

CSAC FIRE INSURANCE WORKSHOP

NOVEMBER 15, 2023



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Personal Insurance Federation of CA





PIFC

Member Companies



Associate Members



68.2% of HO Insurance Market Share

Catastrophic Losses

Hyper-Inflation Effect

Fair and Adequate Rates

Outdated Regulations

FAIR Plan Financial Sustainability

Key Issues in CA Insurance Market

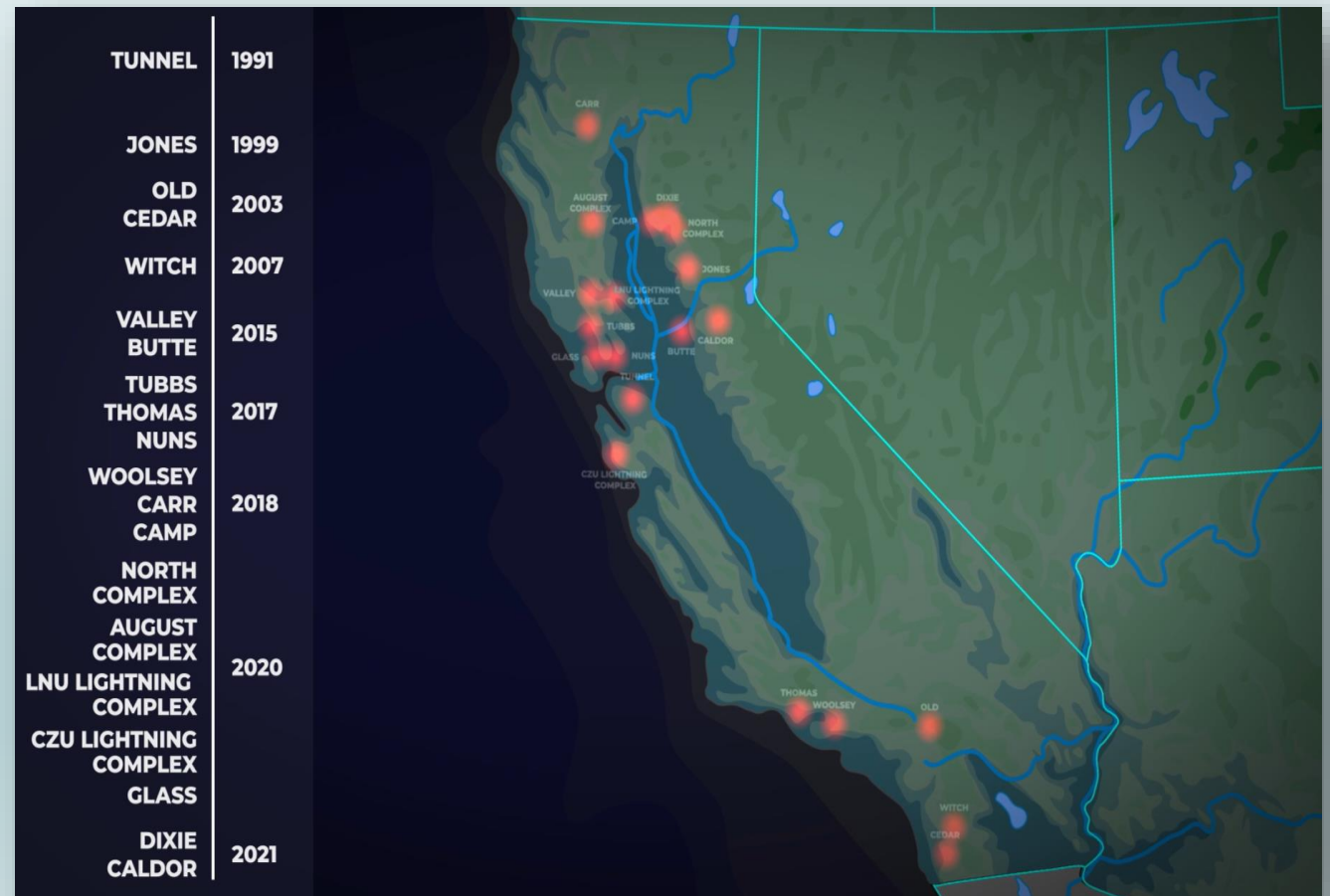
Global Top 10 Costliest Wildland Fires

(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)

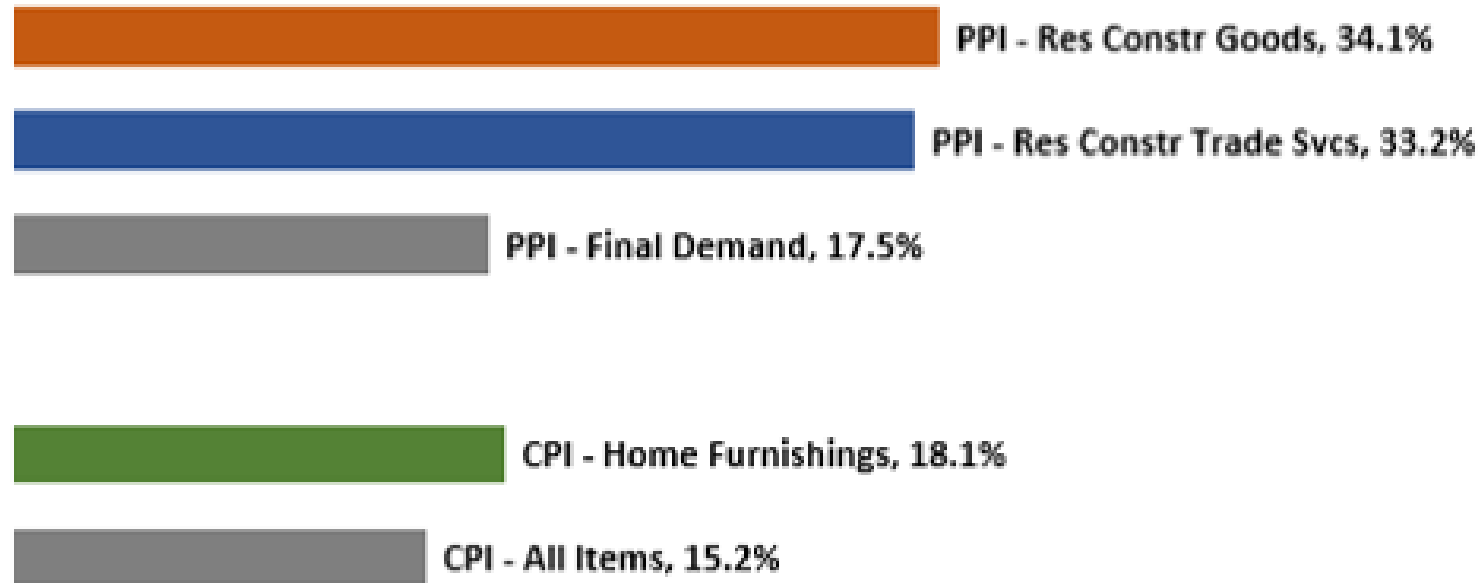


Insurers' Understanding of Catastrophic Fire Risk Has Changed:



Hyper-Inflation Drives Costs and Rates

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



Source: U.S. Bureau of Labor Statistics | fred.stlouisfed.org (data ending Dec 2022)

Producer Price Index by Commodity: Inputs to Industries: Net Inputs to Single Family Residential Construction, Services and Goods.

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%*

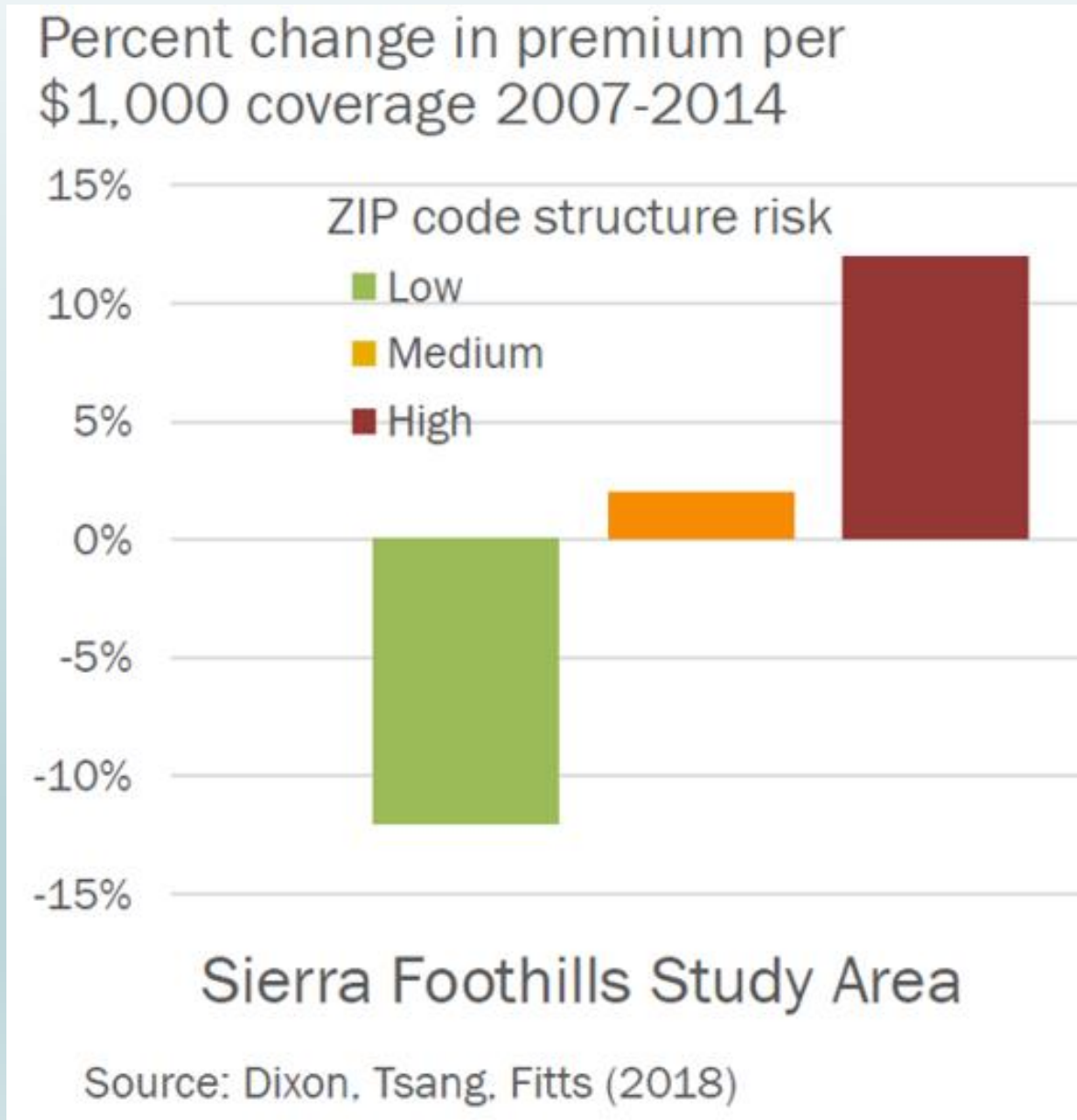
❖ **Direct underwriting profit**

- *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

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

Speed of Rate
Filing Review
& Approval

Use of
Modern
Rating
Methods

- *Catastrophic Modeling*
- *Reinsurance*

FAIR Plan
Growth
Jeopardizes
Industry
Solvency

Key Issues :

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.

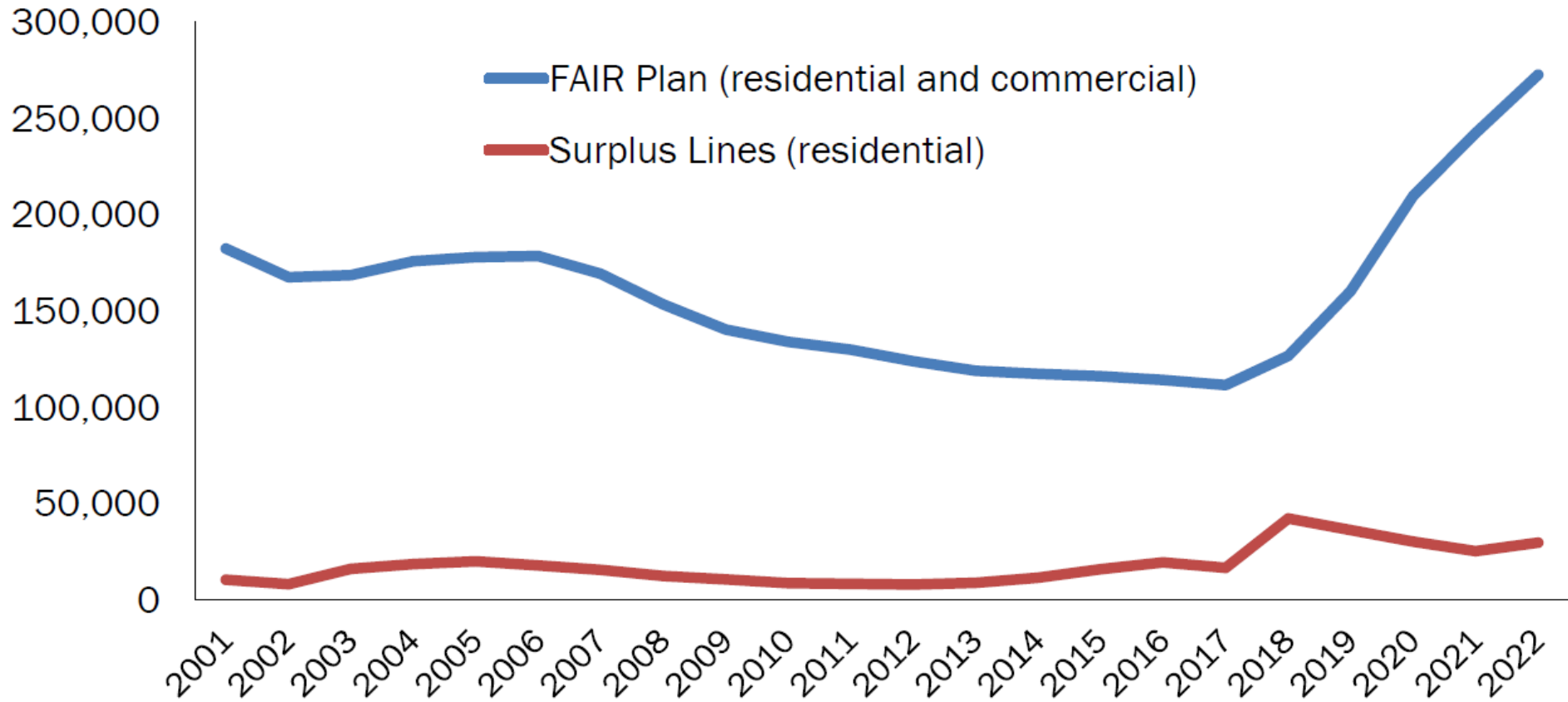
■ An Alternative?

- 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.

***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



Market Outlook Downgrade



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.

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





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

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