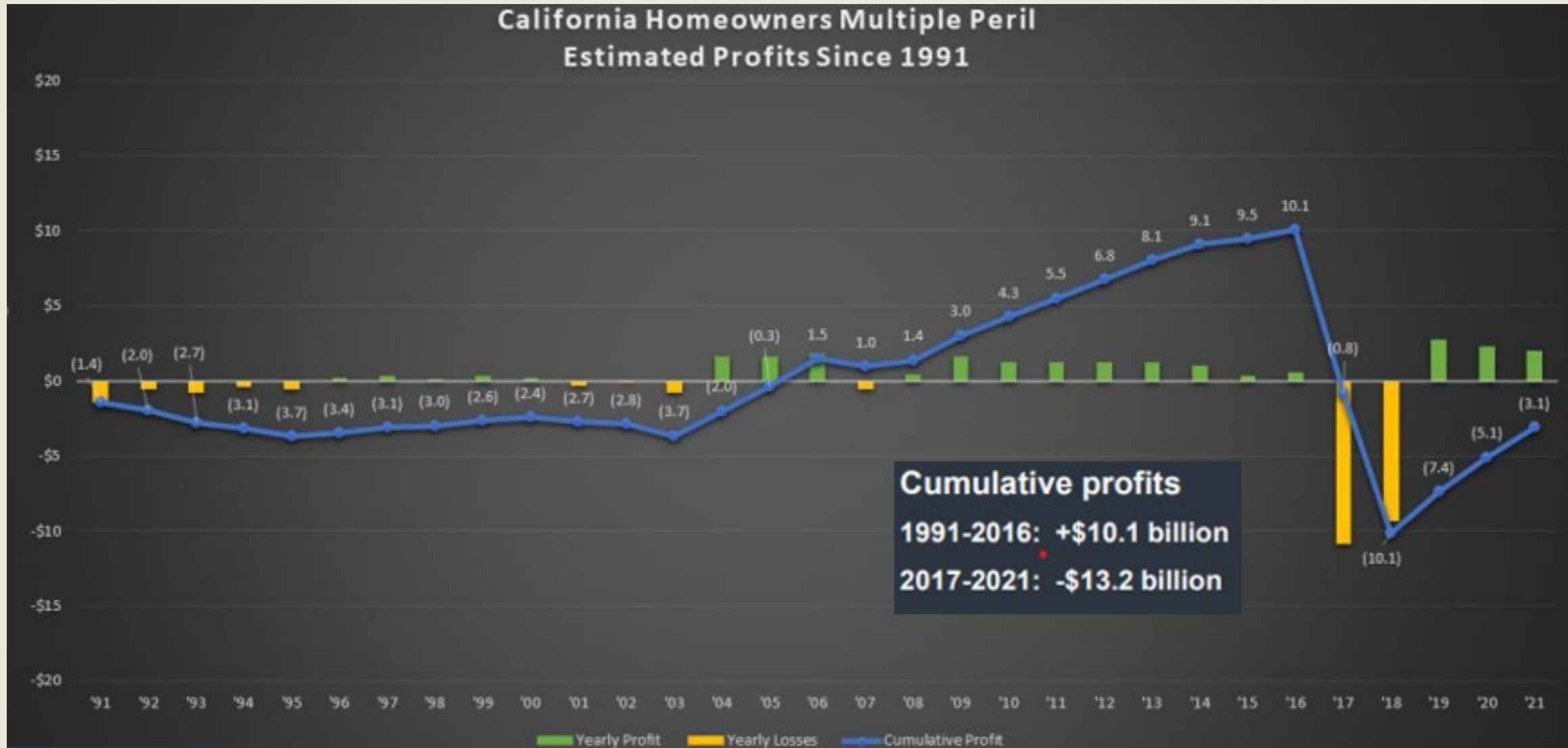
Associate Members



Key California Legal Provisions

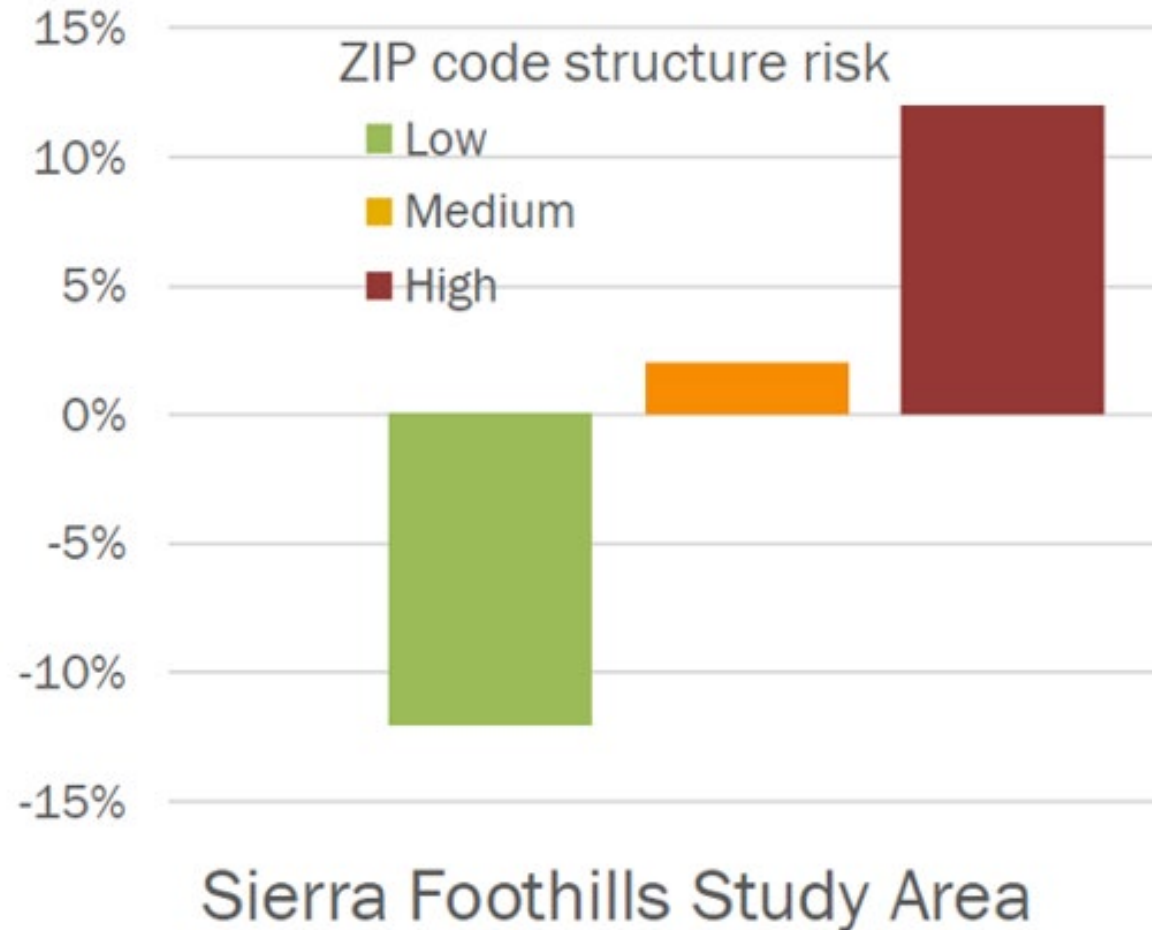
- Prior Approval Ratemaking (Insurance Commissioner must approval rate increases/decreases)
- Public Participation (Groups may qualify to participate and earn compensation)
- California FAIR Plan Association (Establishes public right to fire insurance)

Insurers' Understanding of Catastrophic Fire Risk Has Changed:



Big Shift in Allocation of Premiums to High Risk Areas...

Percent change in premium per \$1,000 coverage 2007-2014



Source: Dixon, Tsang, Fitts (2018)

But Total Premiums Slow to Rise...

Homeowners' Insurance Average Premium

State	2020	Rank	2010	Rank	% Change ('10-'20)
Florida	\$2165	1	\$1544	3	40.2 %
Louisiana	\$2038	3	\$1546	2	31.8 %
Texas	\$2000	4	\$1560	1	28.2 %
Colorado	\$1667	7	\$926	19	80.0 %
California	\$1241	24	\$939	17	32.2 %
United States	\$1311		\$909		44.2 %

Source: *Property Insurance Report*

Most Recent Data Available from National Association of Insurance Commissioners

Key Issues:

- Speed of Rate Filing Review & Approval
- Use of Modern Rating Methods
 - *Catastrophic Modeling*
 - *Reinsurance*
- FAIR Plan Growth Jeopardizes Industry Solvency

California Department of Insurance slow to approve homeowners rate filings

	Number of filings approved	Average time to approval (days)
2020	97	274
2021	47	309
2022	41	349

Source: S&P Global Market Intelligence

Key California Regulatory Provision from the Early 1990's (Not Required by Statute):

- Projecting Fire Losses by Historical Losses
 - (10 CCR §2644.4 & §2644.5) – Insurers must estimate their future catastrophic fire losses using the average historic losses for at least the last 20 years.
 - Use of Historical Losses **ignores** Mitigation (Home Hardening / Defensible Space)
- An Alternative? Projecting Losses Based Upon Current and Future Conditions
 - Insurers are seeking authority to formulate rates using probabilistic models that assess a home's location, fuel risk, and condition (including mitigation features).
 - California is the **Only State to Prohibit** Use of these Models. Allows for earthquake.

Key California Regulatory Provision Inherited By Current Administration (Not Required by Statute):

■ Reinsurance Costs

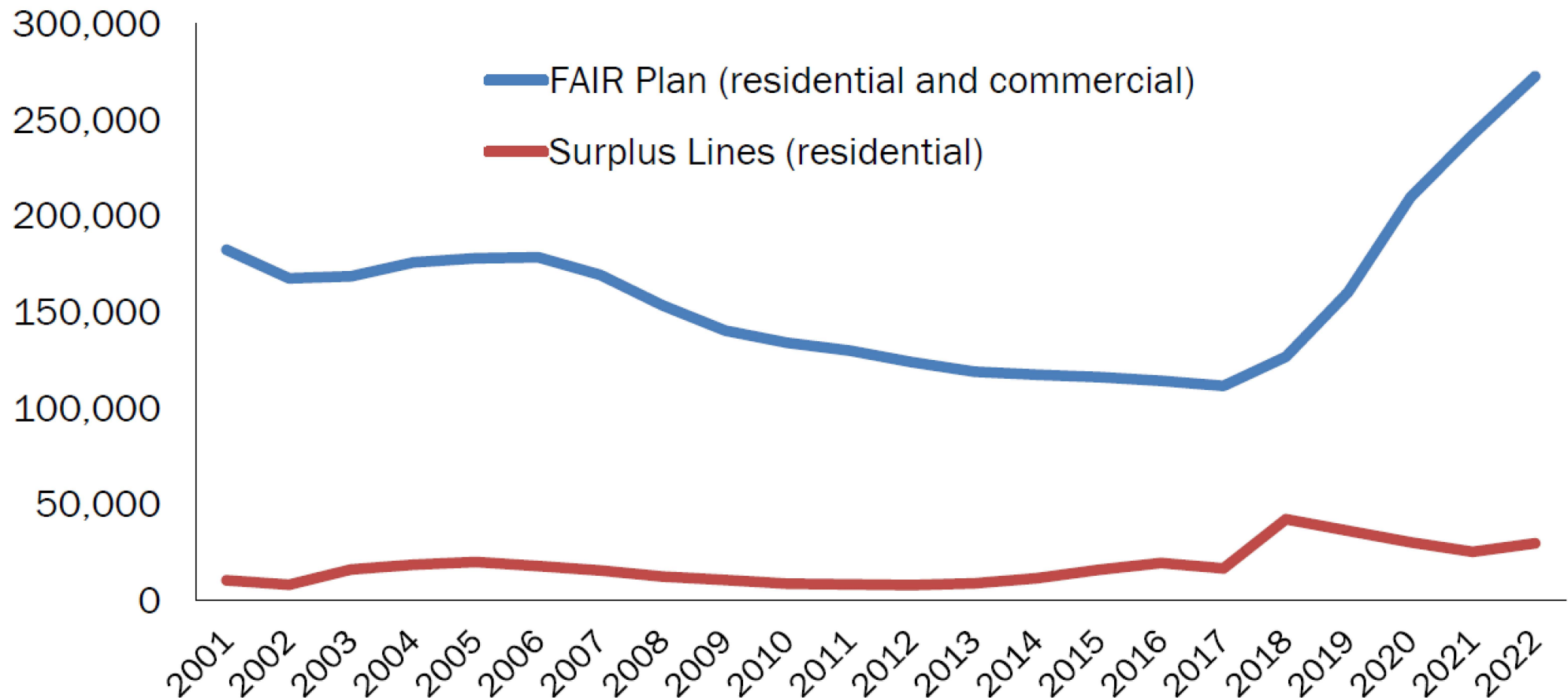
- (10 CCR §2644.25) – *Ratemaking shall be on a “direct basis, with no consideration for the costs or benefits of reinsurance... except for earthquake and medical malpractice” reinsurance.*
 - Insurers must maintain sufficient capital to pay claims, and must adhere to a “leverage ratio” measuring their in-force premium to underlying capital (aka, “surplus”). When an insurer hits its leverage ratio, it must either stop writing new business or sell business to a reinsurer to free up capacity to write new business.

■ An Alternative?

- Insurers are seeking authority to formulate rates using actual, documented California reinsurance costs.
- California is the **Only State to Prohibit** Use of these Models. Allows for earthquake.

FAIR Plan growing rapidly

Number of policies



Source: Dixon, Tsang, Fitts (2018), FAIR Plan, Surplus Lines Association of California

Why the concern about the FAIR Plan?

- Total exposure growing rapidly with substantial concentration
- Insurers will begin to be assessed even for modest-sized events
- 48.8% rate increase requested in 2021 filing, but 15% approved in July 2023
- CDI would likely need statutory authority to allow assessments to be directly passed on to policyholders

Total exposure \$264 billion as of August 2023





BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

September 18, 2023

Market Segment Outlook: US Homeowners

**The outlook is
moving to Negative
from Stable owing
to deteriorating
underwriting
performance**

AM Best has revised its outlook for the US homeowners segment to Negative from Stable, based on the following factors:

- Net underwriting results deteriorated owing to elevated natural catastrophes and secondary perils.
- Rising loss costs, inflation, and supply chain disruptions are pressuring earnings, making it difficult to maintain rate adequacy.
- Reinsurance market conditions remain firm, with material changes in pricing, terms and conditions, and attachment points.
- Several market leaders have curtailed new business in catastrophe-exposed states.

Mitigation:

- The Science of Fire Mitigation is Getting Better, But Not Settled
 - *Insurance Institute for Business and Home Safety (IBHS)* is the primary research organization that influences insurer filings.
 - **“Wildfire Prepared Home”** provides parcel-level guidance
- What Is Getting Recognized by Insurers?
 - Building year of home (if older, compliance with California WUI Building Code, Chapter 7A)
 - Parcel level actions consistent with IBHS research
 - If home is in community with mitigation commitment (e.g., Firewise)
 - CDI Regulations are contrary to IBHS Wildfire Prepared Home standards
- What Is Next?
 - Standards for Community Mitigation

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PIFC