

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

November 21, 2024

REG-2024-00016

**INVITATION TO WORKSHOP EXAMINING  
NET COST OF REINSURANCE AND RATEMAKING**

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You are invited to participate in the public discussion workshop. The purpose of these discussions is to provide interested and affected persons an opportunity to present statements or comments regarding contemplated future regulations. Pursuant to Government Code section 11340.9(g), this contemplated workshop, and any subsequent related regulation, is exempt from the rulemaking provisions of the Administrative Procedure Act.

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:** December 5, 2024

**Time:** 10:00 a.m. The virtual workshop shall continue until all in attendance wishing to provide comments have commented, or 12:00 p.m., whichever is earlier.

**Location:** Link to Register for the Web-based Virtual Format:  
[https://us06web.zoom.us/webinar/register/WN\\_t6O-YmtTSdOdiOKXJVi-eg](https://us06web.zoom.us/webinar/register/WN_t6O-YmtTSdOdiOKXJVi-eg)

**Attendance.**

To increase public participation and improve the quality of any regulations that the Commissioner ultimately adopts, interested parties are invited to attend the virtual meeting and offer comment, if they so choose.

The telephonic call-in line to be used for the public hearing is accessible to persons with hearing impairment. Persons with sight or hearing impairments are requested to notify the logistical contact person 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.**

Climate-intensified wildfire risk to communities across California has had consequences for insurance availability and affordability in recent years. California Insurance Commissioner Ricardo Lara's Sustainable Insurance Strategy is a comprehensive initiative aimed at modernizing the state's insurance market to ensure accessible insurance for all Californians, creating a resilient insurance marketplace, and protecting consumers and communities from the adverse impacts of climate change.

Reinsurance is a risk management tool that has become an increasingly central part of insurance companies' strategies for covering homes and businesses in areas at higher risk of catastrophe claims from wildfires, floods, and other climate-related risks. In 2023, Ceres and the California Department of Insurance (Department) utilized the national NAIC climate risk survey to conduct the first-ever systematic review of insurers' climate-risk strategies. The study revealed that reinsurance is the primary strategy many companies use to continue to write and expand coverage in higher risk parts of California and across the country.

**Proposed Approach: Implement a Standard Net Cost of Reinsurance (NCOR).**

The inclusion of the net cost of reinsurance (NCOR) in property insurance rates is part of the Commissioner's comprehensive strategy to address the limits of Proposition 103 and increase the writing of homes and businesses across the state. The calculation and inclusion of the NCOR in homeowners and commercial property insurance rates would promote insurer solvency and market stability in addition to providing necessary insurance coverage to protect consumers and businesses. Companies utilizing reinsurance would commit to increasing coverage in wildfire distressed areas, as defined by the Department in its separate Catastrophe Modeling and Ratemaking regulation.

Because reinsurance costs can vary between companies, the Department proposes to create a standard Net Cost of Reinsurance that establishes a benchmark for all insurance companies. This is similar to how the Department reviews other allowable expenses in rate filings currently reflected in the efficiency standard. Companies that seek to utilize the NCOR would have to demonstrate an increased commitment of policies written in higher risk areas. This is similar to the catastrophe modeling in ratemaking regulation which establishes thresholds that insurance companies must meet in order to utilize forward-looking modeling.

Property catastrophe risk requires insurers to hold additional capital in order to ensure their ability to fulfill promises to policyholders after a large claims event. Many insurers transfer some portion of the risk (e.g., for events occurring from 1-in-10 to 1-in-250 years) through reinsurance or alternative financing mechanisms. Purchasing reinsurance and holding surplus to support the retained risk both represent costs for the insurer, and higher layers of loss are more volatile (i.e., have higher risk), for which investors demand higher returns.

Under the standard NCOR proposal, the Department would derive market-expected returns for property catastrophe risk by loss probability by analyzing data on reinsurance placements and/or various Insurance Linked Security (ILS) market prices, e.g., catastrophe bonds. CDI can calculate permitted return multiples for specific loss probability layers and promulgate them as the Standard NCOR in relation to the expected / modeled losses in those layers. Insurers can then apply the approved Standard NCOR multiples to California-only modeled wildfire and/or flood losses within their property rate filings to yield their permitted NCOR provision. Insurers will not need to provide information on their individual reinsurance structure or costs in rate filings since calculations are based on industry risk transfer benchmarks.

**Workshop Focus.**

This workshop will focus on the following issues addressing the Department's proposed regulation to incorporate the net cost of reinsurance in ratemaking subject to Department prior

approval under Prop. 103:

- Does incorporating the standard Net Cost of Reinsurance promote insurer solvency and address market stability?
- What information about reinsurance programs is most important to be provided to the public?
- How could a regulation on the net cost of reinsurance and corresponding insurer commitments most effectively align with the diversity of insurance companies writing in California?
- What are the most important components for establishing and conducting an efficient variance process?
- Is there any aspect of the process that is not addressed in this proposal?

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 above 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 hereby seeks public, academic, and stakeholder expertise regarding any issues of incorporating NCOR in rate approval. Please provide written or oral comments outlining possible solutions and answers to the “Questions for Discussion,” below. Please provide this input regarding alternatives to Monica Macaluso, via electronic mail to [CDIRegulations@insurance.ca.gov](mailto:CDIRegulations@insurance.ca.gov) by December 5, 2024.

#### **This is Not a Formal Public Hearing on Proposed Regulations.**

Please be advised that participation in this public discussion will be in addition to, and not in substitution for, any participation in any formal rulemaking process that may follow. This invitation does not constitute a Notice of Proposed Action. Consequently, comments (oral or written) received in connection with this public discussion may not be included in any record of rulemaking that may follow. Similarly, the Department is not required to respond to comments received in connection with this public discussion. However, the Commissioner will consider public comments received in this public discussion as he contemplates proposed regulations incorporating the net cost of reinsurance in ratemaking.

#### **Contact Persons.**

All substantive questions and concerns regarding the contemplated regulations and/or these public discussions should be directed to Monica Macaluso, using the contact information below. Please submit any written comments via electronic mail to [CDIRegulations@insurance.ca.gov](mailto:CDIRegulations@insurance.ca.gov) by December 5, 2024.

#### **Logistical Inquiries.**

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**Substantive Inquiries.**

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