



# **Virtual Investigatory Hearing on Homeowners' Insurance Availability and Affordability**

**October 19, 2020**

# Keys to Homeowners' Market Prosperity

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Insurance Sustainability

Insurance Availability

Insurance Affordability

Market Competition

Intergovernmental and Public Collaboration

# **Proposition 103 Protects Consumers by Requiring Approval of Insurance Rates**

**“Every insurer which desires to change any rate shall file a complete rate application with the commissioner.”**

**– Proposition 103, Section 1861.05, passed by voters in 1988**

**Proposition 103 requires the "prior approval" of the Insurance Commissioner before insurance companies can implement homeowner, auto and other property and casualty insurance rates.**

# **Proposition 103 Requires that Insurance Rates be Fair**

Per California Insurance Code §1861.05, no rate shall be approved or remain in effect which is:

- Excessive
- Inadequate
- Unfairly Discriminatory
- Otherwise in violation of Proposition 103

# **Voters Gave the Insurance Commissioner Authority to Safeguard Consumers and Encourage a Competitive Market**

**“The purpose of this chapter is to protect consumers from arbitrary insurance rates and practices, to encourage a competitive insurance marketplace, to provide for an accountable Insurance Commissioner, and to ensure that insurance is fair, available, and affordable for all Californians.”**

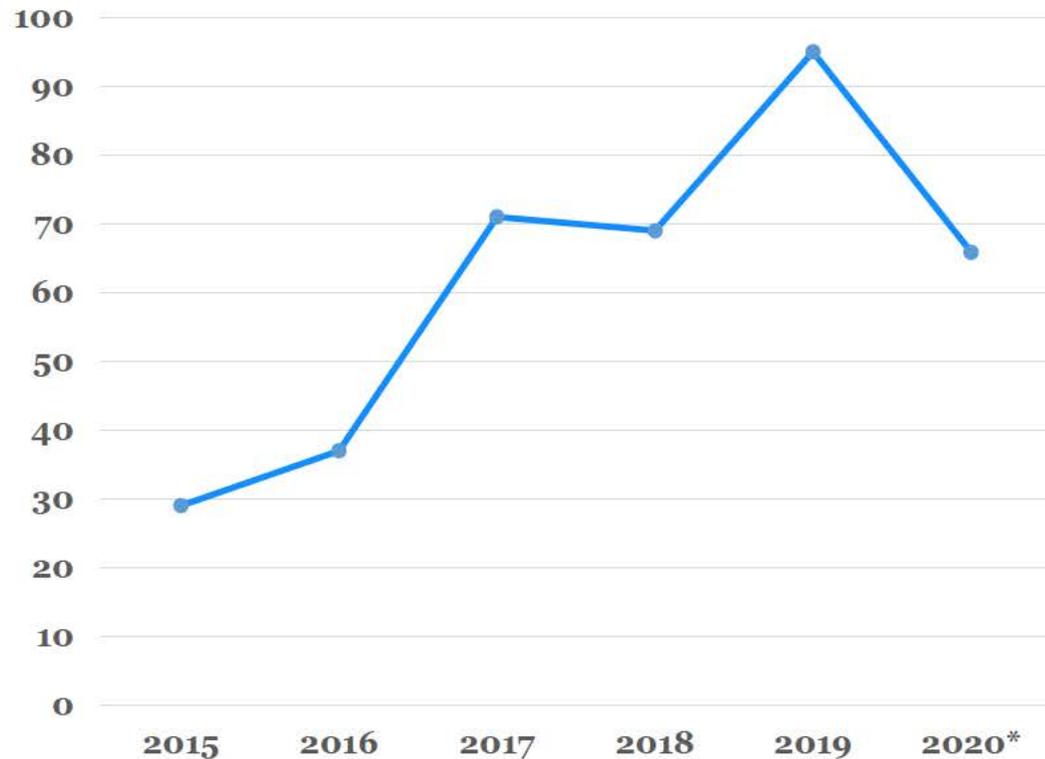
**–Proposition 103, 1988**

# Insurance Companies Determine Their Rates

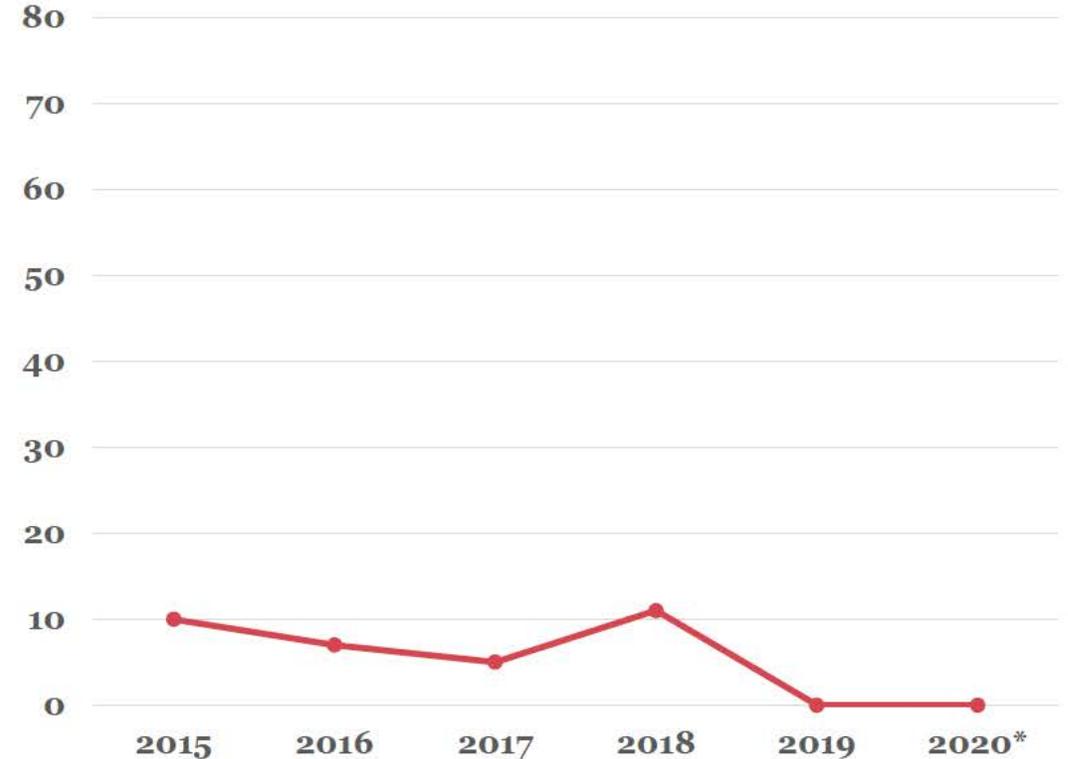
- Insurance companies try to predict their future rates based on past losses.
- Insurance companies can request to increase, decrease, or keep rates the same.
- Insurance companies submit data to the Department of Insurance showing the maximum rates needed to cover expected losses – though they may request less than the maximum.
- The Department reviews the rate application to make sure the insurance company has used the right data, made appropriate actuarial selections, and performed the required calculations correctly, to determine whether the requested rate is appropriate.

# Insurance Companies Have Requested Higher Rates Since 2015

Increases Filed by Insurance Companies



Decreases Filed by Insurance Companies



\*Data for 2020 was projected to represent a full-year total.

# Insurance Company Rate Increase Requests Have Tripled Since 2015

	Increases requested	Decreases requested
2015	29	10
2019	95	0

The number of filings with rate decreases for homeowners policies submitted by insurers has dropped from 10 in 2015 to 0 in 2019.

# **In 2019, Lower Losses and PG&E Settlement Disrupted the Upward Trend in Rate Increase Requests**

- According to CAL FIRE, “In comparison with the destructive years which preceded it, 2019 was a relatively mild fire season.”
- After record-setting losses in 2017 and 2018, in 2019 insurance companies took in more in premium than they paid in claims – the second highest-earning year since 1990.
- PG&E reached a settlement to reimburse insurers \$11 billion, offsetting more than one-third of wildfire losses in 2017 & 2018.
- Expected losses from 2020 wildfire season may lead insurance companies to request higher rates.

# Proposition 103 Gives the Public a Role in Rate Approval

Consumer participation is critical to the success of Proposition 103 in stabilizing and ensuring fair insurance rates.

“Any person may initiate or intervene in any proceeding permitted or established pursuant to this chapter, challenge any action of the commissioner under this article, and enforce any provision of this article.”

—Proposition 103

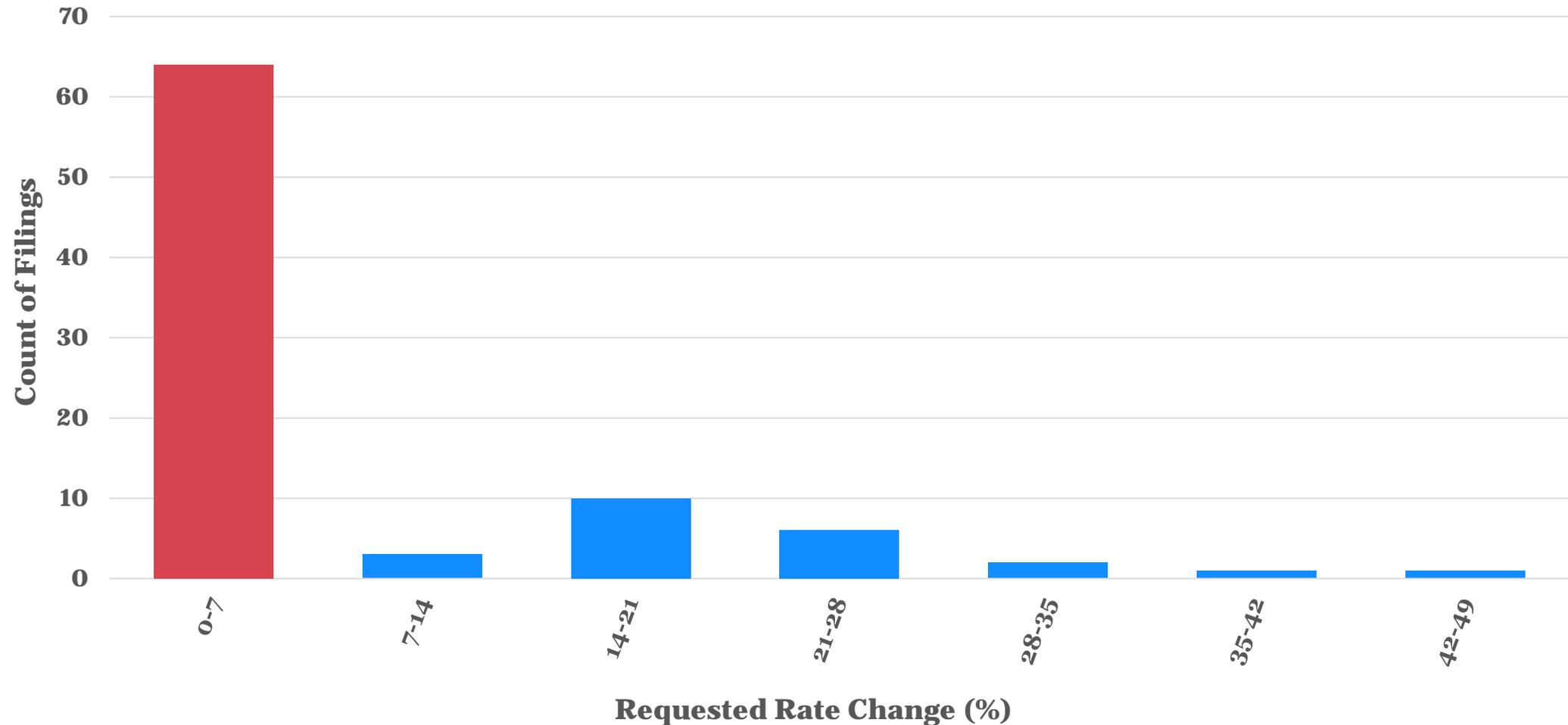
An insurance company proposing to raise their rate more than 7% allows a consumer intervenor to request a mandatory public rate application hearing.

# Public Intervenorors Can Add Additional Time to Rate Review— but in Few Cases

Rate Filing	Jan 2017 to Sept 2020	
	Filings	Average Approval Time (Days)
Non-intervened HO	244	160
Intervened HO	10	337
All Homeowners	254	167

Since the beginning of 2017, only 4% of all approved filings have been intervened.

# Insurance Companies Often Request Rate Increases Under 7%



# Some Insurance Companies File 6.9% Rate Increases to Avoid Public Participation

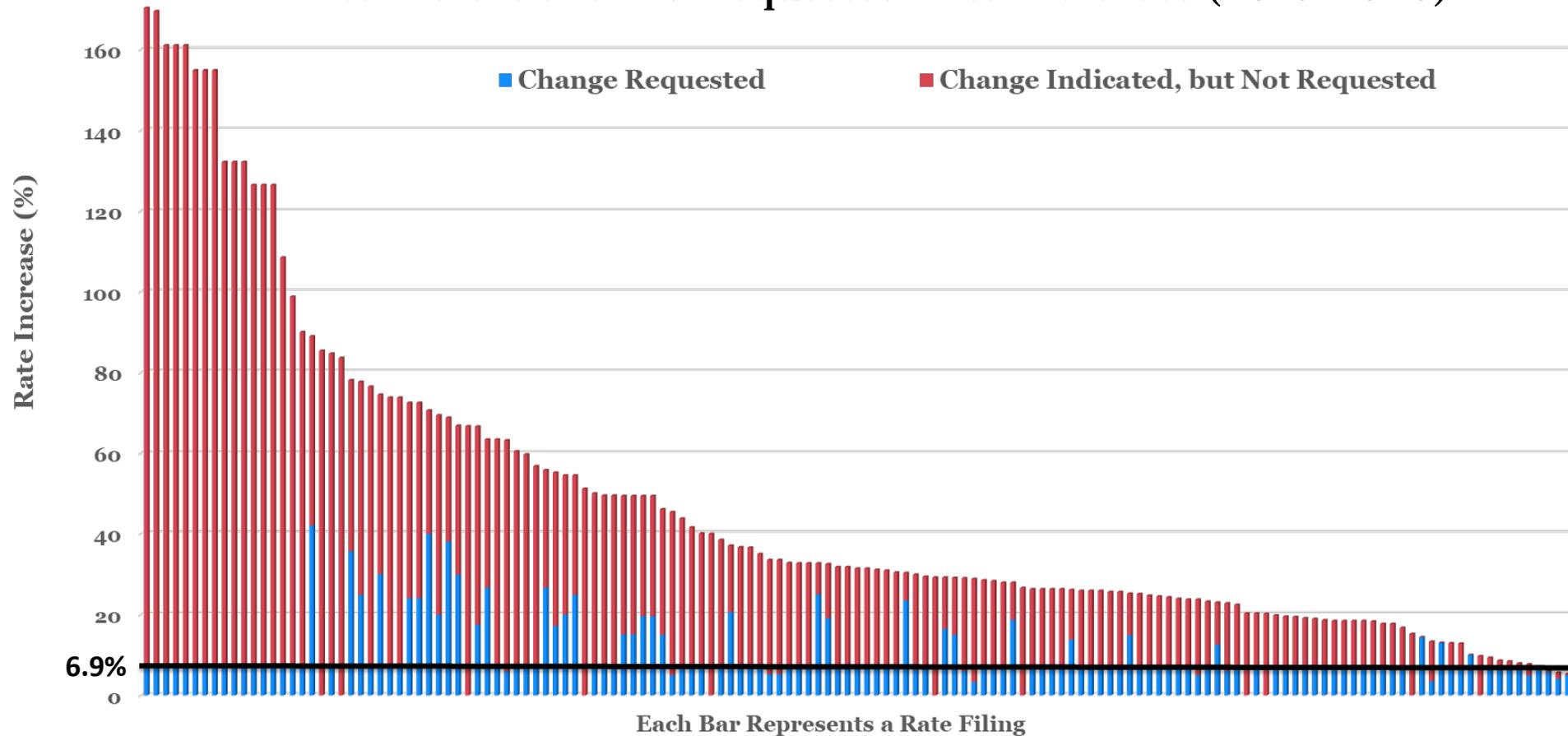
One company filed 6 separate 6.9% rate increase filings in a 23-month period

- 6.9% requested February 2018
- 6.9% requested November 2018
- 6.9% requested January 2019
- 6.9% requested May 2019
- 6.9% requested August 2019
- 6.9% requested December 2019

**49.2%** TOTAL INCREASE REQUESTED

# Insurance Companies Alone Decide Whether or Not to Play by the Rules

Rate Indications and Requested Rate Increases (2019-2020)



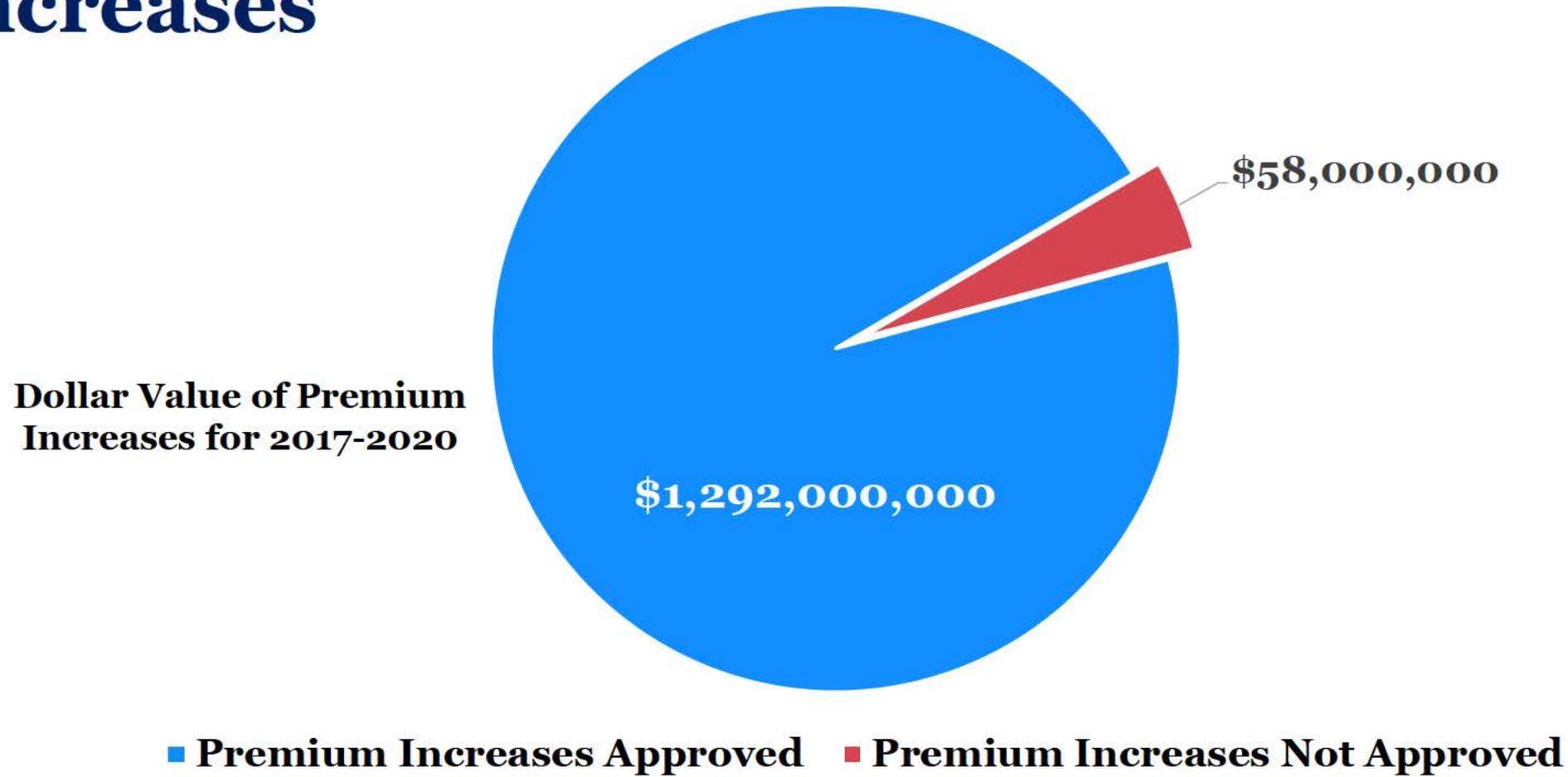
# Homeowners with Wildfire Risk Often Pay Higher Premiums

Example: in a recent rate filing with a requested overall increase of **6.9%**, the resulting impact to policyholder premiums ranged from **-30%** for policyholders with no wildfire risk to **+80%** for policyholders with a high wildfire risk.

# Approved Rate Increases Greater than 7.0% (2019-2020)



# The California Ratemaking Formula Is Not an Obstacle for Insurers Requesting Rate Increases



# Significant Increase in Insurance Company Nonrenewals and FAIR Plan Policies in 2019

## Nonrenewals

- **31%** increase in non-renewals by insurance companies statewide (2018-2019)
- **61%** increase in ZIP codes having an area with moderate to very high fire risk
- **203%** increase in the top 10 counties with the highest exposure of homes in high to very high fire risk

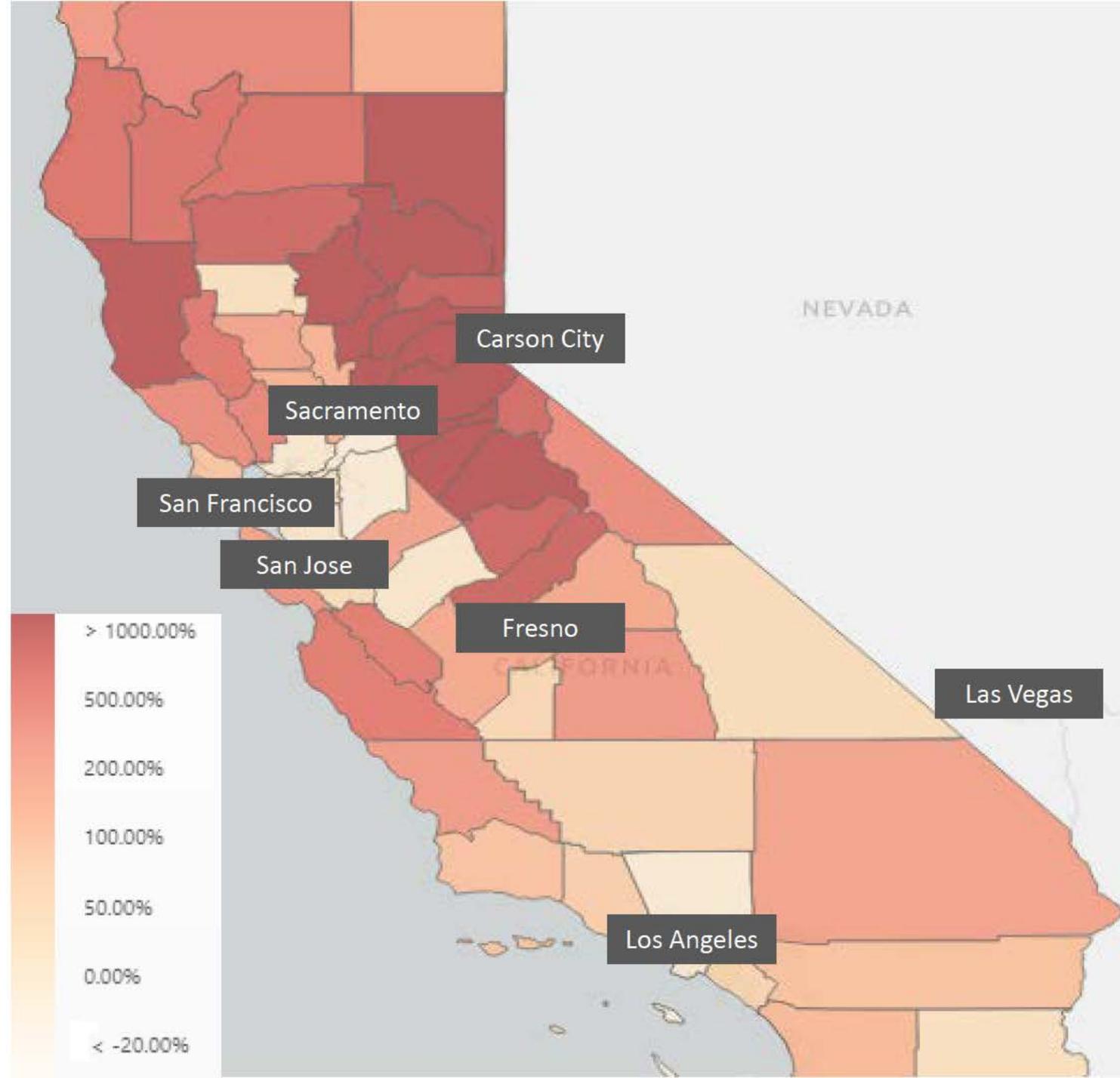
## FAIR Plan Policies

- **36%** increase statewide
- **112%** increase in ZIP codes having an area with moderate to very high fire risk
- **559%** increase in the top 10 counties with the highest exposure of homes in high to very high fire risk

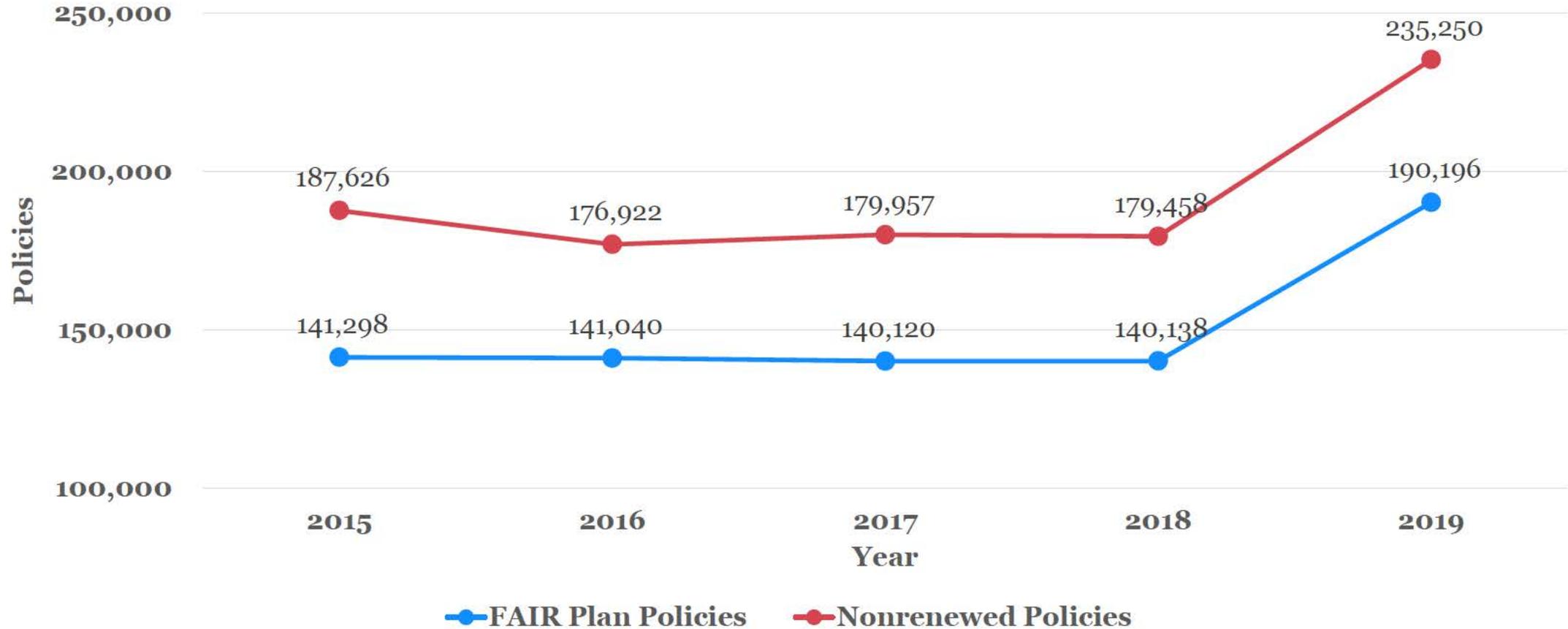
# 35% Increase in FAIR Plan Policies Statewide Since 2015

Darker colors show counties where there has been a large percentage increase in FAIR Plan policies in 2019 compared to 2015.

Source: Insurance industry data provided to the Department of Insurance



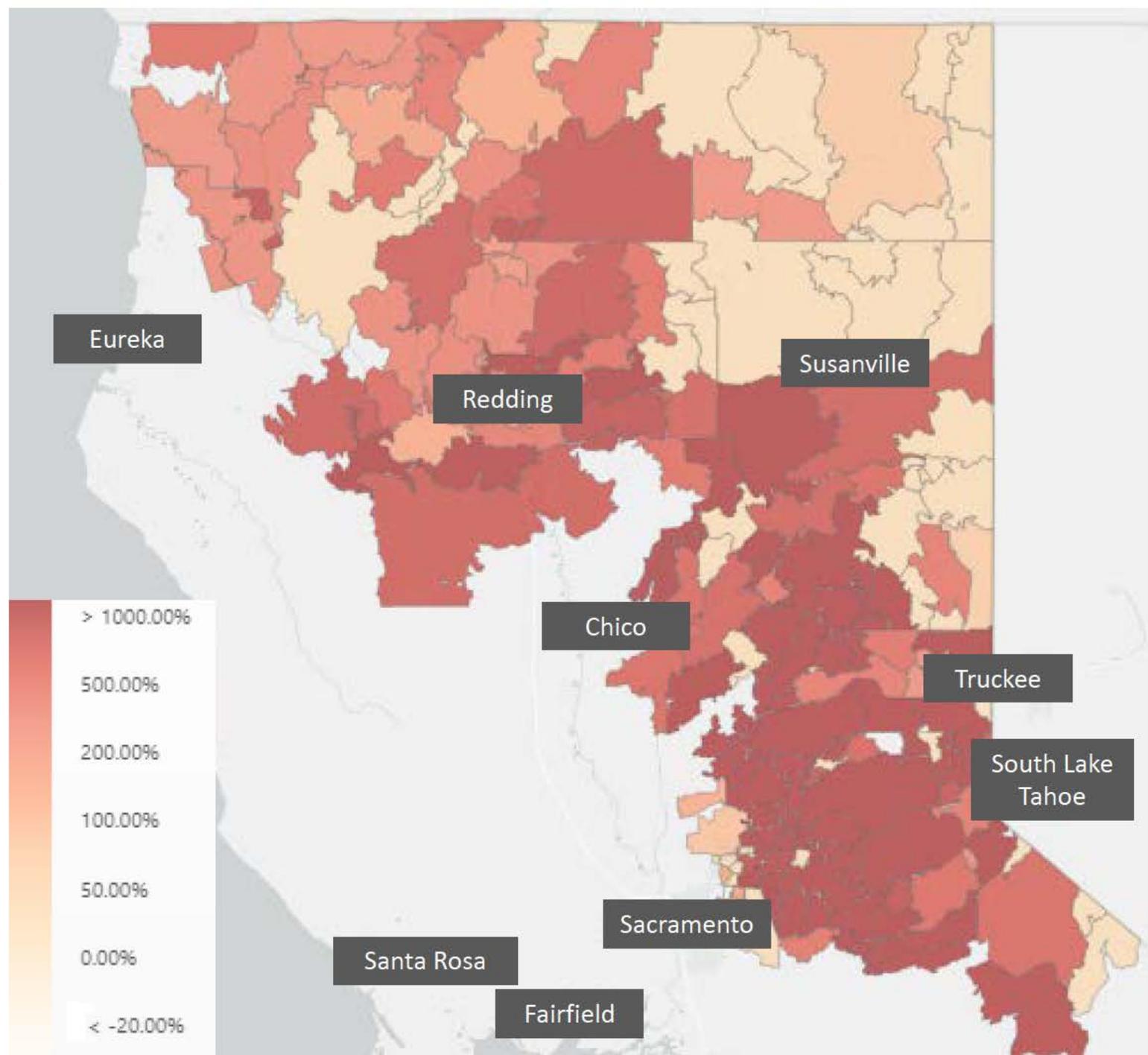
# Insurance Company Nonrenewals and FAIR Plan Writing Are Increasing Statewide



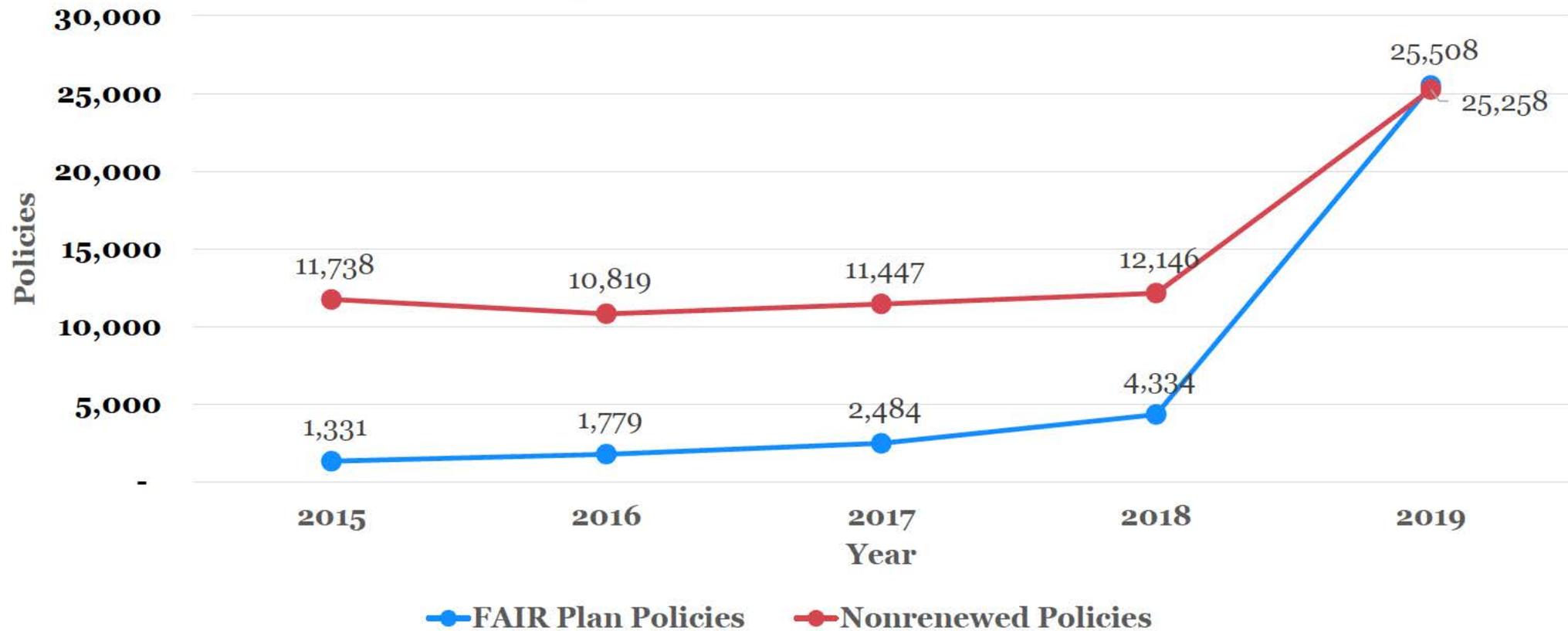
# 182% Increase in FAIR Plan Policies in the Sierra and Northern California Since 2015

Darker colors show ZIP codes where there has been a large percentage increase in FAIR Plan policies in 2019 compared to 2015.

Source: Insurance industry data provided to the Department of Insurance



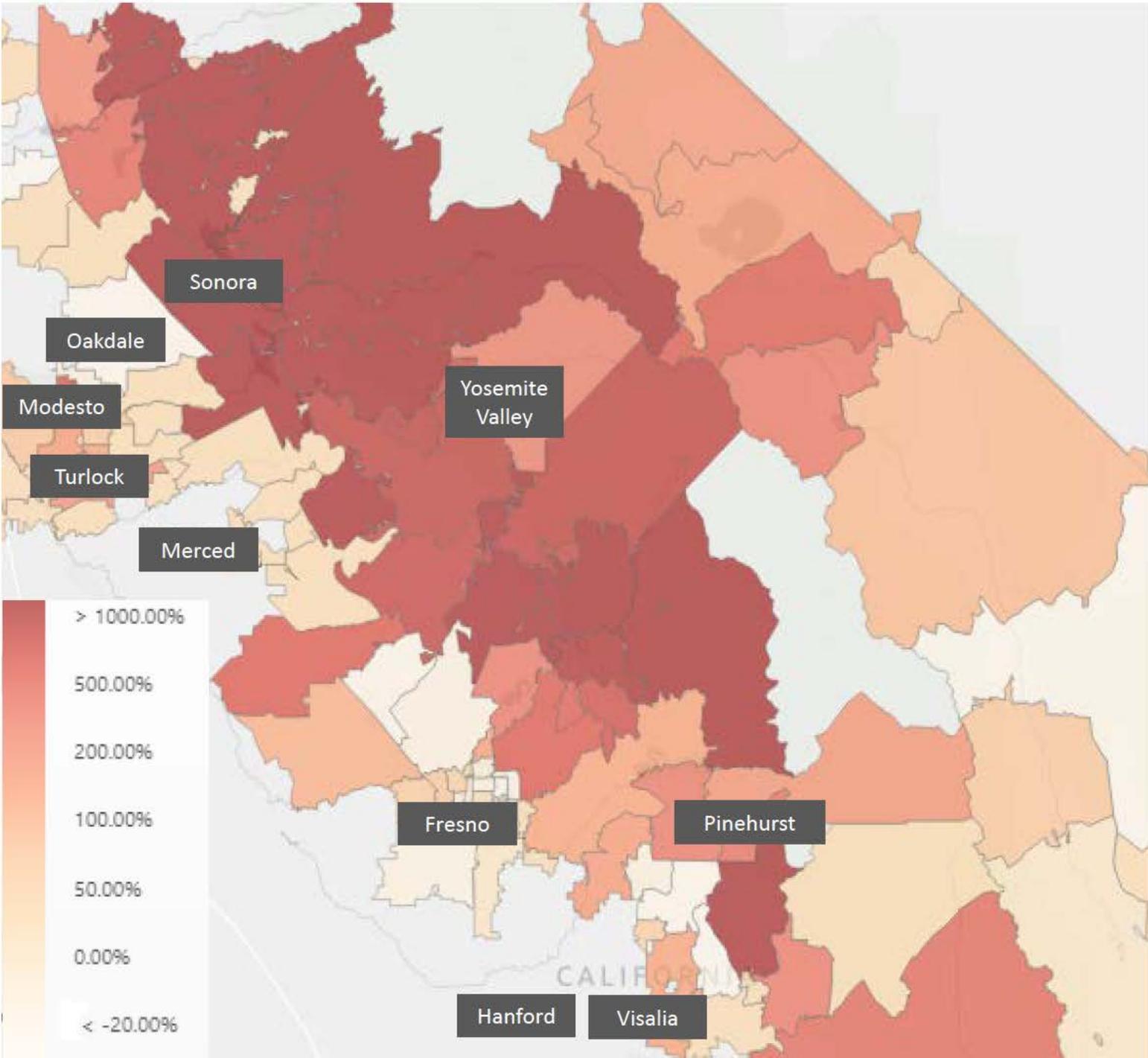
# Insurance Company Nonrenewals and FAIR Plan Writing in the Sierra and Northern California (2015 – 2019)



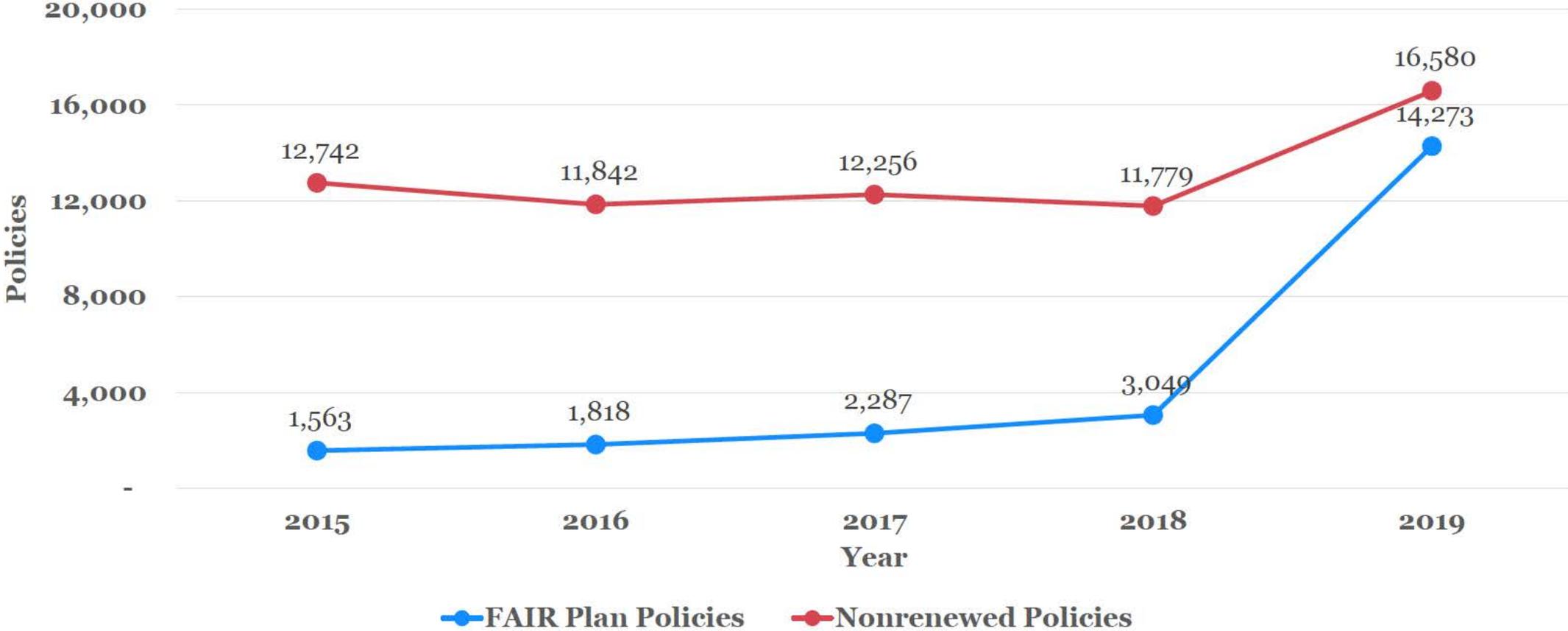
# 813% Increase in FAIR Plan Policies in the Southern Sierra

Darker colors show ZIP codes where there has been a large percentage increase in FAIR Plan policies in 2019 compared to 2015.

Source: Insurance industry data provided to the Department of Insurance



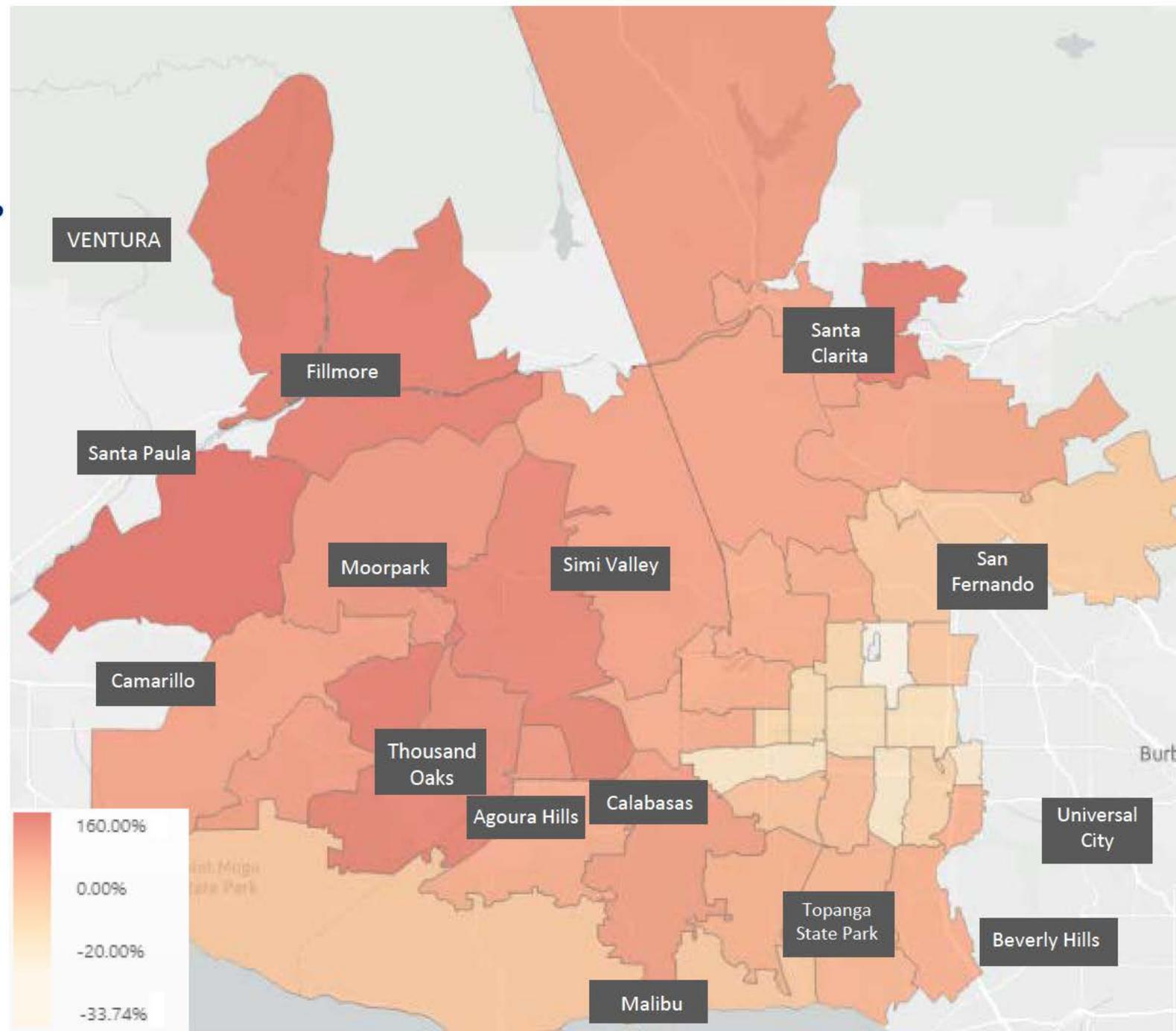
# Insurance Company Nonrenewals and FAIR Plan Policies in the Southern Sierra (2015 – 2019)



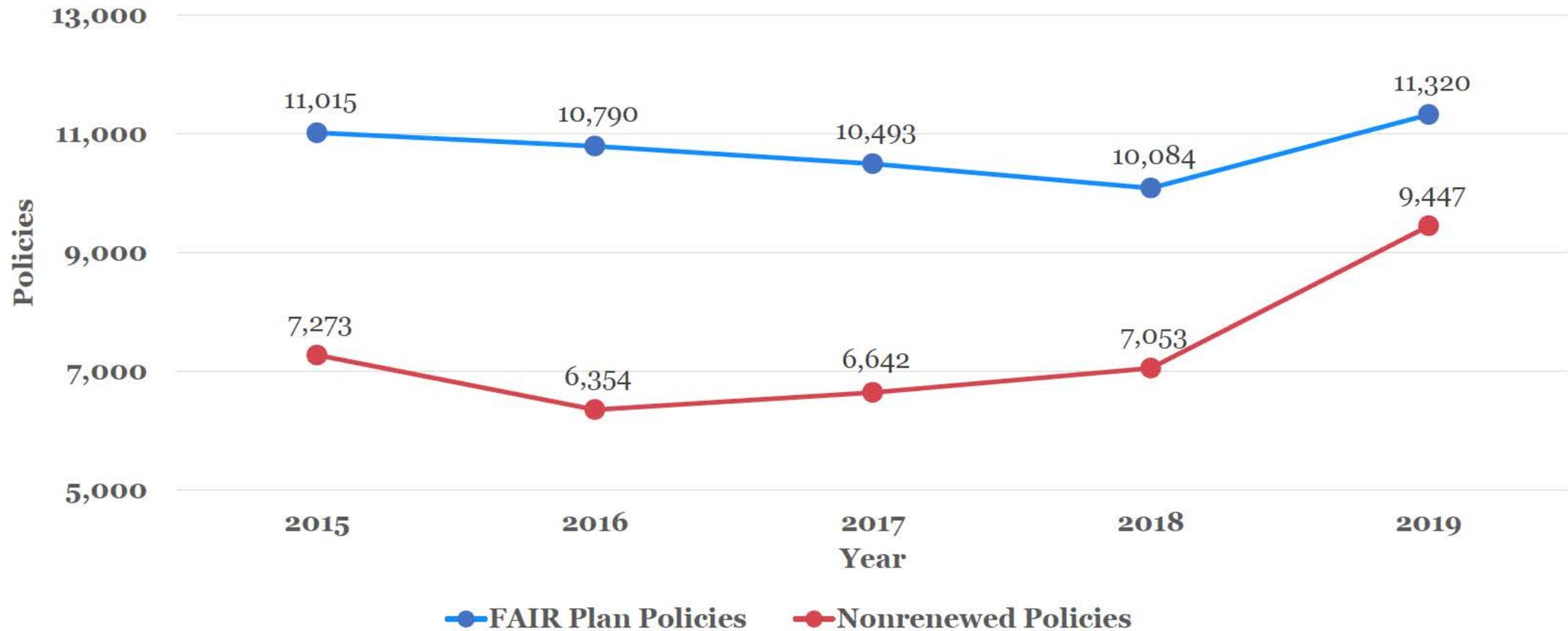
# 3% Increase in FAIR Plan Policies in Northern Greater Los Angeles Area Since 2015

Darker colors show ZIP codes where there has been a large percentage increase in FAIR Plan policies in 2019 compared to 2015.

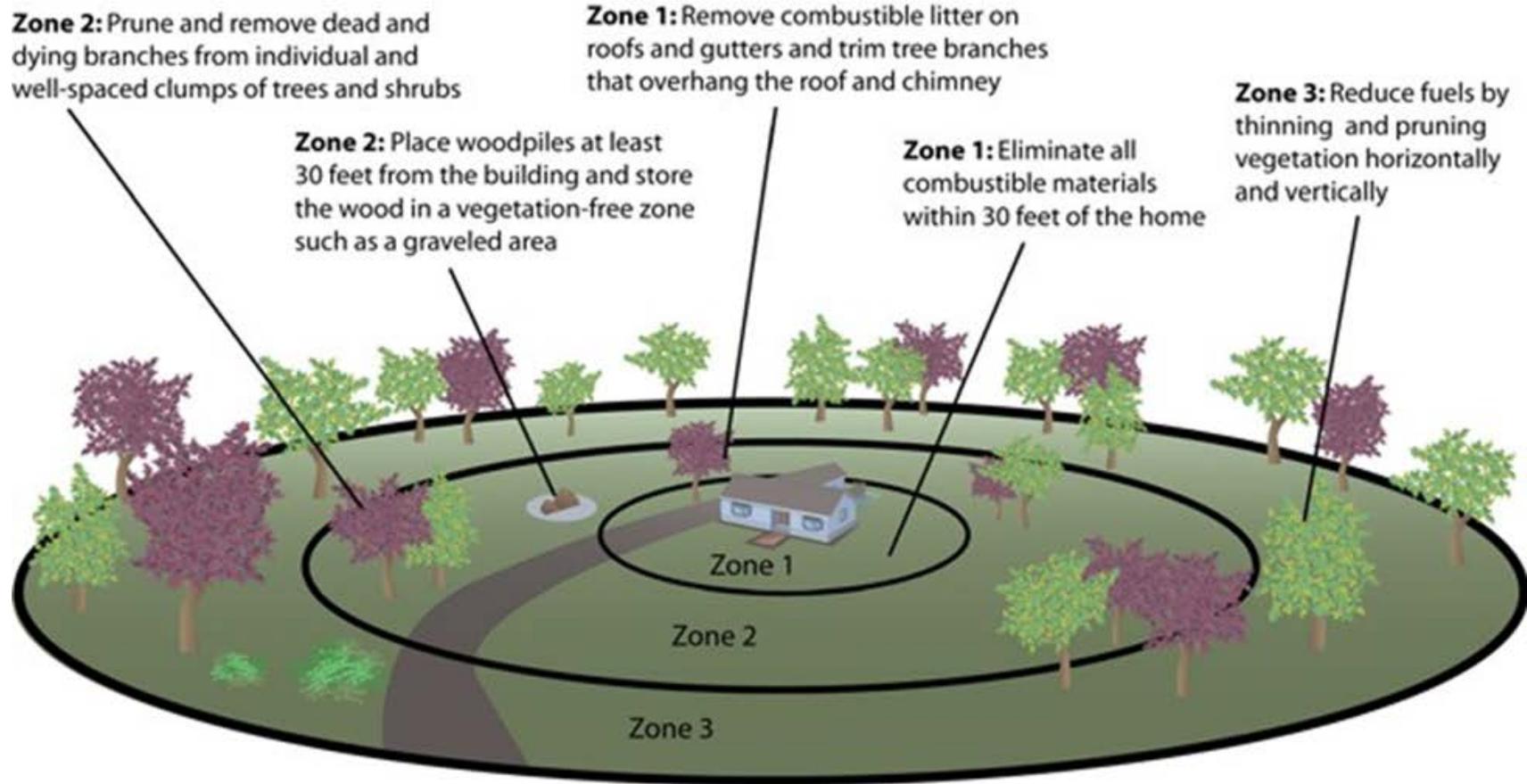
Source: Insurance industry data provided to the Department of Insurance



# Insurance Company Nonrenewals and FAIR Plan Writing in Northern Greater Los Angeles Area (2015 – 2019)



# Fire Mitigation Can Reduce the Risk of Home Loss



[Source: FEMA](#)

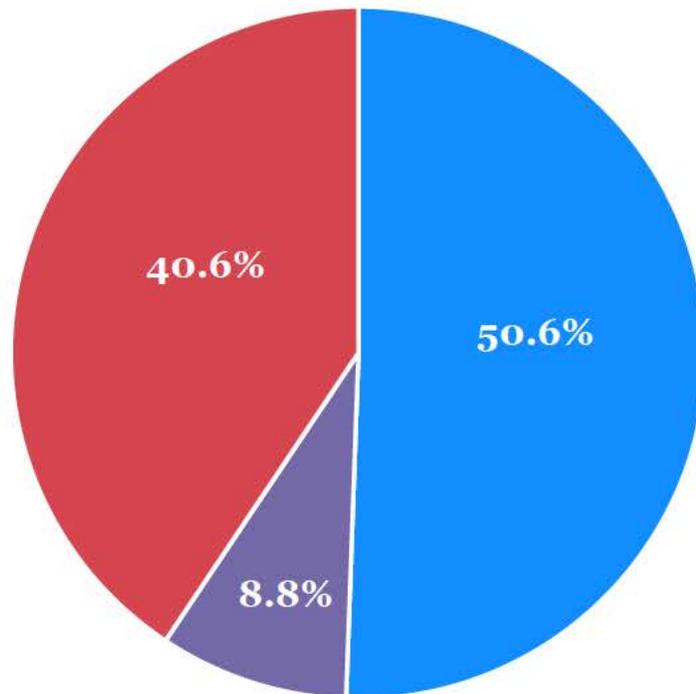
# Home- and Community-Hardening Strategies Currently Exist

CAL FIRE recommends steps to reduce the risk of wildfire damaging or destroying homes:

- Vents on openings to stop embers
- Protect eaves and soffits
- Dual-pane windows
- Ignition-resistant decks, walls and fences
- Clean debris from rain gutters
- Fire-resistant landscaping
- Defensible space
- Fire-rated roof

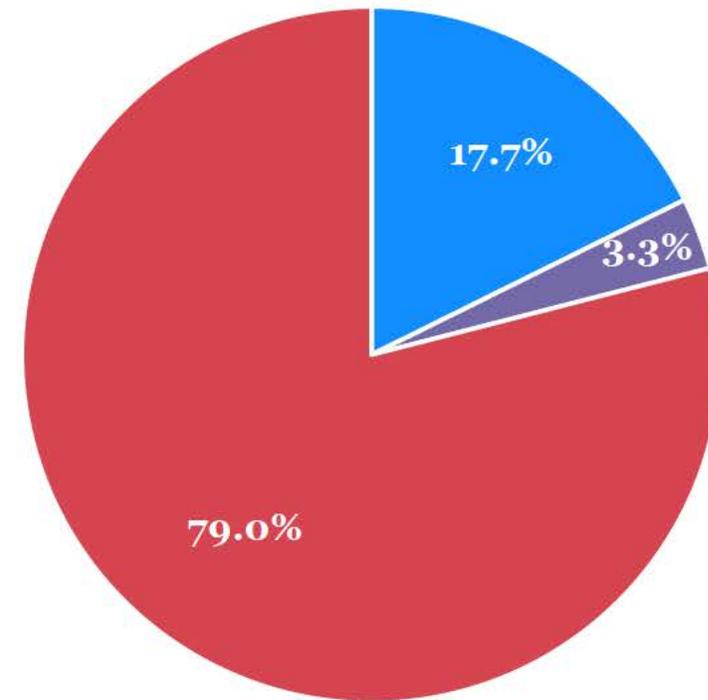
# Hardened Homes Survived Better in the Camp Fire

## Built 2008 or Later



■ No damage ■ Affected/minor ■ Destroyed/major

## Built Before 2008



■ No damage ■ Affected/minor ■ Destroyed/major

# Potential Mitigation Challenges

- Mitigation measures can be costly, largely out of the consumers' pockets.
- While home hardening has proven effective, its impacts are not fully reflected in insurance rates.
- Homeowners may be tentative to take on major expenses, such as replacing a roof, with no guarantee that insurance companies will acknowledge the resulting decrease in risk.

# Increasing Mitigation Can Help Insurance Availability

- Consumers are most likely to pursue home hardening projects that provide value and are the most cost-effective.
- Guarantee insurance coverage for homes that significantly reduce the risk of fire through mitigation efforts.

# Recent Legislation Provides a Framework for Financial Assistance to Homeowners for Home Hardening Actions

- AB 38 passed in 2019 to promote fire safety, low-cost home retrofits, and assess regional wildfire mitigation capacity.
- Prioritizes financial assistance for property hardening and vegetation management based on the socioeconomic characteristics of a community:
  - people on fixed incomes
  - individuals over the age of 65
  - Individuals with disabilities
  - vulnerability to wildfire
  - impact of future climate risk factors.
- Funding for this program was impacted by pandemic related budget shortfalls.

# **Some Insurance Companies Reward Home-Hardening with Wildfire Discounts**

## **Examples of Proactive Insurance Incentives:**

- **One insurance product offers a discount for both passive and active fire suppression.**
- **Multiple companies provide rate discounts for participating in community level fire prevention.**
- **One insurance company provides rate discounts based on the FireLine score and the defensible space around different types of structures.**

# **Governments, Insurance Companies and Homeowners Must Collaborate**

- **Improve transparency in the rate-making process, so homeowners know what actions provide the greatest insurance reductions and best protect their homes.**
- **Have local governments help organize community mitigation efforts.**
- **State funds can be used for the hardening of homes and other structures to increase their resistance to wildfires.**
- **Insurance companies should proactively offer a discount for homeowner mitigation efforts.**

# Actions to Foster Homeowners' Market Prosperity

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