# *VIRTUAL INSURANCE TOWN HALL*

JULY 2, 2024

PIFC

Seren Taylor, Vice President
Personal Insurance Federation of CA

PIFC

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**75.88% of HO Insurance Market Share**

# Key Issues in CA Insurance Market

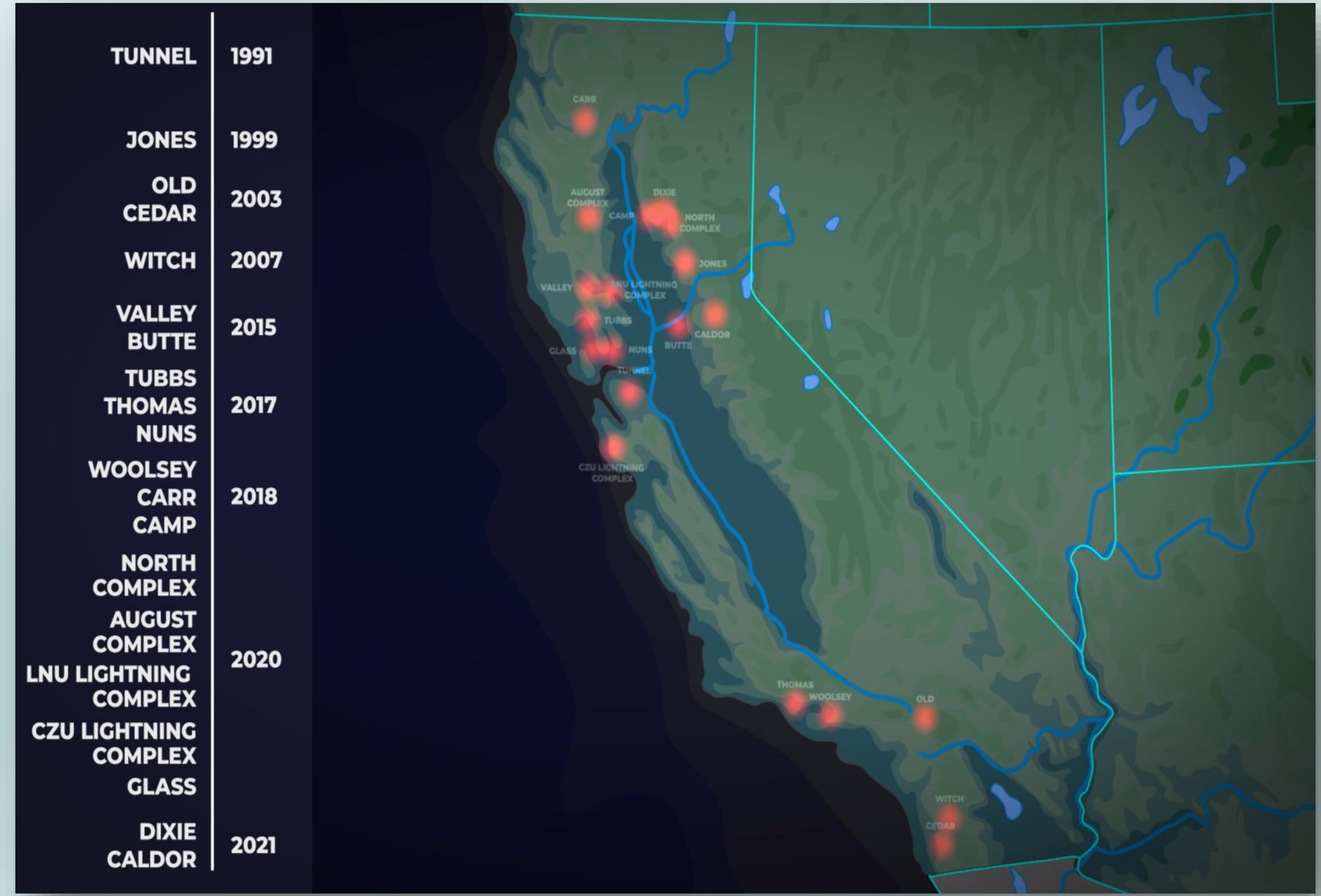
- *Catastrophic Losses*
- *Hyper-Inflation Effect*
- *Fair and Adequate Rates*
- *Outdated Regulations*
- *FAIR Plan Financial Sustainability*

# Global Top 10 Costliest Wildland Fires

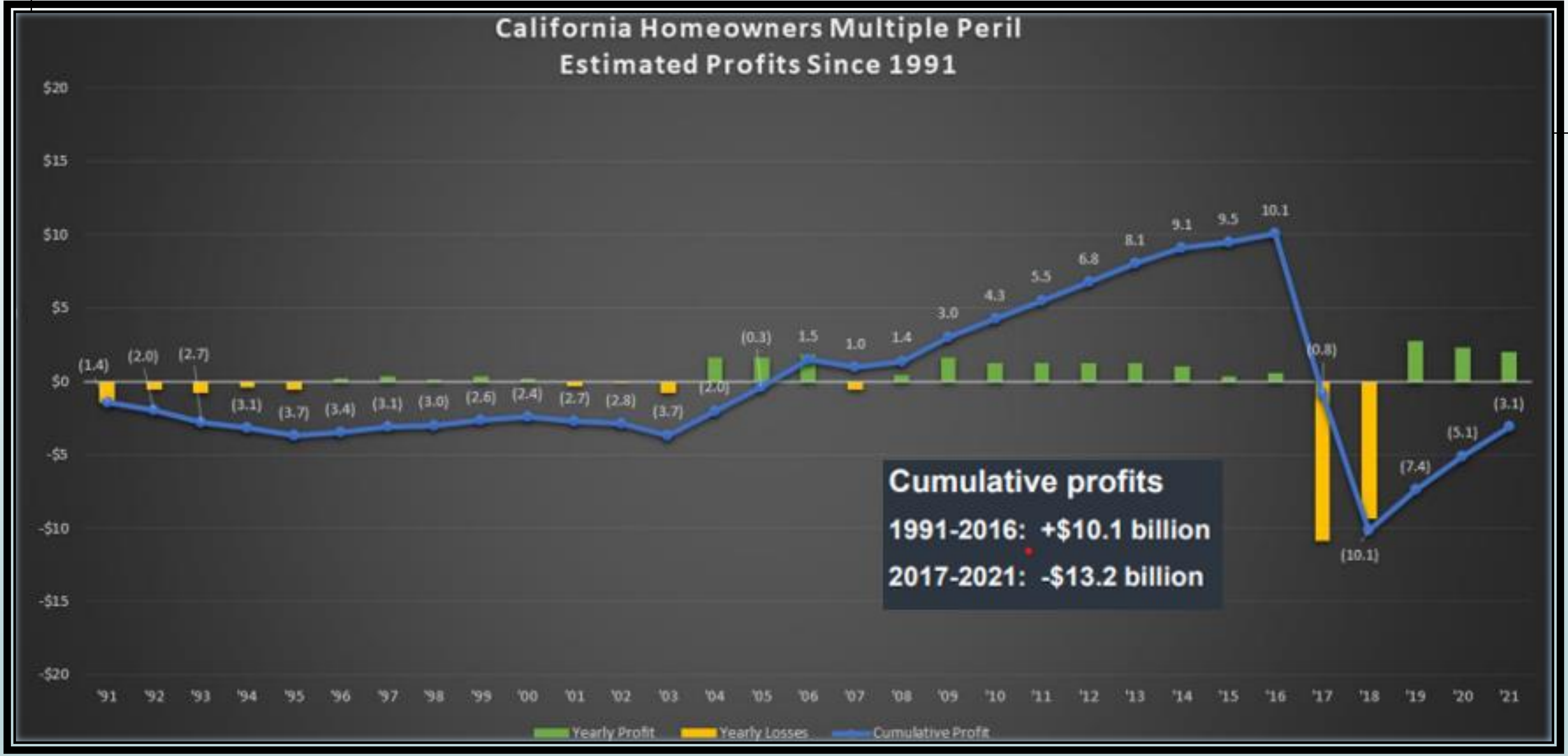
*(Insured Losses in $ millions, in 2022 dollars)*

- ***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)



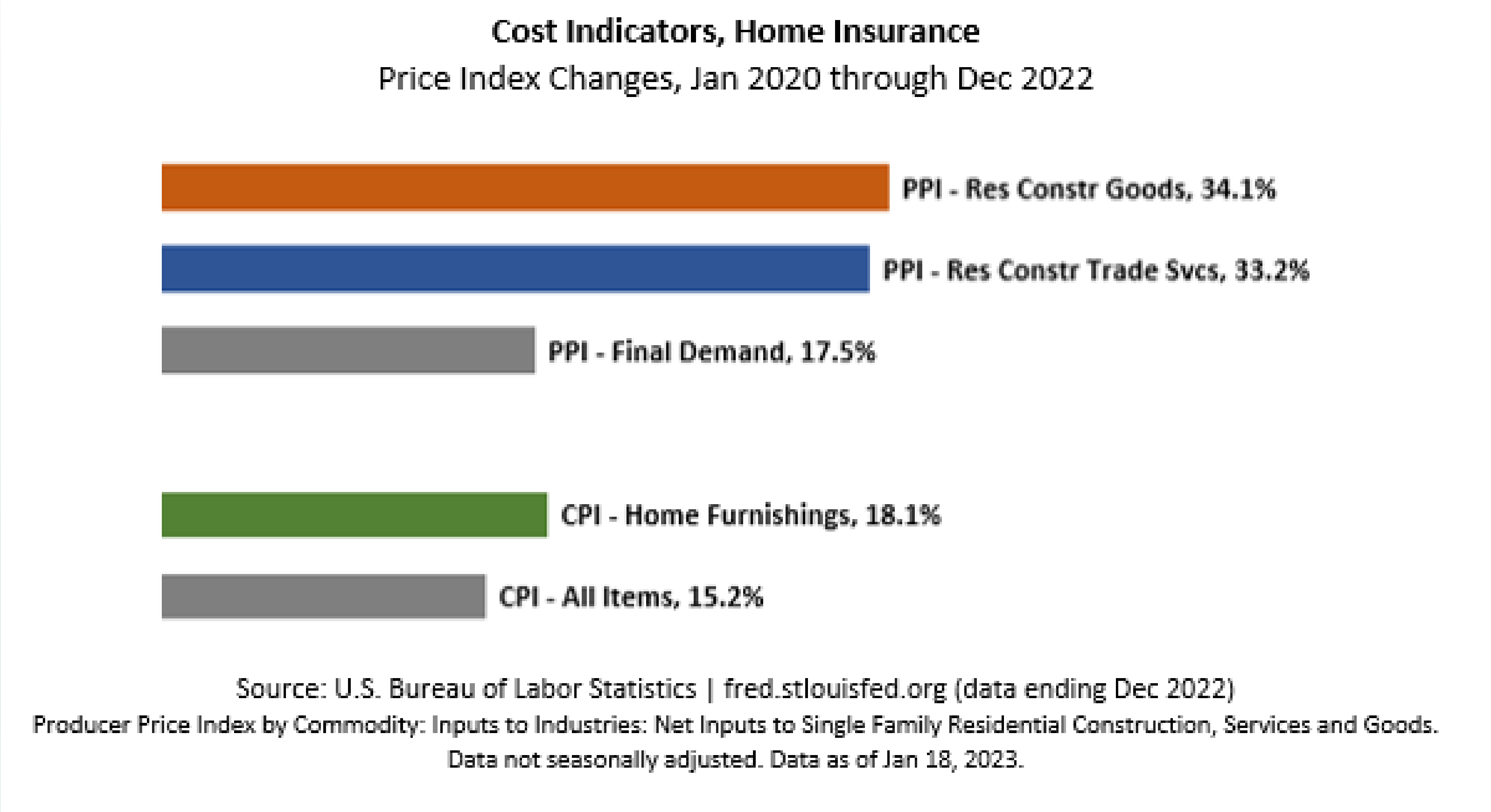
# Insurers' Understanding of Catastrophic Fire Risk Has Changed:




Milliman

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

# Hyper-Inflation Drives Costs and Rates



# 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%*

# CA Average Premium Growth Over Time….
*Lower than the National Average*

| State | 2021 | Rank | 2020 | Rank | 2010 | Rank | % Change ‘10-’21 | % Change ‘20-’21 | % Change ’10-’20 |
|---|---|---|---|---|---|---|---|---|---|
| Florida | $2,437 | 1 | $2,165 | 1 | $1,544 | 3 | 57.8% | 12.6% | 40.2% |
| Louisiana | $2,259 | 2 | $2,038 | 3 | $1,546 | 2 | 46.1% | 10.8% | 31.8% |
| Texas | $2,146 | 4 | $2,000 | 4 | $1,560 | 1 | 37.6% | 7.3% | 28.2% |
| Colorado | $1,806 | 6 | $1,667 | 7 | $926 | 19 | 94.6% | 8.1% | 80% |
| California | $1,403 | 20 | $1,241 | 24 | $939 | 17 | 49.4% | 13.1% | 32.2% |
| U.S. | $1,411 | | $1,311 | | $909 | | 55.2% | 7.6% | 44.2% |

# 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)

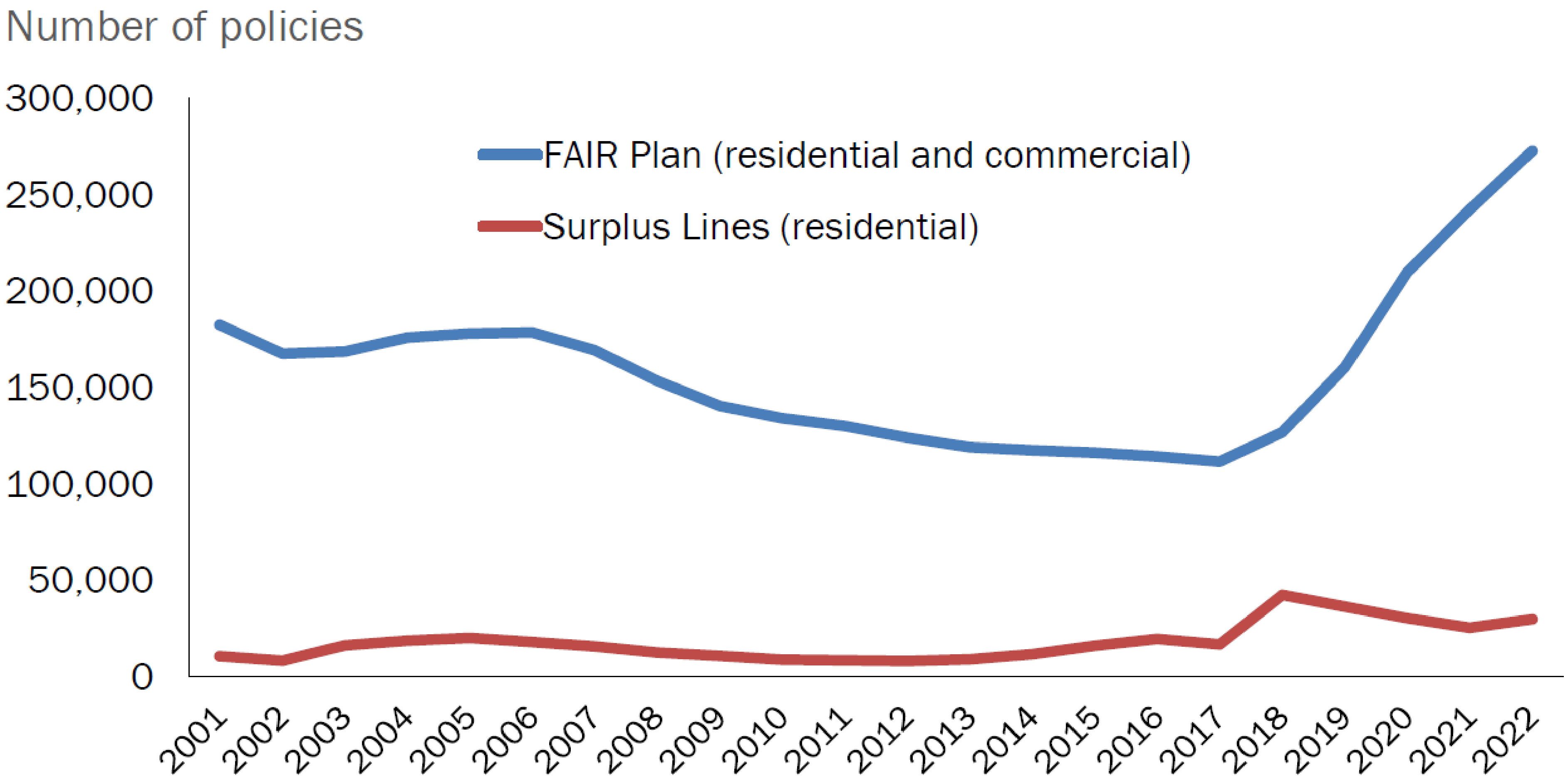
- **An Alternative? Projecting Losses Based Upon Current and Future Conditions**
  - Insurers are seeking authority to formulate rates using probabilistic models that assess a home's location, fuel risk, and condition (including mitigation features).
  - California is the **Only State to Prohibit** Use 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.

***The FAIR Plan is***
***the Pressure Relief Valve***
***for a Dysfunctional Market***

# FAIR Plan growing rapidly




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


CALIFORNIA FAIR PLAN PROPERTY INSURANCE

# Market Outlook Downgrade

AM BEST SINCE 1899®

**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.

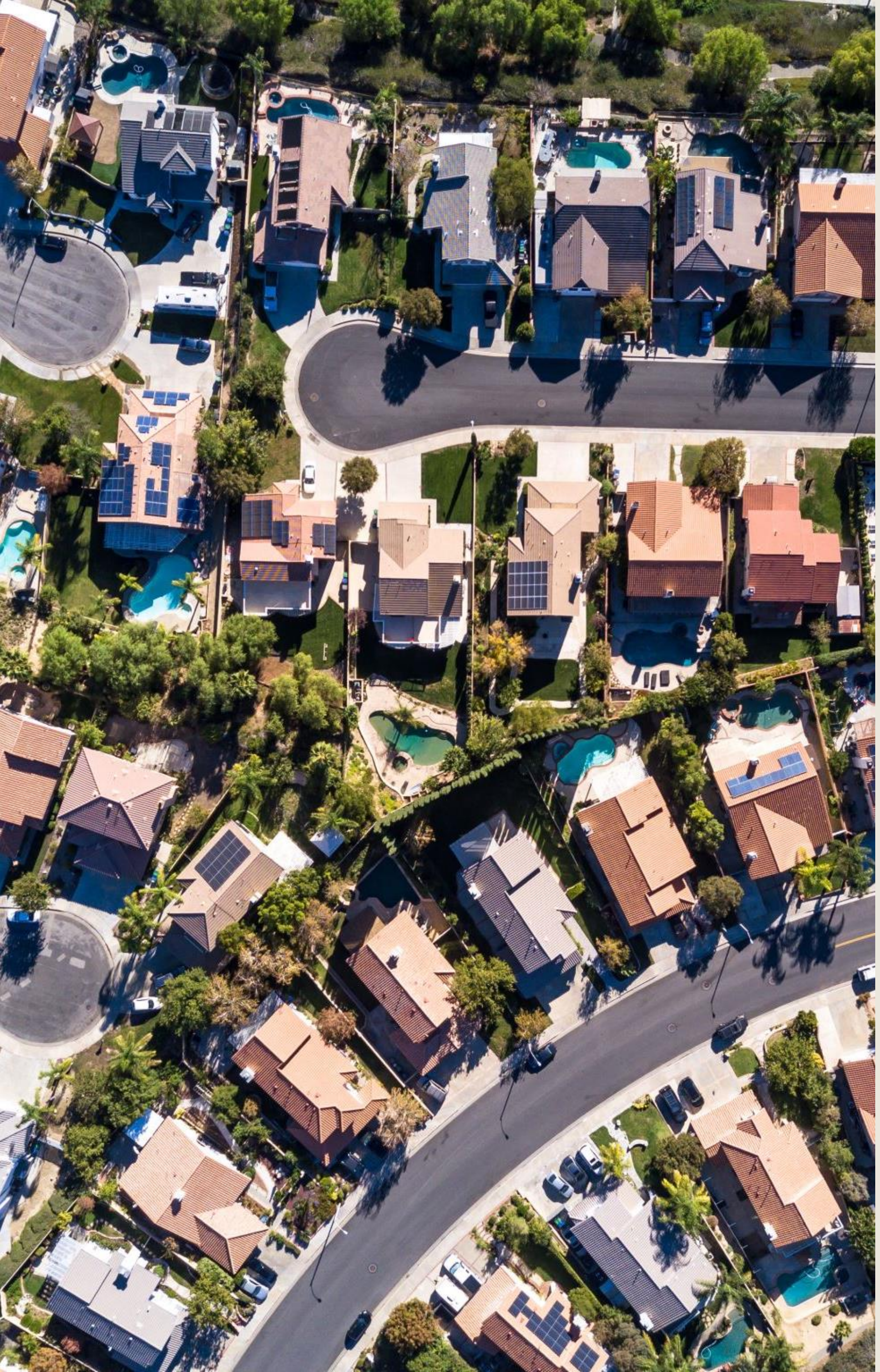
# How Do We Restore a Healthy and Competitive Insurance Market?

# Mitigation is Important But Not 100% Effective:

- <u>The Science of Fire Mitigation is Getting Better, But Not Settled</u>
  - *Insurance Institute for Business and Home Safety (IBHS)* is the primary research organization that influences insurer filings.
  - **"Wildfire Prepared Home"** provides parcel-level guidance
- <u>What Is Getting Recognized by Insurers?</u>
  - 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: **"Safer from Wildfire Regulations"** requires insurers to provide mitigation discounts and risk scores and tell consumers about the wildfire risk factors on their property. The regulations also include a process for policyholders to appeal the risk score.
- <u>What Is Next?</u>
  - 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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