

## CLIMATE INSURANCE WORKING GROUP MEETING | January 6, 2023

### Meeting Minutes

#### Participants:

Alice C. Hill (Chair) | Senior Fellow for Climate Change Policy at the Council on Foreign Relations

Carolyn Kousky (Vice-Chair) | Executive Director, Wharton Risk Center

Serena Sowers | Vice President, Public Sector Solutions North America, Swiss Re

Sona Mohnot | Greenlining

Lloyd Dixon | Senior Economist at the RAND Corporation and Director of RAND's Center for Catastrophic Risk Management and Compensation

Louis Blumberg | Principal of Blumberg West Consulting

Katelyn Roedner Sutter | Climate Program Manager, Environmental Defense Fund

Raghuveer Vinukollu | Natural Catastrophe Solutions Manager, Munich Re

Michael Lynes | Policy Director, Audubon

Mike Peterson | California Department of Insurance

### Meeting Minutes

**Carolyn Kousky** welcomed the group members, reiterated the working group's focus on closing protection gaps, and reminded the members that the Department had presented their concept for extreme heat insurance, and asked for feedback from the group members.

**Mike Peterson:** In California United Policyholders is a non-profit that does outreach and education and policy, advocacy and guidance across the State to help consumers navigate insurance issues, and Amy's led that effort for several years. The reason that this is such an important crossover with this group and our recommendations is that during the process of developing the Climate Insurance report, we really centered on

under insurance and on insurance as a major issue for equity, for resilience and for approaching climate change here in California, and part of that underinsurance. challenge is really tricky. One of the recommendations in the Climate Insurance Report is Wildfire Recommendation Number 6, which is to focus attention and collaboration on reducing the frequency of underinsurance.

And for us at the Department and for other actors within the State to implement that it's really important for us to kind of keep a focus and bring in experts who can really speak to that, and that is the driving force behind Amy being here today is to be able to provide one of those presentations.

**Mike Peterson** shared that the Department of Insurance recently finalized the first-ever wildfire mitigation regulation in October 2022, which require insurance companies to file new rate filings that reward home hardening attributes and make certain risk information that they utilize more transparent to the public. United Policyholders had started a WRAP (Wildfire Resilience and Asset Protection) initiative to discuss similar topics and had come up with a framework that was very informative to the Department. Because Amy and United Policyholders have worked with so many consumers over multiple states, Amy Bach is also a consumer representative for the NAIC, where Commissioner Lara is co-chair of the Climate and Resiliency Task Force.

**Amy Bach** presented on property insurance and disaster resiliency, and in particular, the United Policyholders “Roadmap to Recovery,” “Road to Preparedness” and

- Roadmap to Recovery: this is how you read your policy. This is an educational initiative on how you understand your insurance policy and what you are entitled to, implemented through a series of classes on all the phases of recovery. This helps survivors understand the limits and exclusions.
- Insurance is a contract, there are laws in play, and there are economic dynamics in play, and all the way through we try to give people positive messaging about, you know, dealing with their lender and all those things. We realized we had to build another program, the Roadmap for Preparedness, where we are out there all the time in in, in communities and with our partners doing presentations, putting out publications.
- Underinsurance: Amy Bach shared thoughts on the problem of underinsurance. Many people believe that because they have insurance they are all set. However, in surveys conducted by United Policyholders after major disasters, Amy noted that about two-thirds of homeowners with a total loss report being underinsured.
- For example, last year the Colorado Department of Insurance did an underinsurance survey, because so many people from the Marshall fire found themselves underinsured.
- Amy shared that her organization is calling on Regulators to really pay more attention to the forms because we're seeing examples of departure from standardized form language and Property and Casualty policies. And you know

it's just another. I think challenge for regulators to try to put more resources toward combing form changes.

**Amy Bach** also presented information on the WRAP initiative, including:

- Her observation that the affordability availability challenges that we've been contending with in California, and also in Florida and in Louisiana, are starting to crop up in Oregon and Colorado and in in in regions where there have been large disasters that have caught the attention of insurance executives, leading to insurance companies retreating from wildfire risk areas. Next week the WRAP initiative working group will hear from Mark Brown, who runs the Marine Wildfire Protection Authority. And this is sort of these are all cutting edge people that we have speak. These are people who are leading an initiative in their community. to facilitate risk reduction, including providing grants, and hosting events like “ember stomps” and “wood chipping days.”

**Carolyn Kousky** asked a question about Amy Bach’s presentation.

- Has your group done any work on not just the kind of pre-fire trying to get more people to invest in retrofits and defensible space, but post-fire and the role that insurance could play in making sure that any rebuilding is done in alignment of best codes and best in class, and whether people actually need more money to do that or they just need education? Carolyn Kousky shared that she was struck by, like a lot of the examples that seem to be most effective that you were talking about really are very hands on like there's someone coming to your house and talking to you about what to do, and it seems to me that people really need that. But then it's difficult to scale, and I wonder if insurance companies could play a role in helping be that information provider connecting people to the right kind of contractor. So that was question one, and then related to it as the kind of post disaster mitigation is also like the ultimate mitigation. Are consumers open to strong building code requirements?

**Amy Bach** identified that United Policholders has a curriculum unit about resilient rebuilding. And could amplify and do more there. She has observed some jurisdictions making codes optional, rather than required.

**Michael Lynes** thanked Amy Bach for her presentation and posed a question. Michael Lynes noted that one of the early things Amy Bach talked about was sort of how you do outreach and education to the public most effectively. And I think that was one of the areas that we really tried to explore in our Climate Insurance Report but it was a challenging issue and we're still trying to figure out effective communication and education, and I just love to hear from you more on your experience and expertise in this space. From the perspective of United Policyholders, what are finding are the most effective ways to share information with the public. Is it in person handing off documents doing community meetings? Are there barriers to the type or deployment of materials?

**Amy Bach** responded that generally people do not like to think about codes, insurance, and wildfires, but in California it has become so hard for a lot of people to keep insurance on their homes that it has created more interest in wildfire risk reduction, making it easier to reach people. But it's always been hard to get people to pay attention when you're talking about insurance, and you know people already feel like it's an annoyance to have to spend money on something they can't eat, drink, enjoy, drive, whatever. She noted that United Policyholders does try to use partners to increase their outreach. CDI has a really great press operation and outreach to get messaging to the public. We support regulators and very strongly.

**Lloyd Dixon** then raised two additional questions. First, we are seeing an increase in insurance companies offering voluntary mitigation credits. So that is good news. As I recall, some of the reasons that insurers did not want to do that was that they did not feel like they were getting adequate rate in the first place so there was no room to reduce the rate because the rate was not enough. The second question related to how insurance companies view single homes amidst neighborhoods: even if you mitigate your house, some of your risk depends on what your neighbors do. And so that from the insurers perspective that is a barrier from giving a discount. To what extent have those types of barriers been overcome? For the insurers that offer those discounts, are they able to overcome those barriers in ways that others have not? The second question is one is about different rates and principle for new versus existing homeowners in a high wildfire risk area. On the one hand, you could think, well, you know, there should be some regulatory structure to create some cap on the increase in your insurance premium for existing residents, which would have a number of technical issues. On the other hand, you might set up some kind of affordability program that's being talked about in Congress for flood or other things. Do you have any thoughts on how to address that issue of burdens on existing homeowners and areas versus new ones?

**Amy Bach** answered the question by sharing that from her perspective insurance company underwrites, for many years, did not believe there were effective ways to stop a house from burning and therefore held the perspective that discounts were not justifiable. Experts in the firefighting sector had a different view. Mark Brown, fire chief in Marin County is presenting at the United Policyholders WRAP meeting next Tuesday. He was with Cal Fire for many years and he did some post fire analysis, such as after the Thomas Fire in Montecito, where, based on the post-fire evidence, he was convinced that a shaded fuel break saved 1,200 homes that could have gone down, and one home going down in that area could be a \$5 million cost for an insurance company. Overall, she shared that she felt the mindset among insurers for a very long time has been: Wildfires are so powerful you there's nothing you can do.

That is why the IBHS work has been so important. Because, they're respected and funded by the insurance industry. Being a believer that there are things you can do has been a really big sea change with getting insurers to believe that that you know prevention is possible. And then and then, of course, the standards coming out (from

CDI) was very, very important. Amy shared that she is hoping that we're going to see insurers competing for who offers the better mitigation discount.

In response to the second question, about adequate rates, Amy Bach noted that Proposition 103 had been in place since 1988 and when you see the premiums that some people are paying today are sometimes three times what they were paying previously, it is hard to really for me to accept the statement we hear from insurance companies that they are not getting enough rate. She shared that she felt like the crisis has been driven a lot more by the reinsurance sector and by technology by models scaring insurers out of wanting to underwrite properties, then it is for them being frustrated with the rate process. CDI has approved much of the requested rate filings since the 2020 fires.

Furthermore, Amy Bach shared that she does think that we are going to be seeing more financial assistance programs having to be developed. Not just for wildfire but related to earthquakes. Possibly having different options for high-end homes compared with more moderate homes. But subsidies are controversial too. And you could subsidize specific policies like renters insurance, or certain policies in high risk areas, but is that most effective use of public money to address the problem, I don't know.

**Mike Peterson** asked, because of time constraints today, whether the group members had any objection to moving the final agenda item, which is Agenda item 3 to the next meeting.

There were no objections.

**Mike Peterson** thanked Amy and asked for any additional comments or questions on the presentation from United Policyholders.

There was none.

**Mike Peterson** asked for any public comment.

There was none.

#### Agenda Item 2. Update on the implementation of the Climate Insurance Report from the Department of Insurance

**Mike Peterson** shared that the State Fire Marshal did put out a draft for updated Wildfire hazard severity maps. In the Climate Insurance Report, this working group identified that the maps had not been updated since 2007, which is a substantial interval of time, and probably the hazard has changed, or at least the methods for analyzing and addressing the hazard have changed over that time.

One of the Climate Insurance Report recommendations was for the maps to be updated and updated more regularly to provide a more consistent resource to the

public so that the public could invest in the planning and risk production necessary. We had several more specific recommendations embedded within that that I won't go into, but I did want to flag that.

About a year and a half ago, the Legislature passed a bill that made the mapping effort by CAL FIRE more comprehensive in local responsibility areas (LRA) in the future. Although the state statute has changed, there is not a specific timeline for the updated maps. Cal Fire put out a draft map in early December, but only for the State responsibility areas. The map is draft and we are in a public comment period, so if you want to be engaged and comment there are both opportunities to do that in writing, and also at I think they have almost 60 public meetings scheduled throughout the State in an effort to communicate this. To underscore this even more, it is only for the State responsibility area, which is about a third of the State of California's geography.

In future iterations of this process, there is going to be a draft local responsibility area map released, but we have not timeline on that process.

**Mike Peterson** asked if there were any additional comments or questions from the working group members.

There were none.

**Mike Peterson** asked for any public comment.

There was none.

**Louis Blumberg** asked about the timeline for the Department's efforts to conduct a cost study on extreme heat events, which was one of the recommendations in the Climate Insurance Report.

**Mike Peterson** responded that the Department was in the process of developing two approaches, a Request for Proposals that will be publicly published in the next two months and then a survey for local governments to better understand the costs that local governments may be paying to react, respond, and prepare for extreme heat events.

**Carolyn Kousky** thanked **Amy Bach** for the fantastic and thorough presentation and adjourned the meeting.