68.2% of HO Insurance Market Share
Key Issues in CA Insurance Market

- Catastrophic Losses
- Hyper-Inflation Effect
- Fair and Adequate Rates
- Outdated Regulations
- FAIR Plan Financial Sustainability
Global Top 10 Costliest Wildland Fires
(Insured Losses in $ millions, in 2022 dollars)

- 8 of 10 occurred in California
- 9 of 10 occurred since 2017

1. $11,800  2018 Camp
2. $10,500  2017 Tubbs
3. $5,000  2018 Woolsey
4. $3,700  1991 Tunnel
5. $3,600  2017 Atlas
6. $3,500  2016 Horse Creek (Canada)
7. $3,400  2020 Glass
8. $2,900  2020 CZU Lightning Complex
9. $2,700  2017 Thomas
10. $2,700  2021 Marshal (Colorado)
Insurers’ Understanding of Catastrophic Fire Risk Has Changed:

From Ho-Hum Predictable… to Profitable… to Climate Vulnerable & Uncertain
Hyper-Inflation Drives Costs and Rates

Cost Indicators, Home Insurance
Price Index Changes, Jan 2020 through Dec 2022

- PPI - Res Constr Goods, 34.1%
- PPI - Res Constr Trade Svcs, 33.2%
- PPI - Final Demand, 17.5%
- CPI - Home Furnishings, 18.1%
- CPI - All Items, 15.2%

Data not seasonally adjusted. Data as of Jan 18, 2023.
California Insurance Market in Context

According to the **CA Department of Insurance**: Over past 10 years, homeowners insurance companies have done **far worse** in California than nationally.

❖ **Direct profit on insurance transactions (2012-2021):**
  - *Countrywide*: 4.2%
  - *California*: -6.1%

❖ **Direct underwriting profit**
  - *Countrywide*: 3.6%
  - *California*: -13.1%

❖ **Direct return on net worth:**
  - *Countrywide*: 7%
  - *California*: 0.8%
Big Shift in Allocation of Premiums to High Risk Areas...
But Total Premiums Slow to Rise...

### Homeowners’ Insurance Average Premium

<table>
<thead>
<tr>
<th>State</th>
<th>2020</th>
<th>Rank</th>
<th>2010</th>
<th>Rank</th>
<th>% Change (‘10-’20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida</td>
<td>$2165</td>
<td>1</td>
<td>$1544</td>
<td>3</td>
<td>40.2 %</td>
</tr>
<tr>
<td>Louisiana</td>
<td>$2038</td>
<td>3</td>
<td>$1546</td>
<td>2</td>
<td>31.8 %</td>
</tr>
<tr>
<td>Texas</td>
<td>$2000</td>
<td>4</td>
<td>$1560</td>
<td>1</td>
<td>28.2 %</td>
</tr>
<tr>
<td>Colorado</td>
<td>$1667</td>
<td>7</td>
<td>$926</td>
<td>19</td>
<td>80.0 %</td>
</tr>
<tr>
<td><strong>California</strong></td>
<td><strong>$1241</strong></td>
<td><strong>24</strong></td>
<td><strong>$939</strong></td>
<td><strong>17</strong></td>
<td><strong>32.2 %</strong></td>
</tr>
<tr>
<td>United States</td>
<td>$1311</td>
<td></td>
<td>$909</td>
<td></td>
<td>44.2 %</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of filings approved</th>
<th>Average time to approval (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>97</td>
<td>274</td>
</tr>
<tr>
<td>2021</td>
<td>47</td>
<td>309</td>
</tr>
<tr>
<td>2022</td>
<td>41</td>
<td>349</td>
</tr>
</tbody>
</table>

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.
The FAIR Plan is the Pressure Relief Valve for a Dysfunctional Market
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 be 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
September 18, 2023

Market Segment Outlook: US Homeowners

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.
How Do We Restore a Healthy and Competitive Insurance Market?
Mitigation is Important
But Not 100% Effective:

❖ 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
IBHS Wildfire Prepared Home
Reduce Exposure and Future Losses

WILDFIRE PREPARED HOME - ROOF
- Choose a Class A fire-rated roof maintained clear of debris
- Choose noncombustible gutters & downspouts

WILDFIRE PREPARED HOME - BUILDING FEATURES
- Install ember- & flame-resistant vents
- Ensure 6-inch vertical noncombustible clearance at base of wall

WILDFIRE PREPARED HOME - DEFENSIBLE SPACE
- Create & maintain the home ignition zone (0-5 ft) including the removal of branches that overhang this area
- Clear & maintain the underdeck area; enclose low-elevation decks
- Maintain yard clear of debris
- Replace combustible fencing within 5 ft of the home

WILDFIRE PREPARED HOME + PLUS
ADDITIONAL MITIGATION
- Remove back-to-back fencing
- Eliminate combustible siding
- Enclose eaves
- Enclose under bay windows
- Upgrade to a wildfire-resistant deck
- Upgrade windows & doors
- Cover gutters
- Move outbuildings at least 30 feet away
CDI: California’s Sustainable Insurance Strategy

**Consumer Benefits:**

Insurance Availability in At-Risk Areas — Requiring insurance companies to write no less than 85% of their statewide market share in distressed areas identified by Insurance Commissioner.

Returning FAIR Plan Policyholders to Market — With first priority given to homes and businesses following “Safer from Wildfires” regulation.

Cat Models/Mitigation — New models will recognize mitigation and hardening requirements to appropriately price rates and discount benefits; presently not available in current rate making process today.

Modern FAIR Plan — Expanding commercial coverage limits to $20 million per structure closes coverage gaps for HOAs, affordable housing, and infill developments.
Seren Taylor
- staylor@pifc.org
- 916.442.6646