

# 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



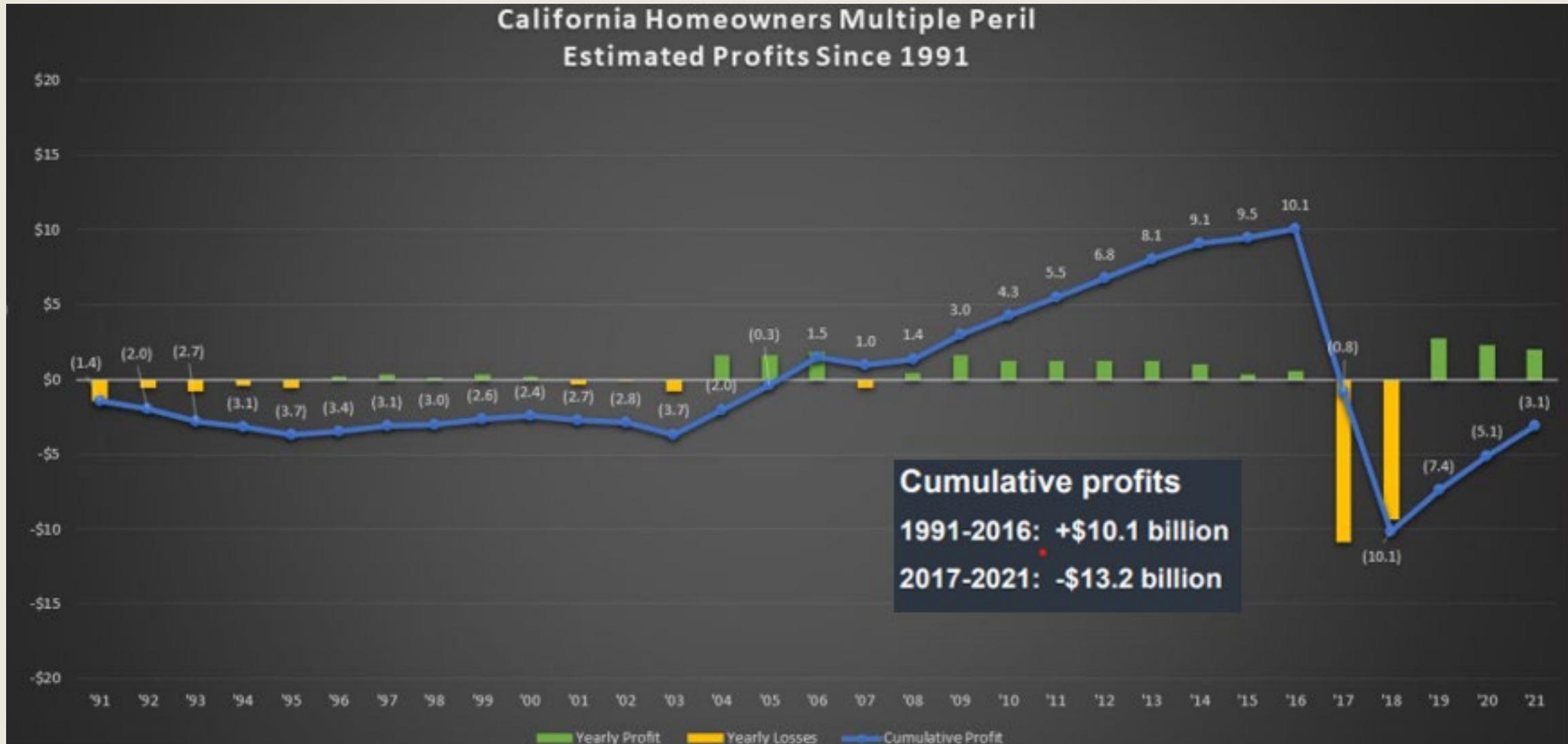
Associate Members



# Key California Legal Provisions

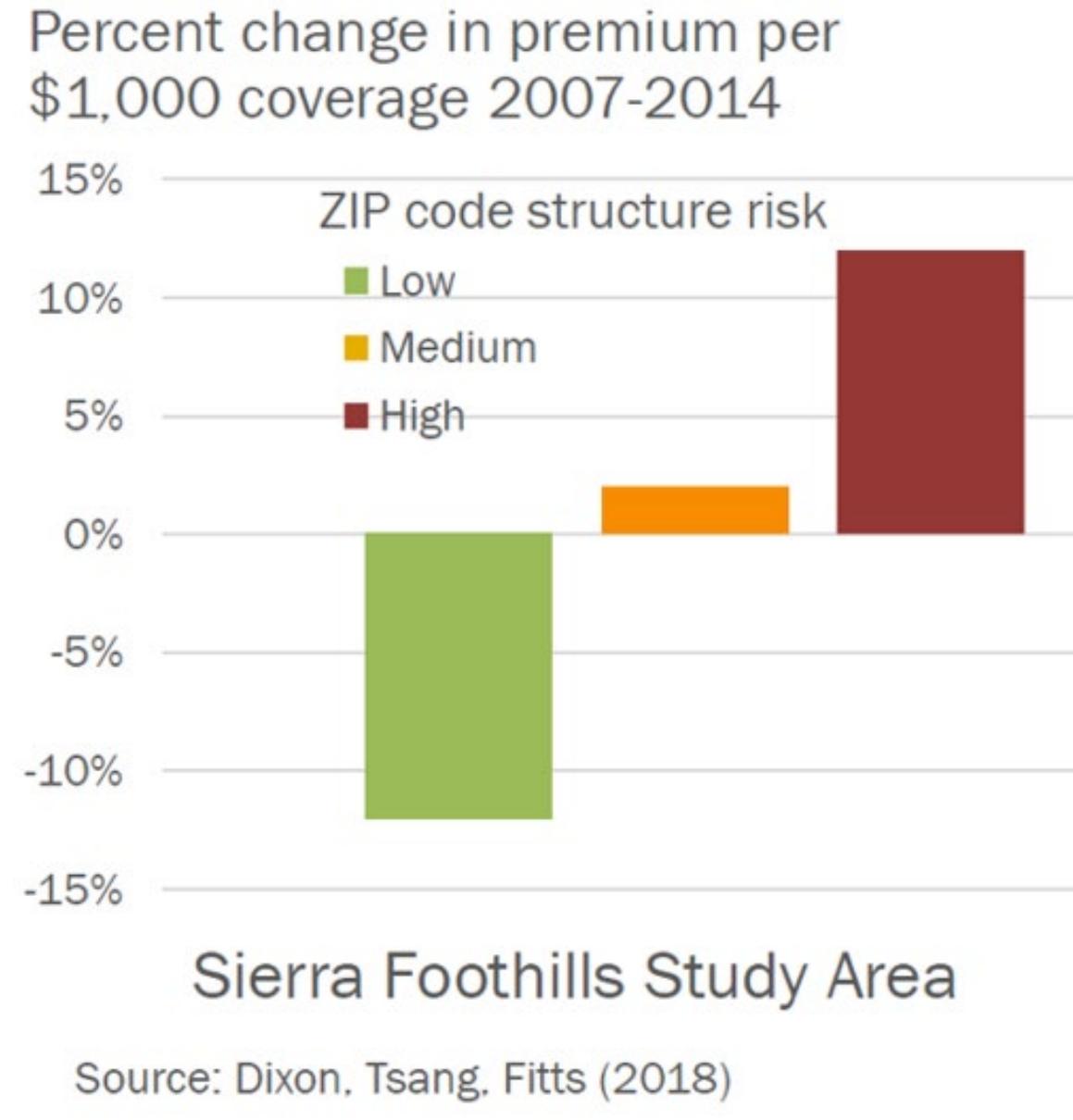
- Prior Approval Ratemaking (Insurance Commissioner must approval rate increases/decreases)
- Public Participation (Groups may qualify to participate and earn compensation)
- California FAIR Plan Association (Establishes public right to fire insurance)

# Insurers' Understanding of Catastrophic Fire Risk Has Changed:



*From Ho-Hum Predictable... to Profitable... to Climate Vulnerable & Uncertain*

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



# 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 %
<b>California</b>	<b>\$1241</b>	<b>24</b>	<b>\$939</b>	<b>17</b>	<b>32.2 %</b>
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

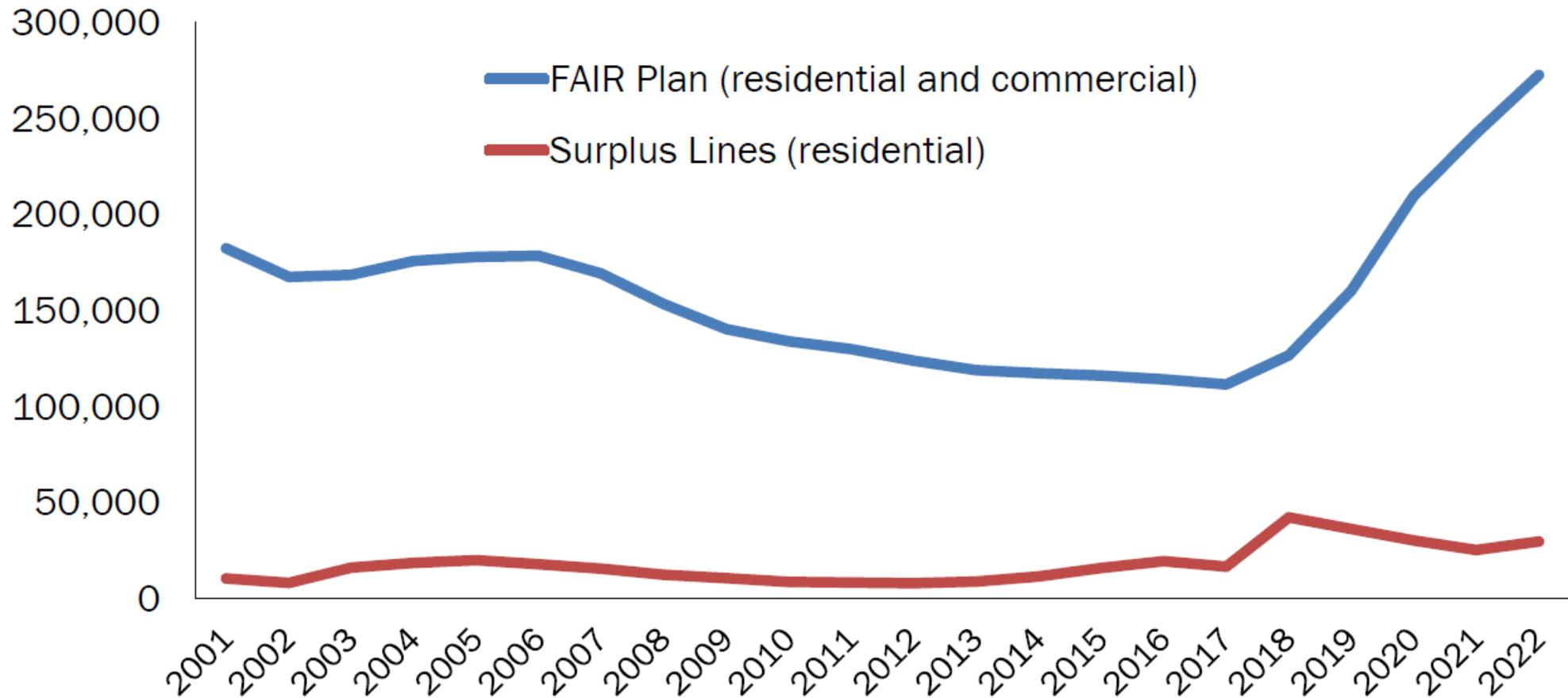
- (10 CCR §2644.25) – *Ratemaking shall be on a “direct basis, with no consideration for the costs or benefits of reinsurance... except for earthquake and medical malpractice” reinsurance.*
  - Insurers must maintain sufficient capital to pay claims, and must adhere to a “leverage ratio” measuring their 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

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*Our Insight, Your Advantage™*

September 18, 2023

## Market Segment Outlook: US Homeowners

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

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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