STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, 17th Floor
Sacramento, CA 95814

August 30, 2023 REG-2023-00010

INVITATION TO SECOND WORKSHOP EXAMINING CATASTROPHE MODELING AND INSURANCE

You are invited to participate in the prenotice public discussion. The purpose of these discussions is to provide interested and affected persons an opportunity to present statements or comments regarding contemplated future regulations.

Please note that under the California Public Records Act (Government Code Section 6250, et seq.), your written and oral comments, and associated contact information (e.g., your address, phone number, e-mail, etc.) will become part of the public record and can be released to the public upon request.

Date, Time and Location

Date: September 28, 2023

Time: 1:00 p.m. The virtual workshop shall continue until all in attendance wishing to provide comments have commented, or 5:00 p.m., whichever is earlier.

Location: Link to Register for the Web-based Virtual Format:
https://us06web.zoom.us/webinar/register/WN_S0MiAkfeQaei5gJPoKNBwA

Attendance.

The moderated call-in line to be used for the public workshop is accessible to persons with hearing impairment. Persons with sight or hearing impairments are requested to notify one of the contact persons for these discussions (listed below) in order to review available accommodations, if necessary.

Please direct all inquiries regarding these workshops to the contact persons named below.

Statement of the Problem.

Continuing to address climate-intensified wildfire risks to California communities is a high priority for the State of California.

For example, the California State Legislature and Governor have invested approximately $2.7 billion in state funding for wildfire resilience in just the past three years. The Fourth California Climate Assessment, published in 2018, found that, if greenhouse gas emissions continue to rise, the frequency of extreme wildfires will increase, and the average area burned statewide would grow by 77 percent by 2100. This finding underscores the importance of risk mitigation actions to reduce future losses to communities and homeowners that are exposed to wildfire risks.

Intensified wildfire risk to communities has had consequences for insurance availability and affordability in recent years. For example, devastating California wildfires have contributed to billions of dollars in insurance rate increases requested by companies since 2015. Furthermore, data collected by the California Department of Insurance shows that the annual number of non-renewals by insurance companies is higher for the years 2018-2021 than it was in 2015.

The Department of Insurance has focused a multi-year effort on engaging with consumers and stakeholders as it assesses how new tools can improve risk management, make residential and commercial insurance more available and reliable for Californians, and maintain competition and stability in the state's insurance marketplace. The Department of Insurance has been very clear that benefits to consumers are of utmost importance as it strives to increase the availability of reliable insurance from the admitted market, ensure the long-term sustainability of the market, and incentivize the accurate recognition of wildfire mitigation efforts.

The following actions provide further examples of this multi-year effort. Within weeks of assuming office, Insurance Commissioner Ricardo Lara began meeting with Californians to hear their concerns about what California's devastating wildfires will mean for their ability to find and retain homeowners and commercial insurance. In 2019, Commissioner Lara convened the Climate Insurance Working Group with environmental advocates, researchers, wildfire officials, and insurance experts, which focused on producing recommendations to reduce the increasing impacts from climate change, close insurance protection gaps, and manage the risks associated with climate-intensified wildfires, flooding, and extreme heat. In October 2020, Commissioner Lara convened an investigatory hearing on wildfire and insurance, and the evidence and testimony presented at that hearing highlighted that home- and community-based hardening techniques are effective and essential methods to reduce the wildfire risk to lives and property.

Risk management tools, such as catastrophe models, have been a part of previous public testimony. In December 2020, Commissioner Lara held a virtual public meeting and invited testimony from 14 individuals with wildfire expertise and experience, including researchers from the University of California and the Institute for Business and Home Safety, representatives from multiple catastrophe modeling and actuary firms, and experts engaged in community risk mitigation programs. The testimony and presentations described how wildfire mitigation could reduce the spread and risks of future wildfires, and asked whether California consumers could benefit from the use of wildfire catastrophe models in the rate approval process for homeowners and commercial insurance lines.

As a result of public testimony from wildfire mitigation experts and hearing directly from policyholders in communities throughout the state, Commissioner Lara took action on wildfire mitigation by promulgating his groundbreaking regulation that recognizes and rewards wildfire safety and mitigation efforts made by homeowners and businesses. The rulemaking became operative in October 2022 and is the first-in-the-nation regulation to require insurance companies to provide wildfire safety incentives to consumers under the "Safer from Wildfires" framework created by the Department of Insurance in partnership with several state emergency preparedness agencies.

Furthermore, in 2021, the Commissioner's Climate Insurance Working Group released the firstever Climate Insurance Report. Among the recommendations, the working group stressed the importance of risk assessment, and one recommendation advised the Insurance Commissioner to hold public meetings specifically on the use of catastrophe models as a tool for estimating catastrophe losses, noting that a public meeting would give the public an opportunity to discuss and assess such policy tools.

For the past 30 years, the use of actual historical catastrophe losses has been the method used for estimating catastrophe adjustments in the California rate-approval process. However, historical losses do not fully account for the growing risk caused by climate change or risk mitigation measures taken by communities or regionally, as a result of local, state, and federal investments. Catastrophe estimates based on historical losses only reflect losses after they occur. As a result of climate-intensified wildfire risk, continued development in wildland urban interface areas, and recent increased efforts to mitigate wildfire risks, past experience may no longer aptly reflect the current wildfire exposure for property owners and insurance companies.

With a regulatory framework established under Proposition 103 and a reward for mitigation efforts made by homeowners and business owners now in place, Commissioner Lara convened a public virtual workshop in July as a next step in the thorough evaluation of tools that could help insurance policyholders and insurance companies better anticipate catastrophe losses. Risk assessment tools are an important element for achieving expanded insurance options for current policyholders and those seeking insurance policies. The Department also seeks to meet the requirements for public inspection of risk assessment tools that may be relied upon by insurers in their rate filings while recognizing that private companies maintain proprietary information in a competitive marketplace. Accordingly, the workshop last month focused on exploring the legal questions presented by the public inspection requirement of Insurance Code section 1861.07.

The Commissioner convenes this workshop to further examine the use of catastrophe modeling tools in the insurance rate approval process and to understand how such tools can be used for not just wildfire but other perils.

Workshop Focus.

This workshop will focus on understanding how the use of catastrophe modeling in the rate approval process to develop an aggregate catastrophe adjustment and aggregate losses will impact insurance availability and affordability over time and how the Department can ensure the integrity of model projections upon implementation. The workshop will explore, among other issues, the review of models by experts, the remedy when models produce different results, and the data being used within the models to generate aggregate loss projections.

Although this workshop will not focus on specific regulatory text, participants should be prepared to present comments on the specific questions and subject areas identified below as part of these public discussions. Participants are also invited to submit written statements and are encouraged to provide supporting documents and materials as well.

Public Input Regarding Alternatives.

The Department of Insurance hereby seeks public, academic, and stakeholder expertise regarding the use of catastrophe models in the rate approval process. Please provide written or oral comments outlining possible solutions and answers to the “Questions for Discussion,” below. Please provide this input regarding alternatives to Jon Phenix, via electronic mail to CDIRegulations@insurance.ca.gov by September 27, 2023.

Questions for Discussion.

IMPACT ON INSURANCE MARKETPLACE

- How would the use of probabilistic catastrophe models to develop aggregate losses in the rate approval process impact insurance availability, affordability, and rate stability over time? Explain in detail whether the use of such models would increase the short-term and long-term availability of insurance to Californians in high-risk wildfire areas at reasonable rates.

- How would catastrophe models account for wildfire mitigation and risk-reduction strategies (including mitigation efforts already identified in Title 10, California Code of Regulation, Section 2644.9) being undertaken by governments, communities, and consumers in California?

MODEL REVIEW

- What kinds of experts would best assist the Department in reviewing and determining the appropriateness of catastrophe models during the rate approval process?

- What information related to catastrophe models should the Commissioner require in order to allow the model to be used in setting rates? What information related to a catastrophe model is necessary for the Department to evaluate as part of a complete rate application?

- If a catastrophe model has already been reviewed by the Department and other parties as part of a proceeding, but the model is subsequently updated or otherwise changed, how should the Department ensure that the prior review of the model is still sufficient? What additional information will need to be submitted for review of the revised model?

MODEL IMPLEMENTATION

- The Department currently authorizes the use of models to develop aggregate projected earthquake losses. If models are used to develop catastrophe losses for other perils (e.g., wildfire and flood), how should the process to review and use such modeled losses in rate filings be similar or different from the use of modeled earthquake losses?

- Given that different models' estimates of aggregate projected losses from the same portfolio of risks may be dramatically different (e.g., projected losses from one model may be 100% higher than the other), how can the Department best assess the accuracy and reliability of using modeled catastrophe losses?

- How is the data collected and published under Insurance Code section 929 currently being used and/or expected to be used going forward by catastrophe modelers, insurers, and other stakeholders such as local and state government, fire officials, and researchers? What additional types of data would modelers and insurers find helpful for the Department to collect going forward, related to wildfire or other perils?

- If the Department were to make available a public catastrophe model for all insurers to use in the rate approval process, what are some components that would be necessary to make the model useful for insurers?

This is Not a Formal Public Hearing on Proposed Regulations.

Please be advised that participation in these prenotice public discussions will be in addition to, and not in substitution for, any participation in any formal rulemaking process that may follow. This invitation to the prenotice public discussions does not constitute a Notice of Proposed Action. Consequently, comments (oral or written) received in connection with these prenotice public discussions may not be included in any record of rulemaking that may follow. Similarly, the Department of Insurance is not required to respond to comments received in connection with the prenotice public discussions. For this reason, if you wish to have comments included in any rulemaking file that may follow, or if you wish to have the Department of Insurance respond to your comments as part of the process by which it adopts this regulation, you must present your comments during the public comment period according to the procedures outlined in any Notice of Proposed Action issued in the future. Again, comments submitted in connection with these prenotice public discussions will not be considered in any subsequent rulemaking proceeding unless they are resubmitted after the Notice of Proposed Action is issued. However, the Commissioner will consider public comments received in these prenotice public discussions as he contemplates any additional regulatory changes that may be proposed in a Notice of Proposed Action.

Contact Persons.

All substantive questions and concerns regarding the contemplated regulations and/or these public discussions should be directed to Jon Phenix, using the contact information below. Please submit any written comments via electronic mail to CDIRegulations@insurance.ca.gov by September 27, 2023.

Logistical Inquiries
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