



Date: May 22nd, 2020

To: Honorable Lorena Gonzalez, Chair
Honorable Frank Bigelow, Vice Chair
Members, Assembly Appropriations Committee

Re: AB 2167 (Daly) and SB 292 (Rubio): Insurance Market Action Plan/Wildfire Risk Modeling and Mitigation

Position: Support

The insurance trade associations listed on this letter represent a large and diverse group of California domestic and national insurance companies that serve the vast majority of California's homeowners. We support AB 2167 (Daly) and SB 292 (Rubio), which must be enacted jointly to become operative. These measures provide a comprehensive framework to increase the availability of admitted market insurance in high fire-threat areas, and help reduce risk and loss through individual home hardening and community-wide wildfire mitigation.

Major provisions of these bills:

- Establish the Insurance Market Action Plan (IMAP) program and authorize an insurer to submit an IMAP filing, which would be subject to approval by the Department of Insurance.
- Require, as part of an IMAP filing, an insurer to commit to offer new and renewal residential property insurance policies in counties with high fire-threat areas, as specified, until the insurer achieves a market share in those IMAP counties that is at least 85% of its statewide market share.
- Require an IMAP to include community and parcel-level mitigation standards, procedures for verifying mitigation activities, a request for adequate rates, and a plan for maintaining solvency of the insurer (i.e., the ability to pay claims in the event of a disaster).
- Allow an IMAP filing to utilize complex catastrophe models that consider both parcel-level and regional mitigation.
- Provide a framework for a new state commission, with a broad group of stakeholders, which will develop home and community hardening standards that can reduce loss due to wildfires, and establish a central database on housing infrastructure specific to wildfire risk.
- Create a Catastrophic Modeling Advisory Committee that will develop a plan for a public catastrophic wildfire loss model, strategies for review of third-party models, and support the use of probabilistic loss modeling in IMAP rate filings.
- Require the state's Office of Planning and Research to issue an accountability report that analyzes the effectiveness of the IMAP program at providing more robust coverage at lower cost than the California Fair Access to Insurance Requirements (FAIR) plan, and monitors the insurers' progress on their commitment to offer homeowners insurance policies in wildfire-prone communities.

In recent years, California has experienced a massive increase in the loss of life and property caused by wildfires. The 2017 and 2018 wildfires resulted in over \$26 billion of losses for California home insurers, leading Moody's Investors Service to report that *"Despite California's history of moderate loss ratios compared with hurricane-exposed states, wildfire losses drove California homeowners insurance loss ratios to the highest in the nation in 2017-18."*

These historic financial losses place tremendous upward pressure on the price of homeowners insurance, and have forced many insurers to safeguard their solvency by limiting the amount of insurance they sell in high fire-threat areas of the state. In some high-risk regions, homeowners have experienced difficulty finding a policy from an admitted insurer, and therefore turn to the FAIR Plan (California's "insurer of last resort").

The FAIR plan provides guaranteed access to basic property insurance at actuarially sound rates, which are approved by the California Department of Insurance (CDI). The insurance industry has long maintained that the FAIR plan, which has served Californians for more than 50 years with fully sound and guaranteed policies, is the appropriate program for Californians in high fire-risk areas that cannot find coverage in the admitted market.

In addition, *more than a dozen insurance market reform bills* were enacted during the 2018 Legislative Session. These bills targeted many of the problems highlighted by recent wildfires and are just starting to take effect. Some examples include:

- 1) Prohibiting an insurer from cancelling or nonrenewing a homeowners' insurance policy for one year from the date of a declaration of a state of emergency (*SB 824/Lara*); and
- 2) Imposing a requirement that an insurer must offer a homeowner who incurs a total loss two renewals of the property insurance policy covering the home, and at least 24 months of coverage after the loss (*SB 894/Dodd*).

However, we understand that there is significant stress among homeowners in some high-risk regions, and the Legislature has strongly expressed the desire for new and innovative solutions that will increase the availability of admitted market insurance in those areas. Thus, while there likely is no "perfect" solution, we believe that the AB 2167/SB 292 proposal to provide an innovative IMAP process that balances insurer risk and rates in combination with a substantive effort to mitigate wildfire risk and loss in the longer term, is an appropriate response that insurers can support without fear of insolvency or jeopardizing their ability to pay claims in the event of a disaster.

The ability to manage risk is fundamental to the existence of insurance. Serving high fire-threat regions, as required by these bills, is not a commitment that insurers take lightly or easily. However, because these measures provide a comprehensive plan that will increase the availability of admitted market insurance in high fire-threat areas in a responsible manner, allow insurers to utilize modern risk analysis models, and facilitate the reduction of risk and loss through home hardening and community-wide wildfire mitigation, the undersigned trade associations support AB 2167 and SB 292.

We are also hopeful that the state and federal government will do their part to address the threat of wildfire through improved forest management, fuel reduction programs, and enhanced resources for fire prevention activities. If you have any questions regarding our position, please contact Seren Taylor (PIFC) at (916) 346-9427.

Sincerely,

Personal Insurance Federation of California
Pacific Association of Domestic Insurance Companies
American Property Casualty Insurance Association
National Association of Mutual Insurance Companies

cc: Assemblymember Tom Daly, Author
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